

1 ILLINOIS FINANCE AUTHORITY
2 AUDIT PLUS COMMITTEE SPECIAL MEETING
3 July 12, 2016 at 2:31 p.m.

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Report of Proceedings had at the Audit
Plus Committee Meeting of the Illinois Finance
Authority on July 12, 2016, at the hour of 2:30 p.m.,
pursuant to notice, at 160 North LaSalle Street,
Suite S1000, Chicago, Illinois.

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1 APPEARANCE:

2 COMMITTEE MEMBERS

3 MR. GILA BRONNER, Chair

4 MR. LYLE MCCOY
MR. JOHN YONOVER (Vi a audi o conference)
5 MR. ERIC ANDERBERG (Vi a audi o conference)
MR. LERRY KNOX (Vi a audi o conference) (Added)
6 MR. ROGER POOLE (Vi a audi o conference)
MR. R. ROBERT FUNDERBURG, Ex-Offi ci o (Added)
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9 ILLINOIS FINANCE AUTHORITY STAFF MEMBERS

10 MR. BRAD FLETCHER, Assi stant Vi ce-Presi dent
MR. CHRISTOPHER MEISTER, Executi ve Di rector
11 MS. ELIZABETH WEBER, General Counsel
MS. SIX GRANDA
12 MS. MELINDA GILDART, CFO
MR. PETER SKOSEY
13 MS. DENISE BURNS

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GUEST

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MS. KRYSTI RINALDI, IEPA

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1 CHAIRWOMAN BRONNER: I'd like to call the
2 meeting to order. Will the Assistant Secretary
3 please call the roll?

4 FLETCHER: Certainly. The time --

5 CHAIRWOMAN BRONNER: And the time -- oh.

6 FLETCHER: The time is 2:31. I'll call the
7 roll.

8 Mr. Anderberg on the phone?

9 ANDERBERG: Here.

10 FLETCHER: Mr. McCoy?
11 MCCOY: Here.
12 FLETCHER: Mr. Pool e, on the phone?
13 POOLE: Here.
14 FLETCHER: And Chai rwoman Bronner?
15 CHAI RWOMAN BRONNER: Here.
16 YONOVER: Sorry. Late arrival . John Yonover
17 on the phone. Sorry, guys.
18 FLETCHER: And Mr. Yonover.
19 Committee Chairwoman, we have a
20 quorum of the Commi ttee.
21 CHAI RWOMAN BRONNER: Thank you.
22 Does anyone wish but -- to kick off
23 our meeting today, does anyone wish to make any
24 addi tions, edi ts, or correcti ons to the mi nutes from

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1 March 1, 2016?
2 Hearing none, I would like to
3 request a moti on to approve the mi nutes.
4 MCCOY: So moved.
5 CHAI RWOMAN BRONNER: So moved. Is there a
6 second?
7 ANDERBERG: Second.
8 KNOX: Hi , thi s is Lerry.
9 CHAI RWOMAN BRONNER: Hi , Lerry. All those in
10 favor -- you're in time to approve the mi nutes. All
11 those in favor?
12 (A chorus of ayes.)
13 CHAI RWOMAN BRONNER: Opposed? The ayes have
14 it.

15 We will move now to the presentation
16 and consideration of resolutions relating to adopting
17 the FY 2017 Illinois Finance Authority Budget.

18 Mr. Meister.

19 MEISTER: Thank you, Chair Bronner.

20 Members of the Committee, I will
21 turn your attention to the information in your
22 packet. The budgeted revenue and spending targets
23 for the upcoming fiscal year 2017 are very close,
24 within a couple of tens of thousands of dollars to

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1 last year's 4.9 million dollars. As the Committee
2 Members know, the bulk of our revenue come from
3 project closing fees in connection with healthcare
4 and senior living led by Pamela Lenane and education,
5 general nonprofit, business, industry, local
6 government led by Rich Frampton. Those projections
7 are 1.95 million or close to 2 million dollars for
8 healthcare and 1.7 million dollars for Rich's area.

9 These are the -- as I mention, these
10 are the Authority's main revenue drivers. These
11 figures are reasonable given both the identified
12 projects and the pipeline from both Richard and Pam
13 and the likely continued low interest rates.

14 I will also note for the newer
15 Members of the Committee, my past work with Pam and
16 Rich for predicting revenue has been very good given
17 their deep knowledge of the respective sectors. A
18 cautionary note, we can always fall short.

19 Who has joined the call?

20 RINALDI: Krysti. Hi, Chris.

21 MEISTER: Great. Hi. Thank you for joining.
22 That's Krysti Rinaldi from IEPA, and we will be
23 turning to her later on in the meeting.

24 As to spending, it is a conservative

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1 budget. A significant reduction was that we are
2 recommending that we not go forward with the
3 competitively procured bond database management
4 software that saves Melinda approximately \$500,000?

5 GILDART: Correct.

6 MEISTER: We have maintained current
7 temporary staffing levels, something that I will note
8 for the Committee that we have continued to rely on,
9 although we are working to fill these. Obviously
10 there is a regulatory to fill the vacant slots and
11 budgeted slots in this budget. The majority of these
12 slots will be subject to the appropriate State
13 regulatory screen also known as a Rutan analysis.

14 Not included in this budget are any
15 staffing or expenditure items for the two potential
16 new initiatives that I have discussed with the
17 boards -- with Board Members. These proposals are
18 not yet ready for inclusion.

19 I will introduce Mr. Peter Skosey
20 who is here in the room with us. He joins us on a
21 part-time temporary basis courtesy of his current
22 employer, Metropolitan Planning Council, who's been
23 generous enough to provide Mr. Skosey's time and one
24 or two of his colleagues in order to help develop

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1 some new business lines for us.

2 I will note for the Committee
3 Members, and this was something that, frankly, I'll
4 take responsibility for and should have caught, there
5 is a difference in cost allocation from the budget
6 that is before the Committee versus the one that was
7 presented in the Board book. The current budget
8 shows only Board Members' travel costs to the Board
9 meetings were approximately \$11,000. I think that
10 our spending this year was approximately \$7,500.
11 We've moved a variety of other line items, most
12 significantly the public officials' liability or
13 director's and officer's insurance and other
14 insurance over to the Executive Director line items.

15 Overall, clocking in I think at over
16 42 pages, this is the most comprehensive and detailed
17 budget document that has ever been submitted to the
18 Board. I want to compliment the entire staff but
19 particularly Melinda for her leadership and her team
20 in pulling this together. So I'll turn it over to
21 Melinda who is struggling with some sinus issues, so
22 she might be brief, or for the Members on the phone
23 we might be reading her comments into the microphone
24 so -- if Melinda has additional detail, but I also

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1 want to allow Melinda to deliver some particularly
2 good news to the Committee, although strictly on a
3 draft, preliminary, unaudited basis. Melinda.

4 GILDART: Just a few assumptions to add to
5 Chris's review. Major drivers with the FY '16 actual

6 un-audited net income last year's budget included
7 nine vacant staff positions of which one was filled,
8 our General Counsel Elizabeth Weber, in addition to
9 the delay in the debt management software
10 implementation.

11 This current budget for FY '17 does
12 assume a compensation adjustment for all employees to
13 be determined later, in addition five staff positions
14 to be added. Hire dates assumed to be July 1st. As
15 Chris mentioned, no additional programs except for
16 the veterans loans program which would be considered
17 a reimbursement of administrative expenses, in
18 addition to the continuation of the electronic
19 records management initiative, the DocuWare software
20 initiative that we began back in 2013.

21 CHAIRWOMAN BRONNER: Great. Thank you. Do
22 any members of the Committee have any questions?

23 MEISTER: Melinda, why don't you deliver the
24 good news for the close of FY '16?

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1 GILDART: Well, the very, very early,
2 preliminary draft, un-audited, un-reviewed,
3 unsubstantiated amount of net income as of this hour
4 is just over a million dollars in the general
5 operating fund for FY '16.

6 GRANDA: Very preliminary. Very preliminary.

7 MEISTER: And there are some loose ends
8 accrued, expenditures, things of that nature, but
9 again, this is within the end of May numbers which
10 were approximately \$818,000, so we remain cautiously

11 opti mi sti c.

12 MCCOY: A quick questi on, Melinda. When
13 you're talking about the five increase in staff, is
14 that in the budget?

15 GILDART: Yes.

16 CHAIRWOMAN BRONNER: As of July 1st. It's
17 already the 12th. So do we have -- we've got room.

18 MEISTER: So again, we budgeted high. The
19 reviews have not been completed with outstanding
20 items connected with our balance sheet and the
21 State's enactment of a stopgap budget and the budget
22 preparation. We put in up to a five percent
23 increase. My recommendation to the Board is, I've
24 shared with some of the Board Members, will be

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1 whatever upward salary adjustments are included for
2 the staff, that I would recommend that they would be
3 retroactive to July 1. So that's the explanation.

4 CHAIRWOMAN BRONNER: Great. Unless anyone
5 has any other questions or comments, I would like to
6 request a motion to recommend for approval the fiscal
7 year 2017 budget. Is there such a motion?

8 KNOX: I'll move.

9 POOLE: Second. Roger Pool e.

10 CHAIRWOMAN BRONNER: Roger Pool e second.

11 And, Lerry, was that you?

12 KNOX: That was me.

13 CHAIRWOMAN BRONNER: Okay. Mr. Knox. All
14 those in favor?

15 (A chorus of ayes.)

16 CHAIRWOMAN BRONNER: Opposed? The ayes have
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17 it.

18 We are now going to move to Item
19 No. IV. It's kind of a long one, but Presentation
20 and Consideration of a Resolution Approving and
21 Confirming Various Contracts, including Contract
22 Extensions and Amendments and Engagements relating to
23 Procurements for Professional Services for the State
24 of Illinois Clean Water Initiative State Revolving

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1 Fund and the Regular Business of the Authority
2 including Financial Advisory Services and other
3 Underwriters, Bond and Insurer's Counsel and
4 Insurance Services.

5 Director Meister.

6 MEISTER: Thank you, Chair Bronner.

7 CHAIRWOMAN BRONNER: And General Counsel
8 Weber.

9 MEISTER: So Elizabeth and I worked together
10 on this memorandum and resolution. The first item is
11 some time ago the Authority had competitively
12 procured independent financial advisors. Their names
13 are Acacia and Sycamore. They're both women-owned
14 businesses, and their extension pursuant to the
15 underlying contract came up. This grants or confirms
16 the authority to extend those contracts. That is for
17 the business of the Authority. In addition to that,
18 pursuant to the terms and conditions and prices on
19 those contracts, we've assigned both Sycamore and
20 Acacia as financial advisors to the upcoming Illinois
21 Environmental Protection State Revolving Fund bond

22 issuance which we are aiming to close in late August.

23 And I will take any questions on the

24 financial advisors, but this is for both the regular

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1 business of the Authority and pursuant to the
2 underlying contract and the standard terms and
3 conditions. They're also working on the State
4 Revolving Fund.

5 KNOX: Chris, can you repeat who those were
6 again?

7 MEISTER: Acacia and Sycamore.

8 KNOX: Okay. Thank you.

9 MEISTER: Any further questions?

10 CHAIRWOMAN BRONNER: Any other questions or
11 comments? If not, I'm going to -- Elizabeth.

12 WEBER: Well, no. There's several pieces to
13 this. I think he's just doing one piece at a time.

14 MEISTER: Yes. So the second item are the
15 State Revolving Fund underwriter's contract
16 amendment, senior managers and co-managers. And
17 again, we do have, given the interagency nature of
18 this project and, frankly, Melinda's budget and audit
19 responsibilities in this near term, we requested from
20 EPA and received the temporary services of Krysti
21 Rinaldi who does procurements on their behalf. We've
22 been working closely with Krysti on both the
23 underwriters and on the bond counsel, but a little
24 background is in order.

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2 an extensive competitive process for senior managers
3 and co-managers on the State Revolving Fund that
4 ultimately closed in November 2013. Proposals were
5 issued, awards were made, several contracts were
6 made. The senior managers were Bank of America
7 Merrill Lynch, Citi, JP Morgan, and Morgan Stanley.
8 There was a fifth that received an award, but that
9 was never reduced to a contract. Similarly, there
10 were co-manager awards: Barclays, Jefferies, Loop
11 Capital Markets, Morgan Keegan, Piper Jaffray,
12 Ramirez, Siebert Shank and Wells Fargo. I believe
13 there might have been one additional award too, but
14 perhaps not.

15 WEBER: There was Barclays which we did sign
16 their contract.

17 MEISTER: Yes. Okay. There was a disconnect
18 between the original solicitation and the way that
19 the contracts were ultimately memorialized and the
20 solicitation contemplated extensions. The contracts
21 did not -- we went to the chief procurement office
22 and laid these facts at their doorstep. They
23 authorized an extension of these contracts pursuant
24 to their regulatory power. We are in the process of

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1 reducing all of these contracts to a one-year
2 extension that then allowed us to move forward with a
3 solicitation among, from among these contracted
4 entities, the four senior managers, and I believe the
5 eleven co-managers. That process is under way. We
6 have graders on IEPA staff and on IFA staff, however,

7 that process, as of 2:30 on July 12th, is not yet
8 completed, although we believe that it will be
9 completed by 9:30 in the morning on Thursday,
10 July 14th.

11 I think that it has been a robust
12 process. I think it is an extremely detailed
13 process. We worked with the financial advisors. We
14 worked with borrower's -- or issuer's counsel who we
15 will talk about in a moment, and it was driven by the
16 timeline from IEPA, and they have a new director,
17 which I've exchanged communications with, but Carol
18 Radwine and Kevin Bryant on the IEPA team have been
19 very helpful. And so I will -- oh, but before I take
20 any questions, there is a sentence that I would like
21 to read from the cover memo into the record.

22 CHAIRWOMAN BRONNER: Please.

23 MEISTER: And I think this may well address
24 any concerns that outside stakeholders may have with

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1 this process. It is the intent of the Authority as
2 soon as resources are available to further test the
3 entire market to the widest extent possible for SR
4 R -- State Revolving Fund underwriters, as well as
5 financial advisors and other lawyer in a manner that
6 goes beyond this current award from among the current
7 contracts. Contained in the budget we do have slots
8 for additional procurement personnel. Given some of
9 our future plans, it may -- those whoever may
10 ultimately fill those voids may well be at a level of
11 sophistication and experience above what our
12 day-to-day current needs of the Authority may well

13 be, but nonetheless that it is budgeted. And again,
14 it is my intent as Executive Director, and I have a
15 sense of the Board that while we are doing these
16 under a solicitation of contracts from 2013 and 2012,
17 I believe that this will be a regular practice, the
18 State Revolving Fund issuances in the future. We
19 will test -- it is our intent to test the marketing
20 to the widest degree possible, and hopefully in the
21 future this would be something that would happen on
22 an every 12- to 18-month predictable basis rather
23 than how it has been to date which was 2013, 2004,
24 and 2002.

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1 CHAIRWOMAN BRONNER: Thank you. Now for the
2 bond counsel, Authority counsel, et cetera, No. III.

3 MEISTER: Thank you. So first, and again,
4 some of this was driven by timing, some of this was
5 driven by our existing universe of contracts, we
6 did or the Executive Director did identify, and I'm
7 asking for the confirmation by the Members of the
8 Authority both at this meeting and on Thursday of an
9 issue or counsel we selected, Bruce Weisenthal of
10 Schiff. He was instrumental in working with us and
11 the financial advisors on the subsequent steps. He's
12 being paid pursuant to the contracted amount. We are
13 in the process of reducing that assignment.

14 We also underwent a very robust
15 solicitation process from among the pool of 35 law
16 firms. That was done -- this is for bond counsel.
17 That was done within the past couple of weeks. It

18 was a robust process. It was a detailed process.
19 Krysti Rinaldi supervised that process just as a
20 note. Elizabeth Weber and Denise Burn, our new
21 Deputy General Counsel both worked at one of these
22 law firms, so we by and large walled them off from
23 this process. That is correct, right, Krysti?

24 RINALDI: Yes. They were both excluded from

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1 any day-to-day conversations we had during the
2 evaluation process, and the only time that I think
3 that Elizabeth had anything to do with it was on very
4 broad discussions that had nothing to do with the
5 vendors per se.

6 MEISTER: And, Ms. Weber, and, Ms. Burn, that
7 is also true, that you were walled off?

8 WEBER: That's absolutely correct.

9 BURN: That's correct.

10 MEISTER: And that was Denise Burn on the
11 phone. So after an extensive process, there was a
12 winner of this process. Krysti, do you want to tell
13 us who that winner was?

14 RINALDI: The highest scored vendor was
15 Katten Muchin. They were selected out of, I believe
16 that we had eleven that actually submitted. I don't
17 have the number right off the top of my head.
18 Competitive process was had. There were a certain
19 number of points assigned to each question that we
20 asked potential vendors to provide responses for.
21 They came back with the highest score of 41. They
22 were vetted. Fortunately, they are already under
23 contract with IFA. This was a shortened process

24 where we didn't have to look through all of their

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1 financials and certifications. Any other -- any
2 questions regarding the actual process that occurred?

3 MEISTER: I will also note too that Krysti
4 oversaw a, what I guess is called in procurement
5 trade, an outliers meeting where there was a robust
6 confidential discussion and the various evaluators
7 had the opportunity to review both their scores and
8 their comment on each of the elements and that was
9 led by Krysti. I think it was a good process.

10 Given the time constraints on this
11 particular assignment, I did ask Lew Greenbaum of
12 Katten Muchin to come on-board, and I will be asking
13 this Committee and the Board for a confirmation of
14 that selection following this robust, competitive
15 process, and he is working to prepare the documents
16 for the upcoming selection. I'll take any questions.

17 CHAIRWOMAN BRONNER: Great. Are there any
18 questions or comments from any Members of the
19 Committee?

20 MEISTER: One final matter, matter No. IV
21 under procurements, we do -- the Board -- the Board
22 is by and large mainly the beneficiaries, but some of
23 this coverage extends to the organization as a whole,
24 but some years ago we competitively procured an

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1 insurance broker. They are Mesirov Insurance
2 Services. Simultaneously or at about the same time

3 frame the State as a whole also underwent a
4 competitive solicitation and there was a master
5 contract, albeit a master contract with some
6 limitations in its scope, and given the constraints
7 in our staff, we went to the office, to the
8 procurement officer, explained both the State master
9 contract that had been competitively procured and
10 some of the shortfalls on scope, as well as our
11 experience and our existing contract. They
12 authorized a sole economic source. They put it out
13 through their process. Nobody -- this is a fairly
14 competitive marketplace. No stakeholder raised their
15 hand and asked for a hearing, and so the chief
16 procurement officer authorized us to move forward
17 with this -- with Mesirov as the insurance broker,
18 and under this contract we can both pay them their
19 brokerage fees and we can pay the premium to the
20 various insurance companies. I believe the premium
21 have declined slightly this year. That is the
22 current estimate. So I am asking for a confirmation
23 of this sole procurement authorized by the
24 procurement regulator.

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1 CHAIRWOMAN BRONNER: Thank you. Are there
2 any questions or comments? I did want to acknowledge
3 Chairman Funderburg has joined us during the course
4 of this discussion. Welcome.

5 FUNDERBURG: Thank you. I apologize for
6 being late.

7 CHAIRWOMAN BRONNER: So at this moment I
8 would like to request a motion to recommend for

9 approval the procurement resolution. Is there such a
10 motion?

11 MCCOY: Moved.

12 ANDERBERG: Second.

13 CHAIRWOMAN BRONNER: Thank you. All those in
14 favor.

15 (A chorus of ayes.)

16 CHAIRWOMAN BRONNER: Opposed? The ayes have
17 it.

18 And now we move into the area
19 dearest to my heart, we are going to review the memo
20 regarding supplemental responses for the fiscal year
21 2014 financial audit and fiscal year 2014 and '15
22 financial audit and compliance examination to the
23 Legislative Audit Commission.

24 Executive Director Meister, did you

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1 want to introduce the topic?

2 MEISTER: Yes.

3 CHAIRWOMAN BRONNER: Thank you.

4 MEISTER: Thank you very much, Chair Bronner.

5 For the newer Members of the Committee, some State
6 government background is in order because it is a
7 little counterintuitive. Our external audit is
8 performed by special assistant auditors of the Office
9 of the State Auditor General who is a constitutional
10 officer who is not elected. Mr. Frank Mautino, a
11 former member of the general assembly is the current
12 auditor general during the time that this audit was
13 performed. It was Bill Holland who I believe had

14 served two plus terms or somewhere on the order of 25
15 or 30 years as auditor general. The auditor general
16 is selected from both chambers and all four caucuses
17 of the general assembly for a ten-year term.

18 And the auditor general, because we
19 all have bosses in life, reports to the Legislative
20 Audit Commission which again is a bipartisan,
21 bicameral legislative commission. It is currently
22 chaired by Senator Jason Barickman and State
23 Representative Bob Ritta. The Senate members are Tom
24 Cullerton, Iris Martinez, John Mulroe, Jim Oberweis,

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1 and Dale Righter. The House members are Fred Crespo,
2 Barbara Flynn Currie, Sheri Jesiel, David Reis, and
3 Joe Sosnowski.

4 Within the past couple of weeks I
5 received an inquiry from the Executive Director of
6 the Legislative Audit Commission because the way that
7 this works is that the Audit Commission will review
8 the audits which were released in January and
9 February, a two-year compliance audit from the last
10 two fiscal years in February. The FY '15 financial
11 audit was released at the end of January. They have
12 asked the agencies to update their -- update their
13 responses and then the Legislative Audit Commission
14 may put the acceptance of our audits on their
15 consensus agenda or they may require the Authority to
16 appear before the Legislative Audit Commission and
17 answer questions about the audit.

18 CHAIRWOMAN BRONNER: Which we are always
19 happy to do.

20 MEISTER: We are always happy to appear
21 before any branch of the general assembly that should
22 want to talk to us. In the past we have done it both
23 ways, either the chair of the Audit Committee, in
24 this case Ms. Bronner, or the past chairs in that

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1 case, Bill Brandt, have appeared at various times and
2 our audits have been considered and closed.

3 So in your package and distributed
4 electronically we have a couple of documents. There
5 is a cover letter to the Executive Director of the
6 Legislative Audit Commission, James Stricklin. I
7 note that the Authority embraces the transparency and
8 accountability inherent in the auditor general and
9 the commission external audit process. I note that
10 we discuss audit matters regularly with Chairman
11 Funderburg, Chair Bronner, and other Members of the
12 Authority although always in compliance with the
13 opening meeting's act, correct, General Counsel,
14 Weber?

15 WEBER: Correct. Yes. Yes.

16 MEISTER: We note that over the last couple
17 of fiscal years we've released CAFRs or Comprehensive
18 Annual Financial Reports. These are posted on our
19 website, and the one in 2014 received the Government
20 Finance Officer's Association award. We expect to
21 receive a similar one in the coming weeks, correct?

22 CHAIRWOMAN BRONNER: Which I would like to
23 note is the highest award in governmental accounting
24 and financial recording, so it's quite an

1 achievement.

2 MEISTER: And I'd like to thank Melinda for
3 her leadership and Chair Bronner for her guidance and
4 leadership on those accomplishments. And then what
5 Melinda prepared back in March, a summary and a
6 status, we have supplemented that dated July 11th.
7 That's about eight pages, but we summarize in the
8 cover letter, the draft cover letter. Most
9 importantly, there is a government accounting finding
10 regarding our Agricultural Guarantee Funds and the
11 way that those are reported and presented, and I'm
12 happy to tell the Committee that thanks to the work
13 of the general assembly that nearly unanimously
14 passed Senate Bill 324 and the work of Governor
15 Rauner, Senate Bill 324 is now Public Act 99-509
16 effective as of June 24, 2016, which, in the view of
17 our General Counsel, eliminates GAS finding No. 1 and
18 compliance finding No. 1.

19 WEBER: Yes.

20 MEISTER: The rest of the findings, and I can
21 turn them over to Melinda and to you, Chair Bronner.
22 I think that we have -- we take the audit process
23 seriously. We have devoted substantial internal
24 resources to addressing this, but I think that it is

1 a report that we are in regular, clear and accurate
2 communication with the Members of the Authority and
3 that that should be favorably received by the
4 Legislative Audit Commission, and I'll take any

5 questions.

6 CHAIRWOMAN BRONNER: Great. Well, actually,
7 Melinda, perhaps you could talk a little bit about as
8 well, certainly both the GAS related findings but I
9 think also those finding relating to the financial
10 and compliance.

11 GILDART: So picking up where Chris left off,
12 the first finding had to do with the Agricultural
13 Fund. From the statutory standpoint, yes, we had the
14 change in the law but also on the financial side we
15 received reimbursement from the comptroller for the
16 settlement that was paid out which was noted in the
17 audit for last year which is really what originated
18 the finding in the first place is that the auditors
19 deemed that we paid those funds out of the incorrect
20 fund. So since the statute has changed and we
21 received reimbursement from the comptroller, we are
22 completely -- we have completely implemented that
23 finding. The resolution is done.

24 The second finding on the financial

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1 audit has to do with collectibles, so those are
2 outstanding loans and guarantees and venture capital
3 investments that the Authority has made financial
4 reporting adjustments for. They net zero on their
5 balance sheets, so there's no overstating of assets
6 there, but legally the Authority does not have the
7 authorization to write off those receivables.

8 The authorization has to come from
9 the attorney general. We engaged law firm Reyes

10 Kurson which helped us with a write off of about ten
11 percent of the balance, and we're going to continue
12 down that road until all of the balances are written
13 off, but until then this finding will repeat because,
14 again, the Authority does not have the authorization
15 to write off -- to legally write off those
16 receivables.

17 MEISTER: Although they are written off on
18 our books and records.

19 GILDART: Yes. On the financial reporting
20 side, we don't carry them anymore. And on the
21 compliance side it's finding 2015-003 which deals
22 with the locally-held Fire Truck Revolving Fund and
23 this was in reference to an eight million dollar
24 deposit that we received from the Fire Marshal in FY

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1 '15 to in turn make loans to recipients. Well,
2 shortly after we received those funds, we were
3 requested by the Fire Marshal and the Governor's
4 Office of Management and Budget to return those funds
5 due to the budget impasse which we did after --
6 Chris, you did reach out to various parties and we
7 had various discussions, and it was deemed that was
8 the most appropriate point of action to take, but the
9 auditors basically disagreed and said that we needed
10 to have retained those funds per our own statutory
11 requirements. So that's where the origination of
12 that audit finding comes from.

13 CHAIRWOMAN BRONNER: A question. Excuse me.
14 If we're looking at page 5 in the materials that you
15 shared with us on the -- which was the eight-page

16 document?

17 GILDART: Yes.

18 CHAIRWOMAN BRONNER: I believe they're --
19 because we have some that were from '12 that have
20 gone away.

21 GILDART: Yes.

22 CHAIRWOMAN BRONNER: And some that have been
23 repeated, so I'm just trying to map it to the
24 findings that are on this page.

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1 GILDART: Okay. So the 2015-003, that's the
2 fire truck finding that -- where it says
3 noncompliance with the Illinois Finance Authority
4 Act.

5 CHAIRWOMAN BRONNER: Got it. Okay. That's
6 what I thought.

7 GILDART: So you can't tell. That was the
8 title of the finding. Noncompliance of the auditor
9 general deemed that we were noncompliant with our own
10 Illinois Finance Authority Act by returning the fire
11 marshal funds to them. So we returned the funds and
12 we are complying with their recommendations to ensure
13 that we don't accept any funds that are not to be
14 immediately disbursed to loan recipients, and we will
15 have better communication with the Fire Marshal
16 before any funds are disbursed to us going forward.

17 CHAIRWOMAN BRONNER: Thank you.

18 GILDART: And the next finding is 2015-004.
19 That has to do with our conduit debt program, lack of
20 internal controls, ability to properly monitor

21 conduit compliance for our conduit bonds. This is a
22 longstanding finding we have devoted to various staff
23 to addressing those findings. We have made a lot of
24 progress in this area, but because of the reliance on

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1 information from external parties, borrowers and
2 trustees and other entities, it's really difficult
3 for the Authority to take full responsibility for
4 this finding as it's pretty much out of our control
5 at some avenues particularly with the reporting of
6 principal and bond payments that we in turn have to
7 also touch base with the comptroller on, but we do
8 accept the fact that we are the debt issuer and we
9 have taken steps to remediate the finding as much as
10 we possibly can.

11 The next finding 2015-005 has to do
12 with internal auditing provisions for the Fiscal
13 Control Internal Auditing Act which is a very
14 high-level umbrella. It's an all-encompassing
15 statute that ranges from having a chief internal
16 auditor to having internal audits of IT controls and
17 various other sub-set organizations steps that the
18 agency needs to take to manage not only their
19 day-to-day operations but year-end processes.

20 Chris, did you want to speak to the
21 audit?

22 MEISTER: I mean, we've attempted over a
23 number of years to have both contracted external
24 auditors. Given our head count and our other

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1 operational needs it's not very practical for us to
2 devote head count to an internal auditor, but I think
3 we are moving in that direction. That appears to be
4 the desire or the past desire of the auditor general,
5 although we have a new auditor or general audit
6 manager.

7 I will also note that the amount of
8 resources that we devote as an organization to the
9 external auditor process is probably disproportionate
10 given our size.

11 CHAIRWOMAN BRONNER: I would tend to agree
12 with that, and I do think too it's important to
13 acknowledge that there have been, I don't even want
14 to say failed attempts but meaningful attempts at
15 securing appropriate external internal audit
16 resources contractually, and I think that, and as I
17 understand it as well, while we've had some
18 challenges in that area, you actually have reached
19 out internally to CMS as well for assistance from the
20 State's own internal audit shop which exists to
21 provide services to those agencies according to the
22 Fiscal Control and Internal Auditing Act that do not
23 have full-time internal auditors. So I would suggest
24 that perhaps we even expand our discussions with them

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1 to see if we might be able to access additional
2 resources from the State itself to support us.

3 MEISTER: And once Melinda finishes the
4 checklist, we have a meaningful success story on that
5 point.

6 CHAIRWOMAN BRONNER: Exactly. I look forward
7 to that.

8 GILDART: The next finding 2015-006 is
9 similar to the four findings as it deals with our
10 conduit debt program, the bond principal and interest
11 payments reporting that comes to us from the trustees
12 is not always timely. It's not always accurate. We
13 have a watch list that we keep for some trustees
14 which give us a lot of trouble as far as being able
15 to get this information from them in a timely basis
16 and making sure that it's accurate.

17 We have stepped up our communication
18 with them. We call them. We e-mail them. We do
19 pretty much everything that's possible to get this
20 information in, but if it's a day late, it's a ding
21 on our audit even though it's coming from an external
22 source. So that's the origination of this audit.
23 Again, it's dependent on outside parties, but again,
24 as debt issuer the Authority accepts responsibility

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1 for our part, and we will continue to hound as many
2 folks as we need to to be able to get the information
3 as timely and as accurately as possible.

4 GRANDA: And just to note on that is that we
5 do receive over 3,000 a year of these forms, so for
6 us to contact -- you know, we try to contact all of
7 the trustees in order to get them on a timely basis,
8 but we have improved on that, in that area. So we're
9 going to try to work also with the auditor general
10 for them to actually view them, the whole sample, not
11 just already the items that are already late. They

12 should look at the whole sample instead of just, like
13 I said, looking at just a section. So hopefully with
14 a new manager maybe we will be able to get this as an
15 immaterial finding.

16 GILDART: That's one of the differences
17 between the compliance examination and the financial
18 audit. The compliance examination doesn't deal with
19 materiality. So out of 3,000 Form C-08s, if ten are
20 late it's still considered a finding.

21 CHAIRWOMAN BRONNER: Or three.

22 GILDART: Or three. It's still considered a
23 finding, and we have one person that literally data
24 keys all this information into our database. So it's

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1 a pretty daunting task, but again as Six mentioned,
2 we have made progress, but we're trying to move
3 forward now with a new audit manager. Hopefully,
4 they'll be a little bit more open.

5 CHAIRWOMAN BRONNER: You know, again, it does
6 look like based on your chart on page five we have
7 made some good progress in terms of both in '13 and
8 the 14/15 compliance examination of addressing some
9 of the findings. There are a couple repeats that
10 just keep lingering that I know we're working towards
11 addressing.

12 GILDART: Yes, particularly from 2012, we had
13 intermediary lending programs and other loan
14 programs, but we have had some that have not
15 repeated, and for our FY '16 audit we won't have the
16 industrial project fund finding, that won't repeat,

17 the fire truck finding won't repeat and those two
18 other findings which were moved to immaterial.

19 CHAIRWOMAN BRONNER: Which is good.

20 GILDART: Which is good.

21 CHAIRWOMAN BRONNER: Hopefully, they will go
22 away. Are there any other comments again?

23 MEISTER: Melinda, why don't you on the -- on
24 the matter of -- the Illinois Department of Central

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1 Management Services, their audit division and the
2 GAAP package audit and explain briefly what a GAAP
3 package is.

4 CHAIRWOMAN BRONNER: Everyone has the CMS
5 memo.

6 GILDART: So in addition to the financial
7 audit and the State compliance examination, we're
8 also required to undergo an internal audit for our
9 GAAP package process. And the GAAP package, for
10 those of you not familiar with it, is pretty much the
11 preparation of the State's financial reports, the
12 State's annual financial report from the perspective
13 of the individual agencies. Every agency has to
14 report their revenues and expenses and assets and
15 liabilities in specific format so the State
16 comptroller can take that information and then
17 prepare the Comprehensive Annual Financial Report for
18 the State.

19 So because the processes vary widely
20 between agencies, the Financial Standards Board
21 instituted a new audit to try and decrease those the
22 fluctuations and the variance and practice and ensure

23 that pretty much everyone is performing the same
24 process across the State.

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1 So FY '14 was our first GAAP package
2 audit which was performed by Clifton & Larson, and
3 the FY '15 GAAP package audit concluded May 31st and
4 was prepared by CMS. And if you want to look at that
5 audit report, the findings -- there was just one
6 finding, and for the most part the Authority needs to
7 develop written procedures for our FY '15 GAAP
8 package and financial statement process.

9 So basically we have an outside
10 contractor that assists Six with preparing the GAAP
11 package. I review the GAAP package with them. I
12 prepare the financial statements. They review the
13 financial statements and incorporate them into the
14 GAAP package, so there is constant communication with
15 the three of us. In addition, we sit down with Chris
16 and go over the schedules with him and the financial
17 statements prior to sending them to the State
18 comptroller, but the process isn't documented and
19 that's what they wanted. They want us to develop the
20 actual procedures and prepare something in writing so
21 that someone from the outside could fully understand
22 what we go through in this process. So it's not to
23 say the internal controls are lacking but they're
24 just not documented.

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1 MEISTER: And also if I recall, Melinda,

2 several members of the Authority staff, more than one
3 have gone to Springfield and been trained on the GAAP
4 package process and maybe you want to touch a little
5 bit on that.

6 GILDART: Yes. In the FY '14 GAAP package
7 audit we did have another finding and that was from
8 the staff not attending the GAAP package training.
9 So that finding was resolved for this most recent
10 audit because our entire financial staff with Six and
11 Tiffany McCoy and Frankie Patterson all went to
12 Springfield for the day and a half journey.

13 GRANDA: So we're in compliance with that.

14 MCCOY: Excellent.

15 CHAIRWOMAN BRONNER: Any questions from the
16 Committee on the various findings or status of
17 remediation? Great. Well, thank you. I don't
18 believe we need an act to accept that, but thank you
19 for your report.

20 Is there any other business to come
21 before the Committee today? Hearing none. Is there
22 any public comment for the Committee? Hearing none.
23 I would like to request a motion to adjourn. Is
24 there such a motion?

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1 POOLE: Moved.

2 MCCOY: Second.

3 CHAIRWOMAN BRONNER: All those in favor?

4 (A chorus of ayes.)

5 CHAIRWOMAN BRONNER: Opposed? The ayes have
6 it. Thank you all.

7 FLETCHER: 3:20 p.m.

(Which were all the proceedings had at 3:20 p.m.)

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1 STATE OF ILLINOIS)
2 COUNTY OF COOK) SS:

3
4 Brenda S. Hall, CSR, License No. 084-003359,
5 being first duly sworn, says that she is a court
6 reporter doing business in the city of Chicago; that
7 she reported in shorthand the proceedings had at the
8 the Proceedings of said cause; that the foregoing is
9 a true and correct transcript of her shorthand notes,
10 so taken as aforesaid, and contains all the
11 proceedings of said hearing.
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