STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year Ended June 30, 2011

Performed as Special Assistant Auditors for the
Auditor General, State of Illinois

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year Ended June 30, 2011

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Financial Statement Report:

The Authority's financial statement report for the year ended June 30, 2011, which includes the report of independent auditors, management's discussion and analysis, basic financial statements, supplementary information, and the independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards* has been issued separately.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Examination

(In accordance with the Single Audit Act
and OMB Circular A-133)

Year Ended June 30, 2011

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STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Agency Officials

Executive Director	Mary R. Kenney	3/28/2011 – Current
Acting Executive Director	Jane R. Bilger	3/18/2011 – 3/28/2011
Executive Director	Gloria Materre	9/18/2009 – 3/18/2011
Deputy Executive Director/Chief of Staff	Phil Culpepper	10/16/2009 – 11/5/2010
Assistant Executive Director/Chief of Staff	Bryan E. Zises	5/23/2011 – Current
Assistant Executive Director/Chief of Staff	Jane R. Bilger	11/19/2010 – 3/18/2011
General Counsel	Maureen G. Ohle	8/1/2011 – Current
Acting General Counsel	Kristi S. Poskus	10/15/2010 – 7/31/2011
General Counsel	Mary R. Kenney	8/21/2000 – 10/15/2010
Chief Financial Officer	Hazim Taib	4/18/2011 - Current
Chief Financial Officer	Robert W. Kugel	7/28/1975 – 4/15/2011
Controller	Michele Williams	5/19/2010 - Current

Agency offices are located at:

401 North Michigan Avenue, Suite 700
Chicago, Illinois 60611

ILLINOIS HOUSING
DEVELOPMENT AUTHORITY

401 N. Michigan Avenue
Suite 700
Chicago IL 60611
312.836.5200
312.836.5222 TDD
www.ihda.org

Pat Quinn, *Governor*

February 1, 2012

McGladrey & Pullen, LLP
20 North Martingale Road, Ste 500
Schaumburg, IL. 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, and grant agreements that could have a material effect on the operations of the Illinois Housing Development Authority (Authority). We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended June 30, 2011. Based on this evaluation, we assert that during the year ended June 30, 2011, the Authority has materially complied with the assertions below.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Very truly yours,

Illinois Housing Development Authority

Mary R. Kenney
Executive Director

Hazim Taib
Chief Financial Officer

Michele Williams
Michele Williams
Controller

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year Ended June 30, 2011

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountants' Report

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant nonstandard language.

Summary of Findings

Number of	Current report	Prior report(s)
Findings	11	12
Repeated findings	5	6
Prior recommendations implemented or not repeated	7	3

Details of findings are presented in the separately tabbed report section of this report.

Schedule of Findings and Questioned Costs
Findings and Responses *(Government Auditing Standards)*

Item No.	Page		Finding Type
11-01	15	Inconsistencies in the Loan Monitoring and Loan Rating System	Significant Deficiency and Noncompliance
11-02	16	Loan Receivable Balance and Allowance for Loan Loss Balance Overstated	Significant Deficiency and Noncompliance
11-03	17	Duplicate Vendors in the Accounts Payable Master Vendor List	Significant Deficiency and Noncompliance

Compliance Report Summary

Year Ended June 30, 2011

Findings and Questioned Costs (Federal Compliance)

Item No.	Page	Description	Finding Type
11-04	19	Inadequate Monitoring of Housing Quality Standards (HQS) Inspections	Significant Deficiency and Noncompliance
11-05	21	Inadequate Monitoring of Section 3 Reports from Homeownership and Multifamily and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority	Significant Deficiency and Noncompliance
11-06	23	Disbursements Not Made Timely	Significant Deficiency and Noncompliance
11-07	24	Inadequate Sub-recipient Monitoring	Significant Deficiency and Noncompliance
11-08	26	Miscalculation of Utility Allowance	Significant Deficiency and Noncompliance
11-09	28	Inadequate Monitoring of Tax Credit Inspections	Significant Deficiency
11-10	30	Inadequate Sub-recipient Monitoring	Significant Deficiency and Noncompliance
11-11	31	Internal Policy for Administering Section 8 Program Not Followed	Significant Deficiency

Prior Findings Not Repeated

Item No.	Page	Description
A	32	Financial Statement Adjustments
B	32	Inadequate Reconciliation Procedures for Deposits Held in Escrow
C	32	No Formal Process to Evaluate and Estimate Allowance for Loan Loss in the Single Family Loan Program
D	32	Inadequate Administration of the Section 8 Moderate Rehabilitation Program
E	32	Inadequate Monitoring of Residual Receipts
F	33	Inadequate Subrecipient Monitoring Procedures of the Section 8 New Construction and Substantial Rehabilitation
G	33	Inadequate Monitoring of the Davis-Bacon Act Requirements

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Compliance Report Summary

Year Ended June 30, 2011

Exit Conference

The findings and recommendations appearing in this report were discussed with the Authority personnel at an exit conference on January 17, 2012. Attending were:

Illinois Housing Development Authority

Mary Kenney	Executive Director
Hazim Taib	Chief Financial Officer
Michele Williams	Controller
Barbara Manning	Chief Internal Auditor
Brian Zises	Chief of Staff

McGladrey & Pullen, LLP

Joseph Evans	Partner
Sean Hickey	Manager
Tiffany Floresca	Staff

Office of the Auditor General

Tom Kizziah	Manager

Responses to the recommendations were provided by Mary Kenney in a letter dated January 24, 2012.

McGladrey

Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the Board of the
Illinois Housing Development Authority

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois Housing Development Authority's, a component unit of the State of Illinois, compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2011. The management of the Illinois Housing Development Authority (the Authority) is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

A. The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2011. However, the results of our procedures disclosed instances of noncompliance with the requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings and questioned costs as findings 11-01, 11-02, and 11-03.

Internal Control

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Authority's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in an entity's internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-01, 11-02, and 11-03. A *significant deficiency in an entity's internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The Authority's responses to the findings identified in our examination are described in the accompanying schedule of findings and questioned costs. We did not examine the Authority's responses and, accordingly, we express no opinion on them.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 20, 2011. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. The 2011 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States, the Authority's basic financial statements for the year ended June 30, 2010. In our report dated November 15, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the 2010 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010 taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management and Board members, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 1, 2012

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the Board of the
Illinois Housing Development Authority

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 20, 2011. Our report was modified to include an emphasis of a matter paragraph regarding the adoption of the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financing reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as 11-01, 11-02 and 11-03 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
October 20, 2011

McGladrey

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

The Honorable William G. Holland, Auditor
General of the State of Illinois, and the Members of the Board of the
Illinois Housing Development Authority

Compliance

We have audited the compliance of the Illinois Housing Development Authority (the Authority), a component unit of the State of Illinois, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Illinois Housing Development Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-04, 11-05, 11-06, 11-07, 11-08, and 11-10.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected or corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-04, 11-05, 11-06, 11-07, 11-08, 11-09, 11-10 and 11-11. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated October 20, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Authority management and Board members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 1, 2012

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ***unqualified opinions***

Internal control over financial reporting:

• Material weakness(es) identified?	______ Yes	✓ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	✓ Yes	______ None reported
• Noncompliance material to financial statements noted?	______ Yes	✓ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	______ Yes	✓ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	✓ Yes	______ None reported

Type of auditors' report issued on compliance for major programs: ***unqualified.***

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	✓ Yes	______ No

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
14.182 and 14.856	Section 8 Project-Based Cluster
14.239	HOME Investment Partnerships Program
14.258	Tax Credit Assistance Program (TCAP) (Recovery Act Funded)
14.228	Neighborhood Stabilization Program (NSP)

Dollar threshold used to distinguish between type A and type B programs: $ 3,000,000

Auditee qualified as low-risk auditee?	______ Yes	✓ No

Current Year Findings – *Government Auditing Standards*

Finding 11-01 Inconsistencies in the Loan Monitoring and Loan Rating System

The Illinois Housing Development Authority (Authority) has inconsistencies in the process for monitoring problem loans and inconsistencies in rating loans that are deemed uncollectible in the multi-family loan program.

The Authority has established a comprehensive loan rating system to enable the Authority to establish appropriate loan loss reserve amounts for the multi-family loan program. We conducted three separate loan reviews testing current, delinquent and "watch list" loans. A total of 87 multi-family program loans were tested for compliance with the Authority's loan rating policy.

During our tests we noted that 2 of the 87 (2%) loans reviewed were not properly reserved for in accordance with the Authority's loan rating policy, resulting in an over reserve in the Administrative Fund of approximately $408,000.

The calculation of the allowance for loan loss estimate requires various elements of monitoring and evaluating the collectibility of loan receivable balances. In accordance with generally accepted accounting principles, the estimate should be supported by detailed information including information derived from monitoring tools and consistent loan rating factors.

Authority management stated that a new loan rating form was implemented in April 2010 and that all loans were rated using the new form. Further enhancements were made to the loan rating form following the FY2010 audit to ensure better alignment with the Loan Loss Rating policy. In addition the Authority conducted a wholesale review of all multifamily loan ratings as of February 2011 to ensure the ratings recorded in the loan servicing system reflected the most recent loan rating form. The Accounting Department also implemented a new procedure in January 2011 in which rating changes input into the loan servicing system are confirmed against the rating change report by Loan & Portfolio Management to further strengthen internal controls for maintaining accurate loan ratings used in calculating loan loss reserves. The Authority believes that the inconsistent ratings are the result of the overlap in audit periods with the implementation of the rating system enhancements as well as normal data entry error rather than inconsistent tools or processes that resulted in an overstatement of the loan loss reserve. The Authority has implemented improved internal controls and additional procedures in an effort to reduce any inconsistencies or weaknesses detected.

Without consistent tools to monitor and rate the collectibility of the loans, the estimate could be over or under stated. (Finding Code No. 11-01, 10-02, 09-01, 08-02)

<u>Recommendation</u>

We recommend that the Authority implement policies and procedures to ensure changes to loan ratings are updated consistently in order to ensure an accurate calculation of the allowance for loan loss.

<u>Authority Response</u>

The Authority concurs with the recommendation and believes that the policies and procedures that were implemented during fiscal years 2010 and 2011 has helped to strengthen internal controls for changes to loan ratings to be updated consistently, resulting in a more accurate calculation of the allowance for loan loss.

Current Year Findings – *Government Auditing Standards* (Continued)

Finding 11-02 Loan Receivable Balance and Allowance for Loan Loss Balance Overstated

The Illinois Housing Development Authority (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 38 loans totaling approximately $7.6 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.

In accordance with generally accepted accounting principles, receivable balances that are uncollectible should be written off and removed from financial statements.

Authority management stated that they were successful in receiving a response to their inquiries regarding the status of loan write-off requests submitted to the Attorney General's office. During August 2011 the Authority received write-off approval for 9 loans totaling $282,171 and continues to work with the Attorney General's office to receive additional approvals on such requests. Since regular follow up and communication has been established with the Attorney General's office the Authority believes this will improve the timeliness of receiving approvals to write-off uncollectible loan amounts.

The significant effect of not writing off the loan balances and the corresponding allowance, results in overstatements of the Authority's loans receivable balance and the allowance for loan loss balance. (Finding Code No. 11-02, 10-03, 09-02, 08-03)

<u>Recommendation</u>

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

<u>Authority Response</u>

Authority management concurs with the recommendation and continues to work with the Attorney General's office to acquire timely approvals of submitted loan write-off requests. The Authority has established contact with the Chief Litigation Officer responsible for approving such requests and continues to work with the office to provide additional information if requested in order for approval to be granted for write-off of uncollectible amounts. Based on the timelines provided to us by the Attorney General's office for reviewing and approving such requests the Authority believes that the process for approval will prove to be more efficient so that uncollectible loan balances can be written off in a timely manner.

Current Year Findings – *Government Auditing Standards* (Continued)

Finding 11-03 Duplicate Vendors in the Accounts Payable Master Vendor List

The Illinois Housing Development Authority's (Authority) accounts payable master vendor list has duplicate vendors.

During our testing of the master vendor list, we noted of the 2,658 vendor records there were 502 duplicate records (19%) representing 52 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:

- 2 vendors were in the system 10 times or more
- 15 vendors were in the system 5 to 9 times
- 167 vendors were in the system 2 to 4 times

Good business practices would necessitate that the master vendor listing be reviewed for possible duplicate vendors or other inappropriate vendor data such as inactive vendors. The Fiscal Control and Internal Auditing Act (30 ILCS 10/1002) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the master vendor listing.

Authority management stated that continuous process improvements throughout the fiscal year were made to the accounts payable system with the occurrence of two purges during March 2011 and June 2011 resulting in a 64% reduction of vendors on the master vendor listing (from 7,324 in FY2010 to 2,658 in FY2011). The number of duplicate vendors was reduced by 75% (from 2,042 in FY2010 to 502 in FY2011). The Authority has established procedures as of January 2011 requiring a form W-9 and vendor TIN in order to add new vendors into the accounts payable system as well as conducted a thorough review of the master vendor listing by requiring an updated form W-9 for all active vendors. The Authority continues to implement improved internal controls and additional process improvements and procedures to remove all duplicate vendors during FY2012 as well as establish procedures for an annual review and purge process to maintain an accurate master vendor listing.

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 Code No. 11-03, 10-05)

Recommendation

We recommend 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 recommend the Authority implement procedures to review the master vendor list regularly and purge duplicate vendor names from the system.

Current Year Findings – *Government Auditing Standards* (Continued)

Finding 11-03 Duplicate Vendors in the Accounts Payable Master Vendor List (Continued)

Authority Response

The Authority concurs with the recommendation and has established a procedure as of January 2011 that requires a form W-9 to be on file for new and existing vendors which requires a valid TIN. The TIN will be used as a unique number to identify active vendors within the accounts payable system and is required to add any new vendors to the master vendor list. A new form was developed during October 2011 to be used for adding new vendors to the system or to make changes to existing vendors on the master vendor list. This form requires a review by the Assistant Controller and approval by the Controller before a new vendor can be added to the accounts payable system or for updates to be made to an active vendor's record. In addition the Authority completed another purge of the master vendor list during September 2011 to remove any remaining duplicate vendors. The documentation of the policy and procedures established for reviewing the master vendor list on an annual basis and determining the need for a purge of any old or duplicate vendor records based on the criteria set forth in the policy will be completed by December 2011. The Authority believes strengthened internal controls and policies and procedures established for vendor maintenance will help to reduce the risk for duplicate vendor records.

Current Year Findings – Federal Compliance

Finding 11-04 Inadequate Monitoring of Housing Quality Standards (HQS) Inspections

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
	HOME Investment Partnerships Program
CFDA# and Program Expenditures:	***14.182 ($125,688,274)***
	14.856 ($7,581,216)
	14.239 ($22,711,036)
Award Number:	***None***
Questioned Costs:	***None***

The Authority did not adequately monitor the Housing Quality Standards (HQS) Inspections for the Section 8 Programs and the HOME Investment Partnerships Program.

During our sample testing of 23 (Section 8 Programs) and 22 (HOME Program) developments Housing Quality Standards (HQS) Inspections, we noted the following:

Section 8 Programs

- In 4 of the 23 developments tested, we noted the Authority didn't have proper supporting documentation on the correction of deficiencies prior to the issuance of pass letters.
- In 1 of the 23 developments tested, we noted that the Authority did not communicate the results of the inspection to the development for 51 days.

Home Program

- In 6 of the 22 developments tested, we noted the Authority didn't have proper supporting documentation on the correction of deficiencies prior to the issuance of pass letters.

According to 24 CFR 982.401 (a), performance and acceptability requirements, housing quality standards (HQS) for housing assisted projects must meet the following acceptability criteria or HUD approved variations in the acceptability criteria, namely: sanitary facilities, food preparation and refuse disposal, space and security, thermal environment, illumination and electricity, structure and materials, interior air quality, water supply, lead-based paint, access, site and neighborhood, sanitary conditions; and smoke detectors. According to 24 CFR 982.401 (a)(3), all program housing must meet the HQS performance requirements both at commencement of assisted occupancy, and throughout the assisted tenancy. Based on these guidelines, the Authority is required to inspect properties to ensure developments comply with the HQS performance requirements.

Per the Authority's procedures for physical inspections, the results of inspections should be communicated within 10 business days to the developer.

According to 24 CFR 85.40 (a), grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Current Year Findings – Federal Compliance (Continued)

Finding 11-04 Inadequate Monitoring of Housing Quality Standards (HQS) Inspections (Continued)

Authority management stated there was not a system in place for matching work orders submitted to the Asset Management department to each deficiency. Consequently the pass letter was sent prematurely when most work orders were received rather than after all work orders had been received. The inspectors delayed submission of the inspection summary which indicates the development passed inspection and consequently delayed a timely communication of the pass result.

Failure to monitor the Housing Quality Standards (HQS) Inspections for Section 8 Programs and the HOME Investment Partnership Program could result in sanctions from the cognizant agency and it may result in loss of funding. (Finding Code No. 11-04, 10-08, 09-05, 08-08)

Recommendation

We recommend that the Authority strictly enforce its HQS inspection procedures which include timely follow up, maintaining support for all deficiencies corrected and correspondence to developments regarding the inspections.

Authority Response

The Authority concurs with the recommendation and in order to facilitate more timely updates on the status of inspections, the Authority is working through CMS to procure laptop computers for their field inspectors. The computers will be used to forward documentation electronically to the administrative staff so Pass/Fail letters can be more accurately tracked and mailed to the developments. Also, field inspectors will use the physical deficiency checklist which will assist them in better file organization. This checklist will be used to list and then clear each deficiency against submitted work orders.

Current Year Findings – Federal Compliance (Continued)

Finding 11-05 Inadequate Monitoring of Section 3 Reports from Homeownership and Multifamily and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***HOME Investment Partnerships Program***
CFDA# and Program Expenditures:	***14.239 ($22,711,036)***
Award Number:	***None***
Questioned Costs:	***None***

The Authority has inadequate monitoring procedures of Section 3 Reports for the Homeownership Program and the Multifamily Program and did not adequately prepare the Section 3 Summary Report sent to HUD.

Section 3 is a provision of the Housing and Urban Development (HUD) Act of 1968 that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency. The Section 3 program requires that recipients of certain HUD financial assistance, to the greatest extent feasible, provide job training, employment, and contracting opportunities for low- or very-low income residents in connection with projects and activities in their neighborhoods.

Based on a review of all the Section 3 reports for Homeownership developments:

- 2 out of 79 Section 3 Summary Reports received from the developments did not agree to the final Section 3 Report maintained by the Authority, and eventually submitted to HUD.

Based on a review of the 6 Multifamily developments:

- For 3 out of 6 development's Section 3 Reports the total dollar amounts did not agree to the final Section 3 Report maintained by the Authority, and eventually submitted to HUD.
- For 1 out of 6 development's Section 3 Reports the total number of new hires did not agree to the final Section 3 Report maintained by the Authority, and eventually submitted to HUD. This also resulted in incorrect information provided to HUD in the Authority's Consolidated Plan Performance Report for Program Year 2010.

The Section 3 Summary Report, also known as HUD Form 60002, states that the form must be collected annually to assist HUD in meeting its reporting requirements under Section 808(e)(6) of the Fair Housing Act and Section 916 of the HCDA of 1992. Proper internal controls would require that complete and accurate information is reported in the Section 3 Summary Report.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Current Year Findings – Federal Compliance (Continued)

Finding 11-05 Inadequate Monitoring of Section 3 Reports from Homeownership Single Family and Multifamily and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority (Continued)

Authority management stated that data entry errors led to the inconsistencies found for amounts reported on the final Section 3 summary reports for Single Family and Multifamily.

Failure to accurately report Section 3 information prevents the U.S. Department of Housing and Urban Development from effectively monitoring the HOME program. (Finding Code No.11-05, 10-12, 09-03, 08-06, 07-06)

Recommendation

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

Authority Response

The Authority concurs with the recommendation and will amend the current procedures to include supervisory review on top of the peer and supervisory review that currently exists to ensure that the Section 3 Summary Report is complete and accurate.

Current Year Findings – Federal Compliance (Continued)

Finding 11-06 Disbursements Not Made Timely

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Home Investment Partnerships Program***
CFDA# and Program Expenditures:	***14.239 ($22,711,036)***
Award Number:	***None***
Questioned Costs:	***None***

The Authority has inadequate procedures to ensure disbursements are made timely.

Based on our sample testing of 60 disbursements we noted the following:

- In 9 out of 60 disbursements tested, the disbursements were not made within the required 15 days. The disbursements were made between 3 and 33 days late.

Per 24 CFR Part 92.502 (c)(2) states that HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdictions US Treasury account for the HOME Investment Trust Fund.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management stated that upon the 2010 fiscal year end they received notification from the Illinois Department of Revenue (IDOR) that processing requests for the new fiscal year began on July 16, 2010 when the state budget was signed. However due to system problems at IDOR payout requests submitted by the Authority were not processed until the first week of August and consequently the disbursements were past the required 15 days.

Failure to disburse Home funds within the required time frame could result in sanctions from the cognizant agency including a loss of future funding. (Finding Code No.11-06)

Recommendation

We recommend the Authority implement procedures to ensure disbursements are made within the required time frame of 15 days.

Authority Response

The Authority concurs with the recommendation and effective for FY 2012 the Accounting department will begin monitoring disbursement requests through the State Comptroller's website. Through this website, the department will track disbursements by project owner, record the deadline for payout on a schedule and if any requests are drawing near the 15 day deadline, will follow up with the voucher processing department on the status of the payout request.

Current Year Findings – Federal Compliance (Continued)

Finding 11-07 Inadequate Sub-recipient Monitoring

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Home Investment Partnerships Program***
CFDA# and Program Expenditures:	***14.239 ($22,711,036)***
Award Number:	***None***
Questioned Costs:	***None***

The Authority did not properly monitor sub-recipients reporting requirements.

The Authority's procedure is to request compliance reports from subrecipients based on the date the prior year's compliance report was issued. The Authority's current procedure is inadequate if the prior year's compliance report was not issued timely.

Based on our sample testing of 8 developments we noted the following:

- In 1 out of 8 developments tested, the development did not submit their compliance report to the Authority within the required time frame. The report was received by the Authority 95 days after the due date.

Per OMB Circular A-133 Subpart D – 400(d)(4) pass-through entity responsibilities require that they ensure that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management stated that staff logs all attempts to secure the information and establish the date to begin this follow up by adding 30 days to the date of the auditor letter contained within the prior year compliance audit report. In this instance the previous year report was completed well past the end of the fiscal year and outside of the 9 month period required by HUD. The reliance on the auditor letter as the basis to establish the required follow up schedule pushed the Authority's attempts to collect the information beyond the allowable window.

Failure to monitor the financial activity of the sub-recipients could result in the misuse of federal funds by the sub-recipient. (Finding Code No.11-07)

Current Year Findings – Federal Compliance (Continued)

Finding 11-07 Inadequate Sub-recipient Monitoring (Continued)

Recommendation

We recommend the Authority implement procedures to ensure developments submit required compliance audit information to the Authority in a timely manner.

Authority Response

The Authority concurs with the recommendation and going forward the policies and procedures will be amended to establish that the first attempt to secure the required financial information must be the earlier of 30 days after the date of the auditor letter contained within the previous financial report or 9 months after the end of the subrecipient's fiscal year.

Current Year Findings – Federal Compliance (Continued)

Finding 11-08 Miscalculation of Utility Allowance

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
CFDA# and Program Expenditures:	***14.182 ($125,688,274)***
	14.856 ($7,581,216)
Award Number:	***None***
Questioned Costs:	***None***

The Authority did not use the proper effective date to calculate the utility allowance.

Based on our sample testing of 13 utility adjustments we noted the following:

- In 1 out of 13 utility adjustments tested, the increase of the allowance was calculated using an improper effective date. This resulted in an estimated total underpayment from the program to developments of $2,260 affecting 64 households.

Per 24 CFR section 880.610, Adjustments of utility allowances, owners/development must submit an analysis of the project's Utility Allowances. Such data as changes in utility rates and other facts affecting utility consumption should be provided as part of this annual analysis to permit appropriate adjustments in the Utility Allowances. In addition, when approval of a utility rate change would result in a cumulative increase of 10% or more in the most recently approved Utility Allowances, the project owner must advise the contract administrator and request approval of new Utility Allowances. Whenever a Utility Allowance for a unit is adjusted, the owner will promptly notify affected families and make a corresponding adjustment of the tenant rent and the amount of the housing assistance payment for the unit.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management stated that the rent increases and utility allowances were processed in one department and then communicated to another department. There was no system of reconciliation between the two departments to ensure that the utility allowances were implemented in a timely manner. This resulted in the development continuing to charge the lower utility allowances and select tenants paying slightly higher rent.

Failure to accurately calculate the utility allowance results in underpayments by the program and overpayments by the tenants, which creates additional hardships for the tenants. (Finding Code No.11-08)

Recommendation

We recommend the Authority implement procedures to ensure utility adjustments are calculated properly and are reviewed for accuracy to minimize the risk of errors.

Current Year Findings – Federal Compliance (Continued)

Finding 11-08 Miscalculation of Utility Allowance (Continued)

Authority Response

The Authority concurs with the recommendation. The Technical Services and Asset Management Services departments were merged and reorganized effective January 2012. Accordingly, the rent and utility allowance adjustments will be performed by the same team that processes Housing Assistance payments. This will consolidate the responsibility for the entire process within one team allowing for timely implementation of changes.

Current Year Findings – Federal Compliance (Continued)

Finding 11-09 Inadequate Monitoring of Tax Credit Inspections

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Tax Credit Assistance Program (TCAP)***
CFDA# and Program Expenditures:	***14.258 ($58,960,385)***
Award Number:	***None***
Questioned Costs:	***None***

The Authority has inadequate monitoring procedures of the tax credit inspections.

The Authority is responsible for monitoring the Tax Credit Assistance Program (TCAP) that is financed with funds authorized in the American Recovery and Reinvestment Act of 2009 (ARRA). The Authority is required to perform inspections of developments participating in the TCAP program.

Based on our sample testing of 4 developments we noted the following:

- In 3 out of 4 developments tested, the Authority did not perform the required follow up procedures in a timely manner.
- In 2 out of 4 developments tested, we noted the Authority didn’t have proper supporting documentation that deficiencies were fixed prior to the issuance of pass letters.

Per the Authority’s Tax Credit Compliance Reference Guide, the development may be required to submit a detailed report of the actions taken to correct the issues of noncompliance. The Authority will determine whether a particular instance of noncompliance has been satisfactorily corrected within the applicable time period, up to six months from being notified of non-compliance.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management stated that the former Technical Services department performed all initial LIHTC and TCAP inspections and the procedures utilized did not contain the same level of documentation and oversight as used in the Asset Management department’s monitoring processes which lead to the deficiencies found.

Failure to monitor the tax credit inspections could result in misuse of funds. (Finding Code No.11-09)

Recommendation

We recommend the Authority implement procedures to ensure follow up procedures are performed in a timely manner. In addition, procedures should be implemented to ensure all supporting documentation of inspection results and status of deficiencies is maintained for accurate recording keeping.

Current Year Findings – Federal Compliance (Continued)

Finding 11-09 Inadequate Monitoring of Tax Credit Inspections (Continued)

Authority Response

The Authority concurs with the recommendation and as noted, the Asset Management Services and Technical Services departments were merged as of January 2012. Accordingly, Asset Management Services will perform all LIHTC and TCAP inspections, including initial inspections, following established procedures for ensuring that all supporting documentation of inspection results and status of deficiencies are maintained for accurate record keeping.

Current Year Findings – Federal Compliance (Continued)

Finding 11-10 Inadequate Sub-recipient Monitoring

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Neighborhood Stabilization Program***
CFDA# and Program Expenditures:	***14.228 ($18,988,340)***
Award Number:	***None***
Questioned Costs:	***None***

The Authority did not properly monitor subrecipients reporting requirements.

During the fiscal year, the Authority disbursed funds to 3 subrecipients under the program. The Authority did not request the required compliance reports from the sub-recipients in order to properly monitor the use of the funds. As a result of our audit inquiry, the Authority obtained the compliance reports from all 3 subrecipients.

Per OMB Circular A-133 Subpart D – 400(d)(4) pass-through entity responsibilities require that they ensure that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

According to OMB Circular A-133 the Authority is required to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Authority management stated it has been working with the HUD appointed TA provider to develop a monitoring plan and assist with on-site monitoring of the State of Illinois NSP Program subgrantees. Since the Authority was in the process of drafting the monitoring plan it was delayed in requesting the OMB Circular A-133 Audits from subgrantee subrecipients and annual audits from subgrantee Developers in a timely manner.

Failure to monitor the financial activity of the sub-recipients could result in the misuse of federal funds by the subrecipient. (Finding Code No.11-10)

Recommendation

We recommend the Authority implement procedures to ensure subrecipients submit required financial information to the Authority in a timely manner.

Authority Response

The Authority concurs with the recommendation and will immediately request OMB Circular A-133 Audits from subgrantee subrecipients and annual audits from subgrantee developers. This requirement will be included within the NSP internal procedures and NSP monitoring plan designating the NSP Compliance Officer as the responsible staff person to ensure A-133 Audits are obtained by the Authority within the required timeframe for all NSP Subgrantees for the required length of time as specified in OMB Circular A-133. In addition the Authority will send the NSP Compliance Officer and NSP Program Manager to HUD training on OMB Circular A-133 Audits.

Current Year Findings – Federal Compliance (Continued)

Finding 11 – 11 Internal Policy for Administering Section 8 Program Not Followed

Federal Agency:	***U.S. Department of Housing and Urban Development***
Program Name:	***Section 8 Project-Based Cluster***
CFDA# and Program Expenditures:	***14.182 ($125,688,274)***
	14.856 ($7,581,216)
Award Number:	***None***
Questioned Costs:	***None***

The Authority did not comply with its internal policies and procedures to administer the Section 8 program.

During our sample testing, we noted the following:

- 2 out of 11 (18%) financial reports were not reviewed within 30 days.
- 15 out of 60 (25%) replacement reserve disbursements were processed more than 21 days after the request was received from the development.
- 2 out of 34 (6%) residual receipt disbursements were processed more than 21 days after the request was received from the development.

Per the Authority's policies:

- The Authority must send an approved notification letter to the development within 30 days of receipt of the audit from the development.
- The Authority should complete a withdrawal request within 21 days from the receipt of the request from a developer.

Authority management stated when the procedures were written they did not account for extenuating circumstances that might delay the audit approval process. In addition, Asset Managers who were required to be in the field for extended periods had difficulty meeting the 30 day deadline to review financial reports. The procedures also didn't account for extenuating circumstances that might delay the withdrawal approval process (i.e. Field inspection scheduling conflicts, missing supporting documentation, etc.). In addition, Asset Managers who were required to be in the field for extended periods had difficulty meeting the 21 day deadline for approval of replacement reserve and residual receipt disbursement requests.

Failure to follow established procedures for the administration of the Section 8 program could lead to oversight errors in monitoring the federal requirements. (Finding Code No. 11-11)

Recommendation

We recommend that the Authority comply with their internal policies and procedures.

Authority Response

The Authority concurs with the recommendation and will revise the procedures to allow an extended review period with Supervisor approval to account for extenuating circumstances. The FY 2012 reorganization of the Asset Management Services and Technical Services departments will have its Financial Analysis team perform the review of all developments' withdrawal requests. This team will not have field responsibilities which should result in a more efficient and timely process.

Government Auditing Standards

A. Financial Statement Adjustments

The Illinois Housing Development Authority (Authority) did not provide the auditors with complete and accurate financial statements. (Finding Code No. 10-01)

During the current year, the Authority implemented procedures to timely provide the auditors with a complete set of their financial statements.

B. Inadequate Reconciliation Procedures for Deposits Held in Escrow

The Illinois Housing Development Authority (Authority) did not have an adequate process for reconciling the general ledger with the subsidiary ledger used to account for deposits held in escrow. (Finding Code No. 10-04)

During the current year audit, the Authority provided the auditors with their reconciliation of the general ledger to the subsidiary ledger for deposits held in escrow.

C. No Formal Process to Evaluate and Estimate Allowance for Loan Loss in the Single Family Loan Program

The Illinois Housing Development Authority (Authority) did not have a formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program. (Finding Code No. 10-06)

During the current year audit, the Authority provided the auditors with their formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program.

Federal Compliance

D. Inadequate Administration of the Section 8 Moderate Rehabilitation Program

The Authority is not properly administering the Section 8 Moderate Rehabilitation Program. (Finding Code No. 10-07, 09-04, 08-07, 07-05)

During the current year, the Authority implemented procedures to properly administer the Section 8 Moderate Rehabilitation Program.

E. Inadequate Monitoring of Residual Receipts

Residual receipts due from the developments are not deposited within the required 60 days grace period following the development’s year end. (Finding Code No. 10-09, 09-06, 08-09)

During the current year, the developments tested in our sample deposited residual receipts within the required timeframe.

F. Inadequate Subrecipient Monitoring Procedures of the Section 8 New Construction and Substantial Rehabilitation

The Authority is deficient in implementing its own subrecipient monitoring procedures. (Finding Code No. 10-10)

Based upon our sample testing in the current year, we noted the Authority followed their subrecipient monitoring procedures.

G. Inadequate Monitoring of the Davis-Bacon Act Requirements

The Authority does not properly maintain a historical record of when Payroll Worksheets are submitted by the General Contractor and received by the Authority. In addition, one subcontractor under the TCAP Program failed to follow the prevailing wage rate, resulting in underpayments to four employees. (Finding Code No. 10-11)

In the current year, the Authority maintained a historical record of payroll worksheets. Based on our sample testing, the Authority followed the prevailing wage rate.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Supplementary Information for State Compliance Purposes

Year Ended June 30, 2011

Summary

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

  Schedule of Expenditures of Federal Awards
  Notes to Schedule of Expenditures of Federal Awards
  Comparative Schedule of Cash Receipts
  Schedule of Changes in Authority Property
  Furniture, Equipment, and Leasehold Improvements
  Analysis of Significant Account Balances
  Analysis of Significant Variations in Revenue and Significant Variations in Expenditures/Expenses
  Analysis of Administrative Costs
  Description of Cash Accounts
  Description of Investments
  Affordable Housing Trust Fund
  Schedule of Federal and Nonfederal Expenses

- Analysis of Operations:

  Authority Functions and Planning Program
  Average Number of Employees (Unaudited)
  Emergency Purchases
  Summary Production Data (Unaudited)
  Service Efforts and Accomplishments (Unaudited)
  - Multi-family and Single Family Production – Activities Closed or Placed into Service Since Inception (Unaudited)
  - Unit Production by Percent of Area Median Income Since Inception (Unaudited)
  - Unit Production by Economic Development Region Since Inception (Unaudited)

This information relates to the Authority's proprietary funds unless otherwise noted.

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal grant/program title	CFDA number	Award amount	Due to (from) June 30, 2010	Revenue	Expense/ expenditure	Due to (from) HUD June 30, 2011
U.S. Department of Housing and Urban Development:						
Major programs:						
Section 8 Project-Based Cluster:						
Section 8 New Construction and Substantial Rehabilitation	14.182	$ -	$ -	$ 125,688,274	$ 125,688,274	$ -
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	-	755,826	7,086,417	7,581,216	261,027
Total Section 8 Project-Based Cluster		-	755,826	132,774,691	133,269,490	261,027
HOME Investment Partnerships Program	14.239	22,711,036	-	22,711,036	22,711,036	-
American Recovery and Reinvestment Act Tax Credit Assistance Program	14.258	58,960,385	-	58,960,385	58,960,385	-
Neighborhood Stabilization Program	14.228	18,988,340	-	18,988,340	18,988,340	-
Nonmajor program:						
Interest Reduction Payments – Rental and Cooperative Housing for Lower Income Families	14.103	4,316,557	-	4,316,557	4,316,557	-
U.S. Department of the Treasury:						
Nonmajor program:						
National Foreclosure Mitigation Counseling Program	21.000	2,258,954	-	2,258,954	2,258,954	-
Total		$ 107,235,272	$ 755,826	$ 240,009,963	$ 240,504,762	$ 261,027

See accompanying notes to the schedule of expenditures of federal awards and accompanying independent auditors' report.

(1) General

The Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the Authority. The amount due to the U.S. Department of Housing and Urban Development (HUD) at June 30, 2011 of $261,027 is included in the business-type activities Administrative Fund with accrued liabilities and other on the Authority's Statement of Net Assets.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting for proprietary funds and modified accrual basis of accounting for governmental funds.

Relation to the Schedule of Expenditures of Federal Awards

Amounts reported in the Schedule of Expenditures of Federal Awards reconcile with the amounts reported in the related federal financial reports. For the HOME program, amounts reported as expenditures include $9,879,514 in grant expenditures. The amount of HOME loans disbursed during the year ended June 30, 2011 is $15,543,494. The amount of HOME loans outstanding at June 30, 2011 is $213,577,391.

Expense/Expenditure

Amounts reported as expenses on this schedule include approximately $5,530,000 in administrative fees retained by the Authority.

Subrecipients

The following amounts were passed through to subrecipients during the year ended June 30, 2011:

CFDA number	Subrecipient Amount
14.182 and 14.856	$ 133,269,490
14.239	22,711,036
14.258	58,960,385
14.103	4,316,557
14.228	18,988,340
21.000	2,258,954
	$ 240,504,762

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts
Years Ended June 30, 2011 and 2010

	2011	2010
Administrative Fund:		
Cash received from:		
Interest from program loans	$ 4,104,486	$ 4,042,634
Service fees from program loans	10,527,381	10,109,565
Principal from program loans	4,652,802	1,959,165
	19,284,669	16,111,364
Proceeds from federal assistance programs	135,940,122	136,409,676
Proceeds from program grant	-	1,666,666
Interest on investments	428,023	510,685
Interest on escrow deposits	454,479	1,379,113
Proceeds from sales and maturities of investment securities	908,415,604	681,237,124
Transfer of funds from single family program funds	-	26,685
Other	30,795,082	13,709,078
Total	$ 1,095,317,979	$ 851,050,391
Mortgage Loan Program Fund – Housing Bonds:		
Cash received from:		
Interest from program loans	$ 24,668,964	$ 25,989,359
Principal from program loans	35,764,294	25,803,643
	60,433,258	51,793,002
Proceeds from federal assistance programs	3,589,585	4,068,870
Interest on investments	603,962	3,336,340
Proceeds from sales and maturities of investment securities	251,118,545	210,612,694
Other	5,077,556	7,741,516
Total	$ 320,822,906	$ 277,552,422

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
Single Family Program Fund:		
Cash received from:		
Interest from program loans	$ 23,139,265	$ 29,002,205
Principal from program loans	94,783,615	99,570,761
Receipts for real estate held for sale	9,572,411	-
	127,495,291	128,572,966
Interest on investments	5,191,221	2,852,031
Proceeds from sale of revenue bonds	46,001,277	200,001,147
Proceeds from sales and maturities of investment securities	3,768,577,452	2,242,751,838
Transfer of funds from administrative funds	496,057	-
Total	$ 3,947,761,298	$ 2,574,177,982
Illinois Affordable Housing Trust Fund:		
Cash received from:		
Interest on investments	$ 23,914	$ 53,617
Grant from State of Illinois	10,632,537	13,022,755
Total	$ 10,656,451	$ 13,076,372
Mortgage Loan Program Fund – Affordable Housing Program Trust Fund Bonds:		
Cash received from:		
Interest from program loans	$ 1,356,428	$ 1,520,400
Principal from program loans	12,203,866	3,138,764
	13,560,294	4,659,164
Interest on investments	71,140	152,145
Transfer of fund from Illinois Affordable Housing Trust Fund	5,200,000	5,200,000
Proceeds from sales and maturities of investment securities	73,394,914	46,064,563
Other	3,530	-
Total	$ 92,229,878	$ 56,075,872

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Comparative Schedule of Cash Receipts (Continued)
Years Ended June 30, 2011 and 2010

	2011	2010
HOME Program Fund:		
Cash received from:		
Interest from program loans	$ 1,712,132	$ 1,539,841
Principal from program loans	1,973,357	1,667,859
Other	81,675	238,689
	3,767,164	3,446,389
Interest on investments	8,738	4,267
Federal HOME Funds	21,943,446	17,177,917
Total	$ 25,719,348	$ 20,628,573
Mortgage Loan Program Fund – Multi-Family Housing Revenue Bonds (Marywood):		
Cash received from:		
Loan from Administrative funds for interest payment	$ 744,749	$ 744,250
Total	$ 744,749	$ 744,250

	2011	2010
Mortgage Loan Program Fund – Multi-Family Bonds (Turnberry):		
Cash received from:		
Interest from program loans	$ 221,961	$ 259,617
Principal from program loans	45,802	52,458
Other	519	6,664
	268,282	318,739
Interest on investments	295	507
Proceeds from sales and maturities of investment securities	560,004	487,782
Total	$ 828,581	$ 807,028
Rental Housing Support Program Fund:		
Cash received from:		
Interest on investments	$ 101,641	$ 142,740
Grant from State of Illinois	9,976,160	24,446,600
Total	$ 10,077,801	$ 24,589,340
Mortgage Loan Program Fund – Multifamily Initiative Bonds:		
Cash received from:		
Interest from program loans	$ 1,560,325	$ -
Principal from program loans	38,672	
Other	14,114	17,125
	1,613,111	17,125
Interest on investments	123,985	56,431
Proceeds from sale of revenue bonds	62,530,000	184,080,000
Proceeds from sales and maturities of investment securities	2,514,542,247	920,460,384
Transfer in	-	454,120
Total	$ 2,578,809,343	$ 1,105,068,060
ARRA Fund		
Cash received from:		
Federal ARRA funds	$ 230,215,074	$ 58,718,635
Total	$ 230,215,074	$ 58,718,635

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Schedule of Changes in Authority Property
Year Ended June 30, 2011

Description	Balance at June 30, 2010	Additions	Depreciation and amortization expense	Retirements	Balance at June 30, 2011
Real estate	$ 41,051,046	$ 173,644	$ -	$ -	$ 41,224,690
Accumulated depreciation – real estate	(13,411,000)	-	(800,000)	-	(14,211,000)
Furniture and equipment	120,680	-	-	(43,621)	77,059
Accumulated depreciation – furniture and equipment	(92,435)	-	(12,381)	43,621	(61,195)
Computer equipment	116,261	10,000	-	(12,221)	114,040
Accumulated depreciation – computer equipment	(102,738)	-	(4,878)	12,221	(95,395)
Computer software	1,494,564	45,367	-	(3,400)	1,536,531
Accumulated amortization - computer software	(1,424,327)	-	(26,404)	3,400	(1,447,331)
	$ 27,752,051	$ 229,011	$ (843,663)	$ -	$ 27,137,399

This schedule has been reconciled to property reports submitted to the Office of the Comptroller.

Furniture, Equipment, and Leasehold Improvements

The Authority leases office facilities under a lease which extends through July 31, 2016, which provides the Authority two successive five-year options to extend the lease beyond that date and, during certain time periods, to lease additional office facilities. The Authority leased additional office space for the administration of the Hardest Hit Fund ("HHF") program and moved HHF staff into the new building on July 5, 2011. This establishes a second office location for the Authority at 122 S. Michigan Avenue with an annual lease cost to commence in fiscal year 2012 of $303,704.

Capital assets of the Authority's Administrative Fund consist of investments in furniture, fixtures, and equipment, computer hardware, and computer software. For such investments made beginning and after July 1, 2002, capital assets are defined by the Authority as assets with an initial, individual cost of $5,000 or more and are depreciated or amortized on a straight-line basis over a period of five to ten years, depending on the nature of the asset. Purchases of furniture and equipment in the amount of $73,609 were expensed during fiscal year 2011. Capital assets for governmental activities consist of computer hardware and software used in the Hardest Hit program. Depreciation and amortization for these items is recorded on a straight-line basis over three years.

Capital assets in the Mortgage Loan Program Fund represent the net carrying value of Lakeshore Plaza (ML-181), which the Authority acquired by deed in lieu of foreclosure on April 27, 1990. The Authority records depreciation against ML-181 on a straight-line basis over forty years, as past market conditions did not allow for a sale of the property.

Analysis of Significant Account Balances

Cash and investments of the Authority's proprietary funds increased $16.3 million from June 30, 2010 to $950.5 million at June 30, 2011. This increase is primarily a net result of the following factors:

(a) Cash receipts from interest, service fees, and principal on program loans exceeded interest paid on revenue bonds and notes and cash payments for operating expenses by $163.1 million.

(b) Interest received on investments and transfers in (net) totaled $11.6 million.

(c) Other receipts totaled $14.5 million.

(d) Payments for loan originations totaled $37.0 million.

(e) Payments of bond principal exceeded proceeds of bond issuances by $133.3 million.

Net program loans receivable of the Authority's proprietary funds decreased approximately $107.6 million during fiscal year 2011. This decrease is attributable to decreases in the Authority's Single Family Program Fund ($95.7 million) and the Mortgage Loan Program Funds ($11.4 million). The decrease in program loans receivable in the Single Family Program was due to adverse market conditions and the purchase of GNMA certificates secured with Illinois whole loans.

Net assets of the Authority's governmental activities increased $66.3 million from the June 30, 2010 balance from increases in the Federal HOME program and ARRA Funds, due to the conversion of grant revenues to program loans receivable and grant receipts in the Hardest Hit Fund and Nonmajor Governmental Funds. No net assets of the Authority's other two governmental activities are recorded on the Authority's financial statements. The equity of the Illinois Affordable Housing Trust Fund (Housing Program) is recorded as due to the State of Illinois. All revenues of the Rental Housing Support Program are ultimately disbursed as grants or administrative expenses, and therefore no equity is recorded on the Authority's financial statements.

Net program loans receivable of the Authority's governmental activities increased by $57.7 million primarily due to the Federal ARRA Fund for loans to support low income housing. Cash and investments decreased by $11.0 million, due primarily to decreased Housing Program revenues. State statute and federal regulations restrict the use of governmental funds to program activities.

At June 30, 2011, total outstanding bonds and notes payable were approximately $133.3 million below the prior fiscal year-end. Issuance of the following bonds and notes (with a balance outstanding at June 30, 2011) occurred during fiscal year 2011:

		Balance June 30, 2011 (In millions)
Homeowner Mortgage Revenue Bonds, 2009 Series B-1, 2011 Series A & B	$	46.0
Multifamily Initiative Bonds, Series 2009B & C		62.5

The Authority redeemed $148.0 million of various Single Family Program Fund Bonds and $95.1 million of Mortgage Loan Program Bonds during the fiscal year.

As of June 30, 2011, the Authority had the following debt outstanding (net of unamortized discount and deferred loss on refunding, thereon):

	Number of outstanding issues	Balance June 30, 2011
		(In millions)
Housing Bonds	33	$ 403.8
Multifamily Initiative Bonds	3	184.1
HUD Riskshare Debenture (Marywood)	1	14.9
Multifamily Bonds (Turnberry II)	1	5.0
Affordable Housing Program Trust Fund Bonds	2	60.1
Total Mortgage Loan Program Fund	40	667.9
Residential Mortgage Revenue Bonds	7	0.3
Homeowner Mortgage Revenue Bonds	29	891.4
Total Single Family Program Fund	36	891.7
Administrative Fund		
Total Proprietary Funds	76	$ 1,559.6

Deposits held in escrow increased $13.8 million, due to additions in funding levels related to the implementation of programs within the Federal ARRA Fund and Treasury Program. Capital assets increased approximately $0.6 million primarily due to depreciation of Lakeshore Plaza. A portion of the Authority's Administrative Funds Unrestricted Net Assets have been designated by resolution. Net assets designated by resolution of the Authority ($84.4 million) were unchanged from the amount designated as of June 30, 2010. The Members of the Authority have designated $35.0 million to purchase single family loans which eventually will be purchased with proceeds from future issuances of Authority bonds, $40.0 million to provide funds and reserves to support the Mortgage Participation Certificate Program, including the purchase of loans within the Program, $1.0 million to pay expenses for planned technology program enhancements, $4.4 million to the Housing Partnership Program, and $4.0 million to pay possible losses arising in the Multi-Family Bond Program attributable, but not limited to, delinquencies or defaults on uninsured or unsubsidized loans.

Analysis of Significant Variations in Revenue and Significant Variations in Expenditures/Expenses

Proprietary Funds

Interest earned on program loans decreased by $4.8 million, or 6.9% due to decreases within the Authority's Mortgage Loan Program Fund ($0.2 million), Single Family Program Fund ($4.7 million), partially offset by an increase in the Administrative Fund ($0.1 million). The decreases within the Authority's Mortgage Loan Program were due to loan prepayments and the impacts of a number of developments being in the later stages of their amortization schedules, which resulted in increases in the proportion of principal versus interest payments. Loans outstanding as of June 30, 2011 in the Single Family Program Fund were $91.6 million below the prior year-end amounts, which resulted in the decline in interest earned on program loans. Interest earned on program loans within the Authority's Administrative Funds increased due to settlement of a loan and the related payoff in fiscal year 2010. Investment income decreased $1.4 million, or 18.6% due to lower yields on investments.

Interest expense decreased $6.8 million, or 10% due to decreased expenses within the Mortgage Loan ($0.5 million) and Single Family ($6.3 million) Program Funds.

Operating expenses, other than interest expense and federal assistance programs, decreased approximately $4.6 million. The major components of the change were:

a. A $0.5 million (3.4%) increase in salaries and benefits primarily due to increased staffing and compensation levels, partially offset by higher allocations of these costs to governmental programs, the administration for which the Authority is reimbursed. Gross salary and benefit expenses (before allocations and deferrals) increased $1.6 million or 9.1%. The average number of full-time equivalent employees for fiscal years 2008 through 2011 is listed in the Analysis of Operations Average Number of Employees section of this report.

b. A $0.5 million (38.4%) decrease in professional fees primarily due to decreased legal fees and expenses.

c. A $0.8 million 25.8% increase in general and administrative expenses due to expense reductions in a number of Administrative Fund accounts.

d. A $0.1 million 6.3% increase in financing costs due to increased costs within the Single Family Program Fund for higher trustee administration costs.

e. A $5.4 million decrease in the allowance for estimated losses on program loans receivable and mortgage participation certificate program. The above allowance is determined based on the Authority's ratings of virtually every loan in its portfolio which were adjusted to reflect the Authority's portion of Risk Share Loans.

f. A $0.1 million increase in program grant expenses due to higher funding requirements.

Governmental Activities

Total revenues of the Authority's governmental activities increased $188.9 million from the prior year, primarily due to increases in Federal revenues of the ARRA Fund ($171.5 million), HOME Program ($5.2 million), Hardest Hit Fund ($11.5 million) and in Nonmajor Governmental Funds ($20 million), partially offset by lower revenues in the Illinois Affordable Housing Trust Fund ($3.8 million) and Rental Housing Support Program ($14.7 million).

Total expenses of the Authority's governmental activities increased $155.1 million from the prior year, primarily due to increases within the Federal ARRA Fund ($156.1 million) and Nonmajor Governmental Funds ($18.2 million), partially offset by decreases in the Rental Housing Support Program ($14.8 million) and the Illinois Affordable Housing Trust Fund ($2.7 million). The transfer ($5.2 million) from the governmental activities to the Authority's business-type activities represents an annual transfer, pursuant to the Illinois Affordable Housing Act, from the Illinois Affordable Housing Trust Fund to the Mortgage Loan Program Fund.

Analysis of Administrative Costs

The Authority's administrative costs include the following employee benefits:

Description	2011	2010	2009
Employee holiday reception	$ 4,751	$ 6,210	$ 3,940
Employee retirement, recognition parties	-	500	6,042
	$ 4,751	$ 6,710	$ 9,982

The Authority's policy, prior to fiscal year 2011, was to allow for amounts to be spent on food and gifts to acknowledge the tenure of individuals, beginning with a minimum of ten years of service.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Fiscal Schedules and Analysis
Description of Cash Accounts
Year Ended June 30, 2011

The Authority's cash and cash equivalents for proprietary funds at June 30, 2011 were maintained in bank accounts, as follows:

Administrative Fund:	
The Northern Trust Company – HUD Section 8 Depository	$ 302,317
Bank of America	598,900
Bank of New York	169,571,287
Chase Bank	592,532
Total Administrative Fund	171,065,036
Mortgage Loan Program Fund:	
Housing Bonds:	
Bank of New York	2,499,490
Multifamily Initiative Bonds:	
Bank of New York	30,192,527
Multifamily Bonds (Turnberry):	
Bank of New York	77,258
Affordable Housing Program Trust Fund Bonds:	
Bank of New York	497,745
Total Mortgage Loan Program Fund	33,267,020
Single Family Program Fund:	
Homeowner Mortgage Revenue Bonds:	
Bank of New York	11,252,226
Residential Mortgage Revenue Bonds:	
Bank of New York	579
Total Single Family Program Fund	11,252,805
Total Proprietary Funds	$ 215,584,861

Description of Investments

The fair value of investments for the Authority's governmental and proprietary funds at June 30, 2011 are delineated by type, as follows:

Type	Fair value
Demand Repurchase Agreements	$ 8,351,128
United States Agency Obligations	391,079,391
United States Government Obligations	367,958,601
	$ 767,389,120

Affordable Housing Trust Fund

The Authority is designated the administrator of the Illinois Affordable Housing Program. The program is funded by the Illinois Affordable Housing Trust Fund with funds generated from the State real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. At June 30, 2011, total funds held were $18,310,259, which consisted of cash held by Authority escrow agent for pending disbursement of loans and grants.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Schedule of Federal and Nonfederal Expenses
Year Ended June 30, 2011

	Amount	Percent
Federal expenditures (A)	$ 240,504,762	47%
Nonfederal funds	266,558,981	53%
Total expenses	507,063,743	100%
Less: Amount representing loans	(54,099,700)	
Total expenses (B)	$ 452,964,043	

Source:

(A) Schedule of Expenditures of Federal Awards
(B) Statement of Activities for the year ended June 30, 2011

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Year Ended June 30, 2011

Authority Functions and Planning Program

The Authority is governed by a bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate. Ms. Mary R. Kenney is the Executive Director of the Authority. In addition, the Authority employs a staff of approximately 221 persons, including persons who have experience and responsibilities in the areas of finance, accounting, mortgage loan underwriting, housing development, market analysis, law, and housing marketing and management.

The statutory mandate of the Authority is to increase the production and supply of low and moderate income housing within the State of Illinois. This goal is currently accomplished through several State and Federal programs. *The Mortgage Loan Program and The Affordable Housing Bond Program* provides mortgage financing at rates lower than those available from commercial lenders for housing developments meeting Authority criteria. Through *The Homeowner Mortgage Purchase Program*, the Authority through a Master Servicer, purchases mortgage backed securities with underlying mortgage loans on which it provides affordable rate financing from certain institutions which have made home purchase loans available to eligible borrowers.

The Authority's operations are financed by fees and charges paid by borrowers, interest income from investment securities, and other administration fees. No State appropriations are received by the Authority and no State tax dollars are provided directly to the Authority, except as a partial reimbursement of expenses related to the administration of the Illinois Affordable Housing Program and the Rental Housing Support Program.

The Authority formed the Office of Housing Coordination Service, which coordinates housing policy development and housing programs, initiates and responds to public input on housing programs, and acts as a housing information resource for nonprofit organizations, local governments, state agencies, and others.

The Authority is the designated administrator of the *Illinois Affordable Housing Program*. The program is funded by the Illinois Affordable Housing Trust Fund, with funds derived from a portion of the state real estate transfer tax collected by the Illinois Department of Revenue and held within the State Treasury. The funds are appropriated to the Illinois Department of Revenue by the General Assembly. In accordance with state statute, the Authority directs funds to make grants, low or no interest mortgages, or other loans, some with deferred repayment terms, to acquire, construct, rehabilitate, develop, operate, ensure, and retain affordable single-family and multi-family housing for low and very low income households.

The Authority is the administrator of the Rental Housing Support Program and is awarding funds to local administering agencies, which contract with local landlords to make rental units affordable to households who earn less than 30% of the area median income. The program is funded by a surcharge for the recordation of any real estate-related document. The funds are appropriated to the Illinois Department of Revenue by the General Assembly.

The Authority is the administrator of the Illinois Affordable Housing Tax Credit Program, which was designed to assist nonprofit organizations to solicit corporate and other donations for assisting with a variety of affordable housing projects, providing the donating entity with a 50% state income tax credit for every dollar donated.

The Authority is the State-level Tax Credit administrator for the Low Income Housing Tax Credit Program, designed to encourage the production of affordable housing, providing an income tax credit to qualifying investors of low-income housing. Project developers typically syndicate these credits up front at a discounted rate to raise cash equity to help finance developments. The limited partner tax credit investor pays a fee in exchange for dollar-for-dollar reduction in federal tax liability. The City of Chicago serves in the same capacity as a local tax credit administrator for its allowed home rule proportional allotment of credits.

Executive Order 2003-18, issued in September of 2003, called for the creation of a State Annual Comprehensive Housing Plan to be created by a Governor appointed Housing Task Force, of which the Authority's Executive Director was designated as Chair. The first plan, Building for Success, was issued in January 2005, with annual plans published in each subsequent year, as well as annual progress reports. In June 2006, the General Assembly codified the Governor's Executive Order into law with the passage of the Comprehensive Housing Planning Act, which extended the Housing Task Force and its successful planning efforts until 2016.

In addition, the Authority has been designated as the statewide administrator of the Federal HOME program. Under this program, $421.9 million and $21.6 million for federal fiscal years 1992 through 2010 and 2011, respectively, have been allocated to be administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

Throughout the years various state and federal legislation has impacted the Section 8 Housing Program and bond issuances therefore the Authority found it necessary to devise other types of credit enhancements to continue its ability to provide mortgage financing rates at lower than those of commercial lenders. As such insurance and other surety protection was sought to ensure that the Authority is able to issue its bonds and notes at the lowest possible interest rates.

The Authority has entered into a Risk Sharing Agreement ("Agreement") with HUD and through this program HUD will insure certain mortgage loans on multi-family housing developments ("Risk Sharing Loans"). HUD has authorized the Authority to make an unlimited amount of loans for such developments. Under the Agreement, the Authority underwrites Risk Sharing Loans following its underwriting guidelines. HUD insures the Risk Sharing Loans and bears 10% to 90% of the loss, as elected by the Authority, in the event of a foreclosure. The Authority bears the remainder of the risk.

The Authority has entered into fifty two Risk Sharing Loans totaling $290,946,699 and elected that HUD assume 10% to 90% of the loss with respect to these loans. Eleven of these loans totaling $67,412,699 financed through the issuance of the Authority's Housing Bonds, eleven loans totaling $61,120,000 were financed through the issuance of the Authority's Multifamily Initiative Bonds and one loan in the amount of $15,460,000 financed through the issuance of the Authority's Multi-Family Housing Revenue Bonds ("Marywood"). The remaining twenty-nine loans totaling $146,954,000 are not included in the Authority's financial statements as the Authority sold 100% participation interests in the loans to outside parties.

The Authority is generally able to make loans at rates lower than those of commercial lenders because interest on its qualified bonds and notes are tax-exempt. Except for the Affordable Housing Bond Program, which receives funds to use in support of the Program Bonds, the interest rates charged by the Authority on loans are directly related to interest paid by the Authority on its bonds and notes. The Authority obtains favorable interest rates on its debt because the Authority has consistently received high Moody's and Standard & Poor's ratings on such debt. During fiscal year 2011, the Authority's Issuer Credit Ratings remained at A1/AA- by Moody's Investors Service and Fitch Ratings. On March 28, 2011 Standard and Poor's affirmed the Authority's Issuer Credit Rating at A+ while it revised the outlook from stable to positive for a potential upgrade. No bonds or notes of the Authority are debts of the State of Illinois.

With respect to certain outstanding debt, which as of June 30, 2011 comprised approximately .02% of the Authority's outstanding debt, in the event the Authority determines at any time that its monies are insufficient to pay principal of and interest on its bonds in the next State fiscal period, the Chairman of the Authority shall certify the deficiency to the Governor, who shall include the amount in the State budget. However, payment of any amounts by the State on behalf of the Authority is subject to appropriation by the General Assembly. Accordingly, the Illinois Housing Development Act does not create a legally enforceable obligation on the part of the State for the payment of such moneys nor does it create a debt enforceable against the State.

Some developments financed by the Authority are eligible for the federal subsidies for interest and/or rents. In the past, the Authority obtained commitments for subsidies from the U.S. Department of Housing and Urban Development "(HUD") and then solicited applications for loans from prospective developers. The Authority makes mortgage loan commitments after an extensive study of the feasibility of a development and the development's compliance with applicable federal, state, and local laws and rules and regulations. All commitments are authorized by the Members of the Authority.

A number of financial institutions providing insurance, investment guarantees or other assurance services to the Authority received ratings downgrades during fiscal year 2010, as a result of the economic disruptions occurring within the credit liquidity markets. The declines resulted in the financial institutions no longer being able to meet bond resolution or other contractual requirements for the procurement of new contracts, thus limiting the Authority's supply for services.

Due to the ratings downgrades noted above, the Authority has implemented programs in which it would originate and securitize loans backed by government guarantees. Under the Authority's Homeowner Mortgage Purchase Program, the Authority offers homebuyers two loans: The 30 Year Fixed Rate Loan and an optional Down Payment Assistance Loan. The 30 year Fixed Rate Loan is a 30 year fixed rate amortizing federally insured loan such as FHA. In addition, the credit markets have improved to the extent that the Authority expects to again issue bonds within its Single Family Program Fund, for the purpose of obtaining funds to acquire or to securitize mortgage loans, in the near future.

The Authority is the designated program administrator for Section 1602 of the American Recovery and Reinvestment Act of 2009 ("ARRA") for grants appropriated to the State of Illinois by the United States Department of the Treasury to finance construction or acquisition and rehabilitation of qualified low-income building for low-income housing in lieu of low-income housing tax credits. In addition, HUD makes awards to the Authority under the Tax Credit Assistance Program ("TCAP") to facilitate the development of projects that received or will receive funding in order to be completed and placed in service in accordance with the requirements of Section 42 of the Internal Revenue Code of 1986 and the regulations promulgated thereunder. These awards are then allocated to sub-grantees and the Authority will be responsible for the monitoring and reporting of the use of these funds.

The Authority, through federal grants provided through the National Foreclosure Mitigation Counseling program, is allocating these grants to various partner agencies to fund free foreclosure counseling help for homeowners throughout Illinois.

The Authority is the administrator of the Cook County Mortgage Foreclosure Mediation Program which provides legal guidance to homeowners facing foreclosure through the use of a mediator to facilitate discussions between the mortgage company and the borrower for an end solution.

The Authority is the administrator for the Neighborhood Stabilization Program which provides grants and/or loans to municipalities and developers to rehabilitate abandoned or foreclosed properties in communities adversely affected by the foreclosure crisis.

The Authority is the administrator for the Hardest Hit Fund ("HHF") for grants appropriated to the State of Illinois by the United States Department of the Treasury ("Treasury") to assist unemployed or substantially underemployed homeowners with interim mortgage payment assistance that will allow them to pursue sustainable income and homeownership through new employment or job training efforts without the immediate threat of default or foreclosure.

Planning Program

The Authority's planning program is designed to identify and accept those developments that best achieve the Authority's goals of providing low and moderate economically integrated housing throughout the State while maintaining the financial viability of the Authority.

The Authority utilizes internal planning primarily through its annual budgeting process, in which Authority goals for the ensuing fiscal year are established and departmental goals and expense budgets are developed in support of the established Authority goals. In developing the goals and the departmental support level to achieve them, consideration is given to the availability of staff and other resources. To effectively measure achievement of the goals and objectives, the Authority monitors on an ongoing basis the units of housing produced through its programs. The Authority's plans are geared to its authorizing legislation, the needs of Illinois citizens and goals as identified in the State Annual Comprehensive Housing Plan. The Authority's programs are being implemented as planned in coordination with the goals and objectives of other governmental entities providing similar services.

Average Number of Employees (Unaudited)

	2011	2010	2009	2008
Financial and computer services	44	45	47	50
Human resources, administration,				
and legal	28	29	28	26
Director's office and housing programs	149	138	127	121
Total	221	212	202	197

The average number of full-time employees of 221 in fiscal year 2011 was 4% above the fiscal year 2010 average primarily from increases in staffing of the Hardest Hit Fund and Technical Services departments.

Emergency Purchases

The Authority had no emergency purchases during the year ended June 30, 2011.

Summary Production Data (Unaudited)

Unit production for fiscal year 2011 was 5,504 units, and total production since Authority inception was 208,863 units.

Over 80% of the Authority's production since inception has been to households with 80% or below of the area median income.

STATE OF ILLINOIS
ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Analysis of Operations

Year Ended June 30, 2011

Service Efforts and Accomplishments (Unaudited)

The Authority has included key statistical and programmatic data to reflect its service efforts and accomplishments and activity measures.

The data presented in the first table (Multi-Family and Single Family Production – Activities Closed or Placed into Service) represents initially closed multi-family loans, purchased single family Mortgage Revenue Bond (MRB) loans, issued Mortgage Credit Certificates (MCC), and low income housing tax credits (LIHTC) units which have been placed in service since the inception of the programs. The multi-family data includes projects that received permanent, construction, or conduit financing, as well as projects where the Authority provides only contract administration. This data does not include multi-family or single family loans that are currently "in process" or multi-family developments recently allocated in the case of Tax Credits.

The data presented in the second table (Unit Production by Percent of Area Median Income (AMI)) provides a breakdown of unit production by targeted AMI since the inception of the programs.

STATE OF ILLINOIS
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Analysis of Operations
Service Efforts and Accomplishments
Multi-Family and Single Family Production – Activities Closed or Placed into Service Since Inception
June 30, 2011
(Unaudited)

	Active		No Longer Active (3)		Total	
Portfolio	**Developments**	**Units**	**Developments**	**Units**	**Developments**	**Units**
Multi-family Programs	1,270	100,399	362	23,012	1,632	123,411
Single Family Programs (1)	380	4,897	810	21,905	1,190	26,802
Technical Assistance	3	400	66	1,113	69	1,513
MCC & MRB (2)	n/a	14,419	n/a	42,718	n/a	57,137
Totals	1,653	120,115	1,238	88,748	2,891	208,863

(1) Includes HOME, Housing Trust Fund, and State Housing Tax Credit programs
(2) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond
(3) No longer being monitored for either loan servicing or housing program participation

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Analysis of Operations
Service Efforts and Accomplishments
Unit Production by Percent of Area Median Income Since Inception
June 30, 2011
(Unaudited)

Percent of Area Median Income	Multi-Family and Single Family Programs	MCC and MRB (1) (2)	Total
Less than 30%	3,949	5,608	9,557
31% – 50%	55,116	6,614	61,730
51% – 80%	77,946	22,675	100,621
81% – 100%	n/a	13,033	13,033
101% – 120%	69	5,907	5,976
Greater than 121% or Market	14,646	3,300	17,946
Totals	151,726	57,137	208,863

(1) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond

(2) HUD income limits were used as the standard. Due to the inconsistency between IRS income limits and HUD income limits, the data for the MCC and MRB portions are close approximations.

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ILLINOIS HOUSING DEVELOPMENT AUTHORITY
Analysis of Operations
Service Efforts and Accomplishments
Unit Production by Economic Development Region Since Inception
June 30, 2011
(Unaudited)

	Programs				
Region (1)	**Multi-Family**	**Single Family**	**Technical Assistance**	**MCC & MRB (2)**	**Total Developments**
Central	6,410	1,086	-	3,864	11,360
East Central	3,276	586	-	2,566	6,428
North Central	5,897	2,098	-	4,644	12,639
Northeast	84,594	6,717	13	28,997	120,321
Northern Stateline	3,674	728	-	3,556	7,958
Northwest	6,763	1,617	-	3,505	11,885
Southeastern	1,942	812	-	1,406	4,160
Southern	3,069	4,559	-	1,894	9,522
Southwestern	4,198	3,221	-	4,319	11,738
West Central	2,155	1,224	-	2,188	5,567
Statewide	1,433	4,154	1,500	198	7,285
Total	123,411	26,802	1,513	57,137	208,863

(1) Counties included in each region are as follows:
Central – Cass, Christian, Greene, Logan, Macon, Menard, Montgomery, Morgan, Moultrie, Sangamon, Scott, and Shelby (Metro areas Decatur and Springfield)
East Central – Champaign, Douglas, Ford, Iroquois, Platt, and Vermilion (Metro area Champaign)
North Central – Dewitt, Fulton, Livingston, Marshall, Mason, McLean, Peoria, Seark, Tazewell, and Woodford (Metro areas Bloomington Normal and Peoria)
Northeast – Cook, DeKalb, DuPage, Grundy, Kane, Kankakee, Kendall, Lake, McHenry, and Will (Metro areas Chicago, DeKalb, and Kankakee)
Northern Stateline – Boone, Ogle, Stephenson, and Winnebago (Metro area Rockford)
Northwest – Bureau, Carroll, Henry, Jo Daviess, La Salle, Lee, Mercer, Rock Island, Putnam, and Whiteside (Metro area Rock Island)
Southeastern – Clark, Clay, Coles, Crawford, Cumberland, Edgar, Effingham, Fayette, Jasper Lawrence, Marion, and Richland
Southern – Alexander, Edwards, Franklin, Gallatin, Hamilton, Hardin, Jackson, Jefferson, Johnson, Massac, Perry, Pope, Pulaski, Saline Union, Wabash, Wayne, White, and Williamson
Southwestern – Bond, Calhoun, Clinton, Jersey, Madison, Macoupin, Monroe, Randolph, St. Clair, and Washington (Metro area East St. Louis)
West Central – Adams, Brown, Hancock, Henderson, Knox, McDonough, Pike, Schuyler, and Warren

(2) MCC = Mortgage Credit Certificate; MRB = Mortgage Revenue Bond