



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: December 23, 2015

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	1	2	2014	15-2		
Category 2:	1	0	1				
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the Illinois Housing Development Authority (Authority) Financial Audit as of and for the year ended June 30, 2015. The Authority's Compliance Examination (including the Single Audit) covering the year ended June 30, 2015 will be issued in a separate report at a later date.

SYNOPSIS

- **(15-1)** The Authority lacked adequate internal controls over the financial reporting process.
- **(15-2)** The Authority was unable to support the historical detail assumptions used in its allowance for loan loss calculation for both the single family loan programs and the multi-family loan programs. Additionally, the Authority has not established adequate internal controls over updating loan ratings with current information, documenting the rationale for certain loan ratings, and ensuring the allowance for loan loss is properly calculated and presented in its financial statements.

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 information is summarized on next page.}

ILLINOIS HOUSING DEVELOPMENT AUTHORITY
FINANCIAL AUDIT
For the Year Ended June 30, 2015

FINANCIAL POSITION - ALL FUNDS	2015	2014
Assets		
Cash and investments - unrestricted.....	\$ 763,931,751	\$ 746,973,062
Investments - restricted.....	306,216,011	419,596,462
Net Program loans receivable.....	1,446,255,292	1,530,169,877
Other.....	150,772,217	186,524,635
Total.....	<u>2,667,175,271</u>	<u>2,883,264,036</u>
Deferred Outflows of Resources.....	<u>3,066,352</u>	<u>4,539,945</u>
Liabilities		
Bonds and Notes Payable.....	1,083,981,566	1,282,075,926
Due to State of Illinois.....	348,224,403	349,800,495
Deposits held in escrow.....	150,156,886	156,651,805
Other.....	85,469,306	104,450,177
Total.....	<u>1,667,832,161</u>	<u>1,892,978,403</u>
Deferred Inflows of Resources.....	<u>20,337,193</u>	<u>432,911</u>
Net Position		
Net investment in capital assets.....	(3,649,521)	(5,148,090)
Restricted.....	829,268,394	855,838,545
Unrestricted.....	156,453,396	143,702,212
Total.....	<u>\$ 982,072,269</u>	<u>\$ 994,392,667</u>
ADMINISTRATIVE FUND OPERATIONS	2015	2014
Revenues		
Service Fees.....	\$ 11,756,295	\$ 12,379,450
Interest and investment income.....	29,718,341	22,503,234
Federal assistance programs.....	114,250,508	116,914,884
Other.....	13,789,513	11,143,569
Total.....	<u>169,514,657</u>	<u>162,941,137</u>
Expenses		
Salaries and benefits.....	15,935,708	15,323,689
Professional fees.....	2,310,043	429,225
Other general and administrative.....	4,266,213	5,838,562
Transfers, net.....	14,507,442	3,194,738
Financing Costs.....	633,667	634,701
Federal assistance programs.....	114,250,508	116,914,884
Provision for est. loss on loan receivable.....	78,356	(1,364,905)
Other.....	4,109,258	5,257,940
Total.....	<u>156,091,195</u>	<u>146,228,834</u>
Change in net position.....	<u>\$ 13,423,462</u>	<u>\$ 16,712,303</u>
EXECUTIVE DIRECTOR		
During Engagement: Mary R. Kenney (until 9-18-15)		
Current Acting Director: Bryan E. Zises (9-18-15 to present)		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO IMPROVE CONTROLS OVER FINANCIAL
REPORTING**

Inaccurate financial reporting

The Illinois Housing Development Authority (Authority) has not established adequate internal controls over the financial reporting process.

During our audit of the financial statements as of June 30, 2015, some of the items we noted are as follows:

**Beginning fund balance restated by
\$11,613,795 in the Home Program
Fund**

- The funds held by State Treasurer in the Home Program Fund balance sheet, which is also included in the governmental activities statement of net position, was overstated by \$11,613,795 as of June 30, 2015 as program payouts/withdrawals were being recorded within the general ledger as a credit to federal funds revenue rather than as a credit to funds held by State Treasurer. This general ledger error occurred in fiscal years 2013 and 2014. An adjustment was made by the Authority to adjust the July 1, 2014 beginning fund balance of the Home Program Fund and the beginning net position of the governmental activities by \$11,613,795.

**\$5,200,000 adjustment made to
remove unearned revenue and other
assets in the Illinois Affordable
Housing Trust Fund**

- The Authority correctly recorded \$5,200,000 of receipts related to fiscal year 2016 as unearned revenue within the Mortgage Loan Program Fund. However, the Authority also incorrectly recorded the \$5,200,000 as both unearned revenue and an other asset within the Illinois Affordable Housing Trust Fund. An adjustment was made by the Authority to remove the \$5,200,000 recorded as unearned revenue and as an other asset within the Illinois Affordable Housing Trust Fund.
- The Authority incorrectly recorded \$11,160,954 of unearned revenue as a current liability in the Administrative Fund. However, \$8,388,583 of the unearned revenue represented a noncurrent liability. An adjustment was made by the Authority to record \$8,388,583 of unearned revenue as a noncurrent liability.
- The Authority incorrectly recorded an Illinois Affordable Housing Trust Fund loan payment received during fiscal year 2015 as a liability within the Administrative Fund. As a result, program loans receivable for the Illinois Affordable Housing Trust Fund were overstated by \$250,000, and accrued liabilities and other for the Administrative Fund were overstated by \$250,000. A proposed adjustment for this difference was recorded by the Authority. (Finding 1, pages 81-83)

We recommended the Authority review its current internal control policies and procedures to ensure financial transactions are accurately reported in the general ledger and the financial statements.

Authority agrees with auditors

Authority management agreed with our finding.

NEED TO IMPROVE CONTROLS OVER THE ALLOWANCE FOR LOAN LOSS

Controls over the Allowance for Loan Loss needs improvement

The Illinois Housing Development Authority (Authority) was unable to support the historical detail assumptions used in its allowance for loan loss calculation for both the single family loan programs and the multi-family loans programs. Additionally, the Authority has not established adequate internal controls over updating loan ratings with current information, documenting the rationale for certain loan ratings, and ensuring the allowance for loan loss is properly calculated and presented in its financial statements.

An analysis to substantiate the metrics' used has not been performed

During our audit, we reviewed the allowance for loan loss methodology for the single family loan program and the multi-family loan programs and noted the Authority could not produce an analysis supporting the rationale for its calculation of the loan loss reserve factors for the single family loan program (probability of default) or the multi-family loan program (probability of default and expected loss) that are used in its allowance for loan loss calculation and has not recently performed an analysis to further substantiate the ongoing appropriateness of the metrics' used in the allowance for loan loss estimate.

Back-testing of the allowance not performed

The Authority has not documented how the loan loss reserve factors have been historically calculated and over what period the probability of default is measured. Further, the Authority did not perform back-testing (typically performed on at least an annual basis) on its allowance for loan loss estimates for either the single family loan program or the multi-family loan program to determine whether the allowance for loan loss produces estimates that have been historically sufficient to cover incurred losses over a period of time that aligns with the period used to estimate the probability of default values.

Some loan ratings tested were not reasonable

Additionally, during our testing of 41 multi-family loan relationships risk ratings (62 loans) as of June 30, 2015, we noted differences in the ratings determined by the Authority on their loan rating scale compared to our independent ratings determined during our review.

We found the Authority's risk ratings to be reasonable on 27 of the 41 relationships (41 of the 62 loans) and we found the Authority's risk ratings to be unreasonable for 14 of the 41 relationships (21 of the 62 loans). These loan rating

differences are primarily attributable to the Authority's application of various aspects of their allowance for loan loss rating policy and the timing of updating the loan risk ratings by the Authority.

Some of the differences in loan ratings are as follows:

Housing Trust Fund had an under reserve of \$1,131,263

- Six differences in Housing Trust Fund loan ratings resulted in an under reserve of \$1,131,263 and one difference in a Housing Trust Fund loan rating resulted in an over reserve of \$55,550 for the Illinois Affordable Housing Trust Fund. A proposed adjustment for these differences was not recorded by the Authority.

Home Program Fund had an under reserve of \$1,021,499

- Two differences in Home loan ratings resulted in an under reserve of \$1,021,499 for the Home Program Fund. A proposed adjustment for this difference was not recorded by the Authority.
- Two differences in Administrative loan ratings resulted in an under reserve of \$536,395 for the Administrative Fund. A proposed adjustment for this difference was not recorded by the Authority.
- Two differences in a Trust Fund Bond loan ratings resulted in an under reserve of \$505,148 for the Mortgage Loan Program Fund. A proposed adjustment for this difference was not recorded by the Authority.
- One difference in a Home loan rating resulted in an over reserve of \$224,848 for the Home Program Fund. A proposed adjustment for this difference was not recorded by the Authority.

Furthermore, the Authority incorrectly calculated the June 30, 2015 allowance for loan loss for the Hardest Hit Fund which resulted in an under reserve of \$72,872. A proposed adjustment for this difference was recorded by the Authority. (Finding 2, pages 84-87)

We recommended the Authority review its current policies and procedures to ensure the assumptions used in the allowance for loan loss calculation are appropriate, loan rating assessments are performed timely based on available financial information, and that loan ratings are adequately documented.

Authority agrees with the auditors

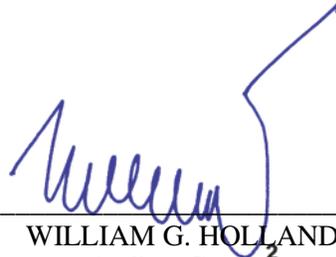
Authority management agreed with our finding.

OTHER FINDING

The remaining finding pertaining to duplicate vendors within the Authority's accounts payable master vendor file is reportedly being given attention by Authority officials. We will review progress toward implementation of our recommendations in our next audit.

AUDITOR'S OPINION

Our auditors stated the financial statements of the Authority as of June 30, 2015, and for the year then ended, are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were KPMG LLP.