

**MINUTES OF THE OCTOBER 23, 2008 MEETING OF THE AUDIT COMMITTEE OF  
THE ILLINOIS FINANCE AUTHORITY**

The Audit Committee (the "Committee") of the Illinois Finance Authority (the "IFA"), pursuant to notice duly given, held an Audit Committee Meeting at 7:30 a.m., on October 23, 2008 at the Illinois Finance Authority, 180 N. Stetson, Suite 2555, Chicago, Illinois:

**Members Present**

William A. Brandt, Chair  
Ronald E. DeNard  
Terrence M. O'Brien

**Members absent:**

None

**Staff:**

Christopher B. Meister, General Counsel & Acting Executive Director  
Karen A. Walker, Director of Financial Services & Acting Executive Director  
Stuart Boldry, Chief Operating Officer  
Ximena Granda, Interim Treasurer  
Carla B. Burgess Jones, Board Secretary

**Other:**

Jon Fox, Office of the Auditor General  
Joseph Evans, McGladrey & Pullen  
Sean Hickey, McGladrey & Pullen  
Jeff Pruyn, IFA Accounting Consultant

**GENERAL BUSINESS**

**Call to Order and Roll Call**

The meeting was called to order at 7:36 a.m. with the above members present.

**Opening Comments**

Mr. Meister opened the meeting by stating that specific questions will be addressed by Mr. Fox on behalf of the Office of the Auditor General. Mr. Meister also stated that no one is, or would be, participating in today's meeting via telephone.

**Approval of Minutes**

Chairman Brandt called for a motion to approve the minutes of the July 8, 2008 Audit Committee meeting. Motion was moved by Mr. O'Brien and seconded by Mr. DeNard. Minutes of the July 8, 2008 Audit Committee meeting were unanimously approved.

**Conversation with a Representative from the Office of the Auditor General**

Chairman Brandt commented that audit findings from fiscal years 2005 and 2006, as well as the issues surrounding the findings, has been satisfactorily resolved. Mr. Fox

mentioned that in the FY 2007 audit there was no material financial or audit compliance findings. Mr. Fox did mention that there were eight state compliance findings. A discussion ensued concerning the state compliance findings mentioned by Mr. Fox; the findings were not being considered as serious in the same way that the material financial or audit compliance findings would be viewed. Mr. Fox agreed with this consideration.

Mr. Fox then stated that he would briefly review how the audit process works. Mr. Fox stated that he would not address any questions concerning audit costs, and that any questions concerning audit costs would have to be addressed by his supervisor, Mr. Bullard. Lastly, Mr. Fox stated that he would be willing to address any questions about FY 2007 findings. Mr. Fox then stated the following:

- (1) Mr. Fox formally introduced the participants from McGladrey & Pullen.
- (2) Mr. Fox stated that The Office of the Auditor General (“OAG”) is an arm of the Legislative Branch of State Government and that the OAG conducts three separate audits, and opinions are issued for each audit. Mr. Fox further stated that the OAG operates under the auspicious of the Illinois State Audit Act.
- (3) Mr. Fox stated that the financial audit follows Generally Accepted Government Auditing Standards (“GAGAS”) and incorporates the American Institute of Certified Public Accountants (“AICPA”) standards in addition to other requirements.
- (4) Mr. Fox discussed the Compliance Audit along with areas of examination.
- (5) Mr. Fox discussed the Federal Single Audit which is a Federal requirement covering compliance and internal audit controls concerning major programs. Mr. Fox stated that there is only one such federal program subject to this audit, and that there are fourteen separate compliance requirements which are covered.
- (6) Mr. Fox stated that there are required communication responsibilities with the Illinois Finance Authority (“IFA”) Management, the IFA Audit Committee, and the IFA Board of Directors. Those communication responsibilities are:
  - (a) Engagement letter;
  - (b) Communication with management during the course of the audit concerning potential findings;
  - (c) Draft of material and immaterial agency findings;
  - (d) Exit conference;
  - (e) Management response;
  - (f) Final reports issued (at this point the audit becomes a public document);
  - (g) Statement on Auditing Standards (“SAS”) letter that is issued to the IFA Board of Directors. The SAS letter describes the audit issues encountered during the audit process.

A discussion then ensued concerning how the Office of the Auditor General (“OAG”) and McGladrey & Pullen work together throughout the course of an audit.

Chairman Brandt concluded this part of the conversation by recapping the progress that has been achieved by the IFA Audit Committee and Staff and emphasized the Authority’s interest in monitoring costs associated with the audit process given an

anticipated decrease in revenues earned by the Authority due to current economic conditions. Chairman Brandt also stated that the Authority is self-funded, which makes it even more important that all costs be closely monitored.

Discussions and questions ensued regarding cost of the audit to the IFA, even broader based questions concerning how costs in general are calculated were raised. Mr. Fox reminded the Committee that he was not in a position to address those questions.

Further discussion ensued about the nature of materiality and immateriality; expectations for year over year improvement in efficiency of conducting the audit; the process for selecting and replacing auditors; anticipated gains in efficiency due to overlap that occurs between the three different audits; the internal audit requirements across all three audits; and the lists of mandates that affects the IFA.

Audit Committee Members questioned Mr. Fox regarding the lists of mandates in the OAG's and McGladrey & Pullen's possession and why it is not shared with the IFA. Mr. Fox responded that it is a question the he has received often from other agencies and that it is a policy decision of the Auditor General not to share this information with any agencies. Members of the Audit Committee expressed that this practice was not conducive to good team work. Mr. Fox suggested that the IFA contact the Legislative Reference Bureau to see if they could be of assistance.

### **Status of Current Audit**

Ms. Granda indicated that the audit was progressing. Ms. Granda stated that there may be a finding concerning segregation of duties between herself (the Accounting Manager) and the position of CFO (which is currently vacant).

### **Review of Financials**

Ms. Granda stated that a complete review of the financials would be covered at the Committee of the Whole meeting to be held immediately following today's Audit Committee meeting.

### **Risk Assessment**

Mr. Meister reported on the risk assessment project being undertaken with Deloitte.

### **Investment Report**

Ms. Walker gave an investments report update and referenced a report that was included in the meeting materials for today's Audit Committee meeting.

### **Legislative Audit Commission**

Mr. Meister reported on the Legislative Audit Commission meeting that is scheduled to take place in December, 2008. Mr. Meister stated that given the nature of the FY 2007 audit findings that he does not anticipate any serious concerns to be addressed by

members of the LAC. Mr. Meister mentioned that Chairman Brandt is planning to attend the LAC hearing.

### **IFA Resolution on Mandated Committee Designees**

Mr. Meister briefly discussed the resolution which would be presented at the Committee of the Whole meeting directly following today's Audit Committee meeting.

### **Other Business**

Chairman Brandt asked the Committee if there was any other business to come before the Committee. There being none, Chairman Brandt requested a motion to adjourn the meeting. A motion was made by Mr. O'Brien and seconded by Mr. DeNard. The October 23, 2008 meeting of the Audit Committee adjourned at approximately 8:41 a.m.

Respectfully Submitted,

Carla B. Burgess Jones, Secretary