

REPORT DIGEST

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

COMPLIANCE EXAMINATION

(In accordance with the
Single Audit Act and OMB

Circular A-133)

For the Year Ended:

June 30, 2009

Summary of Findings:

Total this year	
9	
Total last year	10
Repeated from last year	6

Release Date:
March 16, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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INTRODUCTION

The Financial Statement Audit report for the year ended June 30, 2009 was previously released on November 12, 2009. That report contained two audit findings pertaining to significant deficiencies in internal control over financial reporting. Those two findings are also included in the Compliance Examination report but not in this report digest.

SYNOPSIS

(Federal and State Compliance Findings)

- ◆ The Authority has inadequate monitoring procedures of Section 3 Reports from Single Family projects and inadequate procedures in preparing the Section 3 Summary Report. Section 3 is a provision of the Housing and Urban Development Act that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency.
- ◆ The Authority is not properly administering the Section 8 Moderate Rehabilitation Program. The Section 8 Moderate Rehabilitation Program is to assist low income families obtain decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.
- ◆ The Authority does not have procedures in place to ensure that submission and review of audits were performed in accordance with the grant agreement for the National Foreclosure Mitigation Counseling Program.
- ◆ The Authority's subrecipient monitoring procedures for the Home Investment Partnerships Program needs improvement.

{Financial Information and Activity Measures are summarized on the next page.}

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2009

SELECTED ACCOUNT BALANCES	6-30-09	6-30-08
Debt outstanding (net of unamortized discount)		
Housing Bonds	\$452,700,000	
Multi-Family Housing Revenue Bonds (Marywood)	14,900,000	\$504,700,000
Multi-Family Bonds (Turnberry II)	5,100,000	15,500,000
Affordable Housing Program Trust Fund Bonds	66,900,000	5,200,000
Residential Mortgage Revenue Bonds	300,000	72,000,000
Homeowner Mortgage Revenue Bonds	1,000,400,000	300,000
Administrative Funds	<u>6,300,000</u>	1,042,700,000
Total	<u>\$1,546,600.00</u>	<u>4,600,000</u>
Cash and equivalents (proprietary funds)	<u>0</u>	<u>\$1,645,000.00</u>
Investments (all funds)	\$6,746,752	<u>0</u>
	\$691,816,534	\$9,671,123
		\$772,814,058
SUPPLEMENTARY INFORMATION	FY 2009	FY 2008
Expenditures of Federal Awards		
Section 8 Project-Based Cluster	\$133,079,327	\$144,766,553
HOME Investment Partnerships Program	32,336,665	21,850,617
Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families Program	4,947,904	5,395,775
National Foreclosure Mitigation Counseling Program	<u>905,929</u>	<u>593,697</u>
Total	<u>\$171,269,825</u>	<u>\$172,606,642</u>
	202	197
Average Number of Employees (unaudited)		
SELECTED ACTIVITY MEASURES		
Total Number of Bond Issues Outstanding	87	86
Housing Units Produced Since Inception	195,479	190,825
EXECUTIVE DIRECTOR		
During Audit Period: DeShana Forney (7-1-08 thru 9-17-09)		
Currently: Gloria Materre (9-18-09 thru current)		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**INADEQUATE PROCEDURES RELATED TO THE
HOME INVESTMENT PARTNERSHIPS PROGRAM**

The Authority has inadequate monitoring procedures of Section 3 reports from single family projects and inadequate procedures in preparing the Section 3 summary report. Section 3 is a provision of the Housing and Urban Development Act that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency.

**Not all of the information
was captured on the
amended report**

**No supervisory review was
performed prior to
submission to HUD**

Based on the review of all the Section 3 reports of each Single Family project subrecipient, 11 out of 54 Section 3 Summary Reports were dated after the submission date of the Section 3 Summary Report of the Authority on 3/30/09. The information from the eleven reports dated in July and September 2009 were not taken into proper consideration. Per review of these reports, there was no change in the Authority's Section 3 report; however, these reports should have been submitted prior to submission of the Authority's report to HUD. An amended report was submitted on 6/15/09. Based on the review of the amended report, the Authority did not capture all the Section 3 information from the related project. In addition, there was no supervisory review performed on the Authority's Section 3 Summary Report before its submission to HUD.

Failure to accurately report Section 3 information prevents the U.S. Department of Housing and Urban Development from effectively monitoring the Home program. (Finding 3, pages 17-18) **This finding was first reported in 2007.**

We recommended the Authority implement procedures to ensure information reported in the annual Section 3 Summary Report is complete and accurate.

Authority management concurred with the recommendation and stated that they have implemented procedures to confirm the accuracy of Section 3 reports. (For the previous Authority response, see Digest footnote #1.)

INADEQUATE ADMINISTRATION OF THE SECTION 8 MODERATE REHABILITATION PROGRAM

The Authority did not properly administer the Section 8 Moderate Rehabilitation Program. The Section 8 Moderate Rehabilitation (Mod Rehab) Program assists low income families to obtain decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

The Mod Rehab program assistance is considered a project-based subsidy because the assistance is tied to specific units under an assistance contract with the owner for a specified term. A family that moves from a unit with project-based assistance does not have any right to continued assistance. As provided in the Authority's Administrative Plan for the Mod Rehab Program, the Authority passes through the Mod Rehab subsidies to the developments or the owners of the property, which the Authority considers to be subrecipients of the program. The Authority conducts on-site programmatic and fiscal monitoring as well as desk reviews of audit reports of the subrecipients to monitor compliance with the Mod Rehab Program requirements.

Federal auditors review program

The final audit report stated the Authority is receiving administrative fees but not performing the major administrative functions under its contractual obligations with HUD

During fiscal year 2007, staff from the Illinois Office of Public Housing (a regional office of the U.S. Department of Housing and Urban Development (HUD)) conducted an audit of the Authority's Mod Rehab Program to assess the Authority's compliance with HUD regulations. The final audit report received from the Illinois Office of Public Housing indicated the Authority did not comply with numerous HUD regulations when the audit team assessed the Authority's overall program operation of the Section 8 Mod Rehab Program. The final audit report stated the Authority is receiving administrative fees to operate the Section 8 Mod Rehab program, yet it is not performing the major administrative functions HUD expects it to perform under its contractual obligations with HUD due to the manner in which the Authority delegates the performance of programmatic activities to its subrecipients. HUD is concerned that the Authority is not maintaining a waiting list for the Mod Rehab Program. Additionally, HUD is

No provision in the federal law which allows the Authority to contract its oversight functions to the owner

concerned that the Authority is not assessing eligibility, conducting briefings, conducting reexaminations, monitoring the assignment of appropriate unit sizes, evaluating Utility Schedules or conducting inspections regularly. The audit report states that the Authority is overseeing the administration of these functions by monitoring the properties that receive funding for units under the Section 8 Mod Rehab program. However, the entities actually administering the program do not have contracts with the Authority to administer the program, nor are they operating it in accordance with the applicable HUD regulations. The audit report further states that there is no provision in the federal law that would allow the Authority to contract its oversight functions to the owner. To allow this to occur would be a conflict of interest.

Per the 2007 corrective action plan, the Authority stated it will continue to consult with HUD. If it cannot resolve the matter regarding the interpretation of federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program, the Authority will request a waiver to allow it to continue to administer the program in accordance with its recently revised administrative plan. The Authority sent a follow up response to the Final Assessment Report for Section 8 Moderate Rehabilitation Program dated September 12, 2008.

Action taken by the federal government

Authority management stated that on December 17, 2008, the Authority received a response from HUD to the Authority's September 12, 2008 follow-up response to the Final Assessment for Section 8 Mod Rehab Program. In this response, HUD closed six of its previous findings and indicated that three more findings would be closed once the Authority hired a new staff person dedicated to the oversight of the Section 8 Mod Rehab Program developments. The Authority did hire a Section 8 Mod Rehab Coordinator and the Authority's letter to HUD dated August 5, 2009 outlined the tasks the Section 8 Mod Rehab Coordinator position would include (including references to related open findings), and consequently, the three additional findings should be considered closed as well. The remaining findings are related to those tasks for which the Authority has requested a waiver from HUD to continue to delegate certain functions to the Mod Rehab Program

Authority requested waiver from the federal government

Developments.

Failure to administer the Section 8 Mod Rehab program in accordance with HUD regulations could result in the payment of ineligible payments, resulting in unallowable costs. (Finding 4, pages 19-21) **This finding was first reported in 2007.**

We recommended the Authority continue to consult with the U.S. Department of Housing and Urban Development to interpret the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program and make necessary changes to conform to those requirements.

Authority management concurred with the recommendation and stated they have responded to and resolved a number of the issues that HUD has raised and that they have requested a waiver regarding the un-resolved issues. (For the previous Authority response, see Digest footnote #2.)

INADEQUATE SUBRECIPIENT MONITORING PROCEDURES

Inadequate procedures in place

The Authority does not have procedures in place to ensure that submission and review of audits were performed in accordance with the grant agreement for the National Foreclosure Mitigation Counseling Program.

The Authority only monitored the submission of A-133 reports of their sub-grantees when requested by the Auditors.

Per the OMB Circular A-133 March 2009 Compliance Supplement for Sub-recipient Monitoring, the Authority is required to ensure that sub-grantees who receive and expend more than \$500,000 in federal funds must have an A-133 audit as required by the Office of Management and Budget. Non-submission of the required audits would result in non-compliance of this requirement.

Failure to monitor the A-133 audits of the sub-grantees could result in undetected unallowable activities, resulting in

unallowable costs or non-eligibility to the program. (Finding 8, Page 28)

We recommended that the Authority include in its sub-recipient monitoring procedures the submission of A-133 audits to ensure that required reports are submitted in a timely manner in accordance with the Funding Announcement of the program.

Authority management concurred with the recommendation to include in its sub-recipient monitoring procedures the submission of A-133 audits and has amended its procedures to incorporate this.

NEED TO IMPROVE SUBRECIPIENT MONITORING PROCEDURES FOR THE HOME INVESTMENT PARTNERSHIPS PROGRAM

The Authority's subrecipient monitoring procedures for the Home Investment Partnerships Program needs improvement.

The Authority maintains a monitoring spreadsheet for its site, desk and construction visits. However, 21 out of 26 dates in this spreadsheet are inconsistent with the actual date of visits conducted.

Lack of a tracking process and insufficient documentation

The Authority receives audited financial statements from recipients of HOME program funds but does not have a tracking tool to monitor when the reports are received and reviewed. In addition, there was insufficient documentation of the follow up work on audited financial statements that were submitted late to the Authority.

As a pass through entity, the Authority is required to monitor the activities of the recipients of the HOME program. The HOME Investment Partnership Act strongly (24 CFR, Part 92) recommends record keeping requirements of the HOME Program Regulations as Section 92.508. The Authority must establish and maintain sufficient records to enable HUD to determine that program requirements are being met. (Finding 9, Page 29)

We recommended that the Authority implement their procedures to ensure that the HOME Program requirements

are met by their recipients and for the Authority to provide accurate information to HUD.

Authority management concurred with the recommendation and stated that they will amend their procedures to include the recording of actual dates on the monitoring spreadsheet and documentation of all follow up communications with the grant recipients.

OTHER FINDINGS

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

AUDITORS' OPINION

We conducted a compliance examination of the Authority for the year ended June 30, 2009 as required by the Illinois State Auditing Act. A financial audit covering the year ending June 30, 2009 was issued separately.

WILLIAM G. HOLLAND, Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen LLP were our special assistant auditors for this engagement.

DIGEST FOOTNOTES

#1 – INADEQUATE MONITORING OF SECTION 3 REPORTS FROM SINGLE-FAMILY AND INADEQUATE PROCEDURES IN PREPARING SECTION 3 SUMMARY REPORT OF THE AUTHORITY – Previous Authority Response

The Authority concurs with the recommendation to implement procedures to ensure that information reported in the annual Section 3 Summary Report is complete and accurate. HUD regulations indicate that the information for the Section 3 reporting will be furnished by the subrecipients. The Authority has

implemented a process for guiding the submission of these reports from subreipients and performing a review of these reports for completeness. The Authority subsequently has implemented additional internal procedures to ensure compliance with reporting from subrecipients.

**#2 – INADEQUATE ADMINISTRATION OF THE SECTION 8
MODERATE REHABILITATION PROGRAM – Previous
Authority Response**

The Authority concurs with the recommendations to consult with the U.S. Department of Housing and Urban Development (HUD) and come to an agreement regarding the interpretation of the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program.

The Authority has operated this program in accordance with various administrative plans, beginning in 1984, and has delegated a number of program functions to development owners and agents during this time. The Authority entered this program, along with a number of other State Housing Authorities, at HUD's invitation, and over the years HUD did not object, until recently, to the above delegations of program functions.

The Authority is not a public housing authority (PHA) in the manner that HUD envisions, and does not retain ownership and control of the developments receiving assistance. Therefore, the Authority can not directly manage PHA functions for privately owned developments, such as processing Tenant Applications and Waiting Lists, calculation of Tenant Rent and preparation of the schedule of utility allowances. As a result, these functions were delegated, with the Authority maintaining oversight.

The Authority believes that its administration has been adequate, and has continued to consult with HUD to reach a resolution on this matter. The Authority has conferred with HUD during fiscal year 2008, and has implemented a number of procedural and administrative plan changes in response to the HUD findings. In January 2009, the Authority sent an additional response to HUD regarding previously identified resolutions to the remaining open findings. The Authority has not yet received a response from HUD to this communication, but is taking steps to implement this proposal, pending HUD's approval. The Authority will continue to consult with HUD in an effort to resolve the differences in interpretations.