



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS FINANCE AUTHORITY

**Compliance Examination
For the Year Ended June 30, 2013**

Release Date: May 22, 2014

Summary of Findings for this Fiscal Year:

• Compliance	7
• Financial Audit (released 01-29-14)	<u>4</u>
Total findings:	11
Total last audit:	11
Repeated from last audit:	6

SYNOPSIS

This digest covers our Compliance Examination of the Illinois Finance Authority for the year ended June 30, 2013. A financial audit as of and for the year ending June 30, 2013, was previously released on January 29, 2014. In total, this report contains 11 findings, four of which were also reported in the financial audit released on January 29, 2014.

- The Authority lacked internal controls to properly maintain records for monitoring covenant compliance for conduit bonds.
- An internal audit function was not established as required by the Fiscal Control and Internal Auditing Act.
- The Authority failed to submit transaction reporting for bond principal and interest payments to the Office of the State Comptroller in a timely manner.
- The Authority did not ensure travel expenses were in compliance with the *Travel Guide for State of Illinois Employees*, which resulted in unallowable travel costs.

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

**ILLINOIS FINANCE AUTHORITY
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2013**

FINANCIAL INFORMATION	2013	2012
Total Revenues.....	\$ 16,249,764	\$ 20,649,049
Interest on loans.....	\$ 8,072,295	\$ 9,242,812
% of Total Revenues.....	49.7%	44.7%
Interest and investment income.....	\$ 2,523,475	\$ 2,595,352
% of Total Revenues.....	15.5%	12.6%
Administrative service fees.....	\$ 3,912,338	\$ 2,765,760
% of Total Revenues.....	24.1%	13.4%
Other revenues.....	\$ 1,741,656	\$ 6,045,125
% of Total Revenues.....	10.7%	29.3%
Total Expenses.....	\$ 13,805,542	\$ 18,613,885
Interest expense.....	\$ 9,921,160	\$ 11,057,629
% of Total Expenses.....	71.9%	59.4%
Employee related expenses.....	\$ 1,789,531	\$ 1,790,048
% of Total Expenses.....	13.0%	9.6%
Professional services.....	\$ 1,408,610	\$ 1,447,493
% of Total Expenses.....	10.2%	7.8%
Occupancy costs.....	\$ 319,386	\$ 331,014
% of Total Expenses.....	2.3%	1.8%
Other expenses.....	\$ 366,855	\$ 3,987,701
% of Total Expenses.....	2.6%	21.4%
Average Number of Employees.....	20	22

SELECTED ACTIVITY MEASURES (UNAUDITED)	2013	2012
Conduit debt outstanding (in thousands).....	\$ 24,570,012	\$ 24,502,256
Number of conduit debt issues outstanding.....	1,484	1,617
New bond issues (in thousands).....	\$ 2,256,325	\$ 1,975,096
Number of new issues	45	37
Total expenses/total number of issues.....	\$ 9,303	\$ 11,511

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO ENHANCE INTERNAL CONTROLS FOR MONITORING COVENANT COMPLIANCE FOR OUTSTANDING CONDUIT BONDS

The Authority did not have adequate internal controls to properly maintain records for monitoring covenant compliance for conduit bonds.

Authority unable to substantiate receipt of required documents from borrowers

During testing of the Authority's records for 60 conduit bonds outstanding, the auditors noted the Authority could not substantiate the receipt of required documentation from borrowers or show evidence of the Authority's monitoring of the following significant bond covenants:

Missing execution documents

- 30 of 60 (50%) of bond issues tested were missing a total of 94 execution documents the Authority should have received prior to the bond's closing or refunding date. The missing documents included 20 Official Statements, 18 loan/financing agreements, two local government purchase agreements, one security agreement, two bond and loan agreements, one ordinance, 19 Indentures, 25 tax exemption agreements, three depository agreements, one regulatory agreement, and two advance refunding documents.

Missing certificates of substantial completion

- 14 of 60 (23%) of bond issues tested were missing a certificate and/or other reports certifying the project funded by the bond issuance had been completed.

Missing reports on construction workers employed

- Seven of 60 (12%) of bond issues tested did not have a written report from the borrower within 90 days of completing the project indicating the total number of workers by type employed in completing the project.

Missing reports on full-time, non-construction employees working at the project

- Six of 60 (10%) of bond issues tested did not have a written report from the borrower each year reporting the number of full-time equivalent employees employed at the project during the preceding year.

Missing audited financial statements

- 18 of 60 (30%) of bond issuances tested were missing the borrower's audited financial statements. Further, 13 of the noted bond issuances were also missing a separate written certification from the independent auditors certifying the auditors have obtained no knowledge of any default by the borrower in the terms, covenants, provisions, or conditions of the agreement.

Missing annual certifications

- 29 of 60 (48%) of bond issues tested did not have an annual certification that the borrower has performed a review of its activities during the preceding year to determine the borrower has kept, observed, performed,

and fulfilled every covenant and the borrower is not in default with any covenant. In the event the borrower is in default with one or more covenants, the borrower must specify the nature and detail of each default to the Authority.

Missing certifications and calculations

- 11 of 60 (18%) of bond issues tested were missing certifications and/or calculations from required reports and/or financial ratios. The missing elements included current ratios, balance sheet tests, reserve ratios, historical debt service coverage ratios, supplemental ratio or percentages of income available for debt service, an aging schedule of accounts payable, a listing of contracts with the State of Illinois, Department of Human Services, an insurance certification, total student applications during the period, total annual capital campaign contributions, days cash on hand calculations, certifications of marketing and occupancy ratios, outstanding accounts receivable from Medicaid, and the entity's annual budget.

Missing bond destruction certifications

- One of 60 (2%) of bond issues tested did not have an annual certification of destruction for bonds cancelled and destroyed.

Missing compliance certifications

- One of 60 (2%) of bond issues tested did not have quarterly certifications of continuing program compliance on file with the Authority.

Further, the auditors noted the following during a review of statements from the Bond Trustee:

Missing statements from the Bond Trustee

- 30 of 60 (50%) bond issues tested did not have any statements from the Bond Trustee.

Required bond funds not established as required

- Two of 60 (3%) bond issues tested had statements from the Bond Trustee that reported certain required bond funds were not established pursuant to the bond's Indenture.

Authority officials stated the Authority is still in the process of implementing an organized records management system capable of identifying where the specific records requested are retained within the Authority's files. (Finding 5, pages 28-31).

We recommended the Authority develop, establish, and maintain a recordkeeping system documenting receipt of the required bond compliance documents, which is capable of identifying the location of documents retained by the Authority.

Authority officials agree with the auditors

Authority officials accepted the recommendation.

INTERNAL AUDITING PROGRAM NOT IMPLEMENTED

The Authority did not establish an internal audit function as required by the Fiscal Control and Internal Auditing Act.

Full-time internal auditing program not established

During testing, the auditors noted the Authority had not established a full-time program of internal auditing at the Authority. Additionally, the auditors noted the Authority's Executive Director had not appointed a Chief Internal Auditor.

Authority officials stated the Authority developed an internal audit plan. However, due to key staff turnover, the Authority had to devote substantial time and resources to fill other key positions. Furthermore, the Authority had several interviews with a potential candidate to be hired as the Chief Internal Auditor; however, the candidate was needed to fill a more pressing vacancy and was instead hired as the Acting Chief Financial Officer. (Finding 6, pages 32-33).

We recommended the Authority establish an internal audit program and appoint a Chief Internal Auditor.

Authority officials agree with the auditors

Authority officials accepted the recommendation.

NEED TO ENHANCE CONTROLS OVER REPORTING OF BOND TRANSACTIONS

The Authority did not timely submit transaction reporting for bond principal and interest payments to the Office of the State Comptroller.

During testing of 60 bond issuances with 351 distinct payments requiring the filing of a *Notice of Payment of Bond Interest and/or Principal* report (Form C-08) during Fiscal Year 2013, the auditors noted the following:

Transaction reports submitted between two and 406 days late

- 48 of 351 (14%) Form C-08s tested were submitted to the Office of the State Comptroller between two to 406 days late. In accordance with the official documents for each bond, the bond trustees are responsible for completing and filing the information with both the State Comptroller and the Authority.

Discrepancies between reports and bond indentures

- 8 of 351 (2%) Form C-08s tested contained discrepancies between the amounts reported on the Form C-08 and the schedule of payments within each respective bond's Indenture. The Authority was unable to provide the auditors with a reconciliation of the differences.

Authority officials stated the various bond trustees either did not timely or accurately submit the Form C-08 to the State Comptroller, as required. The Authority receives information

from and regularly communicates with several different trustees. Additionally, the Authority sends out monthly reminders to the various trustees concerning late Form C-08s. (Finding 7, pages 34-35). **This finding was first reported in 2010.**

We recommended the Authority continue to monitor and work with the bond trustees to improve compliance with principal and/or interest reporting requirements.

Authority officials agree with the auditors

Authority officials accepted the finding. *(For the previous Authority response, see Digest Footnote #1.)*

NEED TO ENHANCE INTERNAL CONTROLS OVER TRAVEL EXPENSES

The Authority did not exercise adequate control over travel expenses and ensure compliance with the *Travel Guide for State of Illinois Employees*.

During testing of 51 travel expenditures, totaling \$37,908, the auditors noted the following unallowable costs:

Lodging expenses in excess of the maximum allowable rate

- Nine of 51 (18%) vouchers tested, totaling \$21,543, had lodging expenses in excess of the maximum allowable rate, totaling \$2,991, without submitting exception requests to the Governor's Travel Control Board. Further, these vouchers did not include evidence of the traveler contacting additional hotels prior to making a reservation in excess of the maximum allowable rate.

Per diem claims in excess of the maximum allowable rate

- Five of 51 (10%) vouchers tested, totaling \$7,575, had per diem claims in excess of the maximum allowable rate, totaling \$130.

Authority paid unallowable travel expenses

- Nine of 51 (18%) vouchers tested, totaling \$2,041, included unallowable travel expenses, totaling \$382. The noted unallowable expenses included in-room hotel dining costs when the employee had claimed per diem and rental car insurance costs.

The auditors questioned \$3,503 of the \$37,908 travel costs tested, or 9% of the expenditures within the auditors' sample population.

In addition to the unallowable costs, the auditors noted the following noncompliance conditions during their review of the 51 travel expenditures, totaling \$37,908, tested:

Reimbursement vouchers submitted 100 to 355 days after completing the travel

- Five of 51 (10%) vouchers tested, totaling \$1,897, were submitted for reimbursement by the Authority between 100 and 355 days after the completion of travel. Additionally, the Authority did not report these

amounts as wages paid to the employee to the Internal Revenue Service.

Out-of-State travel expenses not approved by GOMB

- Nine of 51 (18%) travel vouchers tested, totaling \$18,303, were for travel expenses incurred outside of the borders of the State of Illinois where the Authority had not received preapproval from the Governor's Office of Management and Budget (GOMB) for the travel.

Authority officials stated the travel exceptions were due to employee oversight and timing issues on requesting access to GOMB's travel system to request approvals for travel exceptions. (Finding 8, pages 36-39). **This finding was first reported in 2010.**

We recommended the Authority implement controls to ensure all travel expenditures paid by the Authority comply with Internal Revenue Service Publication 535 and State travel regulations.

Authority officials agree with the auditors

Authority officials accepted the finding. *(For the previous Authority response, see Digest Footnote #2.)*

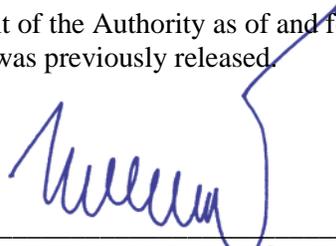
OTHER FINDINGS

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 examination.

ACCOUNTANTS' OPINION

Our auditors conducted a compliance examination of the Authority for the year ended June 30, 2013, as required by the Illinois State Auditing Act. The auditors qualified their report on State Compliance for Findings 2013-001, 2013-002, and 2013-005. Except for the noncompliance described in these findings, the auditors stated the Authority complied, in all material respects, with the requirements described in the report.

A financial audit of the Authority as of and for the year ended June 30, 2013, was previously released.



WILLIAM G. HOLLAND
Auditor General

WGH:djn

SPECIAL ASSISTANT AUDITORS

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

DIGEST FOOTNOTES

#1 - NEED TO ENHANCE CONTROLS OVER REPORTING OF BOND TRANSACTIONS

2012 - The Authority accepts the recommendation. The Authority remains active in seeking timely submittal of C-08 forms from its bond trustees. In addition to the state reporting requirements, the Authority needs the information from the C-08 forms to properly account for bond payments. However, current laws and regulations lack the enforcement capabilities needed to ensure compliance.

#2 - NEED TO ENHANCE INTERNAL CONTROLS OVER TRAVEL EXPENSES

2012 - The Authority accepts the recommendation. During Fiscal Year 2013, the Authority will be expanding its fiscal operations and will assign responsibility for performing detailed compliance reviews of all travel expense reports submitted by both employees and board members. At least annually, common examples of noncompliance will be compiled, summarized and issued to all travelers. It should be noted that the Authority updated its travel policy and enrolled into eTravel, Governor's Office of Management and Budget out-of-State approval system, in Fiscal Year 2012.