



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

William G. Holland, Auditor General

---

**SUMMARY REPORT DIGEST**

---

**ILLINOIS FINANCE AUTHORITY**

**Financial Audit, Single Audit, and Compliance**

**Examination**

**For the Year Ended: June 30, 2010**

**Release Date: May 26, 2011**

**Summary of Findings:**

**Total this audit: 8**

**Total last audit: 2**

**Repeated from last audit: 0**

**SYNOPSIS**

- The Illinois Finance Authority did not ensure that its investments of bond proceeds are in accordance with the Bond Indenture.
- The Illinois Finance Authority did not comply with certain monitoring and reporting requirements of the Intermediary Relending Program.
- The Illinois Finance Authority did not submit an accurate annual State property inventory listing to the Department of Central Management Services or the Illinois Office of the Comptroller.
- The Illinois Finance Authority did not timely sign contracts.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS FINANCE AUTHORITY**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**For The Year Ended June 30, 2010**

STATEMENT OF NET ASSETS (in thousands)	2010	2009
<b>Assets</b>		
Cash and cash equivalents.....	\$ 38,370	\$ 31,449
Restricted cash and cash equivalents.....	28,463	34,478
Investments.....	2,598	5,463
Restricted investments.....	108,171	117,462
Receivables.....	24,403	28,730
Restricted receivables.....	198,174	205,987
Other.....	6,914	751
Total.....	<u>\$407,093</u>	<u>\$424,320</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities.....	\$ 5,537	\$ 5,776
Bonds payable.....	279,658	301,074
Due to primary government.....	20,341	20,921
Other.....	13,315	7,476
Total.....	<u>\$ 318,851</u>	<u>\$ 335,247</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt.....	\$ 49	\$ 99
Restricted.....	24,478	24,183
Unrestricted.....	63,715	64,791
Total.....	<u>\$ 88,242</u>	<u>\$ 89,073</u>
REVENUES, EXPENSE AND CHANGES IN NET ASSETS (in thousands)	2010	2009
<b>Revenues</b>		
Interest on loans.....	\$ 9,779	\$ 10,941
Interest and investment income.....	5,131	5,878
Administrative service fees.....	5,032	4,885
Net appreciation (depreciation) in fair value of investments.....	(2,865)	287
Other.....	1,256	993
Total.....	<u>\$ 18,333</u>	<u>\$ 22,984</u>
<b>Expenses</b>		
Interest expense.....	\$ 13,486	\$ 14,458
Employee related expenses.....	3,161	3,275
Professional services.....	1,296	1,285
Transfers to primary government.....	-	26,330
Other.....	1,221	1,381
Total.....	<u>\$ 19,164</u>	<u>\$ 46,729</u>
Change in net assets.....	\$ (831)	\$ (23,745)
SELECTED ACTIVITY MEASURES	FY 2010	FY 2009
Conduit debt outstanding (in millions).....	\$ 24,428	\$ 23,681
Number of conduit debt issues outstanding.....	1,762	1,817
New bond issues (unaudited) (in millions).....	\$ 3,360	\$ 3,830
Number of new issues (unaudited).....	52	54
Average number of employees.....	27	35
<b>AGENCY EXECUTIVE DIRECTOR</b>		
During Examination Period: Mr. Christopher Meister (Beginning 12/8/09)		
Currently: Mr. Christopher Meister		

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**NONCOMPLIANCE WITH BOND INDENTURE**

The Illinois Finance Authority did not ensure that its investments of bond proceeds are in accordance with the Bond Indenture.

**Bond indenture limits bond proceeds invested in short term corporate obligations**

In 2002 and 2004, the Authority issued series of revenue bonds designated as the State of Illinois Revolving Fund Revenue Bonds. Article IV, Section 4.9 of the Bond Indenture requires that no more than one-third or 33% of the moneys relating to the bonds are invested in short term obligations of corporations organized in the United States of America with assets exceeding \$500,000,000.

**Testing indicated invested bond proceeds exceeded bond indenture limits**

During our testing, we noted monies relating to the issuance of the series 2002 and 2004 bonds were invested in a short term obligation of a corporation that exceeded the cap of 33% per Bond Indenture. As of June 30, 2010, the fair market value of the investment in short term obligation was \$43,896,500 representing 45% of the total investment balance of bond funds of \$97,970,720. According to the terms of the bond indenture, the Authority had 90 days to cure the default that resulted from its noncompliance. Auditors confirmed with the bond trustee that the noncompliance was cured within 90 days.

**Authority management stated the noncompliance was due to oversight of the bond Trustee**

According to Authority management, the Trustee is responsible for investing bond funds. The noncompliance was due to oversight of the bond Trustee. (Finding #1, page 17)

**Authority officials agree with auditors**

We recommended Authority management review its investment portfolio on a regular basis and ensure compliance with Bond Indenture requirements.

Authority officials accepted the Auditor's recommendation and indicated it is establishing procedures to monitor the Trustee who is responsible for investing bond funds.

## **NONCOMPLIANCE WITH PROGRAM LOAN AGREEMENT**

The Illinois Finance Authority (Authority) did not comply with certain monitoring and reporting requirements of the Intermediary Relending Program.

The Authority is a recipient of a loan from the U.S. Department of Agriculture Rural Development (USDARD). The Authority acts as the intermediary of the USDARD to provide loans to ultimate recipients to fund community development projects, establishment of new businesses, expansion of existing businesses, and creation and retention of jobs.

During our testing of the Intermediary Relending Program (IRP), we noted the following:

### **The Authority provides loans under a US Department of Agriculture intermediary relending program**

#### **On-site visits not performed**

#### **Financial statements not obtained**

#### **Reports were inaccurate**

#### **Jobs saved and created not verified**

- Authority did not perform on-site visits to funded projects in accordance with the approved program work plan of the loan agreement. In addition, the Authority did not obtain annual financial statements and certificate of management adherence to covenants of employment practices from ultimate recipients.
- The Authority did not accurately complete the semi-annual Report of IRP Lending Activity (Form RD 1951-4) in accordance with the reporting requirement of the IRP loan agreement. During our review of the form RD 1951-4 for the semi-annual period ended June 30, 2010, we noted the principal amount of loans made and the total amount of fully repaid loans received did not agree with the Authority's supporting documentation by \$48,000 and \$731,638, respectively.
- The Authority is required to verify jobs saved and created by the funded projects and report such information in the form RD1951-4. We noted in our review of the form RD1951-4 for the semi-annual period ended June 30, 2010 that the Authority did not update and verify jobs saved and created by the funded projects every three years as required.

**Employees were not familiar with the program requirements**

Authority management indicated there were several turnovers of personnel assigned in the IRP program since its inception. Because of the turnover, new personnel was not made aware of the requirement of the program work plan. (Finding #2, pages 18-19)

We recommended Authority management monitor borrowers and review controls over reporting as required by the Intermediary Relending Program.

**Authority officials agree with auditors**

Authority officials accepted the Auditor's recommendation and indicated they are implementing procedures to ensure compliance with program requirements of the Intermediary Relending Program.

**STATE PROPERTY RECORDS NOT ACCURATE**

The Illinois Finance Authority (Authority) did not submit an accurate annual State property inventory listing to the Department of Central Management Services (DCMS) or the Illinois Office of the Comptroller (Comptroller).

We reviewed the annual inventory State property listing (listing) submitted to DCMS and noted the following:

**DCMS property listing did not include certain pieces of equipment**

- Out of 704 items of State Property, the listing did not include 33 pieces (5%) of equipment located in the Chicago office and 12 pieces (2%) of equipment located in the Springfield office totaling \$53,592 and \$12,465, respectively.
- There were 331 pieces of equipment included in the listing without costs and/or purchase date information.

**331 pieces of equipment on the DCMS listing did not include costs or purchase date**

We reviewed the quarterly C-15 reports submitted to the Comptroller, the "Agency Report of State Property" and Surplus Property Delivery Forms submitted to DCMS and noted the following:

**No support provided for property listing reported to the Comptroller**

- No asset listing or detailed records were provided to auditors to support the amount reported in the C-15 reports. As of June 30, 2010, total equipment reported in the C-15 report was \$757,112.

- 50 of 81 (62%) equipment items included in the Surplus Property Delivery forms did not have cost and purchase date information.

**Two spreadsheets maintained did not reconcile to each other**

The Authority maintained two excel spreadsheets to track State Property information. One spreadsheet was used for the annual reporting to the Department of Central Management (DCMS), and the other spreadsheet was used for financial reporting. The two spreadsheets were not reconciled with each other. In addition, these records were not reconciled with the C-15 reports submitted to the Comptroller.

**Both spreadsheets did not reconcile to amounts reported to the Comptroller**

The following were the differences noted upon comparison of the different records:

- The property reported to DCMS was \$149,020 less than the amount reported in the financial statements.
- The amount reported to the Comptroller was \$447,074 more than reported to DCMS.

These differences in State property reporting to DCMS and to the Comptroller did not result in any adjustment to the financial statements.

**Authority unaware that reports should reconcile**

Authority's management indicated that the inventory listing submitted to DCMS and C-15 reports submitted to the Comptroller were derived from predecessor authority's records before consolidation into the Authority. Further, the Authority was not aware that C-15 reports must be reconciled to the detailed inventory listing and deleted items must be reported in the quarterly reports. (Finding #3, pages 20-22)

We recommended the Authority maintain detail property control records and reconcile those records with records used in financial reporting, the annual listing and Surplus Property Delivery forms reported to DCMS, and the quarterly C-15 reports to the Comptroller. Further, we recommend the Authority make a concerted effort to account for the cost and purchase date of properties acquired from the predecessor authorities.

**Authority officials agree with auditors**

Authority officials accepted the Auditor's recommendation and indicated they are implementing an improved system to track all capital assets.

## **CONTRACTS NOT SIGNED TIMELY**

The Illinois Finance Authority (Authority) did not timely sign contracts.

**Some contracts were not signed before the service term began**

During our testing, we noted 2 of 16 (13%) contracts tested totaling \$61,422 had not been signed by all parties before the earliest service allowed under the contract agreement terms. The length of time between the beginning date of the contractual agreement and their final signature was 22 and 342 days.

The Authority indicated that the exceptions were due to oversight resulting from turnover in the Purchasing Officer position. (Finding #5, page 25)

We recommended Authority management take the necessary steps to ensure contract agreements are signed by all the required parties before contract services begin.

**Authority officials agree with auditors**

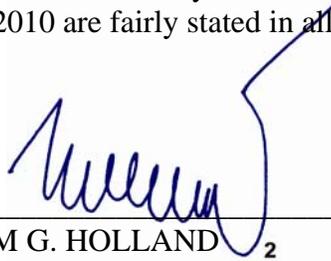
Authority officials accepted the Auditor's recommendation and indicated they had added a Procurement Officer through an intergovernmental agreement with Department of Central Management Services ("DCMS"). The Procurement Officer will ensure that all Procurement requirements are met for all contracts/purchases.

## **OTHER FINDINGS**

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

**AUDITORS' OPINION**

Our auditors stated the financial statements of the Illinois Finance Authority as of and for the year ended June 30, 2010 are fairly stated in all material respects.

A handwritten signature in blue ink, appearing to read "William G. Holland", is written over a horizontal line. A long, thin line extends from the end of the signature upwards and to the right, pointing towards the word "all" in the paragraph above.

WILLIAM G. HOLLAND <sub>2</sub>  
Auditor General

WGH:jaf:pp

**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for this engagement were E.C. Ortiz & Co. LLP.