



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS FINANCE AUTHORITY

FINANCIAL AUDIT

For the One Year Ended: June 30, 2013

Release Date: January 29, 2014

Summary of Findings:

Total this audit:	4
Total last audit:	2
Repeated from last audit:	1

INTRODUCTION

This digest covers the Illinois Finance Authority's Financial Audit as of and for the year ended June 30, 2013. The Illinois Finance Authority's Compliance Examination covering the year ended June 30, 2013 will be issued at a later date.

SYNOPSIS

- The Authority did not have adequate internal controls to properly monitor borrower covenant compliance for bonds and loan agreements.
- The Authority lacked adequate internal control over financial reporting.
- An intergovernmental agreement with the Office of the State Fire Marshal was not entered into timely, which impacted the disclosure of the amount due to the primary government.

{Financial data is summarized on the reverse page.}

ILLINOIS FINANCE AUTHORITY
FINANCIAL AUDIT
For the Year Ended June 30, 2013

STATEMENT OF NET POSITION		
(in thousands)	2013	2012
Assets		
Cash and cash equivalents.....	\$ 61,814	\$ 58,710
Restricted cash and cash equivalents.....	33,727	63,266
Investments.....	85	85
Restricted investments.....	99,444	60,554
Receivables.....	7,580	9,723
Restricted receivables.....	120,156	150,212
Other.....	12,674	10,879
Total.....	<u>335,480</u>	<u>353,429</u>
Liabilities		
Accounts payable and accrued liabilities.....	7,081	5,410
Bonds payable.....	198,096	223,441
Due to primary government.....	19,468	17,146
Other.....	15,372	14,413
Total.....	<u>240,017</u>	<u>260,410</u>
Net Position		
Net investment in capital assets.....	116	108
Restricted.....	26,723	25,890
Unrestricted.....	68,624	67,021
Total.....	<u>\$ 95,463</u>	<u>\$ 93,019</u>

REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION		
(in thousands)	2013	2012
Revenues		
Interest on loans.....	\$ 8,073	\$ 9,243
Interest and investment income.....	2,523	2,595
Administrative service fees.....	3,912	2,766
Gain (loss) on sale of of investments.....	-	(2,075)
Other.....	1,741	6,045
Total.....	<u>16,249</u>	<u>18,574</u>
Expenses		
Interest expense.....	9,921	11,058
Employee related expenses.....	1,790	1,790
Professional services.....	1,409	1,447
Other.....	685	2,244
Total.....	<u>13,805</u>	<u>16,539</u>
Change in net position.....	<u>\$ 2,444</u>	<u>\$ 2,035</u>

EXECUTIVE DIRECTOR

During Audit Period: Mr. Christopher B. Meister
Currently: Mr. Christopher B. Meister

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE COVENANT COMPLIANCE MONITORING

The Illinois Finance Authority (Authority) did not have adequate internal controls to properly monitor borrower covenant compliance for bonds and loan agreements reported on the face of the Authority's basic financial statements.

During testing of the Bond Bank Lending Program, the auditors noted the following:

Authority was unable to provide financial statements of local government borrowers

- For 53 of 53 (100%) local government borrowers tested, the Authority could not provide the local government's latest audited financial statements.

Authority was unable to provide required notifications from the local governments on their ability to make their next two regularly scheduled debt service payments

- For 22 of 53 (42%) local government borrowers tested, the Authority could not provide the required written notification to the Bond Trustee and the Authority from the local government borrower about whether the local government reasonably believes that it will or will not have sufficient moneys to make its next two regularly scheduled principal and interest payments.

Authority does not monitor local government borrower compliance for debt service coverage ratios

- The Authority did not have a process or procedure to monitor local government borrower compliance for the 34 local governments with the debt service coverage ratio requirement of 1.25 to 1 (annual revenues ÷ total annual debt service). After receiving a confirmation from the Authority of this condition, the auditors sought the audited financial statements of the 34 local government borrowers from the Office of the State Comptroller. The auditors noted the following:
 - From a review of each entity's financial reports, it appears 19 of 34 (56%) of the local government borrowers may not have met the required debt service coverage.
 - The auditors were unable to make any determination for five of the 34 (15%) local government borrowers, as they had not filed their financial statements with the Office of the State Comptroller.

During testing of revenue bonds issued on behalf of other State agencies and component units, the auditors noted the following:

\$500,000 deposit made without approval by the Authority

- The Authority did not complete an Officer's Certificate for the \$500,000 deposit made into the Rebate Fund for the Series 2004 bonds issued on behalf of the Environmental Protection Agency's Water Revolving Fund.

Inadequate monitoring of a Bond Trustee

- The Authority did not ensure the Bond Trustee for the Series 2006A and 2006B bonds issued on behalf of the Illinois Medical District Commission (Commission) deposited \$65,000 into the Replacement Reserve Fund, as the cash balance in the replacement reserve fund was below \$325,000.

Failure to seek payment of \$60,000 in delinquent annual fees

- The Authority did not seek payment of delinquent annual fees, totaling \$60,000, from the Commission. The auditors noted the Authority had not billed the Commission for the \$15,000 fee due for 2009, 2010, 2011, and 2012.

Failure to demand legal fee reimbursements of \$60,000

- The Authority did not demand reimbursement of legal fees, totaling \$60,000, incurred in relation to the Commission's prior year noncompliance with its Debt Service Coverage Ratio requirement.

Failure to obtain a bond compliance certification

- The Authority did not obtain an annual certificate from the Northern Illinois University Foundation in relation to their compliance with the bond covenants.

During testing of 33 loan agreements within the fire truck and ambulance revolving loan programs, the auditors noted the following:

Insurance coverage certifications not obtained for fire trucks and ambulances securing the loan

- For 28 of 33 (85%) loans tested, the Authority could not provide a current certificate of insurance coverage for the fire truck or ambulance securing the loan agreement. The auditors noted 11 instances where the Authority did not have any record of insurance coverage on the fire truck or ambulance and 17 instances where the Authority's records indicated the insurance had lapsed between December 31, 2006 and June 12, 2012.
- For 17 of 33 (52%) loans tested, the Authority could not provide an original copy of title to the fire truck or ambulance securing the loan.
- For 33 of 33 (100%) loans tested, the Authority could not provide the fire truck or ambulance's Acceptance Memorandum from the State of Illinois, Office of the State Fire Marshal (Fire Marshal). The Acceptance Memorandum is a certificate issued by the Fire Marshal indicating they have conducted a review and approved the fire truck or ambulance for purchase by the borrower.

According to Authority management, the Authority is still in the process of implementing a records management system and some covenants and loan provisions may be outdated. (Finding 1, pages 70-75)

We recommended the Authority develop, establish, and maintain a recordkeeping system capable of documenting receipt of the required bond and loan documents, which is capable of identifying the location of documents retained by the Authority. Further, we recommended the Authority monitor borrower compliance with significant covenants to detect and appropriately respond to any noted noncompliance.

Authority officials agree

Authority officials agreed with our finding.

NEED TO MONITOR AND COMMUNICATE WITH OTHER STATE AGENCIES TO IMPROVE FINANCIAL REPORTING

The Authority did not exercise adequate internal control over financial reporting.

The Authority's financial statements include transactions related to revenue bonds issued for the benefit of other agencies and component units of the State of Illinois, which are required to be shown on the face of the Authority's financial statements pursuant to Interpretation No.2 of the Governmental Accounting Standards Board. As a result of this accounting interpretation, transactions and events occurring at other agencies and component units of the State of Illinois need to be continuously monitored by the Authority for any potential impact on the Authority's financial statements.

Subsequent event impacting the Authority's financial statements not identified

During testing, the auditors noted the Authority did not adequately monitor subsequent event transactions occurring at a primary government agency for any potential impact on the Authority's financial statements. The auditors identified a subsequent event material to the Authority's financial statements which was not identified by the Authority's internal control structure. The auditors proposed an adjusting journal entry of \$1,227,090 to correct an understated arbitrage liability accrual, which the Authority subsequently recorded in its financial statements.

Authority's arbitrage liability accrual understated by \$1,227,090

According to Authority management, the Authority's reconciliation process omitted a review of arbitrage calculations. (Finding 2, pages 76-77)

We recommended the Authority enhance their internal controls and communications with other agencies and component units of the State of Illinois for continuously monitoring events and transactions that could impact the Authority's financial statements.

Authority officials agree

Authority officials agreed with our finding.

NEED TO ENTER INTO AN INTERAGENCY AGREEMENT AND REVIEW FINANCIAL STATEMENT DISCLOSURES

The Authority did not timely enter into an intergovernmental agreement with the Office of the State Fire Marshal (Fire Marshal), impacting the disclosure of the amount due to the primary government at June 30, 2013.

During fieldwork, the auditors noted the following:

Authority did not enter into an interagency agreement

- The Authority had not entered into an agreement with the Fire Marshal by June 30, 2013, six months after the General Assembly mandated the Authority and Fire Marshal enter into an intergovernmental agreement to allow for the transfer of moneys within the Fire Truck Revolving Loan Fund, the Fire Station Revolving Loan Fund, and the Ambulance Revolving Loan Fund “as soon as practicable” after January 1, 2013.

Financial statements lacked adequate disclosure

- During reviews of the draft financial statements, the auditors noted the Authority did not disclose both the impact of failing to enter into the intergovernmental agreement or indicate any potential impact on the \$19,042,264 due to the primary government from fire truck and ambulance loans when and if the Authority and Fire Marshal eventually enter into the required interagency agreement. After notification from the auditors, the Authority drafted additional disclosures for inclusion within the Authority’s financial statements.

\$14,218,169 not transferred to the Authority at June 30, 2013

As of June 30, 2013, the Ambulance Revolving Loan Fund was holding a cash balance of \$3,661,593 and the Fire Truck Revolving Loan Fund was holding a cash balance of \$2,556,576. Further, Public Act 97-0731 appropriated an additional \$8,000,000 to the Fire Marshal for transfer to the Fire Truck Revolving Loan Fund and the Ambulance Revolving Loan Fund during Fiscal Year 2013. The entire amount was reappropriated by the General Assembly to the Fire Marshal in Fiscal Year 2014.

According to Authority management, the Authority and the Fire Marshal have not agreed to the terms for inclusion within the intergovernmental agreement. (Finding 3, pages 78-79)

We recommended the Authority continue to work with the Fire Marshal to finalize the terms of the intergovernmental agreement. In addition, we recommended the Authority implement internal controls to review the notes to the Authority's financial statements to ensure the disclosures are appropriate, accurate, and fairly presented in accordance with generally accepted accounting principles.

Authority officials agree

Authority officials agreed with our finding.

OTHER FINDING

The other finding pertains to the Authority failing to write-off uncollectible balances. We will review progress toward implementation of all our recommendations during 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, 2013, are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:djn

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were E.C. Ortiz and Company, LLP.