



STATE OF ILLINOIS  
**OFFICE OF THE  
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Single Audit and State Compliance Examination  
 For the Year Ended June 30, 2018

Release Date: June 20, 2019

FINDINGS THIS AUDIT: 10	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	2	5	2015	18-5	18-3	
Category 2:	3	2	5	2014	18-1		
Category 3:	0	0	0	2011		18-7	
<b>TOTAL</b>	<b>6</b>	<b>4</b>	<b>10</b>				
FINDINGS LAST AUDIT: 4							

**INTRODUCTION**

This digest covers our Single Audit and Compliance Examination of the Illinois Housing Development Authority (Authority) for the year ended June 30, 2018. A separate Financial Audit as of and for the year ended June 30, 2018, was previously released on January 29, 2019. In total, this report contains 10 findings, three of which were reported in the Financial Audit.

**SYNOPSIS**

- **(18-4)** The Authority expended federal funding and program income from Neighborhood Stabilization Program grants after the end of the period of performance. The Authority also has not established adequate internal controls to ensure expenditures charged to federal awards or funded by program income are incurred within the period of performance.
- **(18-5)** The Authority did not properly report expenditures on the Schedule of Expenditures of Federal Awards.
- **(18-7)** The Authority did not follow its established policies and procedures for monitoring subrecipients of the Section 8 Project-Based program.
- **(18-10)** The Authority did not maintain adequate supporting documentation for the data included in the Reports of Receipts and Disbursements for Locally Held Funds and Quarterly Summaries of Accounts Receivable for the year ended June 30, 2018.

**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

**Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

**Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY  
COMPLIANCE EXAMINATION AND SINGLE AUDIT  
For the Year Ended June 30, 2018**

<b>EXPENDITURE STATISTICS</b>	<b>2018</b>	<b>2017</b>
<b>Debt outstanding (net of unamortized discount)</b>		
Housing Bonds.....	\$ 226,200,000	\$ 272,500,000
Multifamily Initiative Bonds.....	136,100,000	138,600,000
Multifamily Revenue Bonds.....	60,500,000	50,400,000
Residential Mortgage Revenue Bonds.....	-	100,000
Homeowner Mortgage Revenue Bonds.....	320,600,000	363,900,000
Housing Revenue Bonds.....	109,700,000	129,600,000
Revenue Bonds.....	242,900,000	131,000,000
Administrative Funds.....	68,400,000	61,500,000
Total.....	<u>\$ 1,164,400,000</u>	<u>\$ 1,147,600,000</u>
<b>Cash and Cash equivalents (proprietary funds).....</b>	<b>\$ 337,104,480</b>	<b>\$ 286,602,043</b>
<b>Investments (all funds).....</b>	<b>\$ 1,022,157,186</b>	<b>\$ 1,009,631,137</b>
<b>Total Number of Housing bond Issues Outstanding.....</b>	<u>61</u>	<u>65</u>
<b>SUPPLEMENTARY INFORMATION</b>	<b>2018</b>	<b>2017</b>
<b>Expenditures of Federal Awards</b>		
Section 8 Project-Based Cluster.....	\$ 79,345,525	\$ 96,490,747
HOME Investment Partnerships Program.....	284,551,736	283,303,004
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families Program.....	337,835	495,582
National Housing Trust Fund.....	845,519	-
Section 811 Project Rental Assistance Program.....	234,337	-
Community Development Block Grant - Neighborhood Stabilization Program	3,152,059	114,251
National Foreclosure Mitigation Counseling Program.....	297,481	903,235
Total.....	<u>\$ 368,764,492</u>	<u>\$ 381,306,819</u>
<b>Average Number of Employees (unaudited).....</b>	<b>294</b>	<b>278</b>
<b>SELECTED ACTIVITY MEASURES</b>	<b>2018</b>	<b>2017</b>
Housing Units Produced Since Inception (unaudited).....	304,492	294,324
<b>EXECUTIVE DIRECTOR</b>		
During Examination Period: Audra Hamernik		
Current: Audra Hamernik		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**DISBURSEMENT OF FUNDS OUTSIDE OF PERIOD OF PERFORMANCE**

**Expenditures after the end of the period of performance**

The Authority expended federal funding and program income from the Neighborhood Stabilization Program (NSP) grants after the end of the period of performance. The Authority also has not established adequate internal controls to ensure expenditures charged to federal awards or funded by program income are incurred within the period of performance.

The NSP grants provided the Authority with funding for emergency assistance to stabilize communities with high rates of abandoned and foreclosed properties and to assist low-income households. The Authority received multiple NSP awards to purchase and rehabilitate homes and demolished or abandoned properties across northern Illinois. In addition to the program funding by the U.S. Department of Housing and Urban Development (USHUD), the Authority earns program income from the sale of redeveloped and rehabilitated properties which is required to be fully expended by the Authority prior to requesting federal funding.

During the year ended June 30, 2018, we noted the Authority expended funds under NSP awards for which the period of performance had ended in a prior period. Specifically, we noted the following:

Grant Number	Period of Performance		Fiscal Year 2018 Expenditures	
	Begin Date	End Date	Federal Award	Program Income
NSP1 (B-08-DN-17-001)	12/8/2009	12/7/2013	\$1,328,513	\$1,441,511
NSP3 (B-11-DN-17-0001)	3/11/2011	3/15/2014	-	\$96,263
			\$1,328,513	\$1,537,774

\$285,772 of administrative expenditures have not yet been attributed to a specific grant as of the date of our testing (May 14, 2019).

The Authority provided documentation evidencing that USHUD is aware the Authority is continuing to expend program funding beyond the award dates in the grant awards that was obtained in response to questions raised during the audit; however, the Authority was not able to provide documentation supporting the period of performance had been extended or modified by USHUD for either of the grants identified above. Accordingly, the expenditures incurred outside of the period of performance

**All expenditures incurred were questioned totaling \$3,152,059**

are not allowable under the program regulations and have been identified as questioned costs.

Total expenditures for the NSP program totaled \$3,152,059 for the year ended June 30, 2018. (Finding 4, Pages 29-32)

We recommended the Authority establish procedures to ensure that Federal funds are expended within the period of performance for each of its grant awards.

**Authority disagrees with the auditors**

The Authority disagreed with the finding and stated they were complying with USHUD's guidance. The Authority stated they were receiving technical assistance from USHUD and that USHUD had acknowledged that the Authority's ability to timely closeout the grants had been impacted by the Authority's use of grant funds and program income to satisfy its 100% expenditure deadlines.

**Auditors Comment**

In an Auditor's Comment, we noted that all of the costs reported on the Schedule of Expenditures of Federal Awards in fiscal year 2018 for the Community Development Block Grant (CDBG) are outside of the period of performance and are not allowable under the existing grant agreements. While we understand the Authority has been working with USHUD with respect to unspent grant funding, the Authority was unable to provide evidence the period of performance had been extended by USHUD for the CDBG program.

### **INACCURATE REPORTING OF FEDERAL EXPENDITURES ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Process to prepare the Schedule of Expenditures of Federal Awards (SEFA) needs improvement**

The Authority does not have an adequate process in place to prepare its schedule of expenditures of federal awards (SEFA).

During our testing of the SEFA and major program expenditures, we noted several errors in the SEFA provided for audit which resulted in several proposed audit adjustments to the SEFA as follows:

**\$436,868 in expenditures were reported in the wrong fiscal year**

- Administrative expenditures reported for the Community Development Block Grant (CDBG) program were overstated by \$436,868. During our procedures to reconcile the SEFA to the financial statements, we noted the expenditures were incurred in fiscal year 2017 and should have been reported on the prior year SEFA under the modified accrual basis of accounting. Had these expenditures been reported in the correct period, CDBG would not have been identified as a type A program or selected as a major program in 2018. This error has not been corrected in the SEFA presented.

**Community Development Block Grant program would not have been audited**

**Home program expenditures were overstated by \$739,849 on the SEFA**

- Administrative expenditures reported for the HOME program were overstated by \$739,849. During our procedures to reconcile the SEFA to the financial statements, we noted management had erroneously posted a journal entry intended to reduce previously reported revenue to program expenditures for the HOME program. This error has been corrected in the SEFA presented.

We also note errors in the amounts reported on the draft SEFA and the supporting documentation provided for the Home Program (CFDA Number 14.239) as follows:

<b>Item</b>	<b>Reported Amount</b>	<b>Actual Amount</b>	<b>Overstatement/ (Understatement)</b>
Program income expenditures – loan disbursements	\$2,370,675	\$2,510,734	(\$140,059)
Current year loan disbursements	\$2,411,396	\$2,271,337	\$140,059
Amounts passed through to subrecipients - program income expenditures – loan disbursements	\$2,370,675	\$2,510,734	(\$140,059)
Amounts passed through to subrecipients - current year loan disbursements	\$2,411,396	\$2,271,337	\$140,059
Administrative expenditures	\$1,589,693	\$1,438,966	\$150,727
Administrative expenditures - program income	\$435,444	\$586,171	(\$150,727)

Items included in the table above have been corrected in the SEFA presented.

**Inadequate controls in place to prepare the SEFA and reconcile amounts to the financial statements**

In addition, we noted management has not established adequate control procedures to ensure the SEFA is complete, accurate, and properly presented in accordance with the Uniform Guidance. Specifically, management does not perform procedures to reconcile the SEFA to the amounts reported in the financial statements and had not established management review controls at the level of precision to identify material misstatements.

Failure to accurately report federal expenditures and amounts passed through to subrecipients prohibits the completion of an audit in accordance with the Uniform Guidance, which may

result in the suspension of federal funding. (Finding 5, pages 33-36) **This finding has been repeated since 2015.**

We recommended the Authority review its current process for preparing the SEFA and implement the necessary procedures to ensure the SEFA is prepared accurately and in accordance with the Uniform Guidance.

**Authority agrees with the auditors**

Authority officials concurred with the recommendation. (*For the previous Authority response, see Digest Footnote #1.*)

### **FAILURE TO FOLLOW ESTABLISHED SUBRECIPIENT MONITORING PROCEDURES FOR THE SECTION 8 PROJECT-BASED CLUSTER PROGRAM**

**Monitoring procedures not followed**

The Authority did not follow its established policies and procedures for monitoring subrecipients of the Section 8 Project-Based (Section 8) program.

The Authority has implemented procedures whereby program staff perform periodic on-site and desk reviews of subrecipients' compliance with regulations applicable to the Section 8 Cluster program administered by the Authority. These reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. The Authority's policies require the subrecipient file to be closed within 90 days of the subrecipient being notified of any findings.

During our testwork over on-site review procedures performed for 25 subrecipients (with expenditures of \$18,154,220) of the Section 8 Cluster program, we noted the Authority did not follow its established on-site monitoring procedures as follows:

- The Authority did not conduct an on-site monitoring review for one subrecipient (with expenditures totaling \$1,425,147) as required in accordance with the Authority's policies. An on-site review for this subrecipient last took place during the year ended June 30, 2016.
- The Authority did not notify two subrecipients (with expenditures totaling \$932,834) of findings from the on-site monitoring review in a timely manner. Specifically, the finding notification was sent 75 and 89 after the inspection was conducted (60 day requirement).
- The Authority did not receive written responses to the findings of the on-site reviews for one subrecipient (with expenditures of \$608,758) and appropriate follow-up action was not taken. (Finding 7, pages 39-40) **This finding has been repeated since 2011.**

We recommended the Authority ensure on-site monitoring files are completed and closed in accordance with established policies and procedures.

**Authority agrees with the auditors**

Authority officials agreed with the recommendation. (*For the previous Authority response, see Digest Footnote #2.*)

**FAILURE TO MAINTAIN SUPPORTING DOCUMENTATION FOR REPORTS FILED WITH THE ILLINOIS OFFICE OF THE COMPTROLLER**

The Authority did not maintain adequate supporting documentation for the data included in the Reports of Receipts and Disbursements for Locally Held Funds and Quarterly Summaries of Accounts Receivable for the year ended June 30, 2018.

**Supporting documentation was not retained**

The Authority is required to prepare a Report of Receipts and Disbursements for Locally Held Funds (Form C-17) on a quarterly basis for each local fund. These reports capture cash receipts and disbursements data for receipts not submitted to the Illinois Office of the Comptroller (IOC) and deposited in the State Treasury, as well as disbursements not vouchered and warranted by the IOC. During our review of the C-17 reports submitted for the year ended June 30, 2018, we noted the Authority did not retain supporting documentation for the C-17 reports submitted for the quarters ended December 31, 2017; March 31, 2018; and June 30, 2018. During our examination, management of the Authority attempted to recreate the supporting documentation for the reports submitted to the IOC; however, they were unable to reconcile or explain differences between the recreated system generated reports and the C-17 reports submitted to the IOC. As a result, we were unable to verify the completeness and accuracy of the information reported to the IOC.

**Auditors were unable to verify the completeness and accuracy of the information reported to the Comptroller**

Additionally, the Authority is required to prepare a Quarterly Summary of Accounts Receivable – Accounts Receivable Activity (Form C-97) to the IOC for each fund. These reports document the accounts receivable activity for each quarter, including adjustments to receivables, additions to accounts receivable, collections, write-offs, and estimated uncollectibles. During our review of the Quarterly Summary of Accounts Receivable, we noted the Authority did not retain supporting documentation for the reports submitted for all quarters in fiscal year 2018. During our examination, management of the Authority attempted to recreate the supporting documentation for the reports submitted to the IOC; however, they were unable to reconcile or explain differences between the recreated system generated reports and the C-97 reports submitted to the IOC. As a result, we were unable to verify the completeness and accuracy of the information reported to the IOC. (Finding 10, pages 45-46)

**Authority agrees with  
the auditors**

We recommended the Authority review the process and procedures in place for documenting and preparing financial reports required by the IOC and implement the additional procedures necessary to ensure adequate supporting documentation is maintained for each required report.

Authority officials agreed with the recommendation.

**OTHER FINDINGS**

The remaining findings are reportedly being given attention by Authority personnel. We will review the Authority's progress toward the implementation of our recommendations in our next examination.

**AUDITOR'S OPINIONS**

The financial audit report was previously released. The auditors stated the financial statements of the Authority as of and for the year ended June 30, 2018, are fairly stated in all material respects.

The auditors also conducted a Single Audit of the Authority as required by the Uniform Guidance. The auditors rendered an **Adverse Opinion** on the Community Development Block Grant (CDBG) major program because of the significance of the matters discussed in finding 2018-004 for Allowable Costs/Cost Principles and Period of Performance.

Except for the CDBG major program, the auditors stated the Authority complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on the Authority's other major federal programs for the year ended June 30, 2018.

**ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the Authority for the year ended June 30, 2018, as required by the Illinois State Auditing Act. The accountants stated the Authority complied, in all material respects, with the requirements described in the report.

This Single Audit and State Compliance Examination were conducted by KPMG LLP.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

FJM:TLK

**DIGEST FOOTNOTES**

**#1 - INACCURATE REPORTING OF FEDERAL EXPENDITURES ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)**

2017: The Authority concurs with the recommendation. For the HOME Program, the accounting staff will review program income payouts to determine its use either to fund administrative reimbursements requests or to fund program loan disbursements.

Subsequently, a reconciliation will occur to review the Benedict loan system fiscal year loan disbursement report, for the HOME Program, against the HUD PR07 report for the same program. The reconciliation will further assist with revealing the use and application of program income for the HOME Program.

**#2 - FAILURE TO FOLLOW ESTABLISHED SUBRECIPIENT MONITORING PROCEDURES FOR THE SECTION 8 PROJECT-BASED CLUSTER PROGRAM**

2017: The Authority agrees with the recommendation. Additionally, the Asset Management department is being reorganized to help clarify roles and responsibilities to ensure tasks are completed in accordance with procedures.