

1 ILLINOIS FINANCE AUTHORITY
2 AUDIT PLUS COMMITTEE SPECIAL MEETING
3 September 10, 2019, at 9:01 a.m.
4

5 REPORT OF PROCEEDINGS had at the Audit Plus
6 Committee Meeting on September 10, 2019, at the hour
7 of 9:00 a.m., pursuant to notice, at 160 North
8 LaSalle Street, Suite S-1000, Chicago, Illinois.
9

10 APPEARANCES:

ILLINOIS FINANCE AUTHORITY

11 AUDIT PLUS COMMITTEE MEMBERS

COMMITTEE CHAIRMAN MIKE GOETZ

12 MR. WILLIAM HOBERT

MR. LERRY KNOX

13 MR. GEORGE OBERNAGEL

MS. ROXANNE NAVA

14 MS. ROGER POOLE

MS. BETH SMOOTS

15 MR. ERIC R. ANDERBERG, *ex officio*, non-voting

16 ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

MR. CHRISTOPHER B. MEISTER, IFA Executive Director

17 MS. ELIZABETH WEBER, General Counsel and Legal

18 Advisor to the Board

MR. RYAN OECHSLER, IFA Deputy General Counsel

19 MS. XIMENA GRANDA, Manager of Finance and Administration

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SULLIVAN REPORTING COMPANY, by

25 Kristin Brajkovich, CSR

1 CHAIRMAN GOETZ: I would like to call the
2 meeting to order. Will the Assistant Secretary
3 please call the roll?

4 OECHSLER: Certainly. The time is 9:01 a.m.
5 Mr. Hobert.

6 HOBERT: Here.

7 OECHSLER: Knox.

8 KNOX: Here.

9 OECHSLER: Ms. Nava.

10 NAVA: Here.

11 OECHSLER: Mr. Obernagel.

12 OBERNAGEL: Here.

13 OECHSLER: Mr. Poole.

14 POOLE: Here.

15 OECHSLER: Ms. Smoots.

16 SMOOTS: Here.

17 OECHSLER: Committee Chair Goetz.

18 GOETZ: Here.

19 OECHSLER: And Chair Anderberg, ex officio,
20 non-voting.

21 ANDERBERG: Here.

22 OECHSLER: Committee Chair Goetz, a quorum of
23 committee members has been constituted.

24 CHAIRMAN GOETZ: Thank you. Does anyone wish

1 to make any additions, edits, or corrections to the
2 minutes from the June 11, 2019, meeting?

3 (No response.)

4 Hearing none, I would like to request
5 a motion to approve the minutes. Is there such a
6 motion?

7 MR. OBERNAGEL: I'll make a motion,
8 Mr. Chairman.

9 MR. HOBERT: I'll second.

10 CHAIRMAN GOETZ: All those in favor.

11 (Chorus of ayes.)

12 Opposed.

13 (No response.)

14 The ayes have it. So we move on to
15 Ms. Granda, background on Illinois Finance Authority,
16 Internal Audit Function. Six.

17 MS. GRANDA: Good morning, everyone. I will be
18 providing some background information on the internal
19 audit function.

20 In fiscal year 2013, the Authority
21 received a finding which was a failure to establish
22 an internal audit function for the Fiscal Control and
23 Internal Auditing Act. The act states that each
24 designated state agency shall maintain a full-time

1 program of internal audit. Ms. Elizabeth Weber, our
2 general counsel, will discuss further on this issue.

3 In response to this finding, the
4 Authority undertook a procurement for internal audit
5 services in fiscal year 2014. A firm was selected,
6 but the firm services were unsatisfactory and the
7 contract was terminated.

8 Due to budget concerns, the Authority
9 did not take the initiative to contract with another
10 firm or plan to hire. The Authority continued to
11 receive the findings from fiscal year 2014 to fiscal
12 year 2017.

13 In fiscal year 2016, CMS' internal
14 audit division helped the Authority to complete the
15 generally accepted accounting principles for the GAAP
16 audit, which was a mandate from the Financial
17 Reporting Standard Act that sunset in the end of
18 fiscal year 2016.

19 Since CMS' internal audit division did
20 a great job on our GAAP audit, the Authority decided
21 to start discussions with CMS on the internal audit
22 function. After a series of discussions, the
23 Authority and CMS entered into an intergovernmental
24 agreement at the end of fiscal year 2017. CMS'

1 internal audit division has served as the chief
2 internal auditor for the Authority and has provided a
3 full-time program of internal audit. To date, CMS'
4 internal audit division has completed eight audits
5 and two are in progress.

6 The internal audit function is a
7 management tool that has helped the Authority to
8 prepare for its external audits. The Authority feels
9 that there was a correlation in fiscal year 2018,
10 when the Authority did not receive any findings in
11 the fiscal year 2018 financial audit.

12 The Authority has offered to pay CMS'
13 internal audit division for their services. However,
14 the services provided have been free of charge.

15 MEISTER: To date.

16 GRANDA: To date. Are there any questions?
17 I'm not sure whether Director Meister has anything to
18 add.

19 MEISTER: Could you just name for the record
20 the actual subject matter audits? I think it's
21 useful for everybody. This is sort of a dull -- or
22 not dull. Audits are never dull. It's a dry topic,
23 but I think it's a comprehensive list.

24 GRANDA: So the eight audits that were

1 completed by CMS were a locally held funds audit,
2 a statutory mandates audit, a personnel, payroll,
3 and personal information audit, an expenditures, payables,
4 and equipment audit, a bond compliance audit, an IT
5 security practice audit, a purchasing contract and
6 leasing audit, and a revenues, receivables, and
7 receipts audit.

8 And the ones that are ongoing are the
9 purchasing, contract, leasing, and intergovernmental
10 agreements audit, a locally held funds audit and a petty
11 cash audit.

12 CHAIRMAN GOETZ: Any questions?

13 NAVA: That was smart of you to have CMS.

14 MEISTER: You know, Roxanne, I was hoping that maybe
15 you would share with the committee what you said. I think
16 that you have had hard and firsthand experience with
17 this process.

18 NAVA: Oh, yeah. I think it's really smart of
19 Chris to have another sister agency come in and do
20 the audit, not because it's free but it's somebody
21 who understands government processes, you know,
22 understands, frankly, the loopholes and red tape that
23 you have to go through to conduct business.

24 And so you want somebody who

1 understands your business but has an objective view
2 as well, and it probably -- they probably offer
3 better suggestions as well, too. So very smart.

4 MEISTER: That was our experience.

5 NAVA: And it's also good that you broke it up
6 because then you actually take the time to understand
7 the different parts of the business.

8 MEISTER: Yes.

9 NAVA: At least somebody else does.

10 MEISTER: Yes, and that was since it
11 was -- or since it is a statutory mandate, it was
12 particularly -- we needed to comply, but I think it
13 really had an added benefit of helping us make better
14 decisions and implement things in a better, more
15 efficient way.

16 Sadly, there's been a bump in the road
17 on this, and General Counsel Weber will go into the
18 implications.

19 WEBER: I'm here to discuss recent external
20 developments related to the internal audit function,
21 and what was just passed around is a copy of a recent
22 opinion of the Attorney General, which was issued in
23 August in response to an inquiry from the Auditor
24 General that has implications for several state

1 agencies or several state departments, including
2 the IFA.

3 The question pertains to the Fiscal
4 Control and Internal Auditing Act, which by its
5 acronym is referred to as FCIAA, which requires that
6 certain designated state agencies, which includes
7 certain departments of state government and the IFA,
8 establish a program of internal auditing.

9 The question in this opinion arose out
10 of an audit finding that the Department of Insurance
11 received during a compliance examination conducted by
12 the Auditor General. The Department of Insurance had
13 entered into an intergovernmental agreement with CMS
14 to provide internal auditing services. CMS was also
15 acting as chief internal auditor for eight designated
16 state agencies, including the IFA.

17 The finding concluded that the
18 consolidation of internal audit functions by
19 designated state agencies entering into an
20 intergovernmental agreement under which CMS' chief
21 internal auditor acts as a chief internal auditor for
22 the Department of Insurance does not meet the
23 requirements of FCIAA.

24 As we previously discussed, the IFA

1 has an intergovernmental agreement with CMS that was
2 entered into in June of 2017, pursuant to which CMS
3 agrees to provide internal audit functions to the IFA
4 regarding its two-year audit plan. And, by the way,
5 CMS is the Department of Central Management Services.

6 At the time both CMS and the Authority
7 examined issues under FCIAA and focused on the
8 statutory requirement to maintain a full-time program
9 of internal auditing. Both IFA and CMS believe the
10 structure they put in place met the statutory
11 requirements and the intent of FCIAA.

12 The Attorney General in the opinion
13 recognized that there's a provision of FCIAA which
14 could be read to authorize CMS to perform internal
15 audits of any state agency. However, when read in
16 conjunction with other provisions in the act and
17 considering certain legislative history, he came to a
18 different conclusion.

19 This is a matter that applies across
20 state government, and I understand it's being
21 examined at a statewide level. Until that process is
22 complete, the IFA is continuing to work with CMS
23 pursuant to the intergovernmental agreement. To date
24 the external auditors have not raised this as an

1 issue, but we expect it may be raised in the future.

2 I would just like to add a few
3 comments on the issuance of opinions by the Attorney
4 General. The Attorney General has had a policy on
5 furnishing these opinions since 1962, and opinions
6 will be given to state officers and certain members
7 of the General Assembly upon legal and constitutional
8 questions relating to the duties of those officers or
9 members. The Attorney General will not furnish
10 opinions to officers of political subdivisions of the
11 state, absent specific statutory authority.

12 And as an example, in 2007, the IFA
13 presented a question to the AG, and we were told that
14 we were not entitled to their opinions because we are
15 a separate agency. The Governor's Office deems the
16 opinions of the Attorney General to be authoritative.

17 Any questions or comments?

18 CHAIRMAN GOETZ: What does that mean?

19 WEBER: It means that even if you have a
20 different view and you chose to pursue it in a court,
21 the Governor's Office is treating this as final.

22 CHAIRMAN GOETZ: Okay. Because Attorney
23 General opinions do not carry the weight of law,
24 right?

1 WEBER: I raise a question whether the other
2 sources -- I was told that they treat this as
3 authoritative.

4 NAVA: What are the other agencies doing?

5 WEBER: I don't know. By the way, the other
6 agencies that were involved that had IGAs were the
7 Department of Agriculture, Corrections, Financial and
8 Professional Regulations, Human Rights, Insurance,
9 Labor, and then the IFA in addition to CMS, so those
10 are the agencies that were involved. We are the only
11 entity that is a separate -- separate political body.
12 All of the other are departments under the governor.

13 CHAIRMAN GOETZ: So what is the alternative?

14 WEBER: Well, in the AG opinion they did
15 mention the route of going to the General Assembly.

16 CHAIRMAN GOETZ: I saw that, yeah.

17 WEBER: There does not seem to be any movement
18 at this point to do anything. The other is to hire a
19 chief internal auditor under the act. Anyone who is
20 hired as a chief internal auditor has a five-year
21 term and cannot be dismissed except for cause. So it
22 would create a position here that has job protection
23 that no one else has at the agency.

24 ANDERBERG: So what is your projection of what

1 that would add to costs?

2 MEISTER: It would be costly because the
3 statute prescribes certain requirements of the
4 position that -- and, again, we have not had
5 firsthand discussions with the other agencies, but
6 they have said -- or we have heard through CMS
7 internal audit that positions have been posted and
8 nobody has responded because the price point that the
9 other agencies were willing to pay versus the years
10 of experience in the various detailed requirements,
11 nobody met the requirements and was interested in
12 working for the state -- the state level.

13 I mean, I think definitely it's -- we
14 have much greater flexibility than state agencies do
15 on salaries. I suspect it is a position that is
16 probably in excess of \$100,000. The other very real
17 downside for us is, with all of those specific internal
18 audits that Six has named, the CMS team put together
19 various teams that have various expertise on those
20 various subject matters, including IT and
21 receivables and purchasing, and we have had a very
22 good experience because, obviously, as Roxanne
23 pointed out, different parts of the business have
24 different --

1 CHAIRMAN GOETZ: And we would not have that
2 expertise.

3 MEISTER: We would not have that expertise.

4 CHAIRMAN GOETZ: Have we gotten any direction
5 from the Governor's Office?

6 MEISTER: Basically, they are telling
7 the departments to post the position, but until you
8 post it, to continue to work with CMS because they
9 feel it's best to continue to have this function be
10 available to agencies.

11 KNOX: Did they have the timeline?

12 ANDERBERG: Let's just quietly let this slide.

13 KNOX: Maybe they forgot.

14 ANDERBERG: Nothing changes. That's good.

15 MEISTER: Again, something to raise that was
16 not -- I think Elizabeth and Six did a great job
17 of going over a multiyear, very dry, somewhat
18 counterintuitive summary of state government policy.

19 A couple of items. The current
20 arrangement with CMS was initiated by the IFA, and it
21 was successful. And the CMS internal audit crew then
22 spread it through other agencies. This conversation
23 that we had in June of 2017 was a far different
24 conversation than the one that we had in '13 or '14,

1 when we met with a large group of CMS internal
2 auditors. We asked them for the same thing, and they
3 told us no and then they left. So we found it to be
4 very productive.

5 Obviously, the law can be read
6 different ways, and the Attorney General's view is
7 authoritative. Elizabeth has been talking to a
8 lawyer in the Governor's Office. I had the
9 opportunity to raise it for the first time yesterday
10 with the folks in the Governor's Office I work with.
11 So I think that the ball is in play. We don't
12 know -- I mean, the current plan is, we are going to
13 continue working with CMS because it's been
14 productive.

15 I suspect that we will receive a
16 compliance audit finding in the upcoming two-year
17 audit. As Elizabeth pointed out, we have some --
18 there are some legal -- there are some aspects of our
19 legal existence that distinguish us, as a body
20 politic and corporate, from co-state agencies.

21 So that at least, let's just say,
22 cracks the door to the possibility that we may be
23 able to pursue an informal persuasion process, but
24 that is not assured.

1 So, Six, why don't you for the members
2 go through what the timeline is going to be for the
3 completion of the audit, what the probable cost is
4 going to be. Again, we are going to do this again
5 for the other members. I know that we have a large
6 percentage here, but just given the public nature of
7 this process -- and I'll just set the stage,
8 especially for the newer members. This is a state
9 constitutional issue. The Auditor General is a state
10 constitutional officer who is not voted on by the
11 people and serves a ten-year term and who is voted on
12 by all four caucuses of the General Assembly. The
13 current Auditor General, Frank Mautino, was a longtime
14 leader in the state house of representatives and,
15 frankly, has traditionally been a supporter and a
16 friend of the Authority.

17 His predecessor was -- Bill Holland
18 was the longtime chief of staff for the former Senate
19 President Phil Rock, so they are typically folks that
20 are deeply versed in state government, but there is a
21 cost shifting. It's an expensive proposition for the
22 Authority issue here, but it's one that is mandatory
23 and lies not just in statute but in separation of
24 powers in the state constitution. And it's something

1 that we -- for the newer members, we spend an awful
2 lot of time, resources, and money trying to address.
3 And as Roxanne knows, having been in state
4 government, you know, a leadership position,
5 typically these come out, we receive notice 24 to
6 48 hours in advance. The governor's -- I'm sorry.
7 The Auditor General's office then posts the audit on
8 their website along with a three- to six-page digest,
9 of which they will take some of the audit findings out of
10 and go into greater specificity.

11 Generally, in a more dramatic prose --

12 MS. NAVA: It's never good.

13 MEISTER: Yeah. Let's just say, a more
14 dramatic prose than the actual finding itself. So,
15 again, the team here, we realize that all of the
16 board members are doing to volunteer public service.
17 You all have professional lives, reputations, so we
18 take a lot of care to try and fight these things off.
19 We are not always successful. But, Six, share the
20 runway and the cost and what we are going into over
21 the next several months.

22 GRANDA: So our typical external audits roughly
23 last between six and eight months, so they usually
24 come in towards the end of the fiscal year, through

1 June, so they will do their preliminary work or their
2 fieldwork. They'll leave usually through July and
3 August and then they'll come back in October and
4 September in order to do their second round of fieldwork.

5 By the end of September, we are
6 supposed to have, for the external auditors, our
7 first draft of our financial audit. So when they go
8 through their process, they will go ahead and then
9 submit that to the Auditor General. And estimated
10 right now is a release time towards the end of
11 December -- the end of December is when they will
12 post -- as Director Meister mentioned, they'll post
13 on the website with their digest and so forth. That
14 is for the financial audit.

15 For the compliance audit, it's the
16 same procedures. They will do their testing because,
17 again, compliance is where they will write all of the
18 findings, so we still have to go through that process
19 of providing all of the compliance reports. I
20 believe they are due by the end of November with --
21 they'll come back to us, providing if there's any
22 audit findings or if there's anything that we are
23 able to provide to eliminate those findings, and we
24 work very hard to make sure that we get rid of those

1 findings. So estimated time for the release of the
2 compliance is sometime in the end of January of 2020.
3 So as Director Meister mentioned, we have paid
4 year-to-date \$2.7 million in audit costs, since the
5 creation of the Authority.

6 MEISTER: Since '04.

7 GRANDA: Since '04, so it's costing us roughly
8 about -- approximately about \$180,000 a years.

9 MEISTER: Although, with the financial audit
10 plus the two-year -- the two-year compliance audit,
11 which is basically all of the state statutory
12 mandates plus whatever else they deem appropriate in
13 their professional judgment, I think the estimated
14 bill for the two-year and the one-year is roughly --

15 GRANDA: It's about \$240,000, I think, is going
16 to be for this financial audit and the two-year
17 compliance.

18 MEISTER: And there's a certain cost shifting
19 that goes to fund the -- all of the functions of the
20 Auditor General's office. I mean, one of our
21 national organizations did a survey of other conduit
22 issuers in other states, and I think those audit
23 costs are much more similar to what you would imagine
24 a unit of local government and a private business or

1 a nonprofit of our size and a budget and balance
2 sheet have something on the order of \$20,000 to
3 \$40,000. I mean, we have had some victories over
4 time. We used to have the compliance audit on an
5 annual basis rather than on a two-year basis, so it
6 was double audit all of the time. Basically, the
7 auditors were here at the same time they were handing
8 the findings to us. One year we had the entrance
9 conference the same -- within a day of the release
10 of the prior audit. So how can I miss you when you
11 never leave?

12 But it's -- Mike and I have talked --
13 again, there's an opinion. There's representations.
14 I think that we have done the interviews with the
15 board members. The fraud interviews.

16 GRANDA: I believe we have, yes.

17 GOETZ: Yeah.

18 MEISTER: Mike will be notified. Basically as
19 soon as we know information, given that this is a
20 public-facing process, we make every effort to
21 make -- to let the board know what is coming down the
22 pike. The Auditor General's office has very firm
23 views on what goes into the public domain before they
24 release their report, but I think we have gotten

1 pretty good at communicating with the board as to
2 stuff.

3 At this stage, other than a likely
4 internal audit finding, we are not aware of anything
5 else. Last year we had no financial audit findings,
6 but it's -- sorry to introduce state government to
7 you in this way.

8 ANDERBERG: I'm not trying to wiggle out of
9 anything, but there's no delineation between the IFA,
10 which is a self-funded authority, versus the agencies
11 which are taxpayer funded. There's no wiggle room
12 to -- anywhere in the language?

13 MEISTER: Auditor General authority with the
14 IFA was written into the consolidation statute in
15 '03, so it's sort of part of our DNA.

16 GOETZ: So I think that we continue to do what
17 we are doing until we are told otherwise. Any other
18 questions? We are running out of time. Is there any
19 other business to come before the members?

20 MEISTER: Just one quick thing. Again, we take
21 some pains not to repeat in the big meeting what we
22 do here, but given -- we want to get onto the
23 record -- Six is going to do sort of the summary
24 under other business and then list all of the

1 other --

2 CHAIRMAN GOETZ: Then you have me doing some
3 comments, too.

4 MEISTER: Yes. So we'll keep that portion
5 brief, but just to let you know that that is part of
6 the plan.

7 CHAIRMAN GOETZ: Is there any other public
8 comment for the committee?

9 (No response.)

10 Hearing none, I would like to request
11 a motion to adjourn. Do I hear such a motion?

12 KNOX: So moved.

13 POOLE: Second.

14 CHAIRMAN GOETZ: All in favor.

15 (Chorus of ayes.)

16 OECHSLER: The time is 9:29.

17 (WHICH WERE ALL THE PROCEEDINGS
18 HAD IN THE ABOVE-ENTITLED CAUSE
19 ON THIS DATE.)

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1 STATE OF ILLINOIS)

2) SS:

3 COUNTY OF C O O K)

4 I, KRISTIN C. BRAJKOVICH, a Certified Shorthand
5 Reporter of the State of Illinois, do hereby certify
6 that I reported in shorthand the proceedings had at
7 the meeting aforesaid, and that the foregoing is a
8 true, complete and correct transcript of the
9 proceedings of said meeting as appears from my
10 stenographic notes so taken and transcribed under my
11 personal direction.

12 IN WITNESS WHEREOF, I do hereunto set my hand
13 at Chicago, Illinois, this 27th day of September,
14 2019.

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18 Certified Shorthand Reporter

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20 C.S.R. Certificate No. 84-3810.

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