



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**

**Financial Audit  
 For the Year Ended June 30, 2014**

**Release Date: December 4, 2014**

FINDINGS THIS AUDIT: 2				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>2</b>	<b>0</b>	<b>2</b>				
<b>Category 2:</b>	<b>0</b>	<b>0</b>	<b>0</b>				
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>				
<b>TOTAL</b>	<b>2</b>	<b>0</b>	<b>2</b>				
<b>FINDINGS LAST AUDIT: 3</b>							

**INTRODUCTION**

This digest covers the Illinois Housing Development Authority (Authority) Financial Audit as of and for the year ended June 30, 2014. The Authority's Compliance Examination (including the Single Audit) covering the year ended June 30, 2014 will be issued in a separate report at a later date.

**SYNOPSIS**

- **(14-01)** The Authority was unable to support the historical detail assumptions used in its allowance for loan loss calculation for both the single family loan program and the multi-family loan programs. Additionally, the Authority needs to improve their controls over loan ratings.
- **(14-02)** The Authority did not accurately record grant revenue received from the State of Illinois.

**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.

{Financial information is summarized on next page.}

**ILLINOIS HOUSING DEVELOPMENT AUTHORITY**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2014**

<b>FINANCIAL POSITION - ALL FUNDS</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and investments - unrestricted.....	\$ 746,973,062	\$ 562,240,721
Investments - restricted.....	419,596,462	555,116,035
Net Program loans receivable.....	1,530,169,877	1,597,791,954
Other.....	186,524,635	182,335,124
Total.....	<u>2,883,264,036</u>	<u>2,897,483,834</u>
Deferred Outflows of Resources.....	<u>4,539,945</u>	<u>2,485,432</u>
<b>Liabilities</b>		
Bonds and Notes Payable.....	1,282,075,926	1,446,843,575
Due to State of Illinois.....	349,800,495	324,162,453
Deposits held in escrow.....	156,651,805	164,523,449
Other.....	104,450,177	85,964,302
Total.....	<u>1,892,978,403</u>	<u>2,021,493,779</u>
Deferred Inflows of Resources.....	<u>432,911</u>	<u>112,919</u>
<b>Net Position</b>		
Net investment in capital assets.....	(5,148,090)	(6,598,606)
Restricted.....	855,838,545	767,081,508
Unrestricted.....	143,702,212	117,879,666
Total.....	<u>\$ 994,392,667</u>	<u>\$ 878,362,568</u>
<b>ADMINISTRATIVE FUND OPERATIONS</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Service Fees.....	\$ 12,379,450	\$ 13,857,848
Interest and investment income.....	22,503,234	6,833,326
Federal assistance programs.....	116,914,884	129,158,231
Other.....	11,143,569	15,922,037
Total.....	<u>162,941,137</u>	<u>165,771,442</u>
<b>Expenses</b>		
Salaries and benefits.....	15,323,689	14,777,341
Professional fees.....	429,225	591,991
Other general and administrative.....	5,838,562	1,258,009
Transfers, net.....	3,194,738	1,742,268
Financing Costs.....	634,701	310,323
Federal assistance programs.....	116,914,884	129,158,231
Provision for est. loss on loan receivable.....	(1,364,905)	(3,393,236)
Other.....	5,257,940	2,797,060
Total.....	<u>146,228,834</u>	<u>147,241,987</u>
Change in net position.....	<u>\$ 16,712,303</u>	<u>\$ 18,529,455</u>
<b>EXECUTIVE DIRECTOR</b>		
During Engagement and Current: Mary R. Kenney		

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**NEED TO IMPROVE CONTROLS OVER THE  
ALLOWANCE FOR LOAN LOSS**

**Controls over the Allowance for  
Loan Loss need improvement**

The Illinois Housing Development Authority (Authority) was unable to support the historical detail assumptions used in its allowance for loan loss calculation for both the single family loan programs and the multi-family loans programs. Additionally, the Authority has not established adequate internal controls over updating loan ratings with current information, documenting the rationale for certain loan ratings, and ensuring the allowance for loan loss is properly calculated and presented in its financial statements.

**An analysis to substantiate the  
metrics used has not been  
performed**

During our audit, we reviewed the allowance for loan loss methodology for the single family loan program and the multi-family loan programs and noted the Authority could not produce an analysis supporting the rationale for its calculation of the loan loss reserve factors (probability of default and expected loss) that are used in its allowance for loan loss calculation and has not recently performed an analysis to further substantiate the ongoing appropriateness of the metrics used in the allowance for loan loss estimate.

**Back-testing of the allowance not  
performed**

The Authority has not documented how the loan loss reserve factors have been historically calculated and over what period the probability of default is measured. Further, the Authority did not perform back-testing (typically performed on an annual basis) on its allowance for loan loss estimates to determine whether the allowance for loan loss estimates that have been historically sufficient to cover incurred losses over a period of time that aligns with the period used to estimate the probability of default.

**Some loan ratings tested were not  
reasonable**

Some of the problems we noted during our detailed testing are as follows:

- We tested 40 multi-family loan relationships risk ratings (61 loans) as of June 30, 2014. We found that 11 of 40 (15 of the 61 loans) relationships had risk ratings that were not reasonable.
- During the testing of the multi-family loan testing we became aware that the Authority was not using, in all cases, the most recent financial statements of the borrower when evaluating the risk rate rating. This practice results in a timing lag between when updated financial statement information is received and when the associated impact to the risk rating is reflected.

**The Authority is not current in  
updating the risk rating with current  
financial statement information**

- As a result of the timing lag noted above, two differences in Home loan ratings resulted in an under reserve of \$633,445 and four differences in Home loan ratings resulted in an over reserve of \$306,997 for the Home Program Fund. A proposed adjustment for these differences was not recorded by the Authority.
- Three differences in Housing Trust Fund loan ratings resulted in an over reserve of \$456,625 and one difference in a Housing Trust Fund loan rating resulted in an under reserve of \$161,283 for the Illinois Affordable Housing Trust Fund. A proposed adjustment for these differences was not recorded by the Authority.

Furthermore, the Authority is not consistently applying the allowance for loan loss methodology for the Build Illinois Bond Program Fund, the Hardest Hit Fund, the Administrative Fund, and the Single Family Program Fund as noted below:

**No allowance recorded for the Build Illinois Bond Program Fund**

- The Build Illinois Bond Program Fund had a net program loans receivable balance at June 30, 2014 of \$2,717,000, however, the Authority did not record an allowance for loan loss related to these loans, as these loans were initially funded in the second half of the Authority's 2014 fiscal year. An adjustment was not recorded in the Authority's financial statements.
- The Authority's reserving methodology for the Hardest Hit Fund is to reserve 50% of outstanding program loans receivable, however, during fiscal year 2014 the percentage of the allowance for loan loss (\$17,304,094) to the outstanding program loans receivable balance (\$26,653,653) was calculated at 65%. An adjustment was not recorded in the Authority's financial statements.

**The Authority's Administrative Fund had an over reserve of \$1,576,023**

- The Authority erroneously included twenty-two Section 1602 grants totaling \$75,185,477 in its calculation of the loan reserve for the Administrative Fund, however, these amounts were properly excluded from the Authority's outstanding loan receivable balance at June 30, 2014. This resulted in an over reserve of \$1,576,023. The difference was adjusted and corrected in the Authority's financial statements.

**The Authority's Single Family Program Fund had an over reserve of \$802,111**

- The allowance for loan losses for the programs loan receivable within the Single Family Program Fund were incorrectly calculated at June 30, 2014, resulting in an over reserve of \$802,111. A proposed adjustment was not recorded by the Authority. (Finding 1, pages 83-86).

We recommended the Authority review its current policies and procedures to ensure the assumptions used in the allowance for loan loss calculation are appropriate, loan rating assessments are performed timely based on available financial information, and that loan ratings are adequately documented.

**Authority agrees with auditors**

Authority management agreed with our finding.

**INACCURATE RECORDING OF GRANT REVENUE**

**Grant revenue not properly recorded**

The Illinois Housing Development Authority (Authority) did not accurately record grant revenue received from the State of Illinois.

The grant revenue received from the State of Illinois recorded by the Authority is appropriated to the Illinois Department of Revenue (IDOR) by the General Assembly and the funds are held by the State Treasurer. The Authority submits payout requests to IDOR for expenses incurred to administer State grants and the State Treasurer will pay funds to the Authority from the funds appropriated to IDOR.

During fiscal year 2014, the Authority submitted payout requests to IDOR for expenses incurred during the fiscal year to administer State grants. The State Treasurer paid certain funds to the Authority during the State lapse period (July 1, 2014 through August 31, 2014), however, the Authority did not properly record these payout requests as of June 30, 2014. As a result, we noted the following adjustments were required to accurately record the lapse period appropriations:

**\$10,107,604 adjustment to record grants receivables and grant revenue**

- \$1,250,000 adjustment was made to the Illinois Affordable Housing Trust Fund to record a grant receivable.
- \$10,107,604 adjustment was made to the Rental Housing Support Program Fund to record a grant receivable and grant revenue.
- \$2,294,572 adjustment was made to the Foreclosure Prevention Program Fund to record a grant receivable and grant revenue.

**\$6,869,687 adjustment to record grant revenue**

- \$6,869,687 adjustment was made to the Abandoned Property Program Fund to record grant revenue. (Finding 2, pages 87-88)

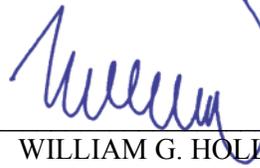
We recommended the Authority review its current policies and procedures to ensure grant revenue is accurately reported in the financial statements.

**Authority agrees with auditors**

Authority management agreed with our finding.

**AUDITOR’S OPINION**

Our auditors stated the financial statements of the Authority as of June 30, 2014, and for the year then ended, are fairly stated in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH:TLK

**SPECIAL ASSISTANT AUDITORS**

Our Special Assistant Auditors for this audit were KPMG LLP.