

REPORT DIGEST

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FINANCIAL AND COMPLIANCE AUDIT
(In Accordance with the Federal Single Audit
Act of 1984, and OMB Circular A-128)
For The Two Years Ended June 30, 1995**

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE COLLATERAL OR FDIC INSURANCE FOR INVESTMENTS

The Commission did not secure deposits with an adequate amount of collateral or FDIC insurance as required by the Deposit of State Moneys Act (Act).

The Illinois Designated Account Purchase Program (IDAPP) and Illinois Opportunity Loan Program (IOLP) cash and cash equivalents had deposits totaling \$78,673,626 of which \$74,538,709 (94%) and \$4,269,023 of which \$999,178 (23%) were not adequately secured with collateral or FDIC insurance. (Finding 1, page 8)

Commission officials accepted our recommendation to secure the programs with an adequate amount of collateral and FDIC insurance. They will seek to collateralize deposits with financial institutions that exceed FDIC insurance.

FAILURE TO COMPLY WITH BOND COVENANT REQUIREMENTS

The Commission did not comply with certain bond covenants supporting outstanding bond issues for the Illinois Opportunity Loan Program (ILOP).

We noted the following violations relating to the covenants contained in the Bond Resolution for the ILOP:

- The Commission failed to submit a quarterly statement of the amount of revenues received within 45 days of each calendar quarter end. The Commission obtained a waiver for fiscal year 1994, however, for fiscal year 1995, a waiver was not submitted.
- A copy of the Commission's annual report, accompanied by the opinion of its certified public accountants, was not submitted within 120 days after the end of the fiscal year. This was not submitted for fiscal year 1995.
- Financial data was not submitted within 62 days of the Commission's year end. As of December 6, 1995 (our fieldwork end date), this information was not yet submitted.
- The Bond resolution required the submission of seven reports filed on a quarterly basis. These reports were not filed on a quarterly basis for both fiscal years 1995 and 1994.
- The master indenture of IOLP series A-1990 bonds mandates a number of accounts to be held by the Trustee. The "Annual Program Expense Fund" and the "Supplemental Costs Fund" do not exist as required. (Finding 4, page 11)

This finding has been repeated since 1991.

Commission officials agreed with our recommendation and stated that an individual would be assigned the responsibility for submitting reports as required. Also, the two funds would be set up by the Trustee as required.

REVIEW OF NEW COMPUTER SYSTEMS

The Commission did not have procedures to ensure proper review of new computer application programs.

The Management Information Services (MIS) Department of the Commission did not have formal procedures to ensure that Commission management was involved throughout each phase of the development of new applications. Also, Internal Audit did not perform regular reviews of the controls within new computer programs developed by the MIS Department. (Finding 7, page 15)

Commission officials agreed with our recommendation to develop formal procedures to ensure that management and Internal Audit are involved at the completion of various stages of computer system development activities.

INADEQUATE ACCOUNTABILITY OVER FIXED ASSETS

The Commission did not maintain proper accountability over fixed assets.

The Commission's fixed assets account balance on the general ledger was not substantiated by the physical inventory. The reconciliation of physical inventory was made more difficult because tags were on the wrong equipment, and the system file provided only tag numbers with no description of the equipment. The Commission also failed to produce a summary of additions and deletions report. **This finding has been repeated since 1989.**

Per Statute, the Department of Central Management Services (DCMS) has the authority to require physical inventory to be taken and reported to them. (Finding 10, page 20)

Commission officials agreed with our recommendation to improve its accountability over fixed assets by allocating appropriate resources to ensure physical inventory is performed correctly and reconciled to detailed records on a timely basis.

BALANCE OF STUDENT LOAN GUARANTEES

The Commission's records of outstanding student loan guarantees were not reconciled to current status with the related lenders.

The balance of outstanding student loan guarantees in repayment affects the federal reinsurance percentage (i.e., the percentage amount paid by the federal government on defaulted loans). Federal requirements (34CFR Section 682.405 and Title IV, Part B, Section 428 (c)(1)(B)&(C) of the Higher Education Act states how the reinsurance percentage is determined and its effect on defaulted loans. **This finding has been repeated since 1987.** (Finding 25, page 92)

Commission officials agreed with our recommendation to continue to allocated sufficient resources to implement their new system.

OTHER FINDINGS

The remaining findings are less significant and have been given appropriate attention by the Commission. We will review progress toward the implementation of our recommendations in our next audit.

Mr. Lee A. Dietrich, Director of Internal Audit, provided Commission responses to our findings and recommendations.

AUDITORS' OPINION

Our auditors stated that the June 30, 1995 combined financial statements were fairly presented.

WILLIAM G. HOLLAND, Auditor General

WGH:ROQ

SUMMARY OF AUDIT FINDINGS

Number of This Audit Prior Audit

Audit findings 19 25

Repeated audit findings 9 10

Recommendations implemented
or not repeated 16 16

SPECIAL ASSISTANT AUDITORS

Pandolfi, Topolski, Weiss & Co., Ltd. were our special assistant auditors for this audit.

ILLINOIS STUDENT ASSISTANCE COMMISSION
FINANCIAL AND COMPLIANCE
For The Two Years Ended June 30, 1995

(All dollar amounts are expressed in thousands)

APPROPRIATED FUNDS EXPENDITURE STATISTICS	FY 1995	FY 1994	FY 1993
• Total Expenditures (All Funds)	\$459,021	\$397,273	\$338,010
<u>OPERATIONS TOTAL</u>	\$188,769	\$170,118	\$117,120
% of Total Expenditures	41.2%	42.8%	34.6%
Personal Services	\$11,667	\$11,413	\$11,202
% of Operations Expenditures	6.0%	6.7%	9.5%
Average No. of Employees	603	659	589
Other Payroll Costs (FICA, Retirement)	\$3,347	\$3,518	\$2,922
% of Operations Expenditures	2.0%	2.1%	2.5%
Contractual Services	\$9,565	\$7,823	\$6,982
% of Operations Expenditures	5.0%	4.6%	6.0%
All other Operations Items	\$164,190	\$147,364	\$ 96,014
% of Operations Expenditures	87.0%	86.6%	82.0%
<u>GRANTS TOTAL</u>	\$270,252	\$227,155	\$220,890
% of Total Expenditures	58.8%	57.1%	65.4%
• Cost of Property and Equipment (All Funds)	\$28,169	\$26,977	\$26,577
PROPRIETARY FUND FINANCIAL OPERATIONS	FY 1995	FY 1994	FY 1993
REVENUES			
Interest on loans and investments	\$51,039	\$51,453	\$49,883
Federal Special Allowance and interest	15,132	13,683	13,580
Other	3,238	3,090	1,453
Total	\$69,409	\$68,226	\$64,916
EXPENSES			
Salaries and employee benefits	\$4,489	\$4,256	\$4,338
Outside loan servicing	3,119	2,360	2,141
Line of credit fees	1,657	1,606	1,341
Note and bond interest expense	49,265	48,720	46,736
Other	5,514	5,538	4,362
Total	\$64,044	\$62,480	\$58,918
SELECTED PROPRIETARY FUND BALANCES			
Cash and cash equivalents	\$81,372	\$63,306	\$72,634
Investments	216,455	\$302,075	\$252,445
Receivables	\$623,223	\$560,978	\$549,485
Revenue notes and bonds payable	\$836,274	\$846,962	\$800,040
Retained Earnings	\$70,210	\$64,845	\$60,433
AGENCY DIRECTOR(S)			
During Audit Period: Larry E. Matejka Currently: Larry E. Matejka			

DIGEST FOOTNOTES

#4: DEBT COMPLIANCE

1993: "Agreed. A staff person has been assigned the responsibility of ensuring the timely completion and submission of the required reports, and waivers will be requested on a timely basis for those deliverables which cannot be made available by the required time frame."

1991: "Under Section 504(c) of the Illinois Opportunity Loan Program Bond Resolution, the Annual Report of the Commission, accompanied by the opinion of the Commission's certified public accountants, is required to be submitted within 120 days of the State fiscal year end. The Annual Report, however, also covers the activity of the Commission's appropriated funds, extending through the lapse period ending September 30. Steps will be taken to seek an amendment to the Bond Resolution or to secure a standing waiver from the parties to recognize the lapse period spending and additional time required to produce the Annual Report.

The Commission is aware of the Servicing Audit requirement under Section 512 of the Bond Resolution, and will take all additional steps necessary to satisfy all parties and to assure that timely audits are performed annually for all servicers of the IOLP and IDAPP portfolios. Under the IDAPP Credit Facility Agreement supporting bonds outstanding, IDAPP did obtain waivers from the credit facility bank for the delay in the service center audits. The delay was caused by the servicers' inability to hire an outside firm on a timely basis. Both external servicers have agreed to perform their 1992 audits in a time frame acceptable to the credit facility bank. IDAPP is in the process of acquiring written confirmation of the amended time frame from the bank.

ISAC has taken steps to assure compliance with Section 512 of the Bond Resolution which requires the submission of certain financial data. An itemized schedule of documents and the relevant financial data required to be filed with the various financial institutions has been prepared by staff and will be monitored to assure timely filing. "

#10: INTERNAL CONTROL - FIXED ASSETS

1993: "Agreed. The move of the Commission to a new facility in January 1993 provided an opportunity to improve the accuracy of the physical inventory; but at the same time, moving and settling staff and their furniture and equipment made it difficult to achieve the precision desirable in a physical inventory. A group comprised of Accounting staff and Administrative Services staff has been formed to address the issue of property control and the appropriate reconciliation of inventory records to items capitalized as Commission fixed assets. Property control inventory records will also include non-capitalized items, to be tracked by physical location and fund. Scarce staff resources are a factor in the timely completion of this project; however, much improvement is anticipated as a result of the inventory scheduled for January 1994. Success in maintaining control by location will depend largely on the cooperation of all Commission management."

1991: "Agreed. Controlling accounts will be established in the general ledger to provide the ability to balance to the subsidiary ledgers and report on a timely basis. Also, to facilitate taking the physical inventory, a new bar coding system has been implemented."

1989: "Capital lease equipment items which are included in the Agency Report of Fixed Assets will be added to the Common Systems Inventory in fiscal year 1990 and procedures will be implemented to ensure that these items will be reported properly in future."

The Agency Report of Fixed Assets reported to the State Comptroller at September 30, 1989 included the correction indicated in the finding.

Agency staff responsible for reporting fixed asset acquisitions made from appropriated funds and from IDAPP funds have agreed to perform formal reconciliations of IDAPP fixed asset acquisitions reported to the State Comptroller to the IDAPP general ledger on an on-going basis. These reconciliations will be implemented in fiscal year 1990."

#25: BALANCE OF OUTSTANDING STUDENT LOAN GUARANTEES

1993: "The Commission will continue to actively pursue this project to completion which includes performing a reconciliation of data to holders of Federal Family Education Loan Program loans."

1991: "In order to ensure that current student enrollment status data drives the repayment status of student loans, ISAC implemented, in September of 1991, a record reconciliation process on a 60-day cycle that involves the educational institutions as well as the lenders. This is the first phase in the project to assure data integrity in ISAC's outstanding guaranteed student loan portfolio. This process is referred to as the Student Status Confirmation Reporting (SSCR) and record reconciliation process.

ISAC started in September of 1991 sending lenders student enrollment status information every 60 days. ISAC, through a contractor, provides schools (via paper, tape, or diskette roster) with the students' status of record on ISAC's data base; the school returns the updated status of the students' records, which are then used to update enrollment and repayment status.

This process provides both ISAC and the lenders with the same and consistent

information. Phase One also included gathering disbursement data from the lender via a Lender Manifest/Insurance Premium invoice, which information reconciles the current ISAC and lender data. Phase Two of the project will require all holders of loans to report all required loan activity on each student at least once a quarter. Evaluation of Phase One is occurring now, and the project planning for Phase Two will immediately follow during June of 1992 with implementation of Phase Two fully operational by July of 1993.

This approach and process aids in the assurance of ISAC's, the schools' and the lenders' data integrity of the outstanding guaranteed student loan portfolio."

1989: "The Commission agrees with this finding. At the present time, lenders send to the Commission repayment schedules, notices of final payment, deferments, and other forms by which the status of the loan can be tracked in our data base. The Commission has also continued to participate in the National Exchange Program, and plans to complete another complete lender reconciliation within a year of this response."

1987: Not Available.

