



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**ILLINOIS FINANCE AUTHORITY**

**Compliance Examination and Single Audit  
For the Year Ended: June 30, 2011**

**Summary of Findings this Audit Cycle:**

**Release Date: May 24, 2012**

• Compliance	13
• Financial Audit (previously reported 3-22-12)	<u>0</u>
<b>Total findings:</b>	<b>13</b>
<b>Total last audit:</b>	<b>8</b>
<b>Repeated from last audit:</b>	<b>5</b>

**SYNOPSIS**

- The Illinois Finance Authority did not meet the capitalization utilization requirements for the Economic Adjustment Assistance Program.
- The Illinois Finance Authority did not exercise adequate controls over travel and marketing expenditures.
- The Illinois Finance Authority did not comply with certain required contracting procedures.
- The Illinois Finance Authority did not timely submit the bond closing notifications to local legislative bodies and did not timely submit required transaction reporting for its revenue bonds to the Illinois Office of the Comptroller.
- The Illinois Finance Authority did not properly monitor the outstanding bonded indebtedness of the Illinois Farm Development Bonds.
- The Illinois Finance Authority did not implement the internal auditing program in accordance with the Fiscal Control and Internal Auditing Act.
- The Illinois Finance Authority did not file the required reports with the General Assembly for its issuance of Recovery Zone Bonds.

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

**ILLINOIS FINANCE AUTHORITY**  
**COMPLIANCE EXAMINATION**  
(In Accordance with the Single Audit Act and OMB Circular A-133)  
For the Year Ended June 30, 2011

FINANCIAL INFORMATION	2011	2010	2009
<b>Total Revenues.....</b>	<b>\$ 20,187,317</b>	<b>\$ 18,333,232</b>	<b>\$ 22,984,762</b>
Interest on Loans.....	\$ 8,778,034	\$ 9,779,437	\$ 10,941,522
% of Total Revenues.....	43.5%	53.3%	47.6%
Interest and investment income.....	\$ 4,766,951	\$ 5,130,628	\$ 5,878,031
% of Total Revenues.....	23.6%	28.0%	25.6%
Administrative service fees.....	\$ 4,736,371	\$ 5,031,842	\$ 4,885,211
% of Total Revenues.....	23.5%	27.4%	21.3%
Unrealized and realized gain (loss) on investments.	\$ 871,767	\$ (2,864,822)	\$ 286,945
% of Total Revenues.....	4.3%	-15.6%	1.2%
Other revenues.....	\$ 1,034,194	\$ 1,256,147	\$ 993,053
% of Total Revenues.....	5.1%	6.9%	4.3%
<b>Total Expenses.....</b>	<b>\$ 17,444,794</b>	<b>\$ 19,164,569</b>	<b>\$ 46,729,287</b>
Interest expense.....	\$ 12,318,840	\$ 13,486,355	\$ 14,457,696
% of Total Expenses.....	70.6%	70.4%	30.9%
Employee related expenses.....	\$ 2,079,082	\$ 3,161,671	\$ 3,275,386
% of Total Expenses.....	11.9%	16.5%	7.0%
Professional services.....	\$ 1,376,247	\$ 1,295,949	\$ 1,284,861
% of Total Expenses.....	7.9%	6.8%	2.7%
Loan loss provision.....	\$ 970,552	\$ 485,733	\$ 489,838
% of Total Expenses.....	5.6%	2.5%	1.0%
Other expenses.....	\$ 700,073	\$ 734,861	\$ 891,583
% of Total Expenses.....	4.0%	3.8%	1.9%
Transfer to the State.....	\$ -	\$ -	\$ 26,329,923
% of Total Expenses.....	0.0%	0.0%	56.3%
<b>Average Number of Employees.....</b>	<b>23</b>	<b>27</b>	<b>35</b>

SELECTED ACTIVITY MEASURES (UNAUDITED)	2011	2010	2009
Conduit debt outstanding (in millions).....	\$ 25,493	\$ 24,428	\$ 23,681
Number of conduit debt issues outstanding.....	1,726	1,762	1,817
New bond issues (in millions).....	\$ 2,576	\$ 3,360	\$ 3,830
Number of new issues .....	\$ 45	\$ 52	\$ 54
Total expenses/total number of issues.....	\$ 10,107	\$ 10,877	\$ 11,227

AGENCY DIRECTOR
During Examination Period: Mr. Christopher Meister
Currently: Mr. Christopher Meister

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

**NONCOMPLIANCE WITH ECONOMIC  
ADJUSTMENT ASSISTANCE PROGRAM**

The Illinois Finance Authority (Authority) did not meet the capitalization utilization requirements of the Economic Adjustment Assistance Program.

**Federal government contributed  
\$424,000 and the State  
contributed \$141,334**

The Authority is a recipient of a grant from the U.S. Department of Commerce Economic Development Administration (EDA) through the Illinois Department of Commerce and Economic Opportunity. The grant was used to establish the Title IX Revolving Loan Fund (RLF) to provide low-cost supplemental financing to manufacturing companies located in areas declared eligible for economic adjustment assistance. The RLF fund was capitalized with a federal grant of \$424,000 and the Authority contributed \$141,334 as its share of the total project amount.

**Program inactive**

The program had been inactive since 1998 and the Authority had not been meeting the capital utilization requirements of the program. In March 2002, EDA sequestered the excess cash of the program because of the Authority's continued noncompliance with the capital utilization requirement. Discussions between the Authority and EDA occurred subsequent to 2002 to either: 1) mutually terminate the program, or 2) revitalize the program until a final agreement could be reached. In 2008 the Authority paid back interest for sequestered excess cash from the time of noncompliance up to 2008. As of June 30, 2011, the RLF fund has a cash balance of \$748,763 which includes the sequestered cash of \$519,378.

**Cash was sequestered**

**\$748,763 cash balance**

During our audit of the Economic Adjustments Assistance Program (program), we noted the following:

**Negotiations not pursued**

- The Authority did not pursue negotiations with EDA to revitalize the program by submitting an updated revolving loan fund plan. In addition, the Authority continued to be noncompliant with the capitalization requirement of the program beyond a reasonable period of time. Although the Authority had discussions with EDA in prior years, no further discussions or negotiations were made as to whether to continue or discontinue the program and return the federal portion of the fund.

**Interest not remitted timely**

- The Authority did not remit to EDA the federal portion of interest from sequestered cash on a quarterly basis as required. The Authority remitted an interest of \$278 for first quarter ending September 30, 2010 on June 28, 2011, 241 days after it was due.

Authority management stated that the grant was initially administered by predecessor authorities and the program had been inactive because the interest rates offered in the program are not competitive with the market rates. Due to other priorities that took precedence, negotiations with EDA were put on hold. (Finding #2, pages 20-22)

We recommended Authority management revisit the requirements of the grant and reinstate negotiations with EDA to determine whether to continue or terminate the program and return the grant funds to EDA.

**Authority officials agree with auditors**

Authority officials accepted the Auditor's recommendation and indicated they had been in contact with the EDA to modify the requirements of the grant and the work plan.

**INADEQUATE CONTROL OVER TRAVEL AND MARKETING EXPENDITURES**

The Illinois Finance Authority (Authority) did not exercise adequate control over travel and marketing expenditures to ensure compliance with the Travel Guide for State of Illinois Employees (Travel Guide).

Based on our review of the Authority's travel policy (policy) and travel and marketing expenditures we noted the following:

**Policy did not require exceptions to be approved by the Travel Control Board**

- The Authority's policy does not require seeking approval from the Governor's Travel Control Board for any exception from the Travel Guide. Exceptions to the travel regulations are required to be approved by the Authority's Chief Financial Officer in accordance with its policy.

**Out-of-State travel was not approved**

- The Authority's policy does not require seeking the approval from the Governor's Office of the Management and Budget (GOMB) prior to any out-of-state travel. In our review of 51 travel vouchers, 13 (26%) vouchers totaling \$18,317 were expenditures for out-of-state travel.

**Unallowable travel expenses reimbursed**

- Seven of 51 (14%) travel vouchers tested contained unallowable travel expenses totaling \$308. Unallowable travel expenses consist of food and beverage sales taxes, purchases from hotel restaurant and mini bar, gift shop charges, airline perks such as early check-in fee and boarding and flexibility package purchased during air flights.

**License and insurance of privately owned aircraft was not certified**

- Certification for the license and insurance of a privately owned aircraft used on State travel was not provided. In fiscal year 2011, the Authority paid a total of \$3,018 travel reimbursements related to charges for the use of a privately owned aircraft.

**Travel reimbursements lacked supporting receipts**

- Four of 51 (8%) travel vouchers and 1 of 16 (6%) marketing expense reports did not have supporting receipts totaling \$1,764 and \$79, respectively. These expenses which individually exceeded \$10 were for transportation and lodging expenses.

**Lodging reimbursements exceeded the maximum allowed**

- Eight of 51 (16%) travel vouchers and 1 of 16 (6%) marketing expense reports had lodging reimbursements in excess of the maximum allowed by the Governor’s Travel Control Board. The total excess payment made by the Authority against the maximum allowed was \$1,549.

According to Authority management they are undertaking a comprehensive review of its travel policies. Expenditures without receipt and incomplete information on the travel expense reports were due to oversight. (Finding #3, pages 23-26)

We recommended the Authority comply with the Travel Guide and strengthen its internal control over travel and marketing expenditures to ensure expenditures comply with the Travel Guide.

**Authority officials agree with auditors**

Authority officials accepted the Auditor’s recommendation and indicated they planned to update is travel policies and procedures to be in compliance with the Governor’s Control Travel Guide.

**NONCOMPLIANCE WITH CONTRACTING PROCEDURES**

The Illinois Finance Authority (Authority) did not comply with certain required contracting procedures.

During our testing of 16 contracts, including 4 contracts for real property leases, we noted the following:

**Contracts not signed prior to the beginning of the contract term**

- Seven (44%) contracts totaling \$510,938 had not been signed by all parties before the earliest service allowed under the contract agreement terms. The length of time between the beginning dates of the contractual agreements and dates of final signatures ranged from 18 to 393 days.

**Contracts not filed with the Office of the State Comptroller**

- Eight (50%) contracts each exceeding \$10,000 were not filed with the Illinois Office of the Comptroller. The contracts totaled \$454,330.

Authority management stated that untimely execution of contracts was due to vendor's failure to timely return signed contracts timely. The non-filing of contracts with the Office of the State Comptroller was due to lack of a designated person to handle filing of contracts as a result of staff turnover. (Finding #4, pages 27-28)

**Authority officials agree with auditors**

We recommended Authority management take the necessary steps to ensure contract agreements are signed by all the required parties before contract services begin. Further, management should designate a person to ensure contracts exceeding \$10,000 are filed with the Office of the State Comptroller as required by the SAMS Manual.

Authority officials accepted the Auditor's recommendation and indicated they had committed material resources to compliance with the Procurement Code.

**DELINQUENT REPORTING OF BOND ACTIVITY**

**Notification letters were late**

The Illinois Finance Authority (Authority) did not timely submit the bond closing notifications to local legislative bodies and did not timely submit required transaction reporting for its revenue bonds to the Illinois Office of the State Comptroller.

During our testing of conduit bond issuances, we noted the following:

**Some bond payment notices were submitted late**

- The Authority is required to notify local legislatures for new bond issuances in accordance with its policies and procedures. Notification letters to local legislative bodies for all 12 new issuances tested were not timely transmitted. Notification letters were transmitted from 68 to 376 days after they were due.
- 25 of 223 (11%) Notice of Payment of Bond and/or Principal accounting reports (form C-08) tested were not submitted timely with the Office of the State Comptroller. The notices were submitted from 4 to 148 days after they were due.

Authority management stated that staff assigned to prepare notification to local legislative bodies failed to do so. The bond trustees did not submit Form C-08 to the Office of the State Comptroller timely as required. (Finding #5, pages 29-30)

We recommended Authority management train new personnel responsible for notifying the local legislative bodies about the Authority's policies and procedures related to processing bond transactions. Further, the Authority should monitor its trustee's submission of the form C-08s to the Office of the State Comptroller to ensure compliance with the Statewide Accounting Management System (SAMS) requirements.

**Authority officials agree with auditors**

Authority officials accepted the Auditor’s recommendation and indicated they would train and provide the policies and procedures to new personnel. Authority officials further indicated it receives over 7,000 C-08’s per fiscal year and if a C-08 has not been received within 10 calendar days of the “scheduled” payment date, an email reminder is sent out with weekly reminders until it’s received.

**THE AUTHORITY FAILED TO MONITOR OUTSTANDING BONDED INDEBTEDNESS OF THE ILLINOIS FARM DEVELOPMENT BONDS**

The Illinois Finance Authority (Authority) did not properly monitor the outstanding bonded indebtedness of the Illinois Farm Development Bonds.

**Annual report to Office of the Comptroller required**

The Authority, as an issuer of bonds including conduit Illinois Farm Development Bonds (bonds) is required to annually report the aggregate outstanding bonded indebtedness to the Illinois Office of the State Comptroller. In order to do this, the Authority uses a loan database system to track bond issuances and balances. The database has been designed to generate verification letters that are sent to the lender banks each fiscal year to determine outstanding balances of the bonds. The lender banks are required to verify the principal, interest, and outstanding balance of a borrower. This report is to be submitted to the Office of the State Comptroller within 90 days after the year end.

**Verification letter was not sent for 3 loans totaling \$519,000**

During our testing of 25 loans issued under the Illinois Farm Development Bonds program, we noted the Authority did not send verification letters to monitor and obtain an updated outstanding bonded indebtedness on 3 (12%) loans tested totaling \$519,577. The loan database system did not generate the annual verification letters. As a result these loans have not been verified since fiscal year 2008 and, therefore, the outstanding loan balances reported to the Office of the State Comptroller may not be accurate.

**Loans not verified**

Authority management stated that the exceptions were due to errors in the loan database system not immediately identified because of inadequate maintenance of the system. (Finding #6, pages 31-32)

We recommended Authority management strengthen controls over the maintenance of its loan database system to ensure outstanding loans are properly verified and accurate reports are submitted to the Comptroller.

**Authority officials agree with auditors**

Authority officials accepted the Auditor’s recommendation and indicated they are in the process of acquiring a consultant to review and provide feedback on the loan database system.

## **INTERNAL AUDITING PROGRAM NOT IMPLEMENTED**

### **No internal audits performed in fiscal year 2011**

The Illinois Finance Authority (Authority) did not implement the internal auditing program in fiscal year 2011 in accordance with the Fiscal Control and Internal Auditing Act.

Although the Authority contracted with an external firm to provide performance of internal auditing program in fiscal year 2010 for a three year term ending fiscal year 2013, the Authority did not actually implement the internal auditing program during the current fiscal year. The Authority did not prepare an internal audit plan and no internal audits were undertaken in fiscal year 2011. The Authority approved a two-year internal audit plan for fiscal year 2012 and fiscal year 2013 created by the external firm on June 27, 2011.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/2001) (Act) states each designated State agency shall maintain a full-time program of internal auditing. Section 1003 of the Act defines designated State agencies to include the Illinois Finance Authority.

### **Authority attributed problem to staff turnover**

Authority management stated that due to staff turnover, the development of the internal audit was not completed within the required timeframe. (Finding #9, pages 37-38)

We recommended Authority management comply with the Act and implement an internal auditing program.

### **Authority officials agree with auditors**

Authority officials accepted the Auditor's recommendation and indicated they had an internal audit plan developed by the end of fiscal year 2011. However, the internal audit plan was not completed within the required reporting time.

## **FAILURE TO FILE REPORT REQUIRED BY THE AMERICAN RECOVERY AND REINVESTMENT ACT**

### **Required reports not filed with the General Assembly**

The Illinois Finance Authority (Authority) did not file the required reports with the General Assembly for its issuance of Recovery Zone Bonds in implementing the provisions of the American Recovery and Reinvestment Act of 2009.

In accordance with the provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), all counties and municipalities of the State with a population of 100,000 or more have received an allocation of recovery zone bonds authorizations to spur economic development. In accordance with the Federal law, the allocation maybe voluntarily waived by counties and municipalities to the State for reallocation to other jurisdictions and other projects in the State.

The Authority, on behalf of the State, will receive unused allocations and ensures that the incentive will be used to the fullest extent possible.

**Authority received unused allocations of \$296 million**

The Authority received a total reallocation cap of \$295,923,000 and issued eight bonds totaling \$211,488,000 from August 24, 2010 through December 31, 2010. In accordance with the statute, the Authority is required to submit monthly reports to the General Assembly starting September 15, 2010 detailing its implementation of the ARRA provision. The Authority did not submit the monthly reports as required. The Authority filed a report detailing its implementation of the ARRA provisions regarding the recovery zone bonds on June 28, 2011.

**Monthly reports to the General Assembly were not submitted**

According to Authority management, the failure to file monthly reports was due to oversight. (Finding #12, pages 43-44)

We recommended Authority management improve its controls over monitoring amendments to the Illinois Finance Authority Act to ensure it complies with any new or amended provisions of the Act.

**Authority officials agree with auditors**

Authority officials accepted the Auditor's recommendation and indicated it is implementing an agency wide reporting monitoring mechanism.

**OTHER FINDINGS**

The Authority accepted the remaining findings. We will review the Authority's progress towards the implementation of our recommendations in our next State compliance examination.

**AUDITORS' OPINION**

The auditors conducted a compliance examination of the Authority for the year ended June 30, 2011. A financial audit covering the year ended June 30, 2011 was issued separately.



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WILLIAM G. HOLLAND  
Auditor General

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**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for this compliance examination and single audit were E.C. Ortiz & Co. LLP.