



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS HOUSING DEVELOPMENT AUTHORITY

**Compliance and Single Audit
For the Year Ended: June 30, 2010**

Release Date: February 16, 2010

Summary of Findings this Audit Cycle:

• Compliance and Single Audit	6
• Financial Audit (previously reported 12-2-10)	<u>6</u>
TOTAL findings	12
Summary of findings from previous audit cycle:	9
Findings repeated:	6

INTRODUCTION

The Financial Statement Audit for the year ended June 30, 2010 was previously released on December 2, 2010. That audit contained six audit findings. This report addresses federal and State compliance findings pertaining to the Single Audit and State Compliance Examination. In total, this document contains 12 audit findings, six of which had been reported in the Financial Statement Audit.

SYNOPSIS

- The Authority is not properly administering the Section 8 Moderate Rehabilitation Program.
- The Authority did not adequately monitor the Housing Quality Standards Inspections for the Section 8 Programs and the Home Investment Partnerships Program.
- The Authority is deficient in implementing its own subrecipient monitoring procedures.
- 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 Report sent to the U.S. Department of Housing and Urban Development.

{Expenditures and Activity Measures are summarized on the reverse page.}

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2010**

EXPENDITURE STATISTICS	2010	2009
Debt outstanding (net of unamortized discount)		
Housing Bonds.....	\$ 437,900,000	\$ 452,700,000
Multi-Family Initiative Bonds.....	184,100,000	-
Multi-Family Housing Revenue Bonds (Marywood).....	14,900,000	14,900,000
Multi-Family Bonds (Turnberry).....	5,100,000	5,100,000
Affordable Housing Program Trust Fund Bonds.....	64,300,000	66,900,000
Residential Mortgage Revenue Bonds.....	300,000	300,000
Homeowner Mortgage Revenue Bonds.....	993,200,000	1,000,400,000
Administrative Funds.....	7,900,000	6,300,000
Total.....	<u>\$ 1,707,700,000</u>	<u>\$ 1,546,600,000</u>
Cash and equivalents (proprietary funds).....	\$ 5,801,130	\$ 6,746,752
Investments (all funds).....	\$ 999,661,462	\$ 691,816,534

SUPPLEMENTARY INFORMATION	2010	2009
Expenditures of Federal Awards		
Section 8 Project-Based Cluster.....	\$ 132,427,395	\$ 133,079,327
Home Investment Partnerships Program.....	17,547,828	32,336,665
American Recovery and Reinvestment Act - Tax Credit Assistance Program.....	34,187,735	-
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families Program.....	4,506,178	4,947,904
Neighborhood Stabilization Program.....	110,036	-
National Foreclosure Mitigation Counseling Program..	3,434,937	905,929
Total.....	<u>\$ 192,214,109</u>	<u>\$ 171,269,825</u>
Average Number of Employees (unaudited).....	212	202

SELECTED ACTIVITY MEASURES	2010	2009
Total Number of Housing Bond Issues Outstanding	78	87
Housing Units Produced Since Inception (unaudited)	200,996	195,479

EXECUTIVE DIRECTOR
During Examination Period: DeShana Forney (7-1-08 thru 9-17-09)
Currently: Gloria Materre (9-18-09 thru current)

INTRODUCTION

The Financial Statement Audit for the year ended June 30, 2010 was previously released on December 2, 2010. That audit contained six audit findings. This report addresses federal and State compliance findings pertaining to the Single Audit and State Compliance Examination. In total, this document contains 12 audit findings, six of which had been reported in the Financial Statement Audit.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE ADMINISTRATION OF THE SECTION 8 MODERATE REHABILITATION PROGRAM

The Authority did not properly administer the Section 8 Moderate Rehabilitation Program. 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. A family that moves from a unit with project-based assistance does not have any right to continued assistance. As provided in the Authority's Administrative Plan for the Mod Rehab Program, the Authority passes through the Mod Rehab subsidies to the developments or the owners of the property, which the Authority considers to be subrecipients of the program. 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.

Federal auditors review program

During fiscal year 2007, 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. The

Authority is receiving administrative fees but not performing the major administrative functions under its contractual obligations

final audit report stated the Authority is receiving administrative fees to operate the Section 8 Mod Rehab program, yet it is not performing the major administrative functions HUD expects it to perform under its contractual obligations with HUD due to the manner in which the Authority delegates the performance of programmatic activities to its subrecipients. HUD is concerned that the Authority is not maintaining a waiting list for the Mod Rehab Program. Additionally, HUD is concerned that the Authority is not assessing eligibility, conducting briefings, conducting reexaminations, monitoring the assignment of appropriate unit sizes, evaluating Utility Schedules or conducting inspections regularly. The audit report states that the Authority is overseeing the administration of these functions by monitoring the properties that receive funding for units under the Section 8 Mod Rehab program. However, the entities actually administering the program do not have contracts with the Authority to administer the program, nor are they operating it in accordance with the applicable HUD regulations. The audit report further states that there is no provision in the federal law that would allow the Authority to contract its oversight functions to the owner. To allow this to occur would be a conflict of interest.

No provision in the federal law which allows the Authority to contract its oversight function to the owner

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.

Failure to administer the Section 8 Mod Rehab program in accordance with HUD regulations could result in the payment of ineligible payments, resulting in unallowable costs. (Finding 7, pages 27-29) **This finding was first reported in 2007.**

We recommended the Authority 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.

Authority agrees with auditors

Authority management concurred with the recommendation and stated that they have consulted with HUD and that they will update their administrative plan and procedures to perform certain functions previously delegated to the owners of each property. (For the previous Authority response, see Digest footnote #1.)

INADEQUATE MONITORING OF HOUSING QUALITY STANDARDS INSPECTIONS

The Authority did not adequately monitor the Housing Quality Standards (HQS) Inspections for the Section 8 Programs and the Home Investment Partnership Program.

During our sample testing of 17 (Section 8 Programs) and 7 (Home Program) developments Housing Quality Standards Inspections, we noted the following:

Section 8 Programs

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

Home Program

- In 1 of 7 developments tested, we noted the Authority didn't have proper supporting documentation on the deficiencies prior to the issuance of pass letters.
- In 4 of 7 developments tested, we noted that the monitoring schedule was not properly updated with the correct results of the most current inspection.

The Authority was missing supporting documentation and their records were not properly updated

Failure to monitor the Housing Quality Standards Inspections for Section 8 Programs and the Home Investment Partnership Program could result in sanctions from the cognizant agency and it may result in loss of funding. (Finding 8, pages 30-31) **This finding was first reported in 2008.**

We recommended the Authority strictly enforce its

Housing Quality Standards 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.

Authority agrees with the auditors

Authority management concurred with the recommendation and stated that they have 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. (For the previous Authority response, see Digest Footnote #2.)

INADEQUATE SUBRECIPIENT MONITORING PROCEDURES OF THE SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION

The Authority is deficient in implementing its own subrecipient monitoring procedures. The Authority maintains monitoring spreadsheets for site and desk monitoring visits. One important function of the Authority 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 the program.

During our sample tests made on subrecipient monitoring, the following deficiencies were noted:

Financial statements were not reviewed timely

- In 5 of the 13 financial statements submitted by the developments, we noted the Authority was not able to meet its own review deadline of 30 days. The reviews were performed 8-23 days late.
- In 7 of 14 site visits performed, we noted that 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 1 of the 14 site visits performed, we noted the Authority was not able to meet the required number of units to be tested for their monitoring requirement.

Late issuance of close-out letters

Failure to effectively monitor proper implementation of the Section 8 Program may result in overpayments or underpayments of housing assistance payments, eligibility issues, and non-compliance of developments with the program requirements. (Finding 10, pages 34-35)

We recommended that the Authority implement a process to ensure that Authority staff complies with the internal procedures developed to monitor subrecipients of the program.

Authority agrees with the auditors

Authority management concurred with the finding and stated that they have filled open vacancies in the Technical Services and Asset Management Departments to ensure all required reviews of financial statements and conducting of site visits are met within the required timelines set forth in the procedures.

INADEQUATE MONITORING OF SECTION 3 REPORTS FROM HOMEOWNERSHIP SINGLE FAMILY AND MULTIFAMILY AND INADQUATE PROCEDURES IN PREPARING SECTION 3 SUMMARY REPORT OF THE AUTHORITY

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 the U.S. Department of Housing and Urban Development.

Section 3 is a provision of the Housing and Urban Development (HUD) Act of 1968 that helps foster local economic improvement, and individual self-sufficiency. The Section 3 program requires that recipients of certain HUD financial assistance, to the greatest extent feasible, provide job training, employment, and contracting opportunities for low-or-very-low income residents in connection with projects and activities in their neighborhoods.

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

- 3 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.

Reports received from developments did not always agree with what was submitted to HUD

Errors in the Consolidated Plan Performance Report

Authority agrees with the auditors

Based on a review of the 3 Multifamily developments:

- 1 development's Section 3 Report did not agree to the final Section 3 Report maintained by the Authority and eventually submitted to HUD.
- 2 of the contractors for 1 of the developments 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. (Finding 12, pages 38-39)
This finding was first reported in 2007

We recommended that the Authority implement procedures to ensure information reported in the annual Section 3 Summary Report is complete and accurate.

Authority management concurred with the finding and stated that the Section 3 Guidelines for data collection will be revised and that management will institute a full bi-level review prior to submission of the report to HUD. (For previous Authority response, see Digest footnote #3.)

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 engagement.

AUDITORS' OPINION

We conducted a compliance examination of the Authority for the year ended June 30, 2010 as required by the Illinois State Auditing Act. A financial audit covering the year ending June 30, 2010 was issued separately.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen LLP were our Special Assistant Auditors for this engagement.

DIGEST FOOTNOTES

#1 –Inadequate Administration of the Section 8 Moderate Rehabilitation Program – Previous Authority Response

The Authority concurs with the recommendation that it continue to 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. As noted above, the Authority has responded to, and resolved, a number of issues that HUD raised, and has requested a waiver regarding the un-resolved issues.

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

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

The Authority believes that its administration has been adequate, and has continued to consult with HUD to reach a resolution on this matter. The Authority has not yet received a response from HUD to its letter of August 9, 2009, in which the Authority requested a waiver from HUD to continue to delegate certain functions to the MOD Rehab Program developments.

#2 –Inadequate Monitoring of Housing Quality Standards (HQS) Inspections – Previous Authority Response

The Authority concurs with the recommendation and has been strictly enforcing its HQS inspection procedures in place. This has resulted in improved documentation of corrected deficiencies, timely follow-up, and ensured that the Inspection Tracking Report is current. The Authority will continue to re-evaluate and update its administrative procedures to include improving the accuracy of inspection forms and to eliminate administrative errors such as misdated correspondence or inspection dates.

#3 –Inadequate Monitoring of Section 3 Reports from Single-Family and Inadequate Procedures in Preparing Section 3 Summary Report of the Authority – Previous Authority Response

The Authority concurs with the above recommendation and during 2009 has implemented procedures to confirm the accuracy of Section 3 Reports. In addition, an individual has been assigned the responsibility to coordinate the Authority activities and prepare the Section 3 Summary Report for the Authority.