



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS FINANCE AUTHORITY

State Compliance Examination
 For the Two Years Ended June 30, 2019

Release Date: April 15, 2020

FINDINGS THIS AUDIT: 6	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2017		19-4, 19-6	
Category 2:	1	5	6	2013		19-1	
Category 3:	0	0	0	2010		19-2, 19-3	
TOTAL	1	5	6				
FINDINGS LAST AUDIT: 9							

INTRODUCTION

This digest covers the Illinois Finance Authority’s (Authority) compliance examination for the two years ended June 30, 2019. A separate financial audit as of and for the year ended June 30, 2019, was previously released on January 14, 2020. In total, this report contains 6 findings, none of which were reported within the Authority’s financial audit.

SYNOPSIS

- (19-1) The Authority did not have an appropriate full-time internal audit program in place during the examination period in accordance with the Fiscal Control and Internal Auditing Act.
- (19-2) The Authority did not timely and accurately submit transaction reporting for bond principal and interest payments to the Office of the State Comptroller.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

**ILLINOIS FINANCE AUTHORITY
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2019**

FINANCIAL INFORMATION	2019	2018	2017
Total Revenues.....	\$ 35,978,369	\$ 33,400,456	\$ 21,636,830
Interest on loans.....	\$ 24,436,471	\$ 22,091,429	\$ 14,234,509
% of Total Revenues.....	67.9%	66.2%	65.8%
Interest and investment income.....	\$ 8,283,114	\$ 7,008,251	\$ 2,047,120
% of Total Revenues.....	23.0%	21.0%	9.5%
Closing and administrative service fees.....	\$ 2,538,381	\$ 3,348,716	\$ 4,290,236
% of Total Revenues.....	7.1%	10.0%	19.8%
Transfer of funds and interest in program from the State of Illinois.....	\$ 449,463	\$ 447,207	\$ 452,379
% of Total Revenues.....	1.2%	1.3%	2.1%
Other revenues.....	\$ 270,940	\$ 504,853	\$ 612,586
% of Total Revenues.....	0.8%	1.5%	2.8%
Total Expenses.....	\$ 34,426,984	\$ 33,332,824	\$ 18,514,664
Interest expense.....	\$ 29,828,216	\$ 25,254,361	\$ 12,143,791
% of Total Expenses.....	86.7%	75.8%	65.6%
Employee-related expenses.....	\$ 2,555,253	\$ 1,881,259	\$ 1,769,136
% of Total Expenses.....	7.4%	5.6%	9.6%
Professional services.....	\$ 1,458,761	\$ 1,427,924	\$ 1,185,097
% of Total Expenses.....	4.2%	4.3%	6.4%
Occupancy costs.....	\$ 173,734	\$ 165,405	\$ 175,705
% of Total Expenses.....	0.5%	0.5%	0.9%
Other expenses.....	\$ 411,020	\$ 4,603,875	\$ 3,240,935
% of Total Expenses.....	1.2%	13.8%	17.5%
Average Number of Employees (Unaudited)....	23.6	15	14

SELECTED ACTIVITY MEASURES (UNAUDITED)	2019	2018	2017
Conduit debt outstanding (in thousands).....	\$ 23,222,875	\$ 23,641,648	\$ 23,716,442
Number of conduit debt issues outstanding.....	1,087	1,132	1,186
New bond issues (in thousands).....	\$ 2,059,166	\$ 3,171,729	\$ 4,142,508
Number of new issues	60	62	56
Total expenses/total number of issues.....	\$ 31,672	\$ 29,446	\$ 15,611

EXECUTIVE DIRECTOR
During Examination Period: Mr. Christopher Meister
Currently: Mr. Christopher Meister

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INTERNAL AUDIT

The Authority did not have an appropriate full-time internal audit program in place during the examination period.

The Authority entered into an intergovernmental agreement with CMS to act as the Chief Internal Auditor

On June 28, 2017, towards the conclusion of the prior period examination, the Authority entered into an intergovernmental agreement with the Department of Central Management Services (CMS) to act as the internal auditor. As of April 1, 2019, we noted the CMS' Internal Auditor was acting as the Chief Internal Auditor for nine different State agencies, each of which was a designated State agency required to have a Chief Internal Auditor and to maintain a full-time program of internal audit under the Act.

The Office of the Auditor General sought a formal written opinion from the Attorney General's Office

In a letter dated April 18, 2019, the Office of the Auditor General sought a formal written opinion from the Attorney General's Office regarding, among other things, whether multiple designated State agencies may appoint the same individual as their chief internal auditor through the execution of an intergovernmental arrangement.

The Attorney General's Office stated that each internal auditor will serve only one designated agency

In an opinion dated August 9, 2019, the Attorney General's Office stated that "it is clear that the Act contemplates that each chief internal auditor will serve only one designated State agency and will do so on a full-time basis. Accordingly, because a designated State agency may not share a chief internal auditor with CMS or any other designated State agency without contravening the Act, a designated State agency likewise may not enter into an intergovernmental agreement permitting the sharing of internal audit services without violating the Act."

The Act requires each designated State agency to maintain a full-time program of internal auditing (30 ILCS 10-2001(a)).

The Authority is a designated State agency required to maintain a full-time program of internal auditing (30 ILCS 10/1003 (a)).

The Act (30 ILCS 10/2002(a)) also requires the Executive Director to appoint a chief internal auditor.

The Attorney General ruled in Opinion No. 19-001, issued August 9, 2019, pg.2, that, "multiple designated State agencies may not appoint the same individual as their chief internal auditor through the execution of an intergovernmental agreement". (Finding 1, pages 10-11)
This finding has been repeated since 2013.

We recommended the Authority's Executive Director appoint a chief internal auditor, who is not appointed by any other State agency as a chief internal auditor, and ensure a full-time program of internal auditing is in place and functioning at the Authority.

Authority agreed with the auditors

Authority officials accepted our recommendations.

DELINQUENT AND INACCURATE REPORTING OF BOND ACTIVITY

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

During testing of 40 bond issuances and the 205 distinct payments selected for testing which required the filing of a Notice of Payment of Bond Interest and/or Principal report (Form C-08) during the examination period, the auditors noted the following:

C-08's were submitted between 2 and 363 days late

- 17 of the 205 (8%) Form C-08s tested were submitted to the Office of the State Comptroller between 2 and 363 days late. For each of the issues tested, the Authority had agreements in place for the paying agents to file the Form C-08 within the required timeframe.

Missing reports

- 17 of the 205 (8%) Form C-08s were not be provided by the Authority for testing and were deemed missing.
- 7 of the 205 (3%) Form C-08s tested were completed incorrectly and indicated principal payments had been made when only interest was paid. These same C-08's also reported the wrong ending principal balance for the bonds.
- 1 of the 205 (1%) Form C-08s tested reported the correct payment amounts, but listed the wrong bond issue. (Finding 2, pages 12-13) **This finding has been repeated since 2010.**

We recommended the Authority continue to monitor and work with the paying agents to improve compliance with principal and/or interest reporting requirements.

Authority agreed with the auditors

Authority officials accepted our recommendations.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Authority. We will review the Authority's progress towards the implementation of our recommendations in our next compliance examination.

AUDITOR'S OPINION

The auditors stated the financial statements of the Illinois Finance Authority as of and for the year ended June 30, 2019 are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Illinois Finance Authority for the two years ended June 30, 2019, as required by the Illinois State Auditing Act. The accountants stated the Authority complied, in all material respects, with the requirements described in the report.

The compliance examination was conducted by RSM US LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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