LEGISLATIVE
AUDIT
COMMISSION

Review of
Illinois Finance Authority
Year Ended June 30, 2013

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REVIEW: 4436
ILLINOIS FINANCE AUTHORITY
YEAR ENDED JUNE 30, 2013

FINDINGS/RECOMMENDATIONS - 11
ACCEPTED - 7
IMPLEMENTED - 4

REPEATED RECOMMENDATIONS - 6

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 11

This review summarizes the auditors' reports on the Illinois Finance Authority for the year ended June 30, 2013, filed with the Legislative Audit Commission on January 29, 2014 (financial) and May 22, 2014 (compliance). The auditors performed a financial audit and compliance examination in accordance with State law and *Government Auditing Standards*. The auditors stated that the financial statements of the Illinois Finance Authority were fairly presented.

The Illinois Finance Authority was created by PA 93-205 which became effective January 1, 2004. The Public Act consolidated seven of the State's existing finance authorities—Illinois Health Facilities Authority, the Illinois Educational Facilities Authority, the Illinois Development Finance Authority, the Illinois Rural Bond Bank, the Illinois Farm Development Authority, the Illinois Community Development Finance Corporation, and the Research Park Authority—creating the Illinois Finance Authority. The activities of each of the bonding authorities were transferred to the IFA. The mission of the Authority is to foster economic development by providing access to capital to public and private institutions to assist them in creating and retaining jobs in order to improve the quality of life in Illinois.

The Authority is governed by a 15-member board of directors, appointed by the Governor with the advice and consent of the Senate. As specified in the law, the amount of outstanding bonds issued by the Authority cannot exceed $28.150 billion.

The Authority is a body politic and corporate entity, separate from the State of Illinois, that provides capital asset financing to 501(c)(3) non-profit organizations, public and private-sector companies that retain and create jobs for the people of Illinois. The IFA is the primary delivery system in Illinois for federal tax benefits for capital projects by qualified borrowers in support of economic development and job creation. In addition to issuing conduit debt, the IFA administers certain State-backed loan guarantee and credit enhancement programs as well as a limited number of direct and participation loan programs to support businesses and essential purpose infrastructure for local governments.

The Director of the Illinois Finance Authority during the audit period and presently is Christopher Meister. Director Meister was appointed in December 2009 after serving for two years as the Authority's general counsel and deputy director.

The average number of employees was 20 at June 30, 2013. The predecessor Authorities had 40 employees. The IFA adopted the 2010 Compensation Plan wherein the Compensation Committee of the Board reviews the Plan for merit compensation for the coming fiscal year based on prevailing business conditions. Changes to an employee's individual compensation will be a function of the program approved by the entire Board and his/her individual performance. The Authority has a defined contribution deferred comp plan for its employees. The Authority matches 200% of the employee contribution into the deferred comp accounts up to 5% of compensation. The IFA has offices located in Chicago, Mt. Vernon, and Springfield.

Financial Information

The Illinois Finance Authority was created on January 1, 2004 following the consolidation of seven existing State authorities into this new organization. The predecessor authorities contributed $72,585,451 in capital to the newly established Authority.

The Authority has several proprietary funds. The following is a description of the major and some of the non-major funds:

- General Operating Fund—This fund receives all revenues from program applications. All administrative expenses for establishing and monitoring the Authority's programs are paid out of this fund.
- Bond Fund—The purpose of the fund is to collect bond proceeds, purchase local governmental securities and remit bond issuance costs paid for with bond proceeds. The fund also collects interest and principal payments from the local governmental units and makes payments and interest on the moral obligation bonds payable.
- Fire Truck Revolving Loan Fund—The program provides zero-interest loans for the purchase of fire trucks by a fire department, a fire protection district or a township fire department based on need, as determined by the State Fire Marshal.
- Industrial Revenue Bond Insurance Fund—This fund was established to give small and midsize businesses access to Industrial Revenue Bond funds at advantageous rates.
- Illinois Agricultural Loan Guarantee Fund—This fund was established to issue state guarantees for farmers' existing debts held by a lender.
- Illinois Farmer Agribusiness Loan Guarantee Fund—This fund accounts for the activity of the Farmer and Agri-Business Loan Guarantee Program, the Specialized Livestock Loan Guarantee Program and the Young Farmers Loan Guarantee Program. Monies held in this fund primarily serve to fund losses on uncollectible loans guaranteed under the programs.

Appendix A provides a Statement of Net Position at June 30, 2013. Net position was $95.4 million in FY13 compared to $93 million in FY12. The decrease in total assets and total liabilities in FY13 occurred because the Authority used the proceeds from maturing investments to make a portion of the principal payments due during the year on its long-term debt.

Appendix B provides a comparative summary of revenues and expenses for the years ended June 30, 2013 and 2012. Revenues decreased from $20.6 million at June 30, 2012 to $16.2 million at June 30, 2013, due to fewer bad debt recoveries and less interest on loans. Total expenses decreased from $18.6 million at June 30, 2012 to $13.8 million at June 30, 2013 due to declining interest expense and no loss on sale of investments.

Appendix C provides a summary of the Authority's cash funds and depositories and investments. The Authority is permitted by statute and its investment policy to invest any of its funds in federal government securities and securities of federal agencies, securities guaranteed by the federal government, savings accounts, certificates of deposit, savings and loans insured by the FDIC, short-term obligations of U.S. corporations, money market mutual funds, dividend-bearing share accounts, the Illinois Treasurer's Investment Pool, a fund managed, operated and administered by a bank, repurchase agreements of government securities, obligations issued by any state, unit of local government, or school district that carry investment grade ratings. The Authority's investment policy excludes funds committed to credit enhancement, debt service reserve, federally assisted programs and funds held by bond trustees governed by the provisions of bond agreements. The Authority's investment policy places the following restrictions on concentrations of investments:

- Certificates of Deposit from any single institution may not comprise more than 20% of the Authority's portfolio or 5% of the institution's total deposits.
- Commercial Paper purchases may not exceed 20% of the Authority's portfolio or 5% of the Authority's portfolio in any single issuer's name.
- No investment category shall exceed 30% of the portfolio with the exception of U.S. Treasury securities and cash equivalents, including CDs.

Total cash funds and depositories were $95.5 million in FY13 compared to $121.9 million in cash and depositories in FY12. The Finance Authority disposed of its equity in eight technology entities associated with the Venture Capital Fund by auction in June 2012.

The Authority issues limited obligation revenue bonds and participates in lending and leasing agreements to provide low cost financing to businesses, agribusinesses, health care facilities, educational facilities, municipalities, and other organizations to stabilize and strengthen the Illinois economy. The bonds and leases are secured by the property financed. Upon repayment of the debt, ownership of the acquired facilities transfers to the entity. As of June 30, 2013 the aggregate amount of conduit debt outstanding was $24.57 billion comprised of 1,726 outstanding issues. There were 45 new bond issues and loans valued at $2.26 billion in FY13.

Property and Equipment

Appendix D summarizes the Authority's property and equipment. The value of the Authority's capital assets, net of accumulated depreciation was $116,621 at June 30, 2013.

Jobs Created or Retained

According to the Authority's records, 20,743 jobs were created or retained as the result of IFA direct loans and other bond programs in FY13. Unaudited data regarding the number of jobs created or retained is found in Appendix E.

Loan and Bond Programs

The Authority has several agricultural bond and loan programs available to eligible individuals and businesses. The Authority receives a $100 - $300 application fee from each program plus a fee of 0.50% to 1.5% of the principal amount of the bond or loan. Appendix F provides a historical summary for currently available agricultural programs. The following is a summary of the various programs at June 30, 2013:

- Agricultural Development Bond Programs, created in 1982, is comprised of the Beginning Farmer Bond, Agriculture Manufacturing Bond and Beginning Farmer Contract Bond. Principal outstanding is $71,732,684.
- State Guarantee Program of Restructuring Agricultural Debt was created in 1985 to consolidate and spread out the farmer's existing debt over a longer period of time at a reduced interest rate. Outstanding loans amount to $13,029,843.
- Farmer and Agri-Business Loan Guarantee Program, created in 1985 to encourage diversification and vertical integration of Illinois agriculture, had outstanding loans which amount to $7,256,577.
- Young Farmer Loan Guarantee Program, created in 1993 to enhance credit availability for younger farmers purchasing capital assets, had outstanding loans, which amount to $2,516,891.
- Specialized Livestock Loan Guarantee Program, created in 1996 to encourage the development of the Illinois livestock industry, had outstanding loans, which amount to $3,333,728.

The Fire Truck Revolving Loan Program, re-created in 2005, had outstanding loans of $18,532,024. The Ambulance Revolving Loan Program, authorized in 2006, had outstanding loans of $510,240.

Accountants' Findings and Recommendations

Condensed below are the 11 findings and recommendations, six repeated, presented in the reports. The following recommendations are classified on the basis of updated information provided by Chris Meister, Executive Director, via email on March 11, 2015.

Accepted or Implemented

1. Develop, establish, and maintain a recordkeeping system capable of documenting receipt of the required bond and loan documents, which is capable

of identifying the location of documents retained by the Authority. Further, monitor borrower compliance with significant covenants to detect and appropriately respond to any noted noncompliance. (Repeated-2012)

Finding: The Illinois Finance Authority (Authority) did not have adequate internal controls to properly monitor borrower covenant compliance for bonds and loan agreements reported on the face of the Authority's basic financial statements.

These bonds or loan agreements include:

1) Revenue bonds issued for the Bond Bank Lending Program to support the financing needs of local governments within the State;
2) Revenue bonds issued for the benefit of other agencies and component units of the State, as required to be shown under Interpretation No. 2 of the Governmental Accounting Standards Board;
3) Fire Truck Revolving Loans;
4) Ambulance Revolving Loans; and,
5) Participation Loans.

During testing of the Bond Bank Lending Program, the auditors noted the following:

- For all 53 local government borrowers tested, the Authority could not provide the local government's latest audited financial statements.

- For 22 of 53 (42%) local government borrowers tested, the Authority could not provide the required written notification to the Bond Trustee and the Authority from the local government borrower about whether the local government reasonably believes that it will or will not have sufficient moneys to make its next two regularly scheduled principal and interest payments.

- The Authority did not have a process or procedure to monitor local government borrower compliance for the 34 local governments with the debt service coverage ratio requirement of 1.25 to 1 (annual revenues ÷ total annual debt service). After receiving a confirmation from the Authority of this condition, the auditors sought the audited financial statements of the 34 local government borrowers from the Office of the State Comptroller. The auditors noted the following:

    - From a review of each entity's financial reports, it appears 19 of 34 (56%) of the local government borrowers may not have met the required debt service coverage.

    - The auditors were unable to make any determination for five of the 34 local government borrowers, as they had not filed their financial statements with the Office of the State Comptroller.

Accepted or Implemented – continued

During testing of revenue bonds issued on behalf of the State of Illinois, the auditors noted the following:

- The Authority did not complete an Officer's Certificate for the $500,000 deposit made into the Rebate Fund for the Series 2004 bonds issued on behalf of the EPA's Water Revolving Fund.

- The Authority did not ensure the Bond Trustee for the 2006A and 2006B bonds issued on behalf of the Illinois Medical District Commission deposited $65,000 into the Replacement Reserve Fund, as the cash balance in the Replacement Reserve Fund was below $325,000.

- The Authority did not seek payment of delinquent annual fees, totaling $60,000, from the Medical District Commission. The auditors noted the Authority had not billed the Commission for the $15,000 fee due for 2009, 2010, 2011, and 2012.

- The Authority did not demand reimbursement of legal fees, totaling $60,000, incurred in relation to the Medical District Commission's prior year noncompliance with its Debt Service Coverage Ratio requirement.

During testing of 33 loan agreements within the fire truck and ambulance revolving loan programs, the auditors noted the following:

- For 28 of 33 (85%) loans tested, the Authority could not provide a current certificate of insurance coverage for the fire truck or ambulance securing the loan agreement. The auditors noted 11 instances where the Authority did not have any record of insurance coverage on the fire truck or ambulance and 17 instances where the Authority's records indicated the insurance had lapsed between December 31, 2006 and June 12, 2012.

- For 17 of 33 loans tested, the Authority could not provide an original copy of title to the fire truck or ambulance securing the loan.

- For all 33 loans tested, the Authority could not provide the fire truck or ambulance's Acceptance Memorandum from the State of Illinois, Office of the State Fire Marshal (Fire Marshal). The Acceptance Memorandum is a certificate issued by the Fire Marshal indicating they have conducted a review and approved the fire truck or ambulance for purchase by the borrower.

Authority officials stated the Authority is still in the process of implementing an organized records management system capable of identifying where the specific records requested are retained within the Authority's files. In addition, some covenants and loan provisions might be outdated.

Response: Accepted. The Authority recognizes the importance of covenant compliance and will use this opportunity to accelerate implementation of its electronic record management system. In response to a similar finding in FY12, the Authority increased its management and compliance monitoring resources by 60%. These additional resources have already improved the Authority's covenant compliance process and results.

Updated Response: Implemented. This finding did not repeat in the FY14 Financial Audit.

2. Enhance internal controls and communications with other agencies and component units of the State of Illinois for continuously monitoring events and transactions that could impact the Authority's financial statements.

Finding: The Finance Authority did not exercise adequate internal control over financial reporting.

The Authority's financial statements include transactions related to revenue bonds issued for the benefit of other agencies and component units of the State of Illinois, which are required to be shown on the face of the Authority's financial statements pursuant to Governmental Accounting Standards Board, *Disclosure of Conduit Debt Obligations*. As a result of this accounting interpretation, transactions and events occurring at other agencies and component units of the State of Illinois need to be continuously monitored by the Authority for any potential impact on the Authority's financial statements.

During testing, the auditors noted the Authority did not adequately monitor subsequent event transactions occurring at a primary government agency for any potential impact on the Authority's financial statements. The auditors identified a subsequent event material to the Authority's financial statements which was not identified by the Authority's internal control structure. The auditors proposed an adjusting journal entry of $1,227,090 to correct an understated arbitrage liability accrual, which the Authority subsequently recorded in its financial statements.

Authority officials stated that financial information for the outstanding bonds of the Illinois Environmental Protection Agency (IEPA) is reconciled with IEPA quarterly and annually. In past years, these reconciliations omitted a review of arbitrage calculations.

Response: Accepted. For 2014, the Authority will incorporate an annual review of arbitrage calculations into its annual reconciliation procedures for the IEPA bonds pursuant to the Intergovernmental Agreement between the Authority and IEPA.

Updated Response: Implemented. This finding did not repeat in the FY14 Financial Audit.

Accepted or Implemented – continued

3. **Continue to work with the Fire Marshal to finalize the terms of the intergovernmental agreement. In addition, implement internal controls to review the notes to the financial statements to ensure the disclosures are appropriate, accurate, and fairly presented in accordance with generally accepted accounting principles.**

Finding: The Finance Authority did not timely enter into an intergovernmental agreement with the State of Illinois, Office of the State Fire Marshal, impacting the disclosure of the amount due to the primary government at June 30, 2013.

During fieldwork, the auditors noted the following:

- The Authority had not entered into an agreement with the Fire Marshal by June 30, 2013, six months after the General Assembly mandated the Authority and Fire Marshal enter into an intergovernmental agreement to allow for the transfer of moneys within the Fire Truck Revolving Loan Fund, the Fire Station Revolving Loan Fund, and the Ambulance Revolving Loan Fund "as soon as practicable" after January 1, 2013.

- During reviews of the draft financial statements, the auditors noted the Authority did not disclose both the impact of failing to enter into the intergovernmental agreement or indicate any potential impact on the $19,042,264 due to the primary government from fire truck and ambulance loans when and if the Authority and Fire Marshal eventually enter into the required interagency agreement. After notification from the auditors, the Authority drafted additional disclosures for inclusion within the Authority's financial statements.

As of June 30, 2013, the Ambulance Revolving Loan Fund was holding a cash balance of $3,661,593 and the Fire Truck Revolving Loan Fund was holding a cash balance of $2,556,576. Further, Public Act 97-0731 appropriated an additional $8,000,000 to the Fire Marshal for transfer to the Fire Truck Revolving Loan Fund and the Ambulance Revolving Loan Fund during FY13. The entire amount was re-appropriated by the General Assembly to the Fire Marshal in FY14.

Authority officials stated the Authority and the Fire Marshal have not agreed to the terms for inclusion within the intergovernmental agreement.

Updated Response: Implemented. The Intergovernmental Agreement with the Office of the Fire Marshal was executed and the funds were transferred pursuant to Public Act 97-0901. On March 10, 2015, the Authority Board approved an extension and minor revision of the Intergovernmental Agreement pursuant to Public Act 97-0901. Finally, in the FY 2014 Financial Audit, there was a finding related to the accounting presentation of the program loan funds. The Authority accepted this finding and has changed its accounting presentation in the FY 2014 Financial Statements accordingly.

4. Continue to work with the Office of the Attorney General to receive approval to write off uncollectible balances.

Finding: The Finance Authority has loan and guarantee receivables recorded in the financial statements that should be removed due to the balance being uncollectible. In addition, the Authority has investments in partnerships and companies that should be removed due to the investments having no value.

During testing, the auditors noted the following amounts, by fund, where the Authority recorded a loan or guarantee receivable and corresponding allowance of 100%. The Authority anticipates writing off these balances.

General Operating Fund	$ 969,795
E.D.A. Title IX Restricted Revolving Loan Fund	91,484
Industrial Revenue Bond Insurance Fund	28,402
Illinois Agricultural Loan Guarantee Fund	170,902
Illinois Farmer Agribusiness Loan Guarantee Fur	623,107
Total	$ 1,883,690

Further, the auditors noted investments in partnerships and companies, totaling $2,971,385, for which a 100% allowance for a decline in the market value was recognized.

Response: Accepted. While most of these uncollectable debts predate the Authority, they are fully reserved for and have no additional impact on the Authority's financial Statements. Nevertheless, the Authority will seek write-off certifications from the Attorney General; pending which the Authority will continue to record uncollectible debts in accordance with applicable accounting and financial reporting standards.

Updated Response: Accepted. The Authority has made notable progress in securing official write-offs from the Office of the Attorney General for $448,387 of the outstanding uncollectible debts. The Authority will continue working with the Attorney General to secure additional write-offs of the remaining uncollectible debt.

5. Develop, establish, and maintain a recordkeeping system documenting receipt of the required bond compliance documents, which is capable of identifying the location of documents retained by the Authority. (Repeated-2012)

Finding: The Finance Authority did not have adequate internal controls to properly maintain records for monitoring covenant compliance for conduit bonds.

During testing of the Authority's records for 60 conduit bonds outstanding, the auditors noted the Authority could not substantiate the receipt of required documentation from borrowers or show evidence of the Authority's monitoring of the following significant bond covenants:

Accepted or Implemented – continued

- 30 of 60 of bond issues tested were missing a total of 94 execution documents the Authority should have received prior to the bond's closing or refunding date. The missing documents included 20 Official Statements, 18 loan/financing agreements, two local government purchase agreements, one security agreement, two bond and loan agreements, one ordinance, 19 Indentures, 25 tax exemption agreements, three depository agreements, one regulatory agreement, and two advance refunding documents.

- 14 of 60 of bond issues tested were missing a certificate and/or other reports certifying the project funded by the bond issuance had been completed.

- Seven of 60 of bond issues tested did not have a written report from the borrower within 90 days of completing the project indicating the total number of workers by type employed in completing the project.

- Six of 60 of bond issues tested did not have a written report from the borrower each year reporting the number of full-time equivalent employees employed at the project during the preceding year.

- 18 of 60 of bond issuances tested were missing the borrower's audited financial statements. Further, 13 of the noted bond issuances were also missing a separate written certification from the independent auditors certifying the auditors have obtained no knowledge of any default by the borrower in the terms, covenants, provisions, or conditions of the agreement.

- 29 of 60 of bond issues tested did not have an annual certification that the borrower has performed a review of its activities during the preceding year to determine the borrower has kept, observed, performed, and fulfilled every covenant and the borrower is not in default with any covenant. In the event the borrower is in default with one or more covenants, the borrower must specify the nature and detail of each default to the Authority.

- 11 of 60 of bond issues tested were missing certifications and/or calculations from required reports and/or financial ratios.

- One of 60 of bond issues tested did not have an annual certification of destruction for bonds cancelled and destroyed.

- One of 60 of bond issues tested did not have quarterly certifications of continuing program compliance on file with the Authority.

Further, the auditors noted the following during a review of statements from the Bond Trustee:

- 30 of 60 bond issues tested did not have any statements from the Bond Trustee.

- Two of 60 bond issues tested had statements from the Bond Trustee that reported certain required bond funds were not established pursuant to the bond's Indenture.

Authority officials stated the Authority is still in the process of implementing an organized records management system capable of identifying where the specific records requested are retained within the Authority's files.

<u>Response:</u> Accepted. As a self-funded, non-appropriated State agency that operates on an enterprise/business model, the Authority has endured declining revenues in fees derived from federally tax-exempt debt issuances directly attributable to (1) a general decline in the dollar volume of tax-exempt bond issuance across sectors; (2) a general decline in the number of tax-exempt projects across sectors; and (3) a general decline in the economic benefit to borrowers from tax-exemption due to economic conditions and the national interest rate environment over the same time period from calendar year 2008 to calendar year 2013.

Between calendar year 2008 and calendar year 2014, staff head count at the Authority, has declined from 31 to 15. Authority staff does not participate in any State defined-benefit pension fund and the Authority has procured its own employee benefits.

Since the close of the audit period on June 30, 2013, the Authority has increased staff assigned to compliance generally (as well as to other financial, audit, procurement duties) from one to five. This team oversees compliance of 1,475 bonds each with their own covenants. In addition to staffing increases, the Authority has implemented or is in the process of implementing digital systems to:

- Better monitor covenant compliance with respect to conduit debt;
- Better manage and retrieve documents with respect to conduit debt; and
- Better track and calendar covenant obligations of the Authority under the conduit bond documents.

<u>Updated Response:</u> Accepted and under study. Consistent with the Authority's mandate to self-fund its operations and mission without relying upon appropriated State taxpayer dollars, the Authority is working with its Board and within the constraints of the Procurement Code to appropriately resource this important function.

6. Establish an internal audit program and appoint a Chief Internal Auditor.

<u>Finding:</u> The Finance Authority did not establish an internal audit function as required by the Fiscal Control and Internal Auditing Act.

Accepted or Implemented – continued

During testing, the auditors noted the Authority had not established a full-time program of internal auditing at the Authority. Additionally, the auditors noted the Authority's Executive Director had not appointed a Chief Internal Auditor.

Authority officials stated the Authority developed an internal audit plan. However, due to key staff turnover, the Authority had to devote substantial time and resources to fill other key positions. Furthermore, the Authority had several interviews with a potential candidate to be hired as the Chief Internal Auditor; however, the candidate was needed to fill a more pressing vacancy and was instead hired as the Acting Chief Financial Officer.

Updated Response: Accepted. Effective July 1, 2014, the Authority appointed an appropriately procured vendor, Clifton Larson Allen (CLA), as the Authority's statutorily required internal auditor. The Authority continues to work with CLA to develop and implement an appropriate internal audit plan.

7. Continue to monitor and work with the bond trustees to improve compliance with principal and/or interest reporting requirements. (Repeated-2010)

Finding: The Finance Authority did not timely submit transaction reporting for bond principal and interest payments to the Office of the State Comptroller.

During testing of 60 bond issuances with 351 distinct payments requiring the filing of a *Notice of Payment of Bond Interest and/or Principal* report (Form C-08) during FY13, the auditors noted the following:

- 48 of 351 Form C-08s tested were submitted to the Office of the State Comptroller between two to 406 days late. In accordance with the official documents for each bond, the bond trustees are responsible for completing and filing the information with both the State Comptroller and the Authority.

- 8 of 351 Form C-08s tested contained discrepancies between the amounts reported on the Form C-08 and the schedule of payments within each respective bond's Indenture. The Authority was unable to provide the auditors with a reconciliation of the differences.

Authority officials stated the various bond trustees either did not timely or accurately submit the Form C-08 to the State Comptroller, as required. The Authority receives information from and regularly communicates with several different trustees. Additionally, the Authority sends out monthly reminders to the various trustees concerning late Form C-08s.

Response: Accepted. The Authority has allocated additional staffing to increase communication with the bond trustees and the Office of the Comptroller. As with the

Response to Compliance Finding 2013-005, in addition to increasing staffing, the Authority has implemented or is in the process of implementing digital systems to:

- Promote more timely notification of delays and/or noncompliance in the submission of compliance documents
- Increase the accuracy of reports submitted to the Office of the State Comptroller
- Better track and calendar covenant obligations of the Authority under the conduit bond documents.

As a result, the Authority anticipates more timely notification of late C-08 submissions by borrowers and/or discrepancies in borrower's/bond trustee's reporting to the Authority of the borrower's bond principal and interest payments. Authority staff can then work with the bond trustee, the borrower and the Office of the Comptroller to accurately resolve these issues in a timely manner.

Updated Response Accepted and under study. Consistent with the Authority's mandate to self-fund its operations and mission without relying upon appropriated State taxpayer dollars, the Authority is working with its Board and within the constraints of the Procurement Code to appropriately resource this important function.

8. Implement controls to ensure all travel expenditures paid by the Authority comply with Internal Revenue Service Publication 535 and State travel regulations. (Repeated-2010)

Finding: The Finance Authority did not exercise adequate control over travel expenses and ensure compliance with the *Travel Guide for State of Illinois Employees*.

During testing of 51 travel expenditures, totaling $37,908, the auditors noted the following unallowable costs:

- Nine of 51 vouchers tested, totaling $21,543, had lodging expenses in excess of the maximum allowable rate, totaling $2,991, without submitting exception requests to the Governor's Travel Control Board. Further, these vouchers did not include evidence of the traveler contacting additional hotels prior to making a reservation in excess of the maximum allowable rate.

- Five of 51 vouchers tested, totaling $7,575, had per diem claims in excess of the maximum allowable rate, totaling $130.

- Nine of 51 vouchers tested, totaling $2,041, included unallowable travel expenses, totaling $382. The noted unallowable expenses included in-room hotel dining costs when the employee had claimed per diem and rental car insurance costs.

The auditors questioned $3,503 of the $37,908 travel costs tested, or 9% of the expenditures within the auditors' sample population.

Accepted or Implemented – continued

In addition to the unallowable costs, the auditors noted the following noncompliance conditions during their review of the 51 travel expenditures, totaling $37,908, tested:

- Five of 51 vouchers tested, totaling $1,897, were submitted for reimbursement by the Authority between 100 and 355 days after the completion of travel. Additionally, the Authority did not report these amounts as wages paid to the employee to the Internal Revenue Service.

- Nine of 51 travel vouchers tested, totaling $18,303, were for travel expenses incurred outside of the borders of the State of Illinois where the Authority had not received preapproval from the Governor's Office of Management and Budget (GOMB) for the travel.

Authority officials stated the travel exceptions were due to employee oversight and timing issues on requesting access to GOMB's travel system to request approvals for travel exceptions.

Response: Accepted. The Authority recognizes its responsibility to comply with Internal Revenue Service and State regulations. The Authority restates its revenue and staffing challenges as a small State agency that does not rely upon appropriated taxpayer dollars to support its operations as set forth in its Response to Finding 2013-005.

Updated Response: Accepted. The Authority addressed the finding concerning travel expenses by implementing/augmenting controls requiring additional documentation for expenses, the timeliness of voucher submissions and other improvements.

9. Work with the Department of Central Management Services to develop a reimbursement process for shared employees which allocates costs between the two agencies based on the employee's timekeeping reports. (Repeated-2011)

Finding: The Finance Authority did not reimburse the State of Illinois, Department of Central Management Services (CMS) for the salary and salary related expenses of an employee shared with the Authority.

During testing, the auditors noted the following:

- The Authority did not have an interagency agreement with CMS during Fiscal Year 2013 to share the services of an employee providing procurement consulting services to the Authority.

- The Authority did not reimburse CMS for the time spent by the employee working on the Authority's tasks, which circumvents the appropriation process.

- The shared employee was not required to prepare a timesheet to document time spent working on the Authority's business.

Authority officials stated the Authority was planning to hire a full-time employee to perform procurement-related functions, which reduced the amount of time the shared employee worked on the Authority's business during FY13. Further, the Authority did not seek to enter into an interagency agreement with CMS because the Authority was anticipating hiring the new employee.

Updated Response: Implemented. The Authority no longer uses the services of the shared employee at issue.

10. Review and enhance internal controls to provide assurance Bond Form C-05s are accurately prepared and timely filed with the Office of the State Comptroller.

Finding: The Finance Authority did not exercise adequate internal controls over new conduit bond issuances in FY13.

During Fiscal Year 2013, the Authority conducted 45 separate conduit bond issuances, totaling $2,256,325,098. During testing, the auditors noted the following:

- Eight of 45 bond issuances filed the Form C-05, *Bond Interest and Redemption Schedule* report, between three and 61 days late with the Office of the State Comptroller.

- Two of 10 bond issuances sampled for detail testing did not have its maturity schedule and interest amounts correctly reported to the Office of the State Comptroller on a Form C-05, *Bond Interest and Redemption Schedule* report.

Authority officials stated the inaccurate and untimely completion of the reports was due to oversight and the transfer of responsibilities to new employees.

Response: Accepted. The Authority restates its revenue and staffing challenges as a small State agency that does not rely upon appropriated taxpayer dollars to support its operations, as set forth in the Authority's Response to Finding 2013-005. The Authority has incorporated the use of individual checklists for each new conduit debt issuance, which includes the requirement to complete and submit a Form C-05. The Authority has also begun using a web-based project management application to assist with assigning tasks, setting reminders and collaboration between team members. Additional resources have also been assigned to track the new conduit bond issuances and their reporting requirements. These efforts will help to ensure that the number of untimely submittals of Form C-05s to the Office of the State Comptroller will decrease in the future.

Accepted or Implemented – concluded

Updated Response: Accepted and under study. Consistent with the Authority's mandate to self-fund its operations and mission without relying upon appropriated State taxpayer dollars, the Authority is working with its Board and within the constraints of the Procurement Code to appropriately resource this important function.

11. Remind employees of the Authority's approval process for vacation time and evaluate its procedures for monitoring performance evaluations to ensure performance appraisals are completed timely. (Repeated-2012)

Finding: The Finance Authority did not exercise adequate internal controls over personal services provided by employees. During testing, the auditors noted the following:

- Three of six employees tested did not have documentation of the employee's immediate supervisor approving any of 16 vacation days taken by the employees during FY13.

- Three of six employees tested did not have timely performance evaluations. The performance evaluations were performed between 10 and 115 days late.

Authority officials stated these exceptions were due to oversight.

Response: Accepted. The Authority restates its revenue and staffing challenges as a small State agency that does not rely upon appropriated taxpayer dollars to support its operations, as set forth in the Authority's Response to Finding 2013-005.

The Authority is in the process of updating its Policies and Procedures and Employee Handbook as a part of its overall internal control program. Specific administrative processes will be streamlined and employees will receive training on all updated procedures. In order to minimize the effect of staff reductions in recent years, most employees have had to take on additional duties, which has reduced the amount of resources dedicated to administrative tasks. The updated policies will reflect those of a smaller organization, while maintaining a commitment to strengthening internal controls.

Updated Response: Accepted. The Authority is working to address concerns over personal services controls and established procedures for the approval of employee vacation and sick time. A calendar has been set up in which the employee requests time off, the request is then reviewed by the Controller and finally, approved or denied via an email sent back to the employee (with the reason if the request was denied).

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, “It is declared to be the policy of the State that the principles 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 when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit 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 FY13, the Illinois Finance Authority did not file any affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission in January and July. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Illinois Finance Authority filed a Travel Headquarters Designation form on July 15, 2013 which indicated one person spent more than 50% of their work time at locations other than their official headquarters.

REVIEW: 4436
ILLINOIS FINANCE AUTHORITY
YEAR ENDED JUNE 30, 2013

APPENDIX A

Statement of Net Position

Current Assets	FY13	FY12
Cash and cash equivialents - unrestricted	$ 61,813,784	$ 58,709,920
Investments - unrestricted	85,000	85,000
Restricted current assets:		
Cash and cash equivalents	15,281,290	44,879,791
Securities lending collateral equity with State Treasurer	12,192,000	8,336,463
Accrued interest receivable	1,304,088	1,400,543
Restricted investments	42,755,362	725,443
Bonds and notes receivable	2,606,300	3,080,600
Bonds and notes receivable from primary government	8,450,000	9,277,500
Bonds and notes recievalbe from State	1,077,054	900,120
Loans receivable	1,730,897	1,551,263
Allowance for doubtful accounts	(91,484)	(91,484)
Current portion of deferred issuance costs, net	14,324	15,591
Due from other funds	-	1,500,000
Receivables:		
Accounts	139,875	89,441
Allowance for doubtful accounts	(24,789)	(24,789)
Loans receivable	411,197	765,827
Interest and other	31,513	43,557
Current portion of deferred issuance costs, net	22,936	43,062
Due from other funds	37,102	570,196
Prepaid expenses and deposits	71,733	34,187
Total current assets	147,908,182	131,892,231
Noncurrent Assets		
Restricted Noncurrent assets:		
Cash and cash equivalents	18,445,612	18,386,285
Interest receivable	6,000	6,000
Guarantee payments receivable	822,411	822,411
Allowance for doubtful accounts	(822,411)	(822,411)
Deferred issuance costs, net of accumulated amortization	53,332	67,657
Investments	56,689,231	59,828,824
Bonds and notes receivable	27,255,037	31,563,337
Bonds and notes receivable from primary government	14,293,725	39,859,599
Bonds and notes recievalbe from State	44,401,393	45,482,309
Loans receivable	19,138,060	17,197,198

Appendix A - continued

	FY13	FY12
Allowance for doubtful accounts	(14,768)	(15,904)
Loans receivables	8,077,863	10,283,462
Allowance for doubtful accounts	(1,056,404)	(1,433,625)
Captial assets, at cost	587,116	543,166
Accumulated depreciation	(470,495)	(434,833)
Unamortized issuance costs, net of accumulated amortization	166,443	203,545
Total noncurrent assets	187,572,145	221,537,020
Total assets	**$ 335,480,327**	**$ 353,429,251**
Current liabilities:		
Accounts payable	63,711	48,991
Accrued expenses	686,179	182,951
Obligation under securities lending of State Treasurer	12,192,000	8,336,463
Accrued interest payable	3,523,481	3,957,036
Due to employees	80,656	74,081
Due to primary government	1,953,676	1,684,170
Bonds payable, current	2,661,000	3,120,000
Bonds payable, primary government	16,900,000	18,555,000
Bonds payable, components units of State	1,777,075	1,580,120
Current portion of long-term debt	58,802	58,220
Deferred loss on early extinguishment of debt	(8,852)	(8,852)
Unamortized issuance premium, current	624,283	738,927
Due to other funds	22,936	2,070,196
Unearned/ Deffered revenue, net of accumulated amortization	53,796	61,375
Total current liabilities	40,588,743	40,458,678
Noncurrent liabilities:		
Noncurrent portion of long-term debt	428,471	487,273
Accrued expenses	2,727,203	1,147,264
Bonds payable, noncurrent	34,579,000	39,010,000
Bonds payable, primary government	90,870,000	107,770,000
Bonds payable, components units of State	51,308,800	53,405,800
Deferred revenue, net of accumulated amortization	248,465	302,261
Due to primary government	17,514,400	15,461,430
Unamortized issuance premium	1,800,675	2,424,958
Deferred loss on early extinguishment of debt	(48,879)	(57,731)
Total noncurrent liabilities	199,428,135	219,951,255
Total liabilities	**$ 240,016,878**	**$ 260,409,933**
Invested in capital assets	116,621	108,333
Restricted	26,723,075	25,889,664
Unrestricted	68,623,844	67,021,321
Total net position	**$ 95,463,540**	**$ 93,019,318**

REVIEW: 4436

ILLINOIS FINANCE AUTHORITY

YEAR ENDED JUNE 30, 2013

APPENDIX B

Comparative Summary of Revenues and Expenses

Revenues	**FY13**	**FY12**
Interest on loans	8,072,295	9,242,812
Administrative service fees	3,912,338	2,765,760
Interest and investment income	2,523,475	2,595,352
Grant Income	841,399	1,500,000
Annual fees	409,154	539,430
Bad debt recoveries	258,577	1,746,322
Loan loss provisions	116,218	563,790
Applicaton fees	53,400	43,150
Miscellaneous	62,908	1,652,433
Total Revenues	**$ 16,249,764**	**$ 20,649,049**
Expenses		
Interest expense	9,921,160	11,057,629
Employee related expenses	1,789,531	1,790,048
Professional services	1,408,610	1,447,493
Occupancy costs	319,386	331,014
General and administrative	318,402	306,628
Transfer of interest in programs to State of Illinois	-	561,793
Permanent capital transfer	-	1,000,000
Depreciation	48,453	44,470
Loss on sale of investments	-	2,074,810
Total Expenses	**$ 13,805,542**	**$ 18,613,885**
Excess of Revenues over Expenses	**$ 2,444,222**	**$ 2,035,164**

REVIEW: 4436
ILLINOIS FINANCE AUTHORITY
YEAR ENDED JUNE 30, 2013

APPENDIX C

Cash, Depositories and Investments

	FY13	FY12
General Operating Fund:		
Banterra Bank of Marion, Illinois	$ 595,865	$ 587,263
Bank of America in Chicago, Illinois	2,360,285	19,713,099
The Illinois Funds - Money Market	42,633,868	22,223,029
Bond Fund		
U.S. Bank in Minneapolis, Minnesota	4,754	32,180
First American Treasury Obligations Fund	1,592,123	1,633,269
Goldman Financial Square Treasury	8,681,626	39,887,795
Industrial Revenue Bond Insurance Fund:		
Banterra Bank of Marion, Illinois - Money Market	2,859,240	2,859,240
J.P. Morgan in Chicago, Illinois - Prime Market Fund	1,885,227	1,883,048
The Illinois Funds - Money Market	6,928,621	6,922,590
Credit Enhancement Fund:		
U.S. Bank-First American Government Obligations Fund	599,750	600,000
Federated Government Obligations - Tax Managed	-	9,250
Illinois Agricultural Loan Guarantee Fund:		
Illinois Treasurer's - Cash	10,069,384	10,030,550
Illinois Farmer Agribusiness Loan Guarantee Fund:		
Illinois Treasurer's - Cash	7,776,478	7,746,485
IRBB Special Reserve Fund:		
The Illinois Funds - Prime Fund	2,719,473	2,692,040
E.D.A. Title IX Restricted Revolving Loan Fund:		
Banterra Bank of Marion, Illinois - Savings	-	749,153
Rural Development Revolving Loan Fund:		
Banterra Bank of Marion, Illinois - Money Market	97,117	97,099
Bank of America in Chicago, Illinois	1,845,520	1,883,122
Illinois Housing Partnership Program Fund:		
The Illinois Funds - Money Market	1,831,205	1,829,611
Renewable Energy Development Fund		
Bank of America in Chicago, Illinois	718,650	597,173
Illinois Energy Fund		
Bank of America in Chicago, Illinois	2,341,500	-
Total Cash and Depositories	$ 95,540,686	$ 121,975,996

Appendix C - continued	FY13	FY12
General Operating Fund		
Bank of America in Chicago, Illinois	85,000	85,000
Bond Fund	$ 99,444,593	$ 40,797,252
Total Investments	99,529,593	60,639,267
Total Cash, Depositories and Investments	$ 195,070,279	$ 182,615,263

Schedule of Conduit Debt

	FY13	FY12
Illinois Finance Authority		
Revenue Bonds	$ 19,581,475,065	18,555,849,000
Environmental Bonds	78,235,000	122,987,000
Notes	294,421,000	295,303,000
Distressed City Bonds	264,579,854	229
Bond Anticipation Notes	2,630,000	9,185,000
Leases	3,749,946	3,650,371
Beginner Farmer Bonds	50,122,850	42,183,848
Total Illinois Finance Authority	$ 20,275,213,715	19,029,158,448
Predecessor Authorities		
Illinois Development Finance Authority		
Total 501(c)3 Not-for-Profit Bonds and Leases	985,357,190	1,448,201,834
Total Environmental Bonds	289,745,000	372,065,000
Industrial Revenue Bonds	256,421,865	-
Infrastructure Bonds	347,670,898	587,777,150
Housing Bonds	91,743,171	480,748,000
Finanacially Distressed City Bonds	1,250,000	147,218,988
Leases	496,388	4,660,000
Total Illinois Development Finance Authority	1,972,684,512	3,040,670,972
Illinois Health Facilities Authority	1,270,303,000	2,907,320,600
Illinois Educational Facilities Authority	1,030,201,000	1,446,134,000
Illinois Farm Development Authority	21,609,864	42,054,595
Illinois Rural Bond Bank	-	2,390,000
Total Predecessor Authorities	4,294,798,376	7,438,570,167
Total Conduit Debt	**$ 24,570,012,091**	**$ 26,467,728,615**

REVIEW: 4436
ILLINOIS FINANCE AUTHORITY
YEAR ENDED JUNE 30, 2013

APPENDIX D

Property and Equipment

	FY13	FY12
Cost		
Furniture and equipment	223,040	224,898
Computers and software	364,076	318,268
Total Capital Assets Being Depreciated	**587,116**	**543,166**
Total Accumulated Depreciation	**(470,495)**	**(434,834)**
Capital Assets, Net of Accumulated Depreciation	**$ 116,621**	**$ 108,332**

REVIEW: 4436
ILLINOIS FINANCE AUTHORITY
YEAR ENDED JUNE 30, 2013

APPENDIX E

Jobs Created or Retained by Loans, Revenue Bonds and Investments

Fiscal Year	Healthcare Bond Amounts Closed	Jobs Created and/or Retained	Educational Bond Amounts Closed	Jobs Created and/or Retained	Direct Participation Loan Amounts Closed	Jobs Created and/or Retained	Industrial Revenue Bond Amounts Closed	Jobs Created and/or Retained
2013	$ 1,589,465,068	500	$ 264,865,000	53	$ -	-	$ 118,812,280	10,513
2012	1,321,503,200	210	474685000	67	-	-	18,361,000	115
2011	1,653,760,000	633	221,290,000	241	-	-	399,017,184	3,988
2010	2,698,885,448	844	298,745,000	147	768,262	53	2,700,000	2
2009	2,869,285,000	766	530,600,000	126	3,115,609	18	59,389,000	242
2008	3,755,647,778	2,438	872,831,000	283	7,273,579	59	100,525,005	756
2007	1,925,140,000	684	582,306,100	679	12,275,734	259	138,187,750	688
2006	968,785,000	821	231,410,000	101	9,019,869	141	25,931,000	118
2005	937,800,000	229	842,460,000	577	3,670,727	133	53,218,000	224
2004	1,819,401,340	790	563,445,000	802	1,224,878	82	437,339,500	799

Fiscal Year	FmHA & E.D.A. Title IX Amounts Closed	Jobs Created and/or Retained	Investments in Venture Capital Companies	Jobs Created and/or Retained	Other Projects	Total Construction Jobs
2013	-	-	-	-	$ 293,182,750	9,677
2012	-	-	-	-	160,266,846	9,322
2011	-	-	-	-	301,520,000	4,899
2010	-	-	-	-	359,802,520	6,601
2009	-	-	-	-	363,562,053	6,209
2008	516,250	4	300,000	10	707,188,230	12,112
2007	317,000	12	600,000	108	315,834,330	6,181
2006	109,000	6	875,000	27	294,337,360	7,151
2005	-	-	841,697	52	220,767,900	3,946
2004	-	-	2,124,098	28	-	8,147
2003	-	-	390,100	20	-	826
2002	-	-	1,934,270	85	-	579

REVIEW: 4436
ILLINOIS FINANCE AUTHORITY
YEAR ENDED JUNE 30, 2013

APPENDIX F

Historical Summary of Agricultural Loans Issued

Program:	Agricultural Development Bonds		State Guarantee Program of Restructuring Agricultural Debt Loans		Farmer and Agri-Business Loan Guarantee Program Loans		Young Farmer Loan Guarantee Program Loans		Specialized Livestock Loan Guarantee Program Loans	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
2013	3,396	$ 322,400,109	1,377	$ 289,682,841	85	$ 94,605,143	118	$18,768,500	166	$ 74,520,800
2012	3,380	$ 317,938,454	1,376	$ 289,182,841	84	$93,812,237	118	$18,768,500	164	$73,097,800