



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

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

Release Date: December 2, 2010

Summary of Findings:

Total this audit:	6
Total last audit:	2
Repeated from last audit:	2

SYNOPSIS

- The Authority did not provide the auditors with complete and accurate financial statements.
- The Authority has loan balances in the multi-family program recorded in their financial statements that should be removed due to the loans being uncollectible.
- The Authority's accounts payable master vendor list has duplicate vendors.
- The Authority did not have a formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program.

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

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
FINANCIAL AUDIT
For The Year Ended June 30, 2010

FINANCIAL POSITION - ALL FUNDS	2010	2009
Assets		
Cash and investments - unrestricted.....	\$113,462,930	\$94,194,867
Investments - restricted.....	894,408,065	604,656,751
Net Program loans receivable.....	1,830,238,724	1,929,723,835
Other.....	<u>68,220,031</u>	<u>60,341,099</u>
Total.....	<u>\$2,906,329,750</u>	<u>\$2,688,916,552</u>
Liabilities		
Bonds and Notes Payable.....	\$ 1,701,825,275	\$ 1,546,591,624
Due to State of Illinois.....	345,798,200	340,987,058
Deposits held in escrow.....	156,444,691	154,333,914
Other.....	<u>78,290,032</u>	<u>71,600,737</u>
Total.....	<u>\$ 2,282,358,198</u>	<u>\$ 2,113,513,333</u>
Net Assets		
Invested in capital assets, net of related debt....	\$ (8,032,949)	\$ (8,246,523)
Restricted.....	549,680,442	501,544,059
Unrestricted.....	<u>82,324,059</u>	<u>82,105,683</u>
Total.....	<u>\$ 623,971,552</u>	<u>\$ 575,403,219</u>

ADMINISTRATIVE FUND OPERATIONS	2010	2009
Revenues		
Service fees	\$10,109,565	\$10,041,960
Interest and investment income.....	4,414,141	6,824,259
Federal assistance programs.....	136,409,676	134,470,130
Other.....	<u>7,695,630</u>	<u>10,275,558</u>
Total.....	<u>\$158,629,012</u>	<u>\$161,611,907</u>
Expenses and Transfers		
Salaries and benefits	\$14,688,169	\$13,679,799
Professional fees.....	972,372	1,209,115
Other general and administrative.....	3,028,770	3,155,074
Transfers, net	427,435	469,240
Financing Costs.....	304,539	371,446
Federal assistance programs.....	136,299,640	134,470,130
Provision for est. loss on loan receivable.....	676,989	475,000
Other.....	<u>(1,362,173)</u>	<u>4,459,842</u>
Total.....	<u>\$155,035,741</u>	<u>\$158,289,646</u>
Change in net assets.....	<u>\$3,593,271</u>	<u>\$3,322,261</u>

AGENCY DIRECTOR
During Examination Period: Deshana Forney (7-1-08 thru 9-17-09)
Currently: Gloria Materre (9-18-09 thru current)

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

FINANCIAL STATEMENT ADJUSTMENTS

The Illinois Housing Development Authority (Authority) did not provide the auditors with complete and accurate financial statements.

During our audit of the financial statements, some of the issues we noted are as follows:

\$50 million reclassification needed for bonds payable from non-current to current

- For several years, the Authority has entered into multi-year take out agreements with liquidity providers to convert variable rate bonds into installment loans if the bonds cannot be remarketed. The take-out agreement for the 2008 A, B and C Housing Bonds will expire April 30, 2011. Since the take-out agreement expires within the next fiscal year, the bonds payable balances of approximately \$50 million had to be reclassified from non-current to current.

673 loans were not covered by pool insurance and did not have an allowance for loss recorded

- Upon review of the Single Family Program Fund, we discovered there were 673 loans totaling \$65,526,828 that did not have pool insurance and did not have an allowance for loss recorded. This creates a risk of loss due to potential uncollectible loan receivables. The Authority recorded an entry to estimate an allowance for loan loss in the Single Family Program Fund of \$1,324,389.

2 loans that were sent to the Attorney General for write off approval were not fully reserved

- During our testing of the allowance for loan loss in the Illinois Affordable Housing Trust Fund, we noted 2 loans that were sent to the Attorney General for write off approval but were not fully reserved in the financial statements. The Authority recorded an entry in the amount of \$900,046 to increase the loan loss reserve.
- There was an error in the cash flows statements showing an inflow of cash in the payment to suppliers' line item. A correction to the financial statements was made to record the \$4,441,283 outflow amount. (Finding 1, Pages 65-68)

We recommended that the Authority strengthen their internal controls over financial reporting. This detailed recommendation included, developing policies and procedures for reviewing their take-out agreements, establishing appropriate reserves and ensuring that the financial statement presentation is complete and accurate.

Authority agrees with the auditors

Authority officials concurred with our recommendation and stated that they plan to review and update policies and procedures to ensure alignment with Generally Accepted Accounting Principles.

LOAN RECEIVABLE BALANCE AND ALLOWANCE FOR LOAN LOSS BALANCE OVERSTATED

The Authority has loan balances in the multi-family program recorded in their financial statements that should be removed due to the loans being uncollectible.

During our audit of the Authority's allowance for loan loss estimate, we noted 44 loans totaling approximately \$20.7 million were recorded on the Authority's financial statements for which a 100% allowance reserve was recorded. The Authority anticipates that most of these loans will ultimately be written off. (Finding 3, Page 71) **This finding was first reported in 2008.**

We recommended that the Authority work with the Attorney General's Office to get approval to write-off the uncollectible loan balances.

Authority agrees with the auditors

Authority officials concurred with the recommendation and stated that they will continue to work with the Attorney General's office to get the approval. (For the previous Authority response, see Digest footnote #1.)

DUPLICATE VENDORS IN THE ACCOUNTS PAYABLE MASTER VENDOR LIST

The Authority's accounts payable master vendor list has duplicate vendors.

2,042 duplicate vendors in the master vendor list

During our testing of the master vendor list, we noted of the 7,324 vendor records there were 2,042 duplicate records (28%) representing 602 vendors. The vendors had the same name but were given different vendor identification numbers in the accounts payable system. Below is a breakdown of instances of duplication:

- 24 vendors were in the system 10 times or more
- 45 vendors were in the system 5 to 9 times
- 533 vendors were in the system 2 to 4 times

Without adequate procedures to prevent multiple vendors from being created in the accounts payable system or to detect and purge multiple vendors in the accounts payable system, there exists the risk of an accounting error or a misappropriation of assets. (Finding 5, Page 74)

We recommended that the Authority implement procedures to assign one vendor identification number per vendor to prevent multiple vendors from being created on the system. We also recommended that the Authority implement procedures to review the master vendor list regularly and purge duplicate vendor names from the system.

Authority agrees with the auditors

Authority officials concurred with the recommendation and stated that they will be implementing procedures to manage the vendor identification numbers assigned to vendors to prevent multiple vendors in the accounts payable system.

LACK OF A FORMAL PROCESS TO EVALUATE AND ESTIMATE ALLOWANCE FOR LOAN LOSS IN THE SINGLE FAMILY LOAN PROGRAM

The Authority did not have a formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program.

In previous years, the Authority carried pool insurance on 100% of its Single Family Program loans. With pool insurance, the Authority was able to recover all losses and, therefore, a separate loan loss reserve was not necessary.

Loans not covered by insurance

During our review of the draft financial statements for the year ended June 30, 2010, we noted that the Authority had 673 loans totaling \$65,525,828 in the Single Family Loan Fund that were not covered by pool insurance. The Authority attempted, but could not obtain pool insurance on these loans due to poor economic conditions. By not having the pool insurance, there is a risk that some of the loan receivable balances might not be collected.

\$1,324,389 adjustment made to the loan loss reserve

In the past, the Authority relied on 100% of the loan portfolio being covered by pool insurance. This past practice did not require an estimate to be recorded for loan losses. Since the Authority did not have a formal process to estimate loan losses in the Single Family Program Fund, they used industry data for similar entities and recorded an adjustment for an allowance in the amount of \$1,324,389. (Finding 6, pages 75-76)

We recommended the Authority develop a formal process to evaluate and estimate the allowance for loan loss for the Single Family Program Fund.

Authority agrees with the auditors

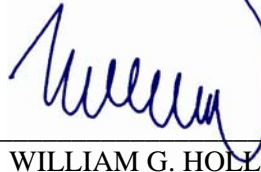
The Authority concurred with the recommendation and stated that they will evaluate the loss history and performance of the portfolio to develop policies and procedures to estimate an allowance for loan loss.

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 engagement.

AUDITORS' OPINION

Our auditors state the June 30, 2010 financial statements of the Illinois Housing Development Authority are presented fairly in all material respects.



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 –Loan Receivable Balance and Allowance for Loan Loss Balance Overstated – Previous Authority Response

2009: The Authority concurs with the recommendation and will continue to work with the Attorney General's Office to obtain approvals to write-off the uncollectible loan balances.