



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

Single Audit and State Compliance Examination  
 For the Year Ended June 30, 2015

Release Date: March 31, 2016

FINDINGS THIS AUDIT: 14	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	1	4	2014	15-2	15-8, 15-9, 15-10, 15-14	
Category 2:	4	6	10	2013		15-6	
Category 3:	0	0	0	2011		15-7	
<b>TOTAL</b>	<b>7</b>	<b>7</b>	<b>14</b>				
<b>FINDINGS LAST AUDIT: 11</b>							

**INTRODUCTION**

This digest covers our Single Audit and Compliance Examination of the Illinois Housing Development Authority for the year ended June 30, 2015. A separate Financial Audit as of and for the year ended June 30, 2015, was previously released on December 23, 2015. In total, this report contains 14 findings, three of which were reported in the Financial Audit.

**SYNOPSIS**

- (15-4) The Authority reported Federal expenditures inaccurately for its Federal Programs.
- (15-5) The Authority failed to provide documentation to support various amounts on financial reports submitted for the Section 8 Project-Based Cluster Program.
- (15-7) The Authority's established policies and procedures were not followed for monitoring subrecipients of the Section 8 Project-Based Cluster Program.
- (15-8) The Authority lacked adequate reviews for OMB Circular A-133 audit reports received from its subrecipients for the Community Development Block Grant Cluster and Home Investment Partnerships Program.

**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, 2015**

<b>EXPENDITURE STATISTICS</b>	<b>2015</b>	<b>2014</b>
<b>Debt outstanding (net of unamortized discount)</b>		
Housing Bonds.....	\$ 369,300,000	\$ 394,000,000
Multifamily Initiative Bonds.....	150,300,000	152,500,000
Affordable Housing Program Trust Fund Bonds.....	18,100,000	21,100,000
Residential Mortgage Revenue Bonds.....	100,000	200,000
Homeowner Mortgage Revenue Bonds.....	337,800,000	444,400,000
Housing Revenue Bonds.....	174,200,000	195,600,000
Administrative Funds.....	34,100,000	73,900,000
Total.....	<u>\$ 1,083,900,000</u>	<u>\$ 1,281,700,000</u>
<b>Cash and Cash equivalents (proprietary funds).....</b>	<b>\$ 537,279,257</b>	<b>\$ 434,769,178</b>
<b>Investments (all funds).....</b>	<b>\$ 410,509,839</b>	<b>\$ 512,142,210</b>
<b>SUPPLEMENTARY INFORMATION</b>	<b>2015</b>	<b>2014</b>
<b>Expenditures of Federal Awards</b>		
Section 8 Project-Based Cluster.....	\$ 113,777,801	\$ 114,816,439
HOME Investment Partnerships Program.....	261,331,980	19,277,633
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families Program.....	2,367,781	3,232,530
Neighborhood Stabilization Program.....	876,477	1,948,672
Community Development Block Grant.....	1,409,143	5,911,185
National Foreclosure Mitigation Counseling Program.....	1,634,767	1,836,158
Total.....	<u>\$ 381,397,949</u>	<u>\$ 147,022,617</u>
<b>Average Number of Employees (unaudited).....</b>	<b>240</b>	<b>253</b>
<b>SELECTED ACTIVITY MEASURES</b>	<b>2015</b>	<b>2014</b>
Total Number of Housing Bond Issues Outstanding.....	66	78
Housing Units Produced Since Inception (unaudited).....	263,577	233,430
<b>EXECUTIVE DIRECTOR</b>		
During Examination Period: Mary R. Kenney (thru 9-18-15) Brian E. Zises (Acting) (9-19-15 thru 1-15-16)		
Current: Audra Hamernick		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**NEED TO IMPROVE REPORTING OF FEDERAL  
EXPENDITURES ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS**

The Authority did not accurately report Federal expenditures under the Home Investment Partnership Program (HOME), Section 8 Project-Based Program (Section 8), Community Development Block Grants Cluster (CDBG), Neighborhood Stabilization Program (NSP), and the National Foreclosure Mitigation Counseling (NFMC) programs.

Federal expenditures reported on the initial draft of the Schedule of Expenditures of Federal Awards (SEFA) did not agree to the Authority’s financial records. Specifically, we noted the following differences for the year ended June 30, 2015:

**Reporting errors**

<b>Program</b>	<b>Federal Expenditures Reported in the Authority’s Records</b>	<b>Federal Expenditures Initially Reported on the SEFA</b>	<b>Difference</b>
HOME	\$25,976,631	\$22,705,798	\$3,270,833
NSP	\$876,477	–	\$876,477
NFMC	\$1,634,767	\$108,686	\$1,526,081

In addition to compilation errors in preparing the initial SEFA, we noted several of the differences above related to the fact that the Authority did not properly report program income amounts relative to its federal programs on the initial SEFA. We also noted the Authority did not properly identify the expenditures for the NFMC program were received from a pass through entity.

Additionally, the following differences were identified relative to amounts passed through to subrecipients for the following programs:

<b>Program</b>	<b>Amounts Passed-Through Reported in the Authority Records</b>	<b>Amounts Initially Reported on SEFA</b>	<b>Difference</b>
Section 8	\$108,253,754	\$113,777,801	\$5,524,047
HOME	\$23,728,290	\$22,705,798	\$1,022,492
NFMC	\$1,526,081	\$108,686	\$1,417,395
CDBG	\$2,285,620	\$1,409,143	\$876,477

**Disbursements not reported in the correct fiscal year**

In addition to the reporting errors noted above, we identified two disbursements of program income (totaling \$1,385,899) out of six tested (totaling \$4,547,980) were reported by the Authority in the incorrect fiscal year. Specifically, we noted these transactions should have been reported in fiscal year 2014. (Finding 4, pages 27-29)

We recommended the Authority establish procedures to accurately report Federal expenditures, including program income, on the SEFA in the correct accounting period. We also recommended the Authority implement procedures to ensure amounts passed through to subrecipients are accurately reported.

**Authority agrees with the auditors**

Authority officials agreed with our recommendations and stated they will develop procedures to accurately report federal expenditures on the SEFA in the current accounting period and ensure amounts are supported by financial activity in the general ledger.

**UNSUPPORTED AMOUNTS IN FINANCIAL REPORTS**

**Lack of documentation**

The Authority was unable to provide documentation to support various amounts on financial reports submitted for the Section 8 Project-Based (Section 8) Cluster program.

The Authority is required to prepare HUD-52633, *Requisition for Partial Payment of Annual Contributions (OMB No. 2577-0169)*, on an annual basis at the beginning of the fiscal year, and HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)*, on an annual basis at the end of the fiscal year. These reports are required to be prepared for each of the Authority’s open grant awards.

**Authority could not provide the support for amounts reported**

During our testwork over the annual HUD-52633 reports and the annual HUD-52681 reports submitted for seven open grant awards, we noted the Authority was unable to provide supporting documentation for several key line items on each report. Specifically, we noted the Authority could not provide support for amounts reported on the following line items:

**Line Item from HUD Report 52663:**

Number of Units Under Lease to Eligible Families as of Date of Requisition
Average Monthly Housing Assistance Payment Per Unit as of Date of Requisition
Estimated Number of Units to be under Lease at End of Requested Year
Unit Months Under Lease Year to Date
Average Monthly Housing Assistance Payment per Unit Year to Date
Estimated Housing Assistance Payments (Account 4715)
Estimated Ongoing Administrative Fee
Independent Public Accountant Audit Costs (Section 8 Only)

**Line Item from HUD Report 52681:**

Number of Unit Months under lease by Bedroom Size:
1Bedroom
2Bedroom
3Bedroom
4Bedroom
Other
Average Tenant Contribution
HA Actual Total – 4715 Housing Assistance Payments
Approved Budget Estimates – 4715 Housing Assistance Payments
HA Actuals Total – Ongoing Administrative Fees Earned
Approved Budget Estimates – Ongoing Administrative Fees Earned
HA Actuals Total – Actual Independent Accountant Audit Costs
Approved Budget Estimates – Actual Independent Public Accountant Audit Costs
HA Actuals Total – Total Partial Payments Approved by HUD for Fiscal Year
Approved Budget Estimates – Total Partial Payments Approved by HUD for Fiscal Year

(Finding 5, pages 30-32)

We recommended the Authority review the process and procedures in place to prepare financial reports required for the Section 8 Project-Based Cluster program and implement procedures to ensure the reports are accurate and supporting documentation is maintained.

**Authority agrees with the auditors**

Authority officials agreed with our recommendation and stated that for fiscal year 2016 they will review the process and procedures in place and implement new procedures to ensure the reports are accurate and the supporting documentation is maintained.

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

**Policies and procedures were not followed**

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

The Authority has implemented procedures whereby program staff perform periodic on-site and desk reviews of subrecipient compliance with regulations applicable to the Section 8 Cluster program administered by the Authority. These reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. The Authority's policies require the subrecipient to respond to each finding by providing

a written response.

During our testwork over on-site review procedures performed for 25 subrecipients (with expenditures of \$45,577,355) of the Section 8 Cluster program, we noted the Authority did not follow its established on-site monitoring procedures as follows:

**Written responses were not received timely**

- The Authority did not receive timely written responses (within 60 days) to the findings of the on-site reviews for one subrecipient (with expenditures of \$1,649,364) and appropriate follow-up action was not taken. Delay in obtaining the written response was 37 after the required timeframe.
- The Authority did not receive written responses to the findings after communicating the on-site/management desk review findings for five subrecipients (with expenditures of \$12,783,596). Further, we noted the Authority did not follow up to obtain responses from these subrecipients.
- The Authority was unable to provide documentation to support when the written responses were received for the on-site and desk review findings for two subrecipients (with expenditures of \$3,925,142). As a result, the timeliness of the subrecipient response cannot be determined.
- The Authority did not perform a monitoring review for two subrecipients (with expenditures of \$2,179,525) in fiscal year 2015 in accordance with the Authority's policies and procedures.
- The Authority did not maintain evidence of the completion and supervisory review of the on-site review monitoring tool for one subrecipient (with expenditures of \$1,383,024).
- The Authority did not timely close out (within 90 days) the on-site review for two subrecipients (with expenditures of \$4,913,034). Delays in closing out the on-site reviews ranged from 9 to 32 days.
- The Authority was unable to provide documentation to support when the on-site monitoring file was closed for four subrecipients (with expenditures of \$6,609,349). As a result, the timeliness of the file closure cannot be determined.
- The Authority did not have evidence in the on-site monitoring review file that the monitoring file was closed for four subrecipients (with expenditures of \$11,400,572).

**Monitoring reviews were not performed**

**Lack of policies and procedures over the timely issuance of notification letters**

Additionally, the Authority does not have policies and procedures in place for the timely issuance of a findings notification letter after the inspection/desk review date. During our testwork over on-site and desk reviews, we noted for 10 of

the 25 subrecipients (with expenditures of \$22,937,949), the Authority did not communicate a findings notification letter to the subrecipient within 60 days of the inspection/desk review date.

Specifically, the number of days a letter was issued after the on-site inspection/desk review date ranged from 66 to 213 days. Further, the Authority was unable to provide documentation to support when the finding notification letter was sent to one subrecipient (with expenditures of \$1,383,024). As a result, the timeliness of the finding notification issuance cannot be determined. (Finding 7, pages 35-37) **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 our recommendations and stated they will complete the recommended actions in the fiscal year ending June 30, 2016. *(For previous Authority response, see Digest Footnote #1)*

**INADEQUATE REVIEW OF OMB CIRCULAR A-133  
AUDIT REPORTS**

**Need to improve controls over the  
review of Circular A-133 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 (HOME) programs.

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 formal management decisions on any findings applicable to the Authority's programs.

During our testwork over 5 CDBG Cluster subrecipients (with expenditures of \$1,409,143) and 20 subrecipients of the HOME program (with expenditures of \$5,293,176), we noted the Authority had not obtained OMB Circular A-133 reports or issued management decisions in accordance with federal regulations for all of its subrecipients. Specifically, we noted the following:

**Reports were not obtained and  
reviewed**

- OMB Circular A-133 reports were not obtained and reviewed during the fiscal year for three CDBG Cluster subrecipients (with expenditures of \$1,221,381) and one HOME subrecipient (with expenditures of \$165,765). We also noted the Authority had not performed procedures to

follow up with these subrecipients to obtain audit reports or otherwise verify the subrecipient had complied with audit requirements and had no reportable findings.

- OMB Circular A-133 reports were obtained, but a review of the reports was not documented for two CDBG subrecipients (with expenditures of \$186,762).
- Management decisions were not issued for one HOME subrecipient (with expenditures of \$113,505).

**Desk review checklist was not used**

Additionally, we noted that a standard desk review checklist was not used to document the review of subrecipient A-133 reports received from subrecipients of the CDBG Cluster program to determine whether: (1) the audit reports met the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconciled to CDBG records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years. (Finding 8, pages 38-40)

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

**Authority agrees with the auditors**

Authority officials agreed with our recommendations.

**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, 2015, are fairly stated in all material respects.

The auditors also conducted a Single Audit of the Authority as required by OMB Circular A-133. The auditors qualified their report on compliance for the Section 8 Project-Based Cluster Program. Except for the noncompliance described in Finding 2015-005, the 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, 2015.

## ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Authority for the year ended June 30, 2015, 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.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

FJM: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**

2014: Authority management concurs with the recommendation. The Asset Management department will work to alleviate these delays by providing assets managers with reminder e-mails as the required tasks near the deadlines required in the policies and procedures. In addition Asset Management has hired two new asset managers to fill staff vacancies; the new staff start on March 16, 2015. The department will review and/or update internal policies and procedures as needed to ensure they address instances in which exceptions to required timelines or other requirements may be allowed.