

LEGISLATIVE AUDIT COMMISSION



Review of
Illinois Housing Development Authority
Year Ended June 30, 2010

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4353
ILLINOIS HOUSING DEVELOPMENT AUTHORITY
YEAR ENDED JUNE 30, 2010

FINDINGS/RECOMMENDATIONS - 12

ACCEPTED - 12

REPEATED RECOMMENDATIONS - 6

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 9

This review summarizes the auditors' reports on the Illinois Housing Development Authority for the year ended June 30, 2009, filed with the Legislative Audit Commission on December 2, 2010 (financial) and February 16, 2011 (compliance). The auditors performed a financial audit and compliance examination in accordance with Government *Auditing Standards* and 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 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 loans on which it provides below market rate financing from certain institutions, which have made home purchase loans available to eligible borrowers.

The Authority is the administrator of several other programs including:

- Illinois Affordable Housing Program
- Rental Housing Support Program
- Illinois Affordable Housing Tax Credit Program
- Low Income Housing Tax Credit Program
- Federal HOME Program
- Homeowner Mortgage Purchase Program
- Neighborhood Stabilization Program
- American Recovery and Reinvestment Act, Section 1602
- National Foreclosure Mitigation Counseling Program
- Cook County Mortgage Foreclosure Mediation Program
- Single Family Program.

REVIEW: 4353

The bonds and notes outstanding as of June 30, 2010 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, 2010, amounts outstanding against this limitation were approximately \$2.065 billion, which is \$142 million or 7.4% higher than FY09.

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 and the Rental Housing Support Program Fund.

DeShana Forney was Executive Director of the Illinois Housing Development Authority during the first 2½ months of the audit period. Then, Gloria Materre served as Executive Director from September 18, 2009 until her appointment as Executive Director of the Liquor Control Commission in March 2011. Mary R. Kenney became the new Executive Director in April 2011. She had served the Authority as General Counsel since 2000. Ms. Kenney remains as Executive Director.

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

| | Fiscal Years | | |
|--|--------------|------------|------------|
| | 2010 | 2009 | 2008 |
| Financial and Computer Services | 45 | 47 | 50 |
| Human Resources, Administration and Legal | 29 | 28 | 26 |
| Director's Office and Housing Programs | 138 | 127 | 121 |
| TOTAL | 212 | 202 | 197 |

Operating expenses from the Administrative Fund for the Authority in FY10 were about \$154.6 million compared to \$157.8 million in FY09. The decrease was due primarily to a reduction in estimated losses on program loans receivable and the mortgage certification program.

The Authority's administrative costs include the following employee benefit: \$6,710 for employee retirement recognition parties and employee holiday reception. 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.

REVIEW: 4353

Appendix A provides selected activity measures of the Authority for FY10 and FY09. Over 80% of the Authority's production since inception has been to households with 80% or below of the area median income.

Financial Statements

Appendix B provides the market value of cash and investments at June 30, 2010 and 2009. The Authority's cash and cash equivalents for its proprietary funds and investments for all funds totaled \$1,005,462,592 compared to \$698,563,286 one year earlier. The preponderance of the investments is United States Agency Obligations and United States Government Obligations.

Appendix C provides a statement of net assets for the Authority as of June 30, 2010 and 2009. The balance sheets stood at \$623,971,552 at June 30, 2010 and \$575,403,219 at June 30, 2009. The largest change in assets was in noncurrent assets, investments-restricted which increased almost \$290 million from FY09 to FY10.

Appendix D provides a summary of the Authority's revenues, expenditures, and changes in fund balances for the Authority's governmental funds. These funds include the Illinois Affordable Housing Trust Fund, the HOME Program Fund, the Rental Housing Support Program Fund, and the ARRA Fund. Revenues less expenditures increased from \$24,793,601 in FY09 to \$32,491,635 in FY10. Net assets of governmental activities increased to \$32.5 million during FY10, primarily due to an infusion of \$58.7 million in federal ARRA funds partially offset by lower federal revenues in the HOME Program. Funds for the Rental Housing Support Program decreased \$15.5 million due to reduced State appropriation.

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 \$16 million higher in FY10 than FY09.

Loan originations were \$46.7 million in FY10 compared to \$174.7 million in FY09. Authority debt issuances during FY10 totaled \$385.7 million. The Authority's debt outstanding of \$1.546 billion was \$155 million more than the amount outstanding as of June 30, 2009.

Accountants' Findings and Recommendations

Condensed below are the 12 findings and recommendations presented in the auditors' reports. Eight were repeated from previous audits. The following recommendations are classified on the basis of updated information provided by Mary R. Kenney, Executive Director of the Illinois Housing Development Authority, via electronic mail received July 8, 2011.

Accepted or Implemented

1. Strengthen internal controls over financial reporting as follows:

- **Develop policies and procedures to review take-out agreements on long-term variable rate debt to ensure agreements are at least one year beyond the balance sheet date for all noncurrent debt.**
- **Develop policies and procedures to establish appropriate loan loss reserves for the Single Family Program loans.**
- **Ensure established policies for determining loan loss reserves in the Multi-Family Housing Program are followed.**
- **Develop policies and procedures to ensure GASB Statements relating to cash flow (No. 9), financial statement preparation (No. 53), disclosures (No. 48) and footnotes (No. 40) are followed.**

Finding: Auditors noted the following issues:

- For several years, the Authority has entered into multi-year take-out agreements with liquidity providers to convert variable rate bonds into installment loans if the bonds cannot be remarketed. The take-out agreement for the 2008 A, B and C Housing Bonds will expire April 30, 2011. Since the take-out agreement expires within the next fiscal year, the bonds payable balances of approximately \$50 million had to be reclassified from non-current to current.
- Upon review of the Single Family Program Fund, there were 673 loans totaling \$65.5 million that did not have pool insurance and did not have an allowance for loss recorded. This creates a risk of loss due to potential uncollectible loan receivables. The Authority recorded an entry to estimate an allowance for loan loss in the Single Family Program Fund of \$1,324,389.
- During testing of the allowance for loan loss in the Illinois Affordable Housing Trust Fund, two loans that were sent to the Attorney General for write off approval but were not fully reserved in the financial statements. The Authority recorded an entry in the amount of \$900,046 to increase the loan loss reserve.
- There was an error in the cash flow statements showing an inflow of cash in the payment to suppliers' line item. A correction to the financial statements was made to record the \$4,441,283 outflow amount.
- The disclosures for derivative instruments were incomplete. In accordance with GASB Statement No. 53, the changes in fair value and the classification of hedge items and the classification of deferred inflow/outflow are required.
- The Authority initially did not include the footnote disclosures required by GASB Statement No. 48. In accordance with this Statement, pledged revenues are those

REVIEW: 4353

specific revenues that have been formally committed to directly collateralize or secure the Authority's debt.

- The Authority has not presented certain investment risk disclosures in accordance with GASB Statement No. 40.

Response: Accepted. The Authority plans to review and update policies and procedures to reflect current business processes and to ensure alignment with Generally Accepted Accounting Principles. The Authority continues to ensure that the established policies for determining loan loss reserves in the Multi-Family Housing Program are followed through additional staff training on policies and procedures that occurred during April 2010, in addition to requiring that all loans are re-rated under the new policies by the end of FY11. Based on a recent review of the outstanding mortgage loans in the Single Family Program management determined that approximately 9.39% of the loans were not covered by pool insurance. Since in previous years pool insurance has been sufficient protection against uncollectible loan balances there was no formal procedure to estimate losses in the portfolio. As a result management will develop policies and procedures to determine loan loss reserves in the Single Family Program while this risk continues to exist.

Updated Response: Accepted. The Authority has continued to review all current and non-current assets and liabilities for proper classification in the financial statements as part of its regular close cycles. The Authority has been estimating a loss on the Single Family portfolio of loans identified without pool insurance throughout FY11 and completed documenting the policy and procedure on 2/8/11. As described in Finding 10-02 the Authority has revised policies and procedures and implemented an additional level of review to ensure loan loss reserves in the Multi-Family Housing Program are followed. The Authority is on schedule to complete the audited financial statements ensuring that all relevant GASB Statements are addressed by 7/31/11 in accordance with the audit timelines established by our external auditors. The Authority continues to update policies and procedures to reflect current business processes and to ensure alignment with Generally Accepted Accounting Principles.

- 2. Develop policies and procedures to ensure the "watch list" reports are complete and accurate. In addition, implement procedures to ensure loans that are deemed uncollectible are fully reserved for in accordance with internal policies. (Repeated-2008)**

Finding: The 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 it to establish appropriate loan loss reserve amounts for the multi-family loan program. Auditors conducted three separate loan reviews testing current, delinquent and "watch list" loans. A total of 95 multi-family program loans were tested for compliance with the Authority's loan rating policy.

Accepted or Implemented – continued

The Authority's policy is to fully reserve for outstanding loan balances that are deemed uncollectible. During one test, two of four loans sent to the Attorney General to be certified as uncollectible in FY10 did not have a full reserve for the outstanding loan balance in accordance with the Authority's loan rating policy, resulting in an under reserve in the Illinois Affordable Housing Trust Fund of \$900,046. As noted in finding 10-01, the financial statements for the current year were corrected to reflect this adjustment.

During tests of loan receivable balances, the "watch list", a tool to monitor problem loans, was incomplete according to the Authority's rating policies of a "watch list" loan. The policy states any loan rated a 6, 7 or 8 should be listed on the "watch list". The Authority had 56 loans rated a 6, 7 or 8. Of the 56 loans, 3 loans totaling \$1,390,293 were not listed on the "watch list".

Authority management stated that the loan monitoring and rating system has continued to be implemented in stages since its establishment in May 2007, with the adoption of a comprehensive Loan Loss Rating Policy that includes risk analysis of the entire multi-family portfolio. Along with additional staff training a new loan rating form was implemented in April 2010 to further simplify the rating system and to ensure alignment with the Loan Loss Rating Policy criteria. The Authority recognizes that inconsistencies have occurred as its staff continues to adjust to new procedures and a new rating form to implement the policy. The Authority stated that it is continuing its efforts to reduce any inconsistencies or weaknesses detected.

Updated Response: Accepted. The Asset Management department has completed revisions to the loan monitoring and loan rating system as of 6/30/11; this includes procedures to ensure that the "watch list" reports are complete and accurate for all loans. In addition, the Accounting department implemented a new procedure in which rating changes input into the loan servicing system by Accounting are confirmed by Loan & Portfolio Management against the rating change report provided at the monthly Loan Monitoring meetings. This was implemented on 1/1/11. This new procedure adds an additional level of review into the process to ensure accurate loan ratings exist per the loan loss policy for calculating loan loss reserves.

3. Work with the Attorney General's Office to get approval to write-off the uncollectible loan balances. (Repeated-2008)

Finding: The Authority has loan balances in the multi-family program recorded in their financial statements that should be removed due to the loans being uncollectible. Auditors noted 44 loans totaling approximately \$20.7 million were recorded on the financial statements for which a 100% allowance reserve was recorded. The Authority anticipates that most of these loans will ultimately be written off.

REVIEW: 4353

Authority management stated that additional loans were certified by the Authority during FY10 as uncollectible and although one loan was approved for write-off from prior submissions, the Authority has not yet received the approval from the Attorney General's Office to write-off any additional loans. The Authority is continuing to submit additional requests as required to the Attorney General's Office and will inquire about status of write-off requests on a periodic basis throughout the fiscal year to monitor timely write off of uncollectible loan amounts.

Updated Response: Accepted. On 6/1/11, a letter was sent to the Illinois Attorney General's office from the Controller of the Accounting department requesting the status of submitted write-off requests. As of 7/7/11, there has been no response from the Attorney General's office regarding this matter. The Authority will continue to follow up on our requests and if no response is received, will request a meeting regarding this issue.

4. Reconcile escrow asset and liability accounts on a regular basis in order to prevent unidentified variances.

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

The Authority is holding \$156,444,691 in escrow deposit balances as of June 30, 2010. Deposits from developers, which are held in escrow by the Authority, are primarily used to pay tax and insurance payments and capital improvements. Also, the deposits are used to make principal and interest payments and fund construction cost overruns, change orders or operating deficits. There are approximately 480 individual escrow balances. All escrow deposit balance transactions must be tracked in detail in a subsidiary ledger.

The Authority uses two separate software programs to track the individual escrow accounts. These software systems are not directly integrated with the general ledger system. The lack of integration requires numerous manual processes to identify and reconcile variances for the escrow liability accounts and corresponding cash and investments. The total of escrow liabilities should match the total of escrow assets. For each month of the year, the detailed subsidiary ledger for cash and investments was out of balance with the general ledger. The largest discrepancy noted was \$3,374,180 in February 2010. In June 2010, the Authority made an adjusting entry of \$3,076,474 to reconcile the escrow cash and investment balances tracked in the separate software system to the escrow assets and recorded on the general ledger at June 30, 2010.

Authority management stated that through the internal audit process they were made aware of inconsistencies that exist within the escrow reconciliation process between the detailed subsidiary ledgers and the general ledger. As a result staff conducted monthly reconciliations and prepared written procedures to identify the discrepancies between the general ledger escrow assets and liabilities amounts to the two detailed subsidiary ledgers. Once the variances remained stable an adjustment was made to the general ledger to reconcile the balances to the detailed subsidiary ledger amounts. The process

Accepted or Implemented – continued

established to maintain monthly reconciliations will ensure timely resolutions of any discrepancies and through the internal audit process, the Authority can monitor the effectiveness of such procedures and make continual improvements to this process as needed.

Updated Response: Accepted. The Accounting Department began reconciling the escrow assets & liabilities accounts to the subsidiary ledgers and bank statement balance on 1/1/10. In addition, the cash held in escrow was transferred from investments to a money market fund in December 2010; this will improve the reconciliation process and further safeguard cash balances from market risk. Finally, any discrepancies identified during the reconciliation process will now be reviewed by the Asst. Controller and presented for review and approval by the Controller before any adjustments are made to general ledger balances. Documentation of the new policies and procedures for escrow reconciliations will be finalized by 8/1/11.

- 5. Implement procedures to assign one vendor identification number per vendor to prevent multiple vendors from being created on the system. Also, implement procedures to review the master vendor list regularly and purge duplicate vendor names from the system.**

Finding: The Authority's accounts payable master vendor list has duplicate vendors. During testing of the master vendor list, auditors noted of the 7,324 vendor records there were 2,042 duplicate records representing 602 vendors. The vendors had the same name but were given different vendor identification numbers in the accounts payable system.

Authority management stated that an upgrade of the Accounts Payable system occurred at the end of December 2009 and staff received training at that time on the new features. It was recommended by the software vendor not to conduct a purge until one year after the upgrades, so by December 2010. A large number of duplicate vendors related to real estate tax payments that had several different parcels; however, payment of taxes has since moved to an electronic tax payment system that allows for multiple parcels to be attached to a single payment. Staff also are in the process of writing new procedures to manage the process for adding new vendors and for periodic updates to maintain a master vendor list.

Updated Response: Accepted. As of 1/1/11, the Accounting Department has implemented new procedures in accounts payable by requiring a W-9 form from all vendors to confirm accurate information for each vendor (including legal name, address and tax identification numbers (TINs)). Also, since January 2011, Accounting has diligently worked with IT and the software vendor to establish the best approach for purging duplicate vendors from the system without compromising historical payment data. Based on that approach two purges were recommended and the first one occurred on 6/30/11, this removed approximately 700 of the 2,042 vendors identified as duplicates. The second

REVIEW: 4353

purge is scheduled for 9/30/11. Policies and procedures for an annual review and purge of the vendor listing will be completed by 10/31/11.

6. Develop a formal process to evaluate and estimate the allowance for loan loss for the Single Family Program Fund.

Finding: The Authority did not have a formal process to evaluate and estimate allowance for loan losses for the Single Family Loan Program.

During a review of the draft financial statements for the year ended June 30, 2010, auditors noted that the Authority had 673 loans totaling \$65,526,828 in the Single Family Program Fund that were not covered by pool insurance. The Authority attempted, but could not obtain pool insurance on these loans due to poor economic conditions. By not having the pool insurance, there is a risk that some of the loan receivable balances might not be collected.

In the past, the Authority relied on 100% of the loan portfolio being covered by pool insurance, therefore, not requiring an estimate to be recorded for loan losses. Since the Authority does not have a formal process to estimate loan losses in the Single Family Program Fund, they took industry data for similar entities and the Authority recorded an adjustment for an allowance for loan loss in the Single Family Program Fund in the amount of \$1,324,389. This issue is in the Financial Statement Adjustment finding at 10-01.

Authority management stated that during a recent review of the outstanding mortgage loans for the Single Family Program Fund it was determined that 9.39% of the Program mortgage loans were not covered by pool insurance and therefore a potential risk exists. Since in previous years pool insurance has been sufficient protection against uncollectible loan balances there was no formal procedure to estimate losses in the portfolio. Once the exposure was identified for those loans without pool insurance management agreed an estimated loss should be recorded in the financial statements.

Updated Response: Accepted. The Authority established a policy and procedure to calculate loan loss reserves for all Single Family loans without pool insurance as of 2/8/11. The Authority continues to monitor this segment of the portfolio and estimate a loan loss reserve while the condition exists. In addition, the Authority's current program no longer utilizes the whole loan model and instead utilizes mortgage backed securities; this will further lessen the risk of loss within the portfolio.

7. 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 to those requirements. (Repeated-2007)

Accepted or Implemented – continued

REVIEW: 4353

Finding: The Section 8 Moderate Rehabilitation (Mod Rehab) Program assisted low income families to obtain decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families. The Mod Rehab program assistance is considered a project-based subsidy because the assistance is tied to specific units under an assistance contract with the owner for a specified term. The Authority conducts on-site programmatic and fiscal monitoring as well as desk reviews of audit reports of the subrecipients to monitor compliance with the Mod Rehab Program requirements.

During FY07, staff from the Illinois Office of Public Housing (a regional office of the U.S. Department of Housing and Urban Development (HUD)) conducted an audit of the Authority's Mod Rehab Program to assess the Authority's compliance with HUD regulations. The final audit report received from the Illinois Office of Public Housing 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.

Per the 2007 corrective action plan, the Authority stated it will continue to consult with HUD. If it cannot resolve the matter regarding the interpretation of the federal laws and regulations relating to the administration of the Section 8 Moderate Rehabilitation Program, the Authority will request a waiver to allow it to continue to administer the program in accordance with its recently revised administrative plan. The Authority sent a follow up response to the Final Assessment Report for Section 8 Moderate Rehabilitation Program dated September 12, 2008.

Authority management indicated that it is administering the Moderate Rehabilitation Program in accordance with its administrative plan, which has been in place since the inception of the program in 1984, and was recently revised to accommodate a portion of HUD's concerns, but continues to allow for the delegation of certain functions to the owners of each property.

Updated Response: Accepted. The Authority submitted a letter to HUD on 2/28/11 outlining the administrative plan for the Section 8 Moderate Rehabilitation Program to perform duties previously delegated to the owners of each property. A complete revision to the Administrative plan and procedures will be completed by 7/31/2011 incorporating this change.

- 8. Strictly enforce Housing Quality Standards (HQS) inspection procedures which include timely follow up, keeping the Inspection Tracking Report current, maintaining proper documentation of all inspections conducted, maintaining support for all deficiencies corrected and correspondence to developments regarding the inspections. (Repeate-2008)**

REVIEW: 4353

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

During sample testing of 17 (Section 8 Programs) and 7 (HOME Program) developments Housing Quality Standards (HQS) Inspections, auditors noted the following:

Section 8 Programs

- In two of the 17 developments tested, the Authority didn't have proper supporting documentation on the deficiencies prior to the issuance of pass letters.
- In 2 of the 17 developments tested, the monitoring schedule was not properly updated with the correct results of the most current inspection.

Home Program

- In one of the seven developments tested, the Authority didn't have proper supporting documentation on the deficiencies prior to the issuance of pass letters.
- In 4 of the 7 developments tested, the monitoring schedule was not properly updated with the correct results of the most current inspection.

Authority management indicated that the inspectors were incorrectly issuing pass letters upon receipt of summary evidence that deficiencies were corrected instead of holding pass letters until complete documentation was received. Inadequate staffing of the field inspectors resulted in inconsistent updating of the HQS monitoring schedule. Since the field inspectors are out of the office performing property inspections during most of their working days, there has not been sufficient time to devote to updating the schedule of inspections that have taken place.

Response: Accepted. The Authority has filled open field inspector positions and believes with the necessary training that the inspections can be completed timely which includes timely follow up and regular maintenance of the Inspection Tracking Report.

Updated Response: Accepted. The Authority hired a new inspector in February 2011. We continue to follow inspection guidelines to maintain proper documentation of all inspections and to remain current on the maintenance of the tracking report.

9. Implement procedures to ensure residual receipts are deposited within the required timeframe. (Repeated 2008)

Finding: Residual receipts due from the developments are not deposited within the required 60 days grace period following the development's year end.

Auditors tested all 15 residual receipts requested by the Authority from developments totaling \$1,579,733 and noted that 11 of the 15 developments did not deposit residual receipts within the timeframe set forth by the program. The deposits were received between 25-227 days late. It was determined subsequent to the request that the other four developments were not required to submit residual receipts.

Accepted or Implemented – continued

Authority management stated it has relied on the audited financial statements supplied by developments to determine if developments will be required to submit residual receipts for a fiscal year. Most of the Authority's regulatory and loan documents do not require submission of audited financial statements until 120 days after the end of the development's fiscal year. This has resulted in most developments submitting required residual receipts deposits after the 60-day period required by HUD.

Updated Response: Accepted. The Authority implemented a new procedure requiring estimated residual receipts for each development to be calculated as of the development's fiscal year-end. The Authority notified all affected developments via Management Bulletin on 10/22/10 of the new procedure and required all developments to submit unaudited financial statements to the Authority on or before their fiscal year end to determine residual receipts required for deposit. Compliance with the new procedure is being monitored by assigned Asset Managers.

10. Implement a process to ensure that Authority staff complies with the internal procedures developed to monitor subrecipients of the programs.

Finding: The Authority maintains monitoring spreadsheets for site and desk monitoring visits. One important function of the Authority for this program is to conduct management reviews and review audited financial statements of developments under the program. Another function is to conduct site visits and review program files maintained by the developments under this program. During sample tests made on subrecipient monitoring, the following deficiencies were noted:

- In five of the 13 financial statements submitted by the developments, the Authority was not able to meet its own review deadline of 30 days. The reviews were performed from 8-23 days late.
- In seven of the 14 site visits performed, the Authority was not able to meet its own deadline in issuing close out letters (result of the monitoring visits) to the developments within 21 business days from date of the monitoring visits. The close-out letters were issued from 1-61 days late.
- In one of the 14 site visits performed, the Authority was not able to meet the required number of units to be tested for their monitoring requirement.

Authority management stated the Asset Management Department implemented a new internal guideline for the review of audited financial statements within 30 days of receipt. In all cases the statements were reviewed; however, staff vacancies resulted in some delays in implementing this new internal guideline.

REVIEW: 4353

Authority management stated the Technical Services Department experienced staff vacancies and new hires for Compliance Officers responsible for conducting site visits throughout fiscal year 2010. These vacancies and the impact of new staff to the Authority contributed to some instances where the internal guideline of 21 days from the date of the audit was not met timely, in addition to one site visit where the required number of units to be tested was not met.

Updated Response: Accepted. The Authority hired three new Asset Managers as of November 2010 and a new Compliance Officer in February 2011. The Authority continues to monitor compliance under the established procedure and the related policy will be completed by 7/31/11.

11. Implement procedures to maintain historical data on the submission of Payroll Worksheets in order to document the General Contractors compliance with the Davis-Bacon Act.

Finding: 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.

The Authority maintains a worksheet for both the HOME Program and Tax Credit Assistance Program (TCAP) to track compliance with the Davis-Bacon Act; however, the tracking worksheet only has the most recent Payroll Worksheet information. As a result, the Authority is not maintaining historical documentation to support the actual dates these worksheets are submitted. In addition, under the TCAP Program, in one of the 40 payrolls tested, a subcontractor failed to follow the prevailing wage rate.

Authority management stated the Multifamily Department agrees that the current system does not adequately document the receipt of weekly payroll worksheets from the general contractors.

Updated Response: Accepted. The Multifamily Department has revised the procedures to reflect current recording practices related to General Contractor's compliance with the Davis-Bacon Act. Records for projects in process after 1/1/11 reflect the revised procedures.

12. Implement procedures to ensure information reported to HUD annually is complete and accurate. (Repeated-2007)

Finding: The Authority has inadequate monitoring procedures of Section 3 Reports for the Single Family Program and the Multifamily Program and did not adequately prepare the Section 3 Summary Report sent to HUD concerning opportunities for low- or very-low income residents in connection with projects and activities in their neighborhoods.

REVIEW: 4353

Accepted or Implemented – concluded

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

- Three out of 75 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 three Multifamily developments:

- One development's Section 3 Report did not agree to the final Section 3 Report maintained by the Authority, and eventually submitted to HUD.
- Two of the contractors for a development selected for testing were not included in the final Section 3 Report submitted to HUD, which resulted in a new hire and/or trainee number that was incorrect. This also resulted in incorrect information provided to HUD in the Authority's Consolidated Plan Performance Report for Program Year 2009.

Authority management stated that the exceptions were due to errors in processing the information.

Response: Accepted. The Authority stated the Multifamily Department requires data collection and submission of Section 3 Summary information when the development is at least 90% complete. Based on the status of the developments at the time of report submission those that had not reached the required 90% completion status were not included in the final Section 3 Report. The Section 3 Guidelines for data collection will be revised to reflect data collection at project completion to provide the most accurate information of all activities.

Authority management stated that as a result of the Authority's FY2009 Audit, the Homeownership Department amended its procedures to collect the Section 3 Summary information from its state and sub-recipients on a quarterly basis. This quarterly data was maintained in spreadsheets and used to collect the Department's Section 3 data. Due to an error found in the master spreadsheet this led to inaccurate information being included in the final Section 3 Report. The procedures for collecting and preparing Section 3 Summary information will be reviewed and adjustments made as necessary to ensure accurate information is included in the final Section 3 Report. The Authority has moved to an annual submission process for sub grantees to minimize the risk of double reporting. This will also simplify the Authority's data collection for preparing the final Section 3 Report. In addition management will institute a full bi-level review prior to submission of the report to HUD.

Updated Response: Accepted. The Multifamily department now stores reported data by calendar year to provide a historical record of the actual Section 3 Summary Reports submitted. On 1/31/11, the Homeownership Department implemented new procedures to ensure the accuracy of its Section 3 reports. The Authority's Section 3 Summary Report was filed timely with HUD on 2/15/11.

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, “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 FY10, the Authority filed no affidavits for emergency purchases.

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 2010, the Illinois Housing Development Authority reported it had eight employees assigned to locations other than official headquarters.