



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

Single Audit and State Compliance Examination
 For the Year Ended June 30, 2014

Release Date: March 26, 2015

FINDINGS THIS AUDIT: 11	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	0	2	2013		14-4	
Category 2:	7	2	9	2011		14-3	
Category 3:	0	0	0				
TOTAL	9	2	11				
FINDINGS LAST AUDIT: 10							

INTRODUCTION

This digest covers our Single Audit and Compliance Examination of the Illinois Housing Development Authority for the year ended June 30, 2014. A separate Financial Audit as of and for the year ended June 30, 2014, was previously released on December 4, 2014. In total, this report contains 11 findings, two of which were reported in the Financial Audit.

SYNOPSIS

- (14-3) The Authority’s on-site monitoring policies and procedures were not followed for subrecipients of the Section 8 Project Based Cluster Program.
- (14-6) The Authority lacked adequate reviews of OMB Circular A-133 audit reports received from its subrecipients for the Community Development Block Grant Cluster and Home Investment Partnerships Program.
- (14-10) The Authority failed to adequately monitor cash deposits held at individual banks to ensure sufficient collateral was obtained for those funds that were not covered by the Federal Deposit Insurance Corporation.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data and activity measures are summarized on next page.}

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY
COMPLIANCE EXAMINATION AND SINGLE AUDIT
For the Year Ended June 30, 2014**

EXPENDITURE STATISTICS	2014	2013
Debt outstanding (net of unamortized discount)		
Housing Bonds.....	\$ 394,000,000	\$ 479,500,000
Multi-family Initiative Bonds.....	152,500,000	166,100,000
Multi-Family Housing Revenue Bonds (Marywood).....	-	14,900,000
Multi-Family Bonds (Turnberry).....	-	4,900,000
Affordable Housing Program Trust Fund Bonds.....	21,100,000	54,300,000
Residential Mortgage Revenue Bonds.....	200,000	300,000
Homeowner Mortgage Revenue Bonds.....	444,400,000	493,600,000
Housing Revenue Bonds.....	195,600,000	196,600,000
Administrative Funds.....	73,900,000	36,700,000
Total.....	<u>\$ 1,281,700,000</u>	<u>\$ 1,446,900,000</u>
Cash and Cash equivalents (proprietary funds).....	\$ 434,769,178	\$ 266,332,940
Investments (all funds).....	\$ 512,142,210	\$ 749,953,287
SUPPLEMENTARY INFORMATION	2014	2013
Expenditures of Federal Awards		
Section 8 Project-Based Cluster.....	\$ 114,816,439	\$ 127,092,565
HOME Investment Partnerships Program.....	19,277,633	16,520,918
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families Program.....	3,232,530	4,142,339
Neighborhood Stabilization Program III.....	1,948,672	21,363,900
Community Development Block Grant.....	5,911,185	10,649,131
National Foreclosure Mitigation Counseling Program.....	1,836,158	1,781,355
Total.....	<u>\$ 147,022,617</u>	<u>\$ 181,550,208</u>
Average Number of Employees (unaudited).....	253	265
SELECTED ACTIVITY MEASURES	2014	2013
Total Number of Housing Bond Issues Outstanding	78	78
Housing Units Produced Since Inception (unaudited)	233,430	221,460
EXECUTIVE DIRECTOR		
During Examination Period and Current: Mary R. Kenney		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**NEED TO FOLLOW ESTABLISHED SUBRECIPIENT
PROCEDURES FOR THE SECTION 8 PROJECT
BASED CLUSTER PROGRAM**

The Authority did not follow its established policies and procedures for monitoring subrecipients of the Section 8 Project Based Cluster Program.

During our testwork over on-site review procedures performed for 25 subrecipients (with expenditures of \$49,703,246) of the Section 8 Cluster Program, we noted the Authority did not follow its established on-site monitoring procedures as follows:

Follow-ups not timely

- The Authority did not receive timely written responses (within 60 days) to the findings of the on-site reviews for 9 subrecipients (with expenditures of \$22,066,857) and appropriate follow-up action was not taken. Delays in obtaining the written responses ranged from 12 to 266 days after the required timeframe.
- The Authority did not timely close out (within 90 days) the on-site review for seven subrecipients (with expenditures of \$18,324,164). Delays in closing out the on-site reviews ranged from 1 to 236 days.
- The Authority did not have evidence in the on-site monitoring review file that a findings notification letter was sent out for one subrecipient (with expenditures of \$2,230,741).

Written responses not received

- The Authority did not receive written responses to the findings after communicating the on-site review findings for two subrecipients (with expenditures of \$2,440,305). (Finding 3, pages 24-25) **This finding has been repeated since 2011.**

We recommended the Authority ensure on-site monitoring reviews are performed and documented for subrecipients in accordance with established policies and procedures. We also recommended the Authority review its process for reporting and following up on findings relative to subrecipient on-site monitoring reviews to ensure timely corrective action is taken.

Authority agrees with the auditors

Authority officials agreed with the finding and recommendation and stated the Asset Management department will work to alleviate delays by providing asset managers with reminder emails as the required tasks near the deadlines required in the policies and procedures. *(For the previous Authority response, see Digest Footnote #1.)*

INADEQUATE REVIEW OF OMB CIRCULAR A-133 AUDIT REPORTS

The Authority did not adequately review OMB Circular A-133 audit reports received from its subrecipients for the Community Development Block Grant (CDBG) Cluster and Home Investment Partnerships Program (Home).

Subrecipients who receive more than \$500,000 in federal awards are required to submit an OMB Circular A-133 audit report to the Authority. The Authority is responsible for reviewing these reports and working with program personnel to issue management decisions on any findings applicable to the Authority's programs.

During our testwork over 10 subrecipients of the CDBG Cluster Program (with expenditures of \$6,620,904), we noted the following exceptions:

A-133 reports not obtained

- For 6 of the 10 subrecipients (with expenditures of \$4,361,674), an A-133 report was not obtained and reviewed during the fiscal year.

Reviews not documents

- For 4 of the 10 subrecipients (with expenditures of \$2,259,230), an A-133 report was obtained but a review of the report was not documented during the fiscal year.

Management decisions were issued late

Additionally, during our testwork over 19 subrecipients of the Home Program (with expenditures of \$7,484,768), we noted for 8 subrecipients (with expenditures of \$2,538,522) the Authority did not review audit reports in a timely manner or issue management decisions on reported findings within six months of receiving the audit reports as required. The reviews were completed between 11-71 days after the due date for the review. Accordingly, management decisions were late. (Finding 6, pages 30-32)

We recommended the Authority establish procedures to ensure: (1) subrecipient A-133 audit reports are obtained and reviewed within established deadlines, (2) management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133, and (3) follow up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

Authority agrees with the auditors

Authority officials agreed with the finding and recommendation and stated the Authority is restructuring its Financial Portfolio Management Division to improve efficiencies, establish clearer tracking mechanisms and reduce staff turnover in an effort to complete its reviews within the specified time requirements.

NEED TO IMPROVE MONITORING OF CASH COLLATERALIZATION REQUIREMENTS

The Authority has not established adequate internal controls to ensure sufficient collateral is obtained to secure public funds held at a bank or savings and loan association where those funds are not covered by the Federal Deposit Insurance Corporation (FDIC).

Collateral was not monitored

During our audit, we noted the Authority had cash deposits in the amount of \$297,102,546. However, the Authority does not have a monitoring process in place to ensure cash deposits held at individual banks that exceeded the FDIC coverage limit of \$250,000 were secured with adequate collateral at June 30, 2014. We noted the Authority had not performed an analysis to evaluate whether cash deposits in excess of the FDIC coverage limit were sufficiently collateralized. (Finding 10, pages 39-40)

We recommended the Authority review its current procedures to monitor cash deposits held at banking institutions where those deposits exceed the FDIC coverage limit to ensure sufficient collateral is obtained, and/or put preventative measures in place to keep such accounts from exceeding FDIC coverage.

Authority agrees with the auditors

Authority officials agreed with the finding and recommendation and stated that they will, under newly created procedures, receive and review monthly collateral statements from each of its depository institutions. In addition, the Authority will establish guidelines under its financial management policy to address the collateralization requirements of depository accounts as applicable.

OTHER FINDINGS

The remaining findings are reportedly being given attention by Authority officials. We will review progress toward implementation of our recommendations in our next audit.

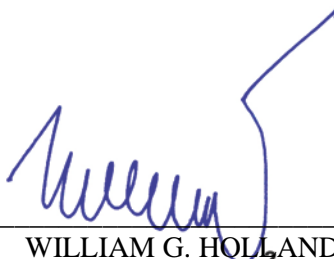
AUDITOR'S OPINION

The financial audit report was previously released. The auditors stated the financial statements of the Illinois Housing Development Authority as of and for the year ended June 30, 2014, are fairly stated in all material respects.

The auditors also conducted a Single Audit of the Authority as required by OMB Circular A-133. Our auditors stated the Authority complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2014.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Authority for the year ended June 30, 2014, as required by the Illinois State Auditing Act. The auditors stated the Authority complied, in all material respects, with the requirements described in the report.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK

SPECIAL ASSISTANT AUDITORS

KPMG LLP were our Special Assistant Auditors.

DIGEST FOOTNOTES

#1 – Need to Follow Established Subrecipient Procedures for the Section 8 Project Based Cluster Program

2013: Authority management concurs with the recommendations and will continue to update its internal procedures for monitoring the Section 8 Program. With regard to Management Reviews, the Authority will implement a process of rescheduling and staff realignment to accommodate unexpected staffing changes that resulted in delayed Management Review and tenant File Review follow-up communications. The Authority implemented a process of prioritizing the review of Audited Financial Statements in FY2013 that may cause some reviews to take more than 30 days. The Authority will fully document these changed procedures as well as any exceptions to deadlines that are approved by Asset Management Senior Staff. The Authority has implemented an email reminder procedure for the collection of Estimated Residual Receipts and the backup documentation. While this will not ensure full compliance by affected owners, it will ensure that all owners are alerted multiple times in advance of deadlines for submission and that delinquent submissions are followed-up.