

# LEGISLATIVE AUDIT COMMISSION



Review of  
Illinois Housing Development Authority  
Year Ended June 30, 2007

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**REVIEW: 4308**  
**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**YEAR ENDED JUNE 30, 2007**

**FINDINGS/RECOMMENDATIONS - 10**

**ACCEPTED - 5**  
**IMPLEMENTED - 5**

**REPEATED RECOMMENDATIONS - 4**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 9**

This review summarizes the auditors' reports on the Illinois Housing Development Authority for the year ended June 30, 2007, filed with the Legislative Audit Commission on November 8, 2007 and May 8, 2008. The auditors performed a financial audit and compliance examination in accordance with State law and the requirements of the Federal Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements of the Authority are fairly presented.

A bipartisan Board of nine members appointed by the Governor and confirmed by the State Senate governs the Illinois Housing Development Authority. The statutory mandate of the Authority is to increase the production and supply of low and moderate income housing within the state. This goal is accomplished through several 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 purchases mortgage loans on which it provides below market rate financing from certain institutions, which have made home purchase loans available to eligible borrowers. The Authority also provides technical and marketing assistance to sponsors of housing for occupancy by persons or families of low to moderate income, serves as the State administrator for Federal Low Income Housing Tax Credits, and through its Partnership and Financial Assistance Factor Earnings Program, makes loans from its Administrative Funds at below market rates to such groups.

The Authority also is designated the administrator of the *Illinois Affordable Housing Program*, which is funded by the Illinois Affordable Housing Trust Fund, with funds generated by an increase in the State real-estate transfer tax collected by the Illinois Department of Revenue. The Illinois General Assembly appropriates the funds to the Illinois Department of Revenue. 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. In addition, the Authority has been designated as the statewide administrator of the HOME program. Under this program, \$23 million in federal fiscal year 2007 was allocated to be

**REVIEW: 4308**

administered by the Authority under the HOME provisions of the 1990 National Affordable Housing Act.

In early FY02, the General Assembly created 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 bonds and notes outstanding as of June 30, 2007 consist of both general and special limited obligations of the Authority. The full faith and credit of the Authority are pledged for payment of general obligation bonds and notes. The Authority has the power under the Act to have up to \$3.6 billion of general and special limited obligation bonds and notes outstanding, excluding those issued to refund outstanding bonds and notes. At June 30, 2006, amounts outstanding against this limitation were approximately \$1.990 billion.

Some developments financed by the Authority are eligible for federal subsidies for interest and/or rents. The Authority makes mortgage loan commitments after an extensive study of the feasibility of a development.

The Authority's operations are financed by fees and charges paid by borrowers, interest income from investments 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 Affordable Housing Trust Fund.

Except for a portion of the Affordable HOME Program Funds, all funds of the Authority are held outside of the State treasury in various banks and financial institutions.

Kelly King Dibble was Executive Director of the Illinois Housing Development Authority during the first half of the audit period. The new Executive Director, effective January 19, 2007, was DeShana Forney. She had no previous association with the Authority. Ms. Forney remains as Executive Director.

The average number of full-time employees is as follows:

	Fiscal Years		
	2007	2006	2005
<b>Financial and Computer Services</b>	49	48	47
<b>Human Resources, Administration and Legal</b>	26	26	26
<b>Director's Office and Housing Programs</b>	114	115	120
<b>TOTAL</b>	<b>189</b>	<b>189</b>	<b>193</b>

Operating expenses of the Authority in FY07 decreased approximately \$7,724,129, as compared to FY06, due primarily to the reversal of estimated losses on program loans receivable. The Authority adopted a revised loan loss rating policy, which included lower allowance for estimated loss provision percentages assigned for certain grades of loans, based primarily upon the Authority's experience with such loans.

## **REVIEW: 4308**

The Authority's administrative costs include the following employee benefit: \$9,532 for employee retirement recognition parties. The Authority's current policy allows for amounts to be spent on food and gifts for retirement of individuals with a minimum of 10 years of service.

Appendix A provides selected activity measures of the Authority for FY07 and FY06.

### **Financial Statements**

Appendix B provides the market value of cash and investments at June 30, 2007 and 2006. The Authority's cash and cash equivalents for its proprietary funds and investments for all funds totaled \$791,932,482 compared to \$719,321,590 one year earlier. The preponderance of the investments is United States Agency Obligations.

Appendix C provides a statement of net assets for the Authority as of June 30, 2007 and 2006. The balance sheets stood at \$510,898,357 at June 30, 2007 and \$457,980,719 at June 30, 2006. The largest change in assets was in net program loans receivable which increased about \$181 million in FY07. Program loans receivable include mortgage loans receivable, advances receivable, and residual income loans receivable.

Appendix D provides a summary of the Authority's revenues, expenditures, and changes in fund balances for the Authority's governmental or special revenue funds. These funds include the Illinois Affordable Housing Trust Fund and the HOME Program. Revenues less expenditures increased from -\$255,019,191 in FY06 to \$23,810,461 in FY07. Net assets increased to \$18.6 million during FY07. The cause of this dramatic change was the one-time transfer of interest in equity of the Affordable Housing Trust Program to the State of Illinois in FY06.

Appendix E provides a summary of the Authority's revenues, expenditures, and changes in fund balance for the Authority's proprietary funds. These funds include the Administrative Fund, the Mortgage Loan Program Funds, and the Single Family Program Funds. Net assets were about \$34.3 million higher in FY07 than FY06 due to a decrease in operating expenses and an increase in investment income and interest earned.

### **Accountants' Findings and Recommendations**

Condensed below are the ten findings and recommendations presented in the auditors' reports. Four were repeated from previous audits. The following recommendations are classified on the basis of updated information provided by DeShana Forney, Executive Director of the Illinois Housing Development Authority, via electronic mail received February 13, 2009.

**Accepted or Implemented**

**1. Implement procedures to formally document the rationale for the decisions made to support the risk rating assigned to all program loans.**

**Findings:** The Illinois Housing Development Authority (Authority) did not document the rationale for the decisions made to support the risk ratings assigned to all program loans under the new loan rating methodology.

During the year ended June 30, 2007, the Authority significantly modified the methodology used to assign risk ratings to program loans. The new methodology was formally approved by the Authority's Board at the May 2007 Board meeting, and the Authority implemented the new methodology when assigning risk ratings to the program loans within the June 30, 2007 financial statements. Management held meetings with the asset managers to discuss each loan, and assigned the appropriate rating to each loan under the new methodology, however the rationale for the decisions made to support the ratings was not always formally documented.

The Authority has approximately \$1,814,439,000 in loans outstanding at June 30, 2007. Auditors selected 161 loans in the multi-family, single family, trust fund and HOME programs totaling approximately \$278,287,000 or 15% of the Authority's program loan receivables as of June 30, 2007. For the loans that did not document the rationale for the risk rating assigned under the new methodology, auditors were able to observe other documentation and/or inquire of management to support the appropriateness of the risk rating and the related allowance for estimated losses.

Authority management stated the implementation of the new methodology was not approved until May 2007, and did not provide sufficient timing to fully document the rationale to support the risk rating assigned to all loans. The risk rating assigned to each loan under the new methodology was discussed with the asset managers at various meetings; however these meetings were not formally documented.

**Response:** Accepted. The Authority concurs with the recommendation to implement procedures to formally document the rationale for the decisions made to support the risk rating assigned to all program loans, and plans to implement such a procedure beginning with its November 2007 meeting of its loan monitoring committee. This procedure, which is incorporated into the Loan Loss Rating Policy and Procedures adopted by the Authority's Board in May 2007, provides that each month, those developments with completed annual inspections and development/loan ratings are to be presented to the Loan Monitoring Committee and reviewed for changes from the previous year/period. Discussions at these meetings will include reasons why the loan ratings are to be changed, what action is needed, and who is responsible for taking the action. With Committee approval, the loan rating will be changed following that meeting to reflect the new rating in the Authority's accounts receivable system. These meeting discussions will be documented in both the notes to the meeting and to the loan files.

## **REVIEW: 4308**

To implement the recently approved Loan Loss Rating Policy and Procedures, the Authority, as noted in the Auditor's report, held meetings with the asset managers to discuss each loan, and assigned the appropriate rating to each loan under the new methodology, but the rationale for the decisions made to support the ratings was not always formally documented. The Authority performed this initial conversion process on nearly 800 loans over a one to two month period, and due to this high volume was not able to provide full documentation. Going forward, the evaluation process will be over a one year period, with full documentation provided.

**Updated Response:** Implemented. The Authority has implemented a procedure such that appropriate documentation to support the risk ratings assigned to program loans is now prepared.

### **2. Implement procedures to ensure new loans entered into the Benedict system agree to the final loan documents. (Repeated-2006)**

**Findings:** The Authority utilizes a loan subsidiary system (Benedict billing and receivable system) to track loan activity and the outstanding loan balances of its Multi-Family, HOME, and Affordable Trust Fund programs. The subsidiary system provides Authority management with a formal platform to monitor program loans. The system is updated for program loans issued to or redeemed by developments on an ongoing basis. The system automatically generates principal and interest billing statements for distribution to developments based on the input information.

During testing the auditors noted the Authority does not have an adequate process to ensure that new loans are accurately entered into the Benedict system. Specifically, auditors noted that one individual is responsible for entering new loan information into the Benedict system without a supervisory review of the information added or changed.

Authority management stated that they are currently developing a process where the loan information to be entered into the Benedict system will arise from, and be reviewed by, either the loan origination department or the legal department, whose personnel are more familiar with the loan documents and more able to ensure that the loan terms entered into the Benedict system agree to the final loan documents.

**Updated Response:** Implemented. The Authority concurs with the recommendation to implement procedures to ensure new loans entered into the Benedict system agree to the final loan documents. The Authority has developed and implemented a process during fiscal year 2008 where the loan information to be entered arises from, and is reviewed by, departments whose personnel are responsible for the accuracy of the loan documents and more able to ensure that new loan terms and conditions entered into the Benedict system are in agreement with the final loan documentation.

**Accepted or Implemented – continued**

**3. Implement timely reconciliation procedures for the deposits held in escrow.**

**Findings:** The Authority does not have an adequate process for reconciling the general ledger with the subsidiary ledger used to account for deposits held in escrow.

Deposits from developers, which are held in escrow in the Authority's administrative fund, may be used when necessary to pay principal and interest payments and fund construction cost overruns, change orders, tax and insurance payments and capital improvements. In addition, on certain developments, letters of credit and assignments of syndication proceeds are held by the Authority for similar purposes and to fund potential operating deficits of the related developments; investment income earned on deposited funds is credited to the respective developer's escrow accounts.

The Authority did not reconcile the deposits held in escrow subsidiary ledger to the general ledger balance during the year ended June 30, 2007. The subsidiary ledger balance used to account for the deposits held in escrow was approximately \$159,345,000, and the general ledger balance for the deposits held in escrow was approximately \$158,952,000, resulting in a difference of approximately \$393,000. The Authority could not identify the reason for the difference.

**Updated Response:** Accepted. The Authority implemented a procedure during fiscal year 2008 to reconcile the escrow account detail subsidiary ledger records to the general ledger, and is continuing to standardize and refine the procedure to ensure an accurate reconciliation.

**4. Implement procedures to ensure gains or losses associated with debt refunding transactions are calculated and reported in the financial statements in accordance with U.S. generally accepted accounting principles.**

**Finding:** The Authority does not have an adequate process for calculating and reporting the loss on debt refunding transactions.

During the year ended June 30, 2007, the Authority refunded approximately \$107,725,000 of the Multi-Family Housing Bonds with the issuance of new housing bonds in the Mortgage Loan Program Fund, which resulted in the defeasance of debt. The Authority did not calculate the loss on the refunding transaction, and continued to report the unamortized discounts, premiums, and issue costs pertaining to the defeased bonds in the financial statements. The auditors recalculated a deferred loss of \$12,351,000 which was reclassified as a deduction to the outstanding balance of the new debt.

**Updated Response:** Implemented. The Authority concurs with the recommendation to implement procedures to ensure gains or losses associated with debt refunding transactions are calculated and reported in the financial statements in accordance with

**REVIEW: 4308**

U.S. generally accepted accounting principles, and adopted such a procedure during fiscal year 2008.

- 5. Consult with the U.S. Department of Housing and Urban Development to interpret the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program and make necessary changes to conform with those requirements.**

**Finding:** The Authority is not properly administering the Section 8 Moderate Rehabilitation Program.

During FY07, staff from the Illinois Office of Public Housing (a regional office of HUD) conducted an audit of the Authority's Mod Rehab Program to assess the Authority's compliance with HUD regulations. The final audit report indicated the Authority did not comply with numerous HUD regulations when the audit team assessed the Authority's overall program operation of the Section 8 Mod Rehab Program. The final audit report stated that the Authority is receiving administrative fees to operate the Section 8 Mod Rehab program, yet it is not performing the major administrative functions HUD expects it to perform under its contractual obligations with HUD due to the manner in which the Authority delegates the performance of programmatic activities to its subrecipients.

HUD is concerned that the Authority is not maintaining a waiting list for the Mod Rehab Program. Additionally, HUD is concerned that the Authority is not assessing eligibility, conducting briefings, conducting re-examinations, monitoring the assignment of appropriate unit sizes, evaluating Utility Schedules or conducting inspections regularly. The audit report states that the Authority is overseeing the administration of these functions by monitoring the properties that receive funding for units under the Section 8 Mod Rehab program. However, the entities actually administering the program do not have contracts with the Authority to administer the program, nor are they operating it in accordance with the applicable HUD regulations. The audit report further states that there is no provision in the federal law that would allow the Authority to contract its oversight functions to the owner. To allow this to occur would be a conflict of interest.

Authority management indicated that it is administering the Mod Rehab Program in accordance with its Administrative Plan, which has been in place since the inception of the program in 1984, and allows for the delegation of these functions to the owners of each property. They stated they are in the process of filing for a waiver to allow them to continue to administer the Mod Rehab program in accordance with their administrative plan.

**Updated Response:** Accepted. The Authority concurs with the recommendations to consult with the U.S. Department of Housing and Urban Development (HUD) regarding the interpretation of the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program.

**Accepted or Implemented – continued**

As noted in the auditor's comments, the Authority has operated this program in accordance with various administrative plans, beginning in 1984, and has delegated a number of program functions to development owners and agents during this time. The Authority entered this program, along with a number of other State Housing Authorities, at HUD's invitation, and over the years HUD did not object, until recently, to the above delegations of program functions.

The Authority is not a public housing authority (PHA) in the manner that HUD envisions, and does not retain ownership and control of the developments receiving assistance. Therefore, the Authority cannot directly manage PHA functions for privately owned developments, such as processing Tenant Applications and Waiting Lists, calculation of Tenant Rent and preparation of the schedule of utility allowances. As a result, these functions were delegated, with the Authority maintaining oversight.

The Authority does not agree that its administration has been inadequate, and has continued to consult with HUD to reach a resolution on this matter. The Authority has conferred with HUD during FY08, and has implemented a number of procedural and administrative plan changes in response to the HUD findings. In January 2009, the Authority sent an additional response to HUD regarding previously identified resolutions to the remaining open findings. The Authority has not yet received a response from HUD to this communication, but is taking steps to implement this proposal, pending HUD's approval. The Authority will continue to consult with HUD in an effort to resolve the differences in interpretations.

**6. Implement procedures to ensure information reported in the annual HUD Section 3 Summary Report is complete and accurate.**

**Finding:** Auditors were unable to determine whether the Authority accurately prepared the "HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons*" for the HOME Investment Partnerships (HOME) Program. The Authority did not have procedures in place to ensure amounts reported on the Section 3 Summary Report for the year ended December 31, 2006 include all Section 3 activities for all of the subrecipients.

Authority management stated that the Authority was in the process of developing procedures guiding the submission of these reports from the subrecipients.

**Updated Response:** Accepted. The Authority concurs with the recommendation to implement procedures to ensure that information reported in the annual Section 3 Summary Report is complete. HUD regulations indicate that the information for the Section 3 reporting will be furnished by the subrecipients. The Authority has implemented a process for guiding the submission of these reports from subrecipients and performing a

**REVIEW: 4308**

review of these reports for completeness. The Authority subsequently has implemented additional internal procedures to ensure compliance with reporting from subrecipients.

**7. Implement procedures to ensure information reported on two other HUD reports is complete and accurate.**

**Finding:** The Authority did not accurately prepare the “HUD 52663, *Requisition for Partial Payment of Annual Contribution,*” (HUD 52663) report and the “HUD 52681, *Voucher for Payment of Annual contributions and Operating Statement,*” (HUD 52681) report for the Section 8 Project-Based Cluster (Section 8) Program. The auditors noted the Authority incorrectly reported amounts in both reports for three subrecipients.

Authority management stated the errors were the result of typographical mistakes made when the reports were being prepared.

**Updated Response:** Implemented. The Authority concurs with the recommendation that it should have procedures that ensure complete and accurate reporting to HUD under the Section 8 program. Effective July 1, 2007 (fiscal year 2008), HUD eliminated, for the New Construction / Substantial Rehabilitation developments, the processes referred to in this finding. For these developments, which comprise most of the Authority’s Section 8 developments, the forms HUD 52663 and HUD 52681 are no longer required by HUD and therefore were not prepared for FY08. These forms are still required for the thirteen Section 8 Moderate Rehabilitation developments and were accurately submitted during fiscal year 2008.

**8. Implement procedures to ensure federal funds are disbursed in accordance with the U.S. Treasury Regulations. (Repeated-2004)**

**Finding:** The Authority does not have procedures in place to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The Authority receives its Section 8 program funding during the first week of each month, based upon a budgeted amount approved at the beginning of the year by the U.S. Department of Housing and Urban Development. The Authority receives its Interest Reduction Program funding during the first week of each month based upon amounts approved by the U.S. Department of Housing and Urban Development in the Housing Assistance Payment (HAP) contracts. The Authority either applies the amounts received to the loan principal or interest balance or transfers the amount to the development during the third week of the month. During testing auditors selected sixty Section 8 and 32 Interest Reduction subsidy payments received and noted that the Authority held funds for six to ten days before the funds were either applied to the loan balances or disbursed to the development.

**Accepted or Implemented – continued**

Authority management stated that wire transfers are performed each Thursday. Several days following the date of the receipt of the funds is needed to reconcile the funds received prior to wiring them to the subrecipients.

**Updated Response:** Accepted. The Authority concurs that federal funds should be disbursed in accordance with the U.S. Treasury Regulation. The Authority has implemented a number of changes to its procedures, including an acceleration of its billing cycle, in order to accelerate the federal funds disbursement process while ensuring that its procedures are administratively feasible without introducing the risk of making inaccurate transfers. The Authority needs up to several days from the receipt of the funds to determine their application, as it must match the funds received to reports from HUD detailing the transfers. This is necessary to ensure that the proper amounts are being transferred.

The timing of passing through Section 8 and Section 236 project funding is performed in conjunction with the billing cycle, which was previously accelerated to the second week of the month. Through the billing cycle, a number of reports are generated that document the transfer process. A large portion of the funds are not passed through directly to the recipient, but instead are retained by the Authority to pay the recipient's debt service payments and to fund escrow accounts. Any amounts in excess of the debt service and escrow funding requirements are then transferred to the recipient. This process assists recipients to streamline the administrative process for the payment of debt service and escrow funding. Section 8 and Section 236 projects' funds to recipients that do not have loans to the Authority are immediately transferred to these recipients.

The Authority is developing additional computer system enhancements to further streamline the application of funds process, which will allow for further accelerations of the transfer process.

**9. Establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in federal assistance programs. (Repeated-2006)**

**Finding:** The Authority did not obtain certifications or perform a verification check with the Excluded Parties List System (EPLS).

During a review of 30 subrecipients of the Section 8 program and 3 subrecipients of the Interest Reduction program, auditors noted the Authority did not include a suspension and debarment certification in its subrecipient agreements. As a result, the Authority did not receive certifications that any of the subrecipients of the Section 8 and Interest Reduction

## REVIEW: 4308

programs were not suspended or debarred from participation in federal assistance programs. Additionally, the Authority did not perform a verification check with the EPLS maintained by the General Services Administration for any of its subrecipients; however, as a result of test work, the auditors noted that none of these subrecipients were suspended or debarred from participation in federal assistance programs. During the year ended June 30, 2007, the Authority passed through approximately \$147,132,000 and \$5,288,726 to subrecipients of the Section 8 and Interest Reduction programs, respectively.

Authority management indicated the lack of certifications was an oversight.

**Updated Response:** Implemented. The Authority agrees with the recommendation that grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs. The Authority has existing procedures and has continued to require that grantees receiving initial rewards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal Assistance programs. During fiscal year 2008, the Authority consulted with HUD, which confirmed the Authority's understanding that there is no requirement to perform an annual verification check with the Excluded Parties List System (EPLS) for existing awards.

### **10. Ensure the external validator completes the subsequent review of the internal audit department to confirm the resolution of each finding. (Repeated-2006)**

**Finding:** The Authority's Office of Internal Audit did not perform auditing procedures in conformity with International Standards for the Professional Practice of Internal Auditing, and did not comply with the Fiscal Control and Internal Auditing Act of the State of Illinois.

In August, 2006, the Authority's Office of Internal Audit (OIA) conducted a quality assurance self-assessment to determine whether the OIA's activities conform with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and the Fiscal Control and Internal Auditing Act of the State of Illinois. The self-assessment was validated by an independent external party. The final report dated in March, 2007 indicated significant findings and recommendations related to the Standards for the Professional Practice of Internal Auditing and the Fiscal Control and Internal Auditing Act of the State of Illinois.

Significant findings related to Standards for the Professional Practice of Internal Auditing:

- There was no documentation that the audit charter was presented to the Board.
- There was no process in place to periodically disclose annual or engagement basis impairment of independence and objectivity of the Office of Internal Audit.
- There was no policy in place to require internal auditors from refraining from assessing specific operations for which they were previously responsible.

**Accepted or Implemented – concluded**

- Documentation of continuing professional education (CPE) was not available, and there was no process in place to ensure the staff obtain appropriate and adequate CPE.
- There was no periodic internal quality assessment or ongoing monitoring of the Internal Audit Division.
- The policy and procedures manual for the OIA does not cover many key aspects of the audit process, including audit planning, supervision, performance appraisals, project control techniques, developing audit findings and continuing education.
- Documentation of planning needs to be strengthened.
- The auditor preparing the workpapers did not always sign off as the preparer, and there was no evidence of supervisory review. Work programs were not always prepared to document procedures.
- No written policies or procedures have been established for audit follow-up, and the performance of follow-up procedures did not always exist.

Significant findings related to the Fiscal Control and Internal Auditing Act of the State of Illinois:

- The Authority's Office of Internal Audit did not have the two-year audit plan approved by the Chief Executive Officer prior to the beginning of the fiscal year.
- Audits of major systems of internal accounting and administrative control were not conducted on a periodic basis so that all major systems are reviewed at least once every two years.

Authority management stated that it has implemented procedures to address each finding from the OIA quality assurance self-assessment, and has taken steps to obtain an external validator to perform the subsequent review to clear each finding, but was unable to have the review completed prior to year-end.

**Updated Response:** Accepted. The Authority concurs with the recommendation, and it will ensure compliance with the International Standards for the Practice of Internal Auditing and compliance with the Fiscal Control and Internal Auditing Act of the State of Illinois. The Authority will provide materials to the external validator for submission to the State Internal Audit Advisory Board to confirm the resolution of each finding. A time line for resolution of each step has been agreed to and corrective action is in progress.

**Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies,

## **REVIEW: 4308**

“Involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records, or to avoid lapsing or loss of federal or donated funds. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make “quick purchases”, including but not limited to items available at a discount for a limited period of time.

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY07, the Authority filed three affidavits totaling \$169,000.00 for security and maintenance at three Authority-owned developments.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time. In July 2007, the Illinois Housing Development Authority reported it had nine employees assigned to locations other than official headquarters.