

# McGladrey & Pullen

Certified Public Accountants

## State of Illinois Illinois Student Assistance Commission

Compliance Examination  
For The Year Ended June 30, 2006

Performed as Special Assistance Auditors  
for the Auditor General, State of Illinois

State of Illinois  
Illinois Student Assistance Commission

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Financial Statement Report

The Financial Statements of the Illinois Student Assistance Commission as of and for the year ended June 30, 2006 are published in a separate document and are incorporated herein by reference.

State of Illinois  
Illinois Student Assistance Commission

Agency Officials

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Executive Director	Larry E. Matejka
Deputy Executive Director	Kathleen T. Rooney
Chief Operating and Administrative Officer (8/16/05 – 6/19/06)	Marcia Thompson
Chief Financial Officer (8/16/05 – Current)	Theresa L. Morgan
Chief Financial Officer (7/1/05 – 8/15/05)	Marcia Thompson
General Counsel	Karen Salas
Director of Internal Audit (7/1/05 – 7/31/05)	Wendy Funk

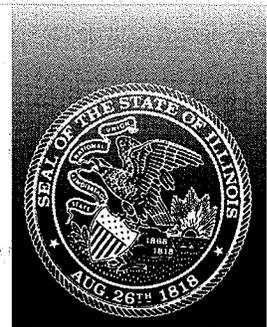
Agency offices are located at:

1755 Lake Cook Road  
Deerfield, IL 60015

500 West Monroe  
Springfield, IL 62704

100 West Randolph  
Suite 3-200  
Chicago, IL 60601

**Illinois  
Student  
Assistance  
Commission**



November 15, 2006

McGladrey & Pullen, LLP  
20 North Martingale Road, Ste 500  
Schaumburg, IL. 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Commission. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Commission's compliance with the following assertions during the year ended June 30, 2006. Based on this evaluation, we assert that during the year ended June 30, 2006, the Commission has materially complied with the assertions below.

- A. The Commission has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Commission has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Commission on behalf of the State or held in trust by the Commission have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

**ILLINOIS STUDENT ASSISTANCE COMMISSION**

Andrew Davis, Executive Director *EFFECTIVE 1-1-2007*

Theresa Morgan, Chief Financial Officer

Karen Salas, Legal Counsel

State of Illinois  
 Illinois Student Assistance Commission

Compliance Report Summary

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The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

**Auditors' Reports**

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

**Summary of Findings**

Number of:	This Report	Prior Report
Findings	7	9
Repeated findings	3	3
Prior recommendations implemented or not repeated	6	6

Details of findings are presented in a separately tabbed report section.

**Schedule of Findings**

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

Item No.	Page	Description
06-1	10	Non-Compliance with Bond Indentures
06-2	11	Posting of General Journal Entries to the General Ledger

FINDINGS (STATE COMPLIANCE)

Item No.	Page	Description
06-3	12	Internal Auditing
06-4	14	Failure to Complete Performance Evaluations of Employees
06-5	15	Timesheets Not Maintained in Compliance With the State Officials and Employees Ethics Act
06-6	16	Contracts Not Approved on a Timely Basis
06-7	17	Failure to Establish College Savings Program

State of Illinois  
 Illinois Student Assistance Commission

Compliance Report Summary

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Schedule of Findings (Continued)

PRIOR FINDINGS NOT REPEATED (*GOVERNMENT AUDITING STANDARDS*)

Item No.	Page	Description
06-8	18	Financial Reporting Process

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

06-9	18	Efficiency Initiative Payments
06-10	18	Failure to Review Computerized Information Systems Controls for Third-Party Vendors
06-11	18	Untimely Deposit of Cash Refunds
06-12	19	Uncollateralized Deposits
06-13	19	Internal Controls over Credit Memos and Non-cash Journal Entries Need Improvement

Exit Conference

The findings and recommendations appearing in this report were discussed with Commission personnel at an exit conference on March 6, 2007. Attending were representatives from the Illinois Student Assistance Commission, McGladrey & Pullen, LLP and the Office of the Auditor General. Responses to the recommendations were provided by Andrew Davis in a letter dated March 16, 2007.

Illinois Student Assistance Commission

Andrew Davis      Executive Director  
 Theresa Morgan    Chief Financial Officer  
 Wendy Funk        IDAPP Chief Financial  
                                  Officer and Treasurer  
 Thomas Hood      IDAPP Comptroller  
 Shoba Nandhan    ISAC Comptroller

McGladrey & Pullen, LLP

Joseph Evans      Partner  
 Linda Abernethy   Partner  
 Rolake Adedera    Manager

Office of the Auditor General

Jon Fox              Audit Manager

# McGladrey & Pullen

Certified Public Accountants

## Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland  
Auditor General  
State of Illinois

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Illinois Student Assistance Commission's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2006. The management of the State of Illinois, Illinois Student Assistance Commission is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Illinois Student Assistance Commission's compliance based on our examination.

- A. The State of Illinois, Illinois Student Assistance Commission has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Illinois Student Assistance Commission has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Illinois Student Assistance Commission has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the State of Illinois, Illinois Student Assistance Commission are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Illinois Student Assistance Commission on behalf of the State or held in trust by the State of Illinois, Illinois Student Assistance Commission have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Illinois Student Assistance Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Illinois Student Assistance Commission's compliance with specified requirements.

In our opinion, the State of Illinois, Illinois Student Assistance Commission complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying Schedule of Findings as findings 06-4, 06-5, 06-6, and 06-7.

As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

### **Internal Control**

The management of the State of Illinois, Illinois Student Assistance Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the State of Illinois, Illinois Student Assistance Commission's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

We noted certain matters involving internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to comply with one or more of the aforementioned requirements. Reportable conditions are described in the accompanying Schedule of Findings as findings 06-1 and 06-2.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we believe none of the reportable conditions described above are material weaknesses. Additionally, the results of our procedures disclosed other deficiencies in internal control, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying Schedule of Findings as findings 06-3 and 06-6.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

### **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2006, which collectively comprise the State of Illinois, Illinois Student Assistance Commission's basic financial statements, and have issued our report thereon dated November 15, 2006. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Illinois Student Assistance Commission.

The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the State of Illinois, Illinois Student Assistance Commission's basic financial statements for the years ended June 30, 2005 and June 30, 2004. In our reports dated November 4, 2005 and October 22, 2004, we expressed an unqualified opinion on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. In our opinion, the 2005 and 2004 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited," is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2005 and June 30, 2004 taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Commission management, and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
November 15, 2006

# McGladrey & Pullen

Certified Public Accountants

## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2006, which collectively comprise the State of Illinois, Illinois Student Assistance Commission's basic financial statements and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Illinois, Illinois Student Assistance Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as findings 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. However, we noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the Schedule of Findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the State of Illinois, Illinois Student Assistance Commission in a separate letter dated November 15, 2006.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Illinois Student Assistance Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as finding 06-1. However, we noted certain matters, which are reported as State compliance findings in the schedule of findings. We also noted certain other matters, which we have reported to management of the State of Illinois, Illinois Student Assistance Commission in a separate letter dated November 15, 2006.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, Commission management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Schaumburg, Illinois  
November 15, 2006

State of Illinois  
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*  
Year Ended June 30, 2006

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**Finding 06-1. Non-Compliance with Bond Indentures**

The Illinois Designated Account Purchase Program (IDAPP) did not comply with several bond indentures that require IDAPP to deliver audited financial statements to the Trustees no later than 120 days after year-end (October 28<sup>th</sup>).

We noted, during our examination of the compliance requirements of the revenue bonds, revenue notes, and letters of credit, the requirement for audited financial statements to be issued within 120 days after year-end (by October 28) to bond Trustees was not met during fiscal year 2006.

According to the bond indentures, a final audit report needs to be delivered to the bond Trustees no later than 120 days after year-end. The fiscal year 2006 audited financial report had not been delivered as of the end of fieldwork November 15, 2006.

According to IDAPP management, while IDAPP has become more efficient in the financial statement preparation process, certain information from external parties was not received timely which lead to a delay in recording and reconciliation prior to finalizing the financial statements.

The failure to comply with the terms of the bonds indentures and letters of credit could result in potential technical default causing the bonds to be called. (Finding Code No. 06-1, 05-2, 03-8, 01-3)

**Recommendation**

We recommend IDAPP continue to work to complete the IDAPP financial report on a timelier basis.

**Commission Response**

Agree.

IDAPP will work with its external parties to obtain the necessary information in a more timely manner and therefore allow for faster completion of the financial statements. Additionally, only one indenture remains that has the strict 120-day audit requirement.

State of Illinois  
Illinois Student Assistance Commission

Current Findings – *Government Auditing Standards*  
Year Ended June 30, 2006

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**Finding 06-2. Posting of General Journal Entries to the General Ledger**

The Illinois Designated Account Purchase Program (IDAPP) did not adequately review and approve general journal entries prior to posting them to the general ledger.

During our audit of general journal entries posted to the general ledger during the audit period, we noted that five of the fifteen journal entries selected for testing (33%), were correcting entries for data entry errors. These data entry errors were detected and corrected by IDAPP personnel during the reconciliation process.

Good internal controls would require that all general journal entries be reviewed and approved by someone other than the preparer, prior to posting the entries to the general ledger.

According to IDAPP management, the errors were due to changes recommended by their outside consultants relating to the individual trust activity.

Inaccurate posting of information to the general ledger could result in inaccurate financial statements. (Finding Code No. 06-2)

**Recommendation**

We recommend that IDAPP implement a process whereby general journal entries are reviewed and approved by someone other than the preparer, prior to posting to the general ledger, in order to reduce the number of data entry errors and to make the reconciliation process more efficient.

**Commission Response**

Agree.

The current finding is related to a large project that occurred during FY2006. Six months of data was reversed and reallocated within a short timeframe that resulted in a number of corrections being necessary. These corrections were made during a reconciliation process.

Procedures are now in place that call for each journal entry to be reviewed by a second staff member before posting. The journal entry is compared against the source documentation to ensure the accuracy of the data entry and the methodology. The journal entries are then again reviewed through the reconciliation process.

State of Illinois  
Illinois Student Assistance Commission

Current Findings – State Compliance  
Year Ended June 30, 2006

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**Finding 06-3. Internal Auditing**

The Illinois Student Assistance Commission (Commission) failed to perform internal audits of its major systems of internal accounting and administrative controls within the last two years.

We noted the Commission did not complete all internal audits of major systems of internal accounting and administrative controls within the last two years. The Commission has identified the following areas of internal accounting and administrative controls that require an internal audit:

- Commission organization and management
- IDAPP cash and receivables \*
- Loan servicing / FIB / special allowance \*
- Cash receipting and payment posting
- General expenditure control \*
- Contractual services \*
- Payroll and personal services \*
- Department of Education reporting and due diligence
- External compliance – scholarships, grants and loans
- Ancillary programs
- MAP payment system
- Petty cash
- Data center and information systems \*

\* Audit not performed during the last two-year period.

Good internal control practices require that an internal audit of all major areas of internal accounting and administrative control be conducted within a reasonable timeframe.

Commission officials stated that due to the vacancy of the agency's internal audit position, the Commission was unable to complete the anticipated internal audit schedule. The agency did contract with an external firm for \$19,999 to complete some of the required internal audits for fiscal year 2006.

The major areas of internal control must be audited timely to maintain an effective internal control system. When internal audits are not completed timely and in accordance with an approved audit plan, the Commission may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 06-3)

**Recommendation**

We recommend the Commission complete internal audits of its major systems of internal accounting and administrative controls on a timely basis.

State of Illinois  
Illinois Student Assistance Commission

Current Findings – State Compliance  
Year Ended June 30, 2006

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Finding 06-3. Internal Auditing (Continued)

Commission Response

Agree.

Due to the vacancy of the agency's internal audit position, ISAC was unable to complete the anticipated internal audit schedule. For FY 2007 the Commission has contracted with an external firm to complete the required audits.

State of Illinois  
Illinois Student Assistance Commission

Current Findings – State Compliance  
Year Ended June 30, 2006

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**Finding 06-4. Failure to Complete Performance Evaluations of Employees**

The Illinois Student Assistance Commission (Commission) did not complete performance evaluations of certain employees. Further, the submission of certain performance evaluations was late.

Based on our examination of 50 individual employee files, we noted the following:

1. The Commission did not conduct or document performance evaluations of 2 employees (4%).
2. The performance evaluations of 23 employees (46%) were submitted late to the Human Resources Department (HRD). Employee evaluations ranged from 2 days to 108 days late.
3. Of the 18 cases that were submitted late in fiscal year 2005 and tested again in fiscal year 2006, 9 (50%) were again submitted late in 2006. The submissions ranged from 2 days to 89 days late.

The Commission's Policies and Procedures Documentation (PPD) #413 states that, "An annual performance appraisal is required for management and non-management employees. The annual performance appraisal conference is to take place in September, before the common Salary Review Date (October 1)."

According to Commission management, performance evaluations are submitted based on internal deadlines established by HRD. Sometimes due to staffing problems and other operational priorities the evaluations are not completed within the original timeframe established.

Performance evaluations are a systematic and uniform approach used for the development of employees and communication of performance expectations to employees. Performance evaluations should serve as a foundation for salary adjustment, promotion, demotion, discharge, layoff, recall and reinstatement decisions. (Finding Code No. 06-4)

**Recommendation**

We recommend that the Commission allocate the staff necessary to conduct and document annual performance evaluations of all full-time employees and submit these evaluations on a timely manner to HRD.

**Commission Response**

Agree.

The Commission will make every attempt to ensure that annual performance evaluations are conducted in a timely manner. In addition, the Commission will update the current evaluation procedure to formalize the extension process that is currently in place.

**State of Illinois**  
**Illinois Student Assistance Commission**

**Current Findings – State Compliance**  
**Year Ended June 30, 2006**

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**Finding 06-5. Timesheets Not Maintained in Compliance With the State Officials and Employees Ethics Act**

The Illinois Student Assistance Commission (Commission) did not maintain time sheets for full-time salaried employees in compliance with the State Officials and Employee Ethics Act.

Based on our examination of employee timesheets we noted that ISAC's 280 full-time salaried employees do not report their time on a daily basis, instead they only report absences.

State Officials and Employees Ethics Act (Act) requires the Commission to adopt personnel policies consistent with the Act. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour."

Based on initial discussions of this requirement, the Commission believed that use of the CMS payroll system sufficiently addressed the requirement for other exempt staff and was unable to implement changes during fiscal year 2006 because they only became aware of the prior year finding in February 2006.

By not maintaining appropriate time sheets, the Commission is not monitoring salaried employees' time spent on official State business as required to comply with the Act. (Finding Code No. 06-5, 05-5)

**Recommendation**

We recommend the Commission amend its policies to require employees to maintain time sheets in compliance with the Act.

**Commission Response**

Agree.

The Commission has implemented a time reporting process as of July 1, 2006, which complies with the State Officials and Employees Ethics Act.

State of Illinois  
 Illinois Student Assistance Commission

Current Findings – State Compliance  
 Year Ended June 30, 2006

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**Finding 06-6. Contracts Not Approved on a Timely Basis**

The Illinois Student Assistance Commission (Commission) did not approve three contracts prior to the delivery of the product or the performance of services.

Based on our review of 50 contractual services contracts, 3 contracts (6%) totaling \$122,500 were not approved prior to the delivery of product or the performance of services. The Commission took delivery of product or services on two of the contracts prior to the beginning date designated in the contract terms.

<u>Contract Duration</u>	<u>Contract Approval Date</u>	<u>Days Late Contract approval</u>	<u>Product/ Service Delivery Date</u>	<u>Days Early Delivery</u>	
03/01/06	06/30/06	03/24/06	23	03/01/06	23
07/01/05	06/30/06	08/31/05	61	06/30/05	62
07/01/05	06/30/06	05/17/05	NA	02/09/05	97

Statewide Accounting Management System (SAMS) Procedure 15.10.40 requires that contracts be reduced to writing and filed with the Comptroller's Office within 15 days of execution.

Commission officials state that for items #1 and 2, the Commission submitted these contracts to Central Management Services (CMS) for approval, prior to the expiration of the prior contract period. For item # 3, the Commission stated that they requested early delivery since this is a web version annual update of the college calculator for the Commission MAP formula grants which the Commission needed before July, 2005.

Failure to reduce contracts to writing prior to delivery of goods or the performance of services increases the risk of unauthorized payments and other potential liabilities to the Commission. (Finding Code No. 06-6)

**Recommendation**

We recommend the Commission begin the contracting process at an early enough time so that contracts are reduced to writing and approved by all parties prior to the effective date of the contract for the delivery of products or services.

**Commission Response**

Agree.

The Commission will implement procedures to finalize contracts prior to delivery of goods or services.

**State of Illinois  
Illinois Student Assistance Commission**

**Current Findings – State Compliance  
Year Ended June 30, 2006**

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**Finding 06- 7. Failure to Establish College Savings Program**

The Illinois Student Assistance Commission (Commission) has not established a program of college savings instruments for Illinois citizens.

During our examination of State mandates applicable to the Commission, we determined the Commission has not implemented a college savings program for Illinois citizens in accordance with the Higher Education Student Assistance Act (Act) (110 ILCS 947/75).

The Act states, "The Commission is authorized to develop and provide a program of college savings instruments to Illinois citizens." The Act further states, "The Commission shall market and promote the College Savings Programs to the citizens of Illinois."

According to Commission management, a college savings program was established by the Commission in accordance with this statute, the ICAN program. This program, however, was discontinued in 2002 due to lack of activity. The Commission is planning to introduce legislation to repeal the Act during the 2007 Spring session.

By not complying with the Act the Commission has not provided the citizens of the State of Illinois of a college savings program mandated by the General Assembly. (Finding Code No. 06-7, 05-7)

**Recommendation**

We recommend the Commission establish a program of college savings or continue seeking legislation to remedy the statutory requirement.

**Commission Response**

Agree.

The Commission is seeking legislation to repeal the Act during the 2007 spring session.

State of Illinois  
Illinois Student Assistance Commission

Current Findings – State Compliance  
Year Ended June 30, 2006

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**Prior Findings Not Repeated– *Government Auditing Standards***

**Finding 06-8. Financial Reporting Process**

The Commission's fiscal year 2005 draft financial statements (Illinois Student Assistance Commission, Illinois Designated Account Purchase Program (IDAPP) and Illinois Prepaid Tuition Program) required numerous additional revisions to comply with generally accepted accounting principles (GAAP). (Finding Code No. 05-3, 03-9).

The Commission's financial reporting for the year ended June 30, 2006 was improved and contained complete disclosures as required under GAAP.

**Prior Findings Not Repeated– State Compliance**

**Finding 06-9. Efficiency Initiative Payments**

During fiscal year 2005, the Illinois Student Assistance Commission (Commission) made payments for efficiency initiative billings from improper line item appropriations. (Finding Code No. 05-1)

For the year ended June 30, 2006, the Commission was not required to make any efficiency initiative payments.

**Finding 06-10. Failure to Review Computerized Information Systems Controls for Third-Party Vendors**

During fiscal years 2003, 2004 and 2005 the Commission did not obtain independent reviews of all externally controlled computerized systems used to service portions of its student loan portfolio. (Finding Code No. 05-4, 03-1)

For fiscal year 2006, the Commission obtained and reviewed a SAS 70 report (Report on the Internal Controls in Place and Tests of Operating Effectiveness) for all significant service providers.

**Finding 06-11. Untimely Deposit of Cash Refunds**

During fiscal year 2004, cash refunds were not being deposited timely in accordance with State statute.

Based on our sample testing in fiscal year 2006, cash refunds were deposited on a timely basis. (Finding Code No. 05-6)

State of Illinois  
Illinois Student Assistance Commission

Prior Findings Not Repeated - State Compliance  
Year Ended June 30, 2006

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**Finding 06-12. Uncollateralized Deposits**

The Commission did not adequately collateralize its deposits. At June 30, 2004, cash on deposit for the Illinois Prepaid Tuition Program had a carrying amount and bank balance of \$634,665. Of this amount, \$100,000 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$534,665 was uninsured and uncollateralized. (Finding Code No. 05-8)

During fiscal year 2006, our sample test results reflected that Commission funds were covered by either FDIC insurance, or collateralized in accordance with the State Officers and Employees Money Disposition Act (30 ILCS 230/2c).

**Finding 06-13. Internal Controls over Credit Memos and Non-cash Journal Entries Need Improvement**

During our fiscal year 2004 and 2005 examinations we noted the Commission's Illinois Designated Account Purchase Program (IDAPP) did not have adequate internal controls over credit memos and other non-cash journal entries to accounts. IDAPP did not require that a responsible official, or other supervisory personnel, review credit memos and other non-cash entries to accounts prior to being posted to the accounts. (Finding Code No. 05-9)

During our fiscal year 2006 examination we noted that credit memos and other non-cash entries now require (and document) supervisory review and approval.

State of Illinois  
Illinois Student Assistance Commission

Supplementary Information for State Compliance Purposes

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Summary

Supplementary Information for State Compliance Purposes Presented in this section of the report includes the following:

Fiscal Schedules and Analysis:

- Schedule of Expenditures of Federal Awards and Related Notes
- Schedule of Appropriations, Expenditures and Lapse Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Schedule of Efficiency Initiative Payments
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Balance Sheet Accounts
- Analysis of Accounts Receivable

Analysis of Operations

- Agency Functions and Planning Program
- Average Number of Employees
- Annual Cost Statistics – By Activity (Unaudited)
- Emergency Purchases
- Schedule of Investment Management Fees
- Details of Services Provided for Katrina Relief Efforts
- Service Efforts and Accomplishments (Unaudited)
- Schedule of Federal and Nonfederal Expenditures

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

State of Illinois  
 Illinois Student Assistance Commission

Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2006  
 (Amounts expressed in thousands)

Federal Grantor Program Title	Federal CFDA number	Federal Expenditures
U.S. Department of Education:		
Federal Family Education Loan Program	84.032	\$ 272,526
Leveraging Educational Assistance Partnership (LEAP - Formerly SSIG)	84.069	2,071
Robert C. Byrd Honors Scholarship	84.185	1,533
Paul Douglas Teacher Scholarship	84.176	<u>(27)</u>
Total Expenditures of Federal Awards		<u>\$ 276,103</u>

See Notes to Schedule of Expenditures of Federal Awards.

State of Illinois  
Illinois Student Assistance Commission

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2006

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**Note 1. Significant Accounting Principles and Policies**

**(a) Basis of Presentation**

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance of the Illinois Student Assistance Commission (Commission) for the year ended June 30, 2006. The Commission had no subrecipient activity to report.

**(b) Basis of Accounting**

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. Under this method, expenditures are recognized in the accounting period in which the liability is incurred.

**Note 2. Description of Grant Programs**

The following is a brief description of the grant award programs included in the accompanying Schedule of Expenditures of Federal Awards:

**(a) Federal Family Education Loan Program (FFELP) - CFDA No. 84.032**

This program is designed to stimulate the making of educational loans by Illinois commercial lenders to qualifying students by guaranteeing repayment of the loans through payment to lenders for defaulted loans. This program is federally funded through the United States Department of Education.

**(b) Leveraging Educational Assistance Partnership (LEAP) - CFDA No. 84.069**

This program is the federal portion of the Monetary Award Program funded by the United States Department of Education. The Leveraging Educational Assistance Partnership (LEAP) assists states in providing grants and work-study assistance to eligible students who attend institutions of higher education and have substantial financial need. The work-study assistance is provided through campus-based community service work learning study programs, referred to as community service-learning job programs.

**(c) Robert C. Byrd Honors Scholarship - CFDA No. 84.185**

The Byrd Scholarship Program is a federally funded program, which provides scholarships of up to \$1,500, for a maximum of four academic years, for academically exceptional high school graduates who show promise of continued academic excellence. Byrd Scholars must become high school graduates in the same high school year in which a scholarship application is submitted, must demonstrate academic achievement through test scores and high school transcripts and be enrolled, or accepted for enrollment as full-time undergraduate students in a postsecondary institution approved by the United States Department of Education. This Scholarship is not limited to tuition and fees. Recipients may use the scholarship at out-of-state institutions.

**(d) Paul Douglas Teacher Scholarship - CFDA No. 84.176**

The Paul Douglas Teacher Scholarship Program was discontinued prior to July 1, 2002. ISAC has reported negative expenditures, which represent an adjustment to previously reported amounts.

State of Illinois  
 Illinois Student Assistance Commission  
 Schedule of Appropriations, Expenditures, and Lapsed Balances  
 Appropriations for Fiscal Year 2006  
 Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Voucher Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Expenditures Fourteen Months Ended August 31	Balances Lapsed August 31
<b>Public Act. 94-0015</b>					
<b>Appropriated Funds</b>					
<b>General Revenue Fund - 001:</b>					
Grants and scholarships:					
Grant awards to eligible full-time and part-time students	\$ 346,699,800	\$ 345,542,183	\$ 228,379	\$ 345,770,562	\$ 929,238
Matching grants to Illinois institutions to supplement scholarship programs	950,000	949,951	-	949,951	49
Scholarships to children of policemen or firemen killed in the line of duty or who are dependents of correctional officers killed or permanently disabled in the line of duty	350,000	342,572	-	342,572	7,428
National guard and naval militia scholarships	4,480,000	4,456,739	(9,724)	4,447,015	32,985
Veterans' scholarships	19,250,000	17,854,915	1,379,670	19,234,585	15,415
College savings bond grants to eligible students	650,000	648,820	-	648,820	1,180
Minority teacher scholarships	3,100,000	2,891,132	(24,167)	2,866,965	233,035
IL Scholars scholarships	3,020,000	3,020,000	-	3,020,000	-
Illinois incentive for access grants	7,200,000	7,061,000	(29,500)	7,031,500	168,500
IL Future Teachers Corps scholarships	4,100,000	3,807,964	(12,500)	3,795,464	304,536
Loan Repayment for Teachers Program	500,000	497,639	-	497,639	2,361
<b>Total General Revenue Fund</b>	<b>\$ 390,299,800</b>	<b>\$ 387,072,915</b>	<b>\$ 1,532,158</b>	<b>\$ 388,605,073</b>	<b>\$ 1,694,727</b>

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Schedule of Appropriations, Expenditures, and Lapsed Balances - Continued  
 Appropriations for Fiscal Year 2006  
 Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Voucher Expenditures Through June 30	Lapse Period Expenditures July 1 to August 31	Expenditures Fourteen Months Ended August 31	Balances Lapsed August 31
<b>Federal Congress Teacher Scholarship Fund - 092:</b>					
Federal Congress Teacher scholarship for transferring repayment	\$ 400,000	\$ -	\$ -	\$ -	\$ 400,000
Payment of Byrd Honors scholarships	1,800,000	1,540,368	(3,500)	1,536,868	263,132
Total Federal Congress Teacher Scholarship Fund	\$ 2,200,000	\$ 1,540,368	\$ (3,500)	\$ 1,536,868	\$ 663,132
<b>Accounts Receivable Fund - 242:</b>					
Costs of collecting delinquent student scholarships	\$ 300,000	\$ 59,112	\$ 3,045	\$ 62,157	\$ 237,843
<b>Optometric ED Scholarship Fund - 259:</b>					
Scholarships for eligible students pursuing a graduate degree in optometry	\$ 50,000	\$ 50,000	\$ -	\$ 50,000	\$ -
<b>University Grant Fund - 418:</b>					
Grants to higher education institutions	\$ 70,000	\$ 51,750	\$ -	\$ 51,750	\$ 18,250
<b>Federal Student Loan Fund - 663:</b>					
Distribution necessary as the result of guarantees of loans that are uncollectible and payments pursuant to federal agreements	\$ 190,000,000	\$ 151,677,604	\$ 12,364,378	\$ 164,041,982	\$ 25,958,018

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Schedule of Appropriations, Expenditures, and Lapsed Balances - Continued  
 Appropriations for Fiscal Year 2006  
 Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Voucher		Lapse Period		Expenditures		Balances Lapsed August 31
		Expenditures Through June 30	Expenditures July 1 to August 31	Expenditures July 1 to August 31	Expenditures Fourteen Months Ended August 31			
<b>Student Loan Operating Fund - 664:</b>								
Administration:								
Personal services	\$ 17,617,700	\$ 16,297,220	\$ 9,011	\$ 16,306,231	\$ 1,311,469			
State contribution to State Employees' Retirement Fund	1,372,600	1,270,263	934	1,271,197	101,403			
State contribution to Social Security	1,348,000	1,190,250	875	1,191,125	156,875			
State contribution for employees' group insurance	4,933,000	4,494,829	1,288	4,496,117	436,883			
Contractual services	12,666,900	7,882,822	484,454	8,367,276	4,299,624			
Travel	216,400	84,499	9,670	94,169	122,231			
Commodities	272,800	98,165	6,592	104,757	168,043			
Printing	727,000	78,828	38,344	117,172	609,828			
Equipment	539,000	33,783	17,463	51,246	487,754			
Telecommunications	1,907,000	461,966	47,560	509,526	1,397,474			
Operation of automotive equipment	37,900	24,354	1,481	25,835	12,065			
Loan-based solution project	5,000,000	1,010,975	15,977	1,026,952	3,973,048			
Collection agency fees	21,334,400	3,070,453	254,882	3,325,335	18,009,065			
<b>Total Student Loan Operating Fund</b>	<b>\$ 67,972,700</b>	<b>\$ 35,998,407</b>	<b>\$ 888,531</b>	<b>\$ 36,886,938</b>	<b>\$ 31,085,762</b>			
<b>Contracts and Grants Fund - 677:</b>								
Costs to support outreach and training activities	\$ 70,000	\$ 11,466	\$ (500)	\$ 10,966	\$ 59,034			
<b>Federal Student Incentive Trust Fund - 701:</b>								
Grant awards to full-time and part-time students	\$ 3,700,000	\$ 2,071,194	\$ -	\$ 2,071,194	\$ 1,628,806			

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Schedule of Appropriations, Expenditures, and Lapsed Balances - Continued  
 Appropriations for Fiscal Year 2006  
 Fourteen Months Ended August 31, 2006

	Appropriations (Net After Transfers)	Voucher	Lapse Period	Expenditures	Balances
		Expenditures Through June 30	Expenditures July 1 to August 31	Fourteen Months Ended August 31	Lapsed August 31
<b>National Guard Grant Military Vet Scholarships Fund - 721:</b>					
Grant awards to full-time and part-time students	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000
<b>IL Future Teacher Corps Scholarships Fund - 753:</b>					
Grant awards to full-time and part-time students	\$ 57,000	\$ -	\$ -	\$ -	\$ 57,000
Grant awards to Golden Apple Foundation	3,000	-	-	-	3,000
Total IL Future Teacher Corps Scholarships Fund	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000
<b>Totals - All Appropriated Funds</b>	\$ 654,742,500	\$ 578,532,816	\$ 14,784,112	\$ 593,316,928	\$ 61,425,572
<b>Nonappropriated Funds:</b>					
<b>Illinois Prepaid Tuition Fund - 557:</b>					
Lump sum expenditures for operations		\$ 115,366,575	\$ 860,600	\$ 116,227,175	
<b>ISAC Loan Purchase Program Payroll Fund - 773:</b>					
Illinois Designated Account Purchase Program Expenditures		10,689,131	(7,417)	10,681,714	
<b>Total - All Nonappropriated Funds</b>		\$ 126,055,706	\$ 853,183	\$ 126,908,889	
<b>Total - All Funds</b>		\$ 704,588,522	\$ 15,637,295	\$ 720,225,817	

Note: All information shown in this Schedule was obtained from agency records and reconciled to the records of the State Comptroller.

(Concluded)

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances  
 Years Ended June 30, 2006, 2005 and 2004

	Fiscal Year		
	2006	2005	2004
	P.A. 94-0015	P. A. 93-0842	P. A. 93-90 & 93
<b>General Revenue Fund - 001:</b>			
Appropriations (net after transfers)	\$ 390,299,800	\$ 392,250,800	\$ 302,586,600
Expenditures:			
Personal services	-	1,934,720	2,598,782
Employee retirement contribution paid by State	-	-	103,512
State contribution to State Employees' Retirement Fund	-	311,753	261,505
State contribution to Social Security	-	142,767	191,976
Contractual services	-	1,802,600	1,929,693
Travel	-	5,442	11,727
Commodities	-	32,710	32,711
Printing	-	82,351	79,725
Equipment	-	8,893	9,355
Telecommunications	-	111,604	110,041
Operation of automotive equipment	-	4,341	4,729
Federal costs allocation	-	-	99,568
Initiatives to increase awareness	-	-	112,046
Grant awards to eligible full-time and part-time students	345,770,562	330,838,777	236,293,497
Matching grants to Illinois institutions to supplement scholarship programs	949,951	949,576	949,993
Scholarships to children of policemen or firemen killed in the line of duty or who are dependents of correctional officers killed or permanently disabled in the line of duty	342,572	349,996	270,430
National guard and naval militia scholarships	4,447,015	4,216,711	4,497,340
Veterans' scholarships	19,234,585	19,217,038	19,211,593
College savings bond grants to eligible students	648,820	219,000	649,880
I Teach teacher	-	-	2,157,658
Minority teachers scholarships	2,866,965	2,797,510	2,959,477
IL Scholars scholarships	3,020,000	3,020,000	3,514,300
Illinois incentive for access grants	7,031,500	6,792,637	6,842,000
Merit recognition scholarships	-	5,372,000	4,426,000
IL Future Teacher Corps scholarships	3,795,464	3,770,517	4,099,224
Loan Repayment for Teachers Program	497,639	230,791	148,886
Total expenditures	388,605,073	382,211,734	291,565,648
Lapsed balances	\$ 1,694,727	\$ 10,039,066	\$ 11,020,952

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - Continued  
 Years Ended June 30, 2006, 2005 and 2004

	Fiscal Year		
	2006 P.A. 94-0015	2005 P. A. 93-0842	2004 P. A. 93-90 & 93
<b>Education Assistance Fund - 007:</b>			
Appropriations (net after transfers)	\$ -	\$ -	\$ 96,368,300
Expenditures:			
Grant awards to full-time and part-time students	-	-	96,133,261
Lapsed balances	\$ -	\$ -	\$ 235,039
<b>Federal Congress Teacher Scholarship Fund - 092:</b>			
Appropriations (net after transfers)	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
Expenditures:			
Federal Congress Teacher Scholarship for transferring payment	-	-	400,000
Payment of Byrd Honors scholarships	1,536,868	1,589,985	1,584,001
Total expenditures	1,536,868	1,589,985	1,984,001
Lapsed balances	\$ 663,132	\$ 610,015	\$ 215,999
<b>Accounts Receivable Fund - 242:</b>			
Appropriations (net after transfers)	\$ 300,000	\$ 300,000	\$ 300,000
Expenditures:			
Costs of collecting delinquent student scholarships	62,157	96,829	61,856
Lapsed balances	\$ 237,843	\$ 203,171	\$ 238,144
<b>Optometric ED Scholarship Fund - 259:</b>			
Appropriations (net after transfers)	\$ 50,000	\$ 50,000	\$ 50,000
Expenditures:			
Scholarships for eligible students pursuing a graduate degree in optometry	50,000	50,000	50,000
Lapsed balances	\$ -	\$ -	\$ -
<b>University Grant Fund - 418:</b>			
Appropriations (net after transfers)	\$ 70,000	\$ 70,000	\$ 70,000
Expenditures:			
Grants to higher education institutions	51,750	51,650	53,100
Lapsed balances	\$ 18,250	\$ 18,350	\$ 16,900

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - Continued  
 Years Ended June 30, 2006, 2005 and 2004

	Fiscal Year		
	2006 P.A. 94-0015	2005 P. A. 93-0842	2004 P. A. 93-90 & 93
<b>Monetary Award Program Reserve Fund - 420:</b>			
Appropriations (net after transfers)	\$ -	\$ 875,000	\$ -
Expenditures:			
Grant awards to eligible full-time and part-time students	-	-	-
Lapsed balances	\$ -	\$ 875,000	\$ -
<b>Higher EdNet Fund - 423:</b>			
Appropriations (net after transfers)	\$ -	\$ -	\$ 10,000
Expenditures:			
Costs associated with Higher EdNet program	-	-	2,068
Lapsed balances	\$ -	\$ -	\$ 7,932
<b>Federal Student Loan Fund - 663:</b>			
Appropriations (net after transfers)	\$ 190,000,000	\$ 190,000,000	\$ 220,000,000
Expenditures:			
Distribution necessary as the result of guarantees of loans that are uncollectible and payments pursuant to federal agreements	164,041,982	142,428,538	115,703,005
Lapsed balances	\$ 25,958,018	\$ 47,571,462	\$ 104,296,995
<b>Student Loan Operating Fund - 664:</b>			
Appropriations (net after transfers)	\$ 67,972,700	\$ 65,146,600	\$ 77,032,300
Expenditures:			
Personal services	16,306,231	14,144,712	11,800,096
Employee retirement contribution paid by State	-	443	462,811
State contribution to State Employees' Retirement Fund	1,271,197	2,278,954	1,585,506
State contribution to Social Security	1,191,125	1,032,789	859,798
State contribution for employees' group insurance	4,496,117	3,620,286	2,597,077
Contractual services	8,367,276	7,428,975	8,291,204
Travel	94,169	112,000	97,232
Commodities	104,757	104,895	122,381
Printing	117,172	104,580	134,416
Equipment	51,246	222,160	211,936
Telecommunications	509,526	576,419	840,311
Operation of automotive equipment	25,835	17,794	18,420

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - Continued  
 Years Ended June 30, 2006, 2005 and 2004

	Fiscal Year		
	2006 P.A. 94-0015	2005 P. A. 93-0842	2004 P. A. 93-90 & 93
<b>Student Loan Operating Fund - 664 (continued):</b>			
Expenditures (continued):			
Loan-based solution project	\$ 1,026,952	\$ 1,126,252	\$ 364,877
Repayment of loan to Federal Student Loan Fund	-	-	11,000,000
Collection agency fees	3,325,335	3,503,577	3,414,683
Total expenditures	36,886,938	34,273,836	41,800,748
Lapsed balances	\$ 31,085,762	\$ 30,872,764	\$ 35,231,552
<b>Federal Reserve Recall Fund - 665:</b>			
Appropriations (net after transfers)	\$ -	\$ -	\$ 5,300,000
Expenditures:			
Default aversion activities and payment of recalled federal funds	-	-	4,213,303
Lapsed balances	\$ -	\$ -	\$ 1,086,697
<b>Contracts and Grants Fund - 677:</b>			
Appropriations (net after transfers)	\$ 70,000	\$ 70,000	\$ 50,000
Expenditures:			
Costs to support outreach and training activities	10,966	13,225	30,438
Lapsed balances	\$ 59,034	\$ 56,775	\$ 19,562
<b>Federal Student Incentive Trust Fund - 701:</b>			
Appropriations (net after transfers)	\$ 3,700,000	\$ -	\$ 3,700,000
Expenditures:			
Grant awards to full-time and part-time students	2,071,194	-	38,152
Lapsed balances	\$ 1,628,806	\$ -	\$ 3,661,848
<b>National Guard Grant and Military Vet Scholarship Fund - 721:</b>			
Appropriations (net after transfers)	\$ 20,000	\$ 20,000	\$ -
Expenditures:			
Grant awards to full-time and part-time students	-	-	-
Lapsed balances	\$ 20,000	\$ 20,000	\$ -

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Net Appropriations, Expenditures, and Lapsed Balances - Continued  
 Years Ended June 30, 2006, 2005 and 2004

	Fiscal Year		
	2006 P.A. 94-0015	2005 P. A. 93-0842	2004 P. A. 93-90 & 93
<b>IL Future Teacher Corps Scholarships Fund - 753:</b>			
Appropriations (net after transfers)	\$ 60,000	\$ 60,000	\$ 50,000
Expenditures:			
Grant awards to full-time and part-time students	-	-	-
Lapsed balances	\$ 60,000	\$ 60,000	\$ 50,000
<b><u>Total all funds:</u></b>			
Appropriations (net after transfers)	\$ 654,742,500	\$ 651,042,400	\$ 707,717,200
Expenditures	593,316,928	560,715,797	551,635,580
Lapsed balances	\$ 61,425,572	\$ 90,326,603	\$ 156,081,620

(Concluded)

State of Illinois  
 Illinois Student Assistance Commission  
 Schedule of Efficiency Payments  
 Two Years Ended June 30, 2006 and 2005  
 (Amounts expressed in thousands)

	Fiscal Year	
	2006	2005
<u>Procurement Efficiency Initiative</u>		
General Revenue Fund-001		
Commodities	\$ -	\$ 16

Note: This schedule includes only those payments made pursuant to 30 ILCS 105/6p-5. Amounts were obtained from the Agency and reconciled to information from the Office of the Comptroller.

State of Illinois  
 Illinois Student Assistance Commission  
 Schedule of Changes in State Property  
 Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,700	\$ -	\$ -	\$ 2,700
Capital assets being depreciated:				
Buildings	18,311	-	-	18,311
Equipment	1,252	-	(27)	1,225
Total capital assets being depreciated	19,563	-	(27)	19,536
Less accumulated depreciation:				
Buildings	(6,181)	(457)	-	(6,638)
Equipment	(1,233)	(6)	27	(1,212)
Total accumulated depreciation	(7,414)	(463)	27	(7,850)
Total capital assets being depreciated, net	12,149	(463)	-	11,686
Governmental activity capital assets, net	\$ 14,849	\$ (463)	\$ -	\$ 14,386
Business-type activities:				
<i>Designated Account Purchase Program:</i>				
Capital assets being depreciated:				
Equipment	\$ 500	\$ -	\$ -	\$ 500
Less accumulated depreciation:				
Equipment	(393)	(42)	-	(435)
Total capital assets being depreciated, net	107	(42)	-	65
<i>Other business-type activities:</i>				
Capital assets being depreciated:				
Equipment and automobiles	708	164	(8)	864
Less accumulated depreciation:				
Equipment and automobiles	(426)	(131)	8	(549)
Total capital assets being depreciated, net	282	33	-	315
Business-type activities capital assets, net	\$ 389	\$ (9)	\$ -	\$ 380

Note: The above information has been reconciled to reports (Form C-15) submitted to the Office of the Comptroller.

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Cash Receipts  
 Years Ended June 30, 2006 and 2005  
 (Amounts expressed in thousands)

	General Revenue Account		Federal Student Loan		Federal Student Incentive Trust		Federal Congressional Teacher Scholarship	
	2006	2005	2006	2005	2006	2005	2006	2005
Federal government receipts	\$ -	\$ -	\$ 81,801	\$ 60,773	\$ 2,071	\$ -	\$ 1,525	\$ 1,624
Other:								
Collections on defaulted student loans	-	-	33,595	34,857	-	-	-	-
Repurchased student loans	-	-	34,697	33,531	-	-	-	-
Loan processing and issuance fee	-	-	-	-	-	-	-	-
Repayments and reimbursements of loans	-	-	-	-	-	-	27	36
Portfolio maintenance fee	-	-	-	-	-	-	-	-
Federal direct consolidation fee	-	-	-	-	-	-	-	-
Federal student loan	-	-	-	-	-	-	-	-
Interfund payments	-	-	-	-	-	-	-	-
Proceeds from sale of tuition contracts	-	-	-	-	-	-	-	-
Miscellaneous	272	272	-	-	-	-	-	-
Total other	272	272	68,292	68,388	-	-	27	36
Total receipts per Comptroller	\$ 272	\$ 272	\$ 150,093	\$ 129,161	\$ 2,071	\$ -	\$ 1,552	\$ 1,660

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Cash Receipts - Continued  
 Years Ended June 30, 2006 and 2005  
 (Amounts expressed in thousands)

	ISAC Accounts Receivable		Contracts and Grants		Student Loan Operating		Illinois Prepaid Tuition Program	
	2006	2005	2006	2005	2006	2005	2006	2005
Federal government receipts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other:								
Collections on defaulted student loans	-	-	-	-	-	-	-	-
Repurchased student loans	-	-	-	-	-	-	-	-
Loan processing and issuance fee	-	-	-	-	4,729	4,604	-	-
Repayments and reimbursements of loans	291	462	-	-	-	-	-	-
Portfolio maintenance fee	-	-	-	-	1,965	5,353	-	-
Federal direct consolidation fee	-	-	-	-	5,009	6,695	-	-
Federal student loan	-	-	-	-	25,051	18,210	-	-
Interfund payments	-	-	-	-	-	-	-	-
Proceeds from sale of tuition contracts	-	-	-	-	-	-	122,120	120,116
Miscellaneous	-	-	21	17	54	36	-	-
Total other	291	462	21	17	36,808	34,898	122,120	120,116
Total receipts per Comptroller	\$ 291	\$ 462	\$ 21	\$ 17	\$ 36,808	\$ 34,898	\$ 122,120	\$ 120,116

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Comparative Schedule of Cash Receipts - Continued  
 Years Ended June 30, 2006 and 2005  
 (Amounts expressed in thousands)

	Illinois Designated Account Purchase Program		Total All Funds (memorandum only)	
	2006	2005	2006	2005
Federal government receipts	\$ -	\$ -	\$ 85,397	\$ 62,397
Other:				
Collections on defaulted student loans	-	-	33,595	34,857
Repurchased student loans	-	-	34,697	33,531
Loan processing and issuance fee	-	-	4,729	4,604
Repayments and reimbursements of loans	-	-	318	498
Portfolio maintenance fee	-	-	1,965	5,353
Federal direct consolidation fee	-	-	5,009	6,695
Federal student loan	-	-	25,051	18,210
Interfund payments	9,896	11,150	9,896	11,150
Proceeds from sale of tuition contracts	-	-	122,120	120,116
Miscellaneous	-	-	347	325
Total other	9,896	11,150	237,727	235,339
Total receipts per Comptroller	\$ 9,896	\$ 11,150	\$ 323,124	\$ 297,736

(Concluded)

State of Illinois  
 Illinois Student Assistance Commission  
 Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller  
 Year Ended June 30, 2006  
 (Amounts expressed in thousands)

	General Revenue Account	Federal Student Loan	Federal Student Incentive Trust	Federal Congressional Teacher Scholarship	ISAC Accounts Receivable	Contracts and Grants
Total receipts per Comptroller	\$ 272	\$ 150,093	\$ 2,071	\$ 1,552	\$ 291	\$ 21
Reconciling items:						
Deposits in-transit -						
Prior year	(1)	(524)	-	(1)	(1)	-
Current Year	1	230	-	-	1	-
Budgetary refunds/rounding	-	(2)	-	-	-	-
Net reconciling items	-	(296)	-	(1)	-	-
Receipts per Commission	\$ 272	\$ 149,797	\$ 2,071	\$ 1,551	\$ 291	\$ 21

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller - Continued  
 Year Ended June 30, 2006  
 (Amounts expressed in thousands)

	Student Loan Operating	Illinois Prepaid Tuition Program	Illinois Designated Account Purchase Program	Total All Funds (Memorandum Only)
Total receipts per Comptroller	\$ 36,808	\$ 122,120	\$ 9,896	\$ 323,124
Reconciling items:				
Deposits in-transit -				
Prior year	(2)	-	-	(529)
Current Year	-	-	-	232
Budgetary refunds/rounding	(5)	-	-	(7)
Net reconciling items	(7)	-	-	(304)
Receipts per Commission	\$ 36,801	\$ 122,120	\$ 9,896	\$ 322,820

(Concluded)

State of Illinois  
 Illinois Student Assistance Commission  
 Analysis of Significant Variations In Expenditures  
 Years Ended June 30, 2006 and 2005

Source: Schedule of Appropriations, Expenditures and Lapsed Balances

	2006		2005		Increase (Decrease) Amount	% of Change Threshold 20%	Explanation
	\$	-	\$	-			
<b>General Revenue Fund - 001</b>							
Personal services			1,934,720		\$(1,934,720)	-100%	
State contribution to State Employees' Retirement Fund			311,753		(311,753)	-100%	
State contribution to Social Security			142,767		(142,767)	-100%	
Contractual services			1,802,600		(1,802,600)	-100%	The Commission approved a budget request that used only Student Loan Operating Fund (SLOF) to fund its administrative activities in order to focus the limited state General Revenue Fund (GRF) funds available on programmatic needs. The General Assembly and Governor concurred, and no appropriation authority was provided in these lines in FY 2006. Therefore, there were no administrative expenditures in the GRF in FY 2006.
Travel			5,442		(5,442)	-100%	
Commodities			32,710		(32,710)	-100%	
Printing			82,351		(82,351)	-100%	
Equipment			8,893		(8,893)	-100%	
Telecommunications			111,604		(111,604)	-100%	
Operation of automotive equipment			4,341		(4,341)	-100%	
College savings bond grants to eligible students	648,820		219,000		429,820	196%	The FY05 appropriation was a result of a supplemental appropriation late in the application cycle. Thus, a number of applicants did not apply in time in FY05.
Merit recognition scholarships			5,372,000		(5,372,000)	-100%	The appropriation authority was discontinued in FY 2006.
Loan Repayment for Teachers Program	497,639		230,791		266,848	116%	To qualify for the federal program that this state program matches, applicants must work five consecutive years in the approved field and the borrower had to be a new borrower after October 1, 1998. Thus, as more time has elapsed between October 1998, more people have become eligible.

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Analysis of Significant Variations In Expenditures - Continued  
 Years Ended June 30, 2006 and 2005

Source: Schedule of Appropriations, Expenditures and Lapsed Balances

	2006	2005	Increase (Decrease) Amount	% of Change Threshold 20%	Explanation
<b>Accounts Receivable Fund - 242</b>					
Costs of collecting delinquent student scholarships	\$ 62,157	\$ 96,829	\$ (34,672)	-36%	Staff member paid from SLOF, rather than the accounts receivable fund in FY 2006.
<b>Student Loan Operating Fund - 664</b>					
Employee retirement contribution paid by State	-	443	(443)	-100%	The appropriation authority was discontinued in FY 2006.
State contribution to State Employees' Retirement Fund	1,271,197	2,278,954	(1,007,757)	-44%	Due to decrease in required contribution to SERS from 16.1% in FY 2005 to 7.8% in FY 2006.
State contribution for employees' group insurance	4,496,117	3,620,286	875,831	24%	Due to transitioning employees previously paid from the GRF to the SLOF.
Equipment	51,246	222,160	(170,914)	-77%	Due to cost cutting measures implemented in FY 2006.
Operation of automotive equipment	25,835	17,794	8,041	45%	Due to increases in fuel costs in FY 2006.
<b>Federal Student Incentive Trust Fund - 701</b>					
Grant awards to full-time and part-time students	2,071,194	-	2,071,194	100%	Increase in MAP appropriation re-established eligibility for federal program in FY 2006.

(Concluded)

State of Illinois  
 Illinois Student Assistance Commission  
 Analysis of Significant Variations in Receipts  
 Years Ended June 30, 2006 and 2005  
 (Amounts expressed in thousands)

	2006	2005	Increase (Decrease) Amount	% of Change Threshold 20%	Explanation
<b>Federal Congressional Teachers Scholarship Fund - 092</b>					
Repayments and reimbursements of loans	\$ 27	\$ 36	\$ (9)	-25%	Due to decrease in collections of the Paul Douglas program refunds.
<b>Accounts Receivable Fund - 242</b>					
Repayments and reimbursements of loans	291	462	(171)	-37%	Due to decrease in collections for the Teacher's Scholarship program.
<b>Federal Student Loan Fund - 663</b>					
Federal government receipts	81,801	60,773	21,028	35%	Due to increase in lender reimbursements, there is a corresponding increase in the reinsurance payment received from the Department of Education.
<b>Student Loan Operation Fund - 664</b>					
Portfolio maintenance fee (PMF)	1,965	5,353	(3,388)	-63%	The PMF shortage transfer authorized by the US Department of Education of \$6.3 million was booked to the Federal Student Loan account at the Illinois Office of the Comptroller (IOC) instead of the PMF account as it was a transfer payment. PMF payments actually increased in FY2006 as compared to FY2005.
Federal direct consolidation	5,009	6,695	(1,686)	-25%	Federal Direct Consolidation revenue decreased due to a change in ISAC's collection strategy in FY2006 to concentrate more on loan rehabilitations and less on Federal Direct loan consolidations.
Federal student loan	25,051	18,210	6,841	38%	This is because the PMF shortage amount of \$6.3 million was booked to the Federal Student Loan account at the IOC instead of the PMF account as it was a transfer payment.
Miscellaneous	54	36	18	50%	Refunds from the Federal Department of Education were higher in FY 2006.

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Analysis of Significant Variations in Receipts - Continued  
 Years Ended June 30, 2006 and 2005  
 (Amounts expressed in thousands)

	2006	2005	Increase (Decrease) Amount	% of Change Threshold 20%	Explanation
<b>Contracts and Grants Fund - 677</b>					
Repayments and reimbursements of loans	\$ 21	\$ 17	\$ 4	24%	Funds received from private organizations, foundations and grants were higher in FY 2006.
<b>Federal Student Incentive Trust Fund - 701</b>					
Federal government receipts	2,071	-	2,071	100%	There was no grant award from the U.S. Department of Education for the Federal Student Incentive program in FY 2005.

\*Source: State of Illinois Office of the Comptroller SB04 reports.

(Concluded)

State of Illinois  
 Illinois Student Assistance Commission  
 Analysis of Significant Lapse Period Spending  
 Fourteen Months Ended August 31, 2006

	Total Expenditures	Lapse Period Expenditures	Percent of Total Expenditures > 20%	Explanation
<b>Student Loan Operating Fund - 664</b>				
Printing	\$ 117,172	\$ 38,344	33%	A number of printing projects are normally delayed until the end of the legislative season to confirm information for publications such as the MAP maximum award new program legislation, etc.
Equipment	51,246	17,463	34%	The equipment purchases represent planned procurements to keep reasonably current with technology. The procurements were held until late in the fiscal year to ensure that the fund's total expenditure was within the total internal budget targeted for the year.

State of Illinois  
Illinois Student Assistance Commission

Analysis of Significant Balance Sheet Accounts  
June 30, 2006 and 2005  
(Amounts expressed in thousands)

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	2006	2005
Cash and equivalents	\$ 439,643	\$ 234,057
Investments	798,172	829,923
Notes receivable	85,796	100,996
Accrued interest on loans and notes	62,576	45,786
Federal special allowance and interest subsidy	30,990	20,316
Tuition payable	657,826	562,274
Accreted tuition payable	158,423	115,330
Revenue bonds and notes payable	4,206,009	3,737,846

**Cash and Equivalents:**

The increase in the balance of cash and cash equivalents is due to the timing and amount of bond issuances in each year and the timing of student loan purchases and originations from year to year in the Illinois Designated Account Purchase Program (IDAPP).

**Investments:**

This refers to investment activities by the Prepaid Tuition Program and IDAPP. The Illinois Prepaid Tuition Program investments increased due to purchases of additional contracts and the corresponding increase in cash receipts from contract purchasers. Investments for the Prepaid Tuition Program have increased from \$641 million in 2005 to \$777 million in 2006. Changes in IDAPP's investments are due to the timing of bond issuances and the availability of funds to invest which varies from year to year. IDAPP's investments have decreased from \$189 million in 2005 to \$21 million in 2006.

**Tuition Payable:**

This account in the Illinois Prepaid Tuition Program represents amounts received from purchasers of contracts held by the fund. The increase in tuition payable is due to the additional contracts being purchased and cash payments received from existing contract holders for contracts sold on installment plans.

State of Illinois  
Illinois Student Assistance Commission

Analysis of Significant Balance Sheet Accounts (Continued)  
June 30, 2006 and 2005  
(Amounts expressed in thousands)

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**Accreted Tuition Payable:**

This account in the Illinois Prepaid Tuition Program represents management's estimate of the present value of the tuition payment to be made in excess of the principal payment (contract amounts) received and is expected to be financed through the investments of tuition contract proceeds. The accretion liability is estimated as a percentage of the tuition payable liability and, therefore, increases as tuition payable increases.

**Revenue Bonds and Notes Payable:**

This account in the Illinois Designated Account Purchase Program (IDAPP) represents the issuance of student loan revenue bonds and notes. The increase is due to debt issuances during fiscal year 2006 totaling \$600,000. This amount is offset by FY 2006 scheduled principal retirements.

State of Illinois  
 Illinois Student Assistance Commission

Analysis of Accounts Receivable  
 June 30, 2006 and 2005  
 (Amounts expressed in thousands)

	2006	2005
Intergovernmental	\$ 28,590	\$ 30,762
Student loans	3,796,187	3,387,383
Notes	85,796	100,996
Accrued interest on loans and notes	62,576	45,786
Accrued interest on investments	334	1,967
Federal special allowance and interest subsidy	30,990	20,316
<b>Total</b>	<b>\$ 4,004,473</b>	<b>\$ 3,587,210</b>

**Intergovernmental Receivables:**

The intergovernmental receivable in the Federal Student Loan Fund represents the reimbursements of claims to be paid by the U.S. Department of Education.

**Student Loans Receivable:**

IDAPP continues its efforts to grow the business and reach improved economies of scale. Its student loan receivable balance has grown by double-digit percentages each year since 1995. IDAPP originated/purchased \$1.4 billion and \$1.2 billion of student loans in FY 2006 and FY 2005, respectively. The current portion of the overall student loan portfolio balance outstanding at year-end was \$668 million in 2006 and \$671 million in 2005. For certain loans made under the alternative loan program, IDAPP uses a collection agency to assist in collecting delinquent balances. IDAPP's loan portfolio at year-end is composed of \$3.25 billion of federally insured FELP loans and \$442 million in alternative loans. The FELP portfolio has historically defaulted less than 2% of the total portfolio per year. IDAPP is reimbursed for these loans at either 100% or 98% by the Guarantor agencies. The rate of reimbursement depends on the date of disbursement of the underlying loans and is also influenced by the loan servicers' designation of exceptional performer. For the Alternative Loan portfolio, any loans that become 120 days delinquent are reserved for in the loan loss reserve. At fiscal year-end 2006, 1.5% of the alternative loan portfolio was reserved for estimated loan losses. Included in the student loans balance above is approximately \$114 million of capitalized loan premiums reduced by loan acquisition and origination costs and deferred credits, net of a \$10 million allowance for doubtful accounts.

**Notes Receivable:**

The decrease in notes receivable is due to the timing of purchases of the student loans from the school lenders by IDAPP.

**Accrued Interest on Loans and Notes:**

Accrued interest on loans and notes is up in 2006 when compared to 2005. This is mainly due to growth in the student loan portfolio.

State of Illinois  
Illinois Student Assistance Commission

Analysis of Accounts Receivable (Continued)  
June 30, 2006 and 2005  
(Amounts expressed in thousands)

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**Accrued Interest on Investments:**

Accrued interest on investments is down in 2006 when compared to 2005. The difference is mostly due to funds being used more rapidly for loan origination and purchase and, therefore, shorter-term investments. At June 30, 2006, IDAPP held approximately \$21 million in investments; at June 30, 2005, IDAPP held approximately \$189 million in investments.

**Federal Special Allowance and Interest Subsidy:**

Receivables are up in 2006 relative to 2005 because of growth in the student loan portfolio and timing of the report submission and response from the U.S. Department of Education, as well as economic conditions that caused a higher special allowance.

**State of Illinois  
Illinois Student Assistance Commission**

**Analysis of Operations  
Year Ended June 30, 2006**

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**Agency Functions and Planning Program**

**Commission Organization**

The Illinois Student Assistance Commission (ISAC or Commission) is a part of the executive branch of government of the State of Illinois and operates under the authority of and review by the Illinois General Assembly. ISAC operates under a budget approved by the General Assembly in which resources are appropriated for the use of ISAC. Activities of ISAC are subject to the authority of the Office of the Governor, the State's Chief Executive Officer, and other departments of the executive branch of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to ISAC and all other cash received are under the custody and control of the State Treasurer. The Illinois Designated Account Purchase Program (IDAPP) and the ISAC Certificate of Participation (COP) Debt Service Funds are either under control of the Commission or its trustee.

ISAC was established through the Higher Education Student Assistance Act in 1957. Ten persons are appointed by the Governor to serve as Commission members without compensation for a term of six years, except for one member who serves for a term of two years. Mr. Larry E. Matejka is the current Executive Director of the Commission. His office is at 500 West Monroe in Springfield. The Commission's operations office is at 1755 Lake Cook Road in Deerfield and another office is located at 100 West Randolph in Chicago.

The Commission was created to establish and administer a system of financial assistance, through loan guarantees; scholarships and grant awards; and a prepaid tuition program for residents of the State to enable them to attend qualified public or private institutions of their choice within Illinois. The Commission fulfills this purpose by administering the following programs:

**Monetary Award Program**

This program was created to provide financial assistance to qualifying students who are residents of the State of Illinois and enrolled at an approved post-secondary institution in Illinois. The monetary awards are granted on the basis of student financial need and the availability of funds. The grant provided up to \$4,968 in fiscal years 2005 and 2006 for the payment of tuition and mandatory fees. The program is funded by the General Revenue Fund.

**Illinois Incentive for Access Program**

The Illinois Incentive for Access (IIA) Program provides grant assistance to freshmen who have limited financial resources with which to pay for college. The purpose of the program is to provide access and retention for this population while reducing their loan debt. A qualified applicant may receive a one-time \$500 grant.

State of Illinois  
Illinois Student Assistance Commission

Analysis of Operations  
Year Ended June 30, 2006

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**Agency Functions and Planning Program (Continued)**

**Merit Recognition Scholarship Program**

This program is designed to encourage and reward outstanding academic achievement of Illinois high school graduates. It is funded by the General Revenue Fund. One-time scholarships of one thousand dollars are awarded to qualified Illinois high school students who rank in the top 5% of their class or who score in the top 5% of Illinois students on a standardized college entrance exam.

**State Scholar Program**

This program was created to publicly and personally identify graduating high school seniors who possess superior academic potential based on their college entrance exam scores and high school records. Students named State Scholars are awarded a Certificate of Achievement. No financial assistance is awarded by the Commission through this program.

**Robert C. Byrd Honors Scholarship Program**

This federally funded program was created to provide scholarships of up to \$1,500 per year to academically exceptional high school graduates for undergraduate study at approved U.S. colleges and universities.

**Ancillary Award Programs**

The following Ancillary Award programs, funded by the General Revenue Fund, supplement the scholarship and grant programs listed above:

- Bonus Incentive Grant – Illinois College Savings Bonds
- Grant Program for Dependents of Correctional Officers
- Grant Program for Dependents of Police or Fire Officers
- Illinois Future Teacher Corps Program
- Illinois National Guard and Naval Militia Grant
- Illinois Special Education Teacher Tuition Waiver Program
- Illinois Veteran's Grant
- Minority Teachers of Illinois Scholarship Program
- Student to Student Program of Matching Grants
- Teacher/Child Care Loan Forgiveness Program

State of Illinois  
Illinois Student Assistance Commission

Analysis of Operations  
Year Ended June 30, 2006

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**Agency Functions and Planning Program (Continued)**

**Federal Family Education Loan Program (FFELP)**

This program is designed to stimulate the making of educational loans by Illinois commercial lenders to qualifying students by guaranteeing repayment of the loans through payment to lenders for defaulted loans. This program is federally funded through the United States Department of Education.

The Higher Education Act of 1965 (HEA) as amended by the Higher Education Amendments of 1998 (Pub.L. 105-244) required the agency to establish two new funds for the Program's Administration, the Federal Student Loan Fund (FSLF) and the Student Loan Operating Fund (SLOF). ISAC established these funds as of October 1, 1998.

The FSLF accounts for federal government program activities operated and maintained by ISAC. Section 422A(d) of the HEA allows the FSLF to be used primarily to pay lender claims and default aversion fees to ISAC's Student Loan Operating Fund. ISAC uses the funds in the SLOF, along with the State's General Revenue Fund's administration appropriation (if any), for its operating expenses. The SLOF is the State's earned activities and is administered by ISAC.

**Alternative Loan Program**

In order to make post-secondary educational opportunities more accessible for qualified students, ISAC offers a program of "Alternative Loans" to supplement existing federal and state student financial assistance programs.

**Illinois College Accounts Network**

This program is a savings and investment plan which provides tax incentives for Illinois residents to begin saving for their children's college education. Although new accounts are no longer available, accounts previously opened under the plan are maintained.

**Higher Education License Plate Grant Program**

Working with the Secretary of State, participating public universities, community colleges and not-for-profit private colleges and universities in Illinois can have specialized collegiate license plates issued for their schools. Of the \$75 fee charged for these specialized plates, \$25 is used to fund a grant program called the Higher Education License Plate (HELP) Grant Program.

Each participating public university and community college administers its own scholarship program using the funds received directly from the license plate fees. Participating private institutions receive their funding from an appropriation to ISAC in which proceeds generated by the license plate fee are deposited into the University Grant Fund, a special fund in the State Treasury.

ISAC annually seeks appropriation authority to disburse these collected funds to the participating schools. Eligibility for HELP Grants is based on need, and grants can be used to pay tuition and fees up to a maximum grant of \$2,000. By statute, funds must be used to support students who attend the institutions, which generate the license plate revenue.

**State of Illinois  
Illinois Student Assistance Commission**

**Analysis of Operations  
Year Ended June 30, 2006**

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**Agency Functions and Planning Program (Continued)**

**College Illinois!**

In November 1997 the General Assembly and the Governor approved legislation authorizing ISAC to administer an Illinois prepaid tuition program. The purpose of this program is to provide Illinois families with an affordable tax-advantaged method to pay for college. Illinois prepaid tuition contracts allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at current program prices, which are considerably less than projected future college costs. Benefits of the contracts can also be used at private and out-of-state colleges and universities. Contracts can be purchased in a lump sum payment or in installments. The Illinois Prepaid Tuition Program has been named College Illinois! and is reported as a proprietary fund.

**Illinois Designated Account Purchase Program (IDAPP)**

IDAPP is a secondary market offering a variety of services primarily to lenders who originate loans guaranteed by the Commission. It is reported as a proprietary fund.

IDAPP facilitates lender participation in the student loan programs by reducing the overall risk and collection expenses those lenders face. One of the major incentives offered by IDAPP is that the Commission takes over servicing of the loan after it is purchased from the lender. Sales of loans to the Commission give lenders the capital to make new and renew loans.

Capital to support IDAPP student loan purchases is funded through the sale of revenue notes and bonds. The student loan collections or the U.S. Department of Education's guarantees are used to pay the debt service on the notes and bonds.

**Commission Planning Program**

The Commission's internal planning program includes several levels of planning. The Commission has established mission and departmental goals, which are a statement of its primary aims, and continuing, long-term key results areas. It serves as the focus for departmental planning and links program and organizational planning.

In addition, the Commission is required to file various reports, both quarterly and annually, with the U.S. Department of Education (DOE). These reports address the performance effectiveness of certain programs administered by DOE and provide the Commission with a useful planning mechanism.

**Auditor's Assessment of Agency Functions and Planning Program**

The Commission's planning and evaluation program has been developed and administered during the audit period. Goals and objectives have been established and measurement criteria have been developed to assess progress towards objectives specified in planning documents.

State of Illinois  
 Illinois Student Assistance Commission  
 Average Number of Employees  
 Year Ended June 30, 2006

The average number of full-time equivalent employees shown below was computed by the Commission using employment listings at the end of each month.

Division	2006	2005	Increase/ (Decrease)
Executive	40	48	(8)
Public Service	8	2	6
Program Services and Compliance	93	96	(3)
Business and Financial Services			
Claims and Collections	108	106	2
Accounting Services	39	38	1
Sub-total	<u>147</u>	<u>144</u>	<u>3</u>
Management Information Services	63	65	(2)
Human Resources	10	11	(1)
Administrative Services	<u>16</u>	<u>17</u>	<u>(1)</u>
Total full-time employees*	377	383	(6)
Full-time equivalent part-time employees*	14	19	(5)
IDAPP	<u>128</u>	<u>130</u>	<u>(2)</u>
Total Employees	<u><u>519</u></u>	<u><u>532</u></u>	<u><u>(13)</u></u>

\*Source: Monthly Personnel Listing Report - for years ended June 30, 2006 and 2005

State of Illinois  
 Illinois Student Assistance Commission  
 Annual Cost Statistics - By Activity  
 Two Years Ended June 30, 2006 and 2005 (Unaudited)

Program	2006 Recipients/Students Dollars Awarded Average Award	2005 Recipients/Students Dollars Awarded Average Award	% Change	Description/Highlights
Minority Teachers of Illinois Scholarship Program	604 \$2,866,965 \$4,747	607 \$2,817,073 \$4,641	-0.49% 1.77% 2.28%	This program awards up to \$5,000 to minority students who agree to teach for at least one year, under specified conditions.
Bonus Incentive Grant	1,071 \$648,820 \$606	399 \$219,000 \$549	168.42% 196.26% 10.38%	Non-need based grants awarded to holders of Illinois college savings bonds. The proceeds of bonds are used for educational instruction purposes.
Robert C. Byrd Honors Scholarship Program	1,054 \$1,536,868 \$1,458	1,074 \$1,589,986 \$1,480	-1.86% -3.34% -1.49%	This program provides scholarships of up to \$1,500 for a maximum of four academic years to academically exceptional high school graduates.
Illinois Future Teacher Corp Scholarship Program	557 \$3,795,464 \$6,814	555 \$3,770,517 \$6,794	0.36% 0.66% 0.29%	This program provides scholarships of up to a maximum \$5,000 per academic year. Must teach in Illinois for one year for each year of scholarship assistance received. Teachers in designated teacher shortage areas can receive up to \$10,000.
Federal Stafford Loans Subsidized	117,852 \$537,715,635 \$4,563	119,709 \$536,641,983 \$4,482	-1.55% 0.20% 1.81%	Low interest loan program. Both subsidized (need based) and non-subsidized loans are made available to students.
Unsubsidized	92,254 \$507,589,476 \$5,502	90,390 \$494,123,642 \$5,467	2.06% 2.73% 0.64%	

Information was obtained from the Commission's Data Book.

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Annual Cost Statistics - By Activity - Continued  
 Two Years Ended June 30, 2006 and 2005 (Unaudited)

Program	2006 Recipients/Students Dollars Awarded Average Award	2005 Recipients/Students Dollars Awarded Average Award	% Change	Description/Highlights
Federal Plus Loans	12,875 \$136,405,230 \$10,595	12,375 \$120,192,678 \$9,713	4.04% 13.49% 9.08%	A need-based program designed to assist parents of dependent undergraduate students.
Un/Loan Consolidation Loan Program	64,773 \$1,227,620,646 \$18,953	28,387 \$827,675,438 \$29,157	128.18% 48.32% -35.00%	Combined various educational loans into one manageable loan, allowing borrowers to make one monthly payment.
Monetary Award Program	146,853 \$347,380,390 \$2,365	150,311 \$330,328,687 \$2,198	-2.30% 5.16% 7.60%	Second largest need-based program in the nation (1994).
Illinois Designated Account Purchase Program	169,572 \$1,390,961,851 \$8,203	152,982 \$1,255,417,991 \$8,206	10.84% 10.80% -0.04%	ISAC's secondary market purchases student loans from lenders relieving them of administrative duties, and increasing access to student loans as more lenders are inclined to participate in the Federal Financial Loan Program.
Illinois National Guard and Naval Militia Grant Program	1,962 \$4,447,013 \$2,267	1,698 \$4,216,713 \$2,483	15.55% 5.46% -8.70%	An entitlement program for members of the Illinois National Guard and Naval Militia.
Illinois Veterans' Grant	12,030 \$19,234,583 \$1,599	11,511 \$19,217,037 \$1,669	4.51% 0.09% -4.19%	An entitlement program for Illinois veterans.
Police/Fire Officers' Survivor Grant Program and Grant Program for Dependents of Correctional officers	69 \$342,569 \$4,965	69 \$349,997 \$5,072	0.00% -2.12% -2.11%	This program pays tuition for spouses and children of police and firefighters killed in the line of duty.

Information was obtained from the Commission's Data Book.

(Continued)

State of Illinois  
 Illinois Student Assistance Commission  
 Annual Cost Statistics - By Activity - Continued  
 Two Years Ended June 30, 2006 and 2005 (Unaudited)

Program	2006 Recipients/Students Dollars Awarded Average Award	2005 Recipients/Students Dollars Awarded Average Award	% Change	Description/Highlights
Illinois State Scholar Program	16,630	16,516	0.69%	An honorary program ( no monetary value ) to recognize academic achievement in high school.
Student to Student Program of Matching Grants	3,250 \$949,951 \$292	3,427 \$949,576 \$277	-5.16% 0.04% 5.42%	An institutional need-based grant program for undergraduate students.
Silas Purnell Illinois Incentive for Access Grant Program (IIA)	17,821 \$6,984,750 \$392	18,720 \$6,861,750 \$367	-4.80% 1.79% 6.81%	A need based grant program for freshman applicants who have no financial resources for college.
Higher Ed License Plate Program (HELP)	207 \$51,750 \$250	206 \$51,650 \$251	0.49% 0.19% -0.40%	A scholarship grant program funded by fees charged for specialized collegiate license plates by colleges and universities in Illinois.
IL Teachers and Child Care Providers Loan Repayment Program	102 \$497,639 \$4,879	48 \$230,791 \$4,808	112.50% 115.62% 1.48%	A matching grant program to the federal Teacher Loan Forgiveness Program for teachers and child care providers.
Optometric Education Scholarship Program	10 \$50,000 \$5,000	10 \$50,000 \$5,000	0.00% 0.00% 0.00%	A scholarship program for students pursuing a graduate optometry degree in Illinois.
Illinois Scholars (Golden Apple)	345 \$3,020,000 \$ 8,754	345 \$3,020,000 8,754	0.00% 0.00% 0.00%	A scholarship program for recruiting students into teaching careers.
Merit Recognition Scholarship Program	0 \$0 \$0	5,458 \$5,372,000 \$984	-100.00% -100.00% -100.00%	This program recognizes academic achievements of Illinois high school graduates with a one time non-need based award of \$1,000. During 2006, there was no funding for this program from the General Assembly.

Information was obtained from the Commission's Data Book.

(Concluded)

State of Illinois  
 Illinois Student Assistance Commission  
 Emergency Purchases  
 Year Ended June 30, 2006

	Actual Amount	Date Notarized	Date Filed	Explanation
Morgan Stanley & Co., Inc.	\$ 200,000	3/15/06	3/15/06	For Strategic Advisory Services required by the Agency.
Bank of America	500,000	6/30/06	6/30/06	For a Revolving Line of Credit that was urgently needed to continue funding student loans.
JP Morgan Chase Bank	500,000	6/30/06	6/30/06	For a Revolving Line of Credit that was urgently needed to continue funding student loans.

State of Illinois  
 Illinois Student Assistance Commission  
 Schedule of Investment Management Fees  
 Year Ended June 30, 2006

Investment Manager	Investment Management Fees*	Percentage of Average Portfolio
Denver Investment Advisors	\$ 123,653	0.70 %
Holland Capital	131,882	0.44
JFL Investment	45,651	0.61
JP Morgan	182,005	0.20
LSV Asset Management	488,239	0.54
New Amsterdam Partners	109,844	0.37
Nicholas Applegate	416,405	0.84
Richmond Capital Management	178,966	0.16
River Source/Kenwood Capital	186,226	0.96
State Street	324,380	0.16
Wasatch Advisors	123,952	0.67
William Blair & Company	176,666	0.57
<b>Total</b>	<b>\$ 2,487,870</b>	<b>0.37 %</b>

\* In addition to the investment management fees above, the Commission paid \$132,859 to its cash custodian, US Bank National. These amounts were recorded as investment management fees in the financial statements.

State of Illinois  
 Illinois Student Assistance Commission  
 Details of Services Provided for Katrina Relief Efforts  
 Year Ended June 30, 2006

Name of Employee	Description of Services	Cost of Services		Amount Reported to		Refunds	Total
		Regular Pay		IEMA Overtime Pay			
Waqar Rafiqi	Qualifying people for food cards	\$ 2,239	\$ -	\$ -	\$ -	-	2,239
Patricia Aldridge	Data Entry	1,592	1,396	-	-	-	2,988
Megan Vickers	Data Entry	732	497	-	-	-	1,229
							<u>\$ 6,456</u>

State of Illinois  
Illinois Student Assistance Commission

Service Efforts and Accomplishments (Unaudited)  
Two Years Ended June 30, 2006 and 2005

**Mission Statement:** To reduce financial barriers to post-secondary education for students who might otherwise be prohibited from attending college and to assist specific segments of the Illinois population with college costs.

- Program Goals:**
1. Provide equal educational opportunity to post-secondary education of Illinois citizens.
 

**Objectives:**

    - a. Grant dollars awarded per staff positions enrollment will increase at least as much as the mean weighted increases in tuition fees.
    - b. The administrative to program dollar ratio will not fall below a level sufficient to support the successful and timely delivery of program dollars to qualified recipients.
  2. Improve college affordability for low and middle-income families.
    - a. Need-based grant aid as a proportion of college costs will increase annually.
    - b. The average constant dollar taxable income of Monetary Award Program (MAP) eligible students and families will increase annually.
  3. Reward military service as well as service as a recruitment incentive for the Illinois National Guard.
    - a. The number of students utilizing the National Guard Grant Program will remain equal to 18,000 per year, or increase.
  4. Recognize and reward academic achievement of Illinois high school seniors.
    - a. The number of students recognized through the Merit Recognition Scholarship Program (MRSP) will remain constant or increase.
  5. Increase the number of teachers and workers in designated shortage fields.
    - a. The number of students receiving scholarships to pursue careers in worker shortage areas will increase annually.

	Fiscal Year 2005 Actual		Fiscal Year 2006 Actual	
<b><u>Input Indicators</u></b>				
Total expenditures - all sources (in thousands)	\$ 383,787		\$ 400,749	
Total expenditures - state appropriated funds (in thousands)	\$ 383,787		\$ 400,749	
Average monthly full-time equivalent employees	74		80	
<b><u>Output Indicators</u></b>				
Number of students receiving MAP awards	150,311		146,853	
Number of students benefiting from service programs	13,278		14,061	
Number of students participating in teacher and worker shortage programs	1,813		1,850	
Number of applications filed	553,962		573,800	
Number of students receiving MRSP awards	5,458		-	
<b><u>Outcome Indicators</u></b>				
Grant aid as a proportion of tuition and fees	27	%	27	%
Grant aid per undergraduate full-time equivalent students (in dollars)	\$ 779		\$ 820	
Percentage of undergraduates at Illinois colleges receiving state need-based aid	32	%	27	%
Proportion of merit award winners attending in-state schools	50	%	N/A	%
Average taxable income of families eligible for MAP grants (in dollars)	\$ 21,497		\$ 21,623	
<b><u>External Benchmarks</u></b>				
National ranking of maximum award	10		9	
National ranking of need-based aid per undergraduate student (in dollars)	4		4	
National ranking of total grant dollars per population aged 18-24	10		10	
National ranking of student aid as a percentage of Higher Education budget	8		9	
<b><u>Efficiency/Cost-Effectiveness Indicators</u></b>				
Proportion of General Revenue Fund administrative spending per \$ awarded	0.95	%	-	%

State of Illinois  
 Illinois Student Assistance Commission

Service Efforts and Accomplishments (Unaudited)  
 Two Years Ended June 30, 2006 and 2005

**Mission Statement:** To facilitate the delivery of low-interest loans to students and their families by administering the Federal Family Education Loan Program (FFELP) and to improve student access to loans.

- Program Goals:**
1. Provide an efficient means for students and schools to apply for and receive loan funds from participating lenders.
 

**Objectives:**

    - a. Borrower satisfaction ratings will continue to show satisfaction with ISAC services.
  2. Counsel and educate student borrowers who are delinquent on their loan payments.
    - a. ISAC's default rates will stay below the national average.
  3. Collect outstanding loan balances from defaulted borrowers.
    - a. Collections on individual defaulted accounts will be optimized.
  4. Provide loan funds to an increasing number of students through institutions that collaborated with both the Illinois guaranty agency and the secondary market.
    - a. An increasing number of Illinois students who need to use loans to finance their college education will obtain them from ISAC.

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual
<b><u>Input Indicators</u></b>		
Total expenditures - all sources (in thousands)	\$ 176,229	\$ 187,503
Total expenditures - state appropriated funds (in thousands)	\$ 176,229	\$ 187,503
Average monthly full-time equivalent employees	325	259
<b><u>Output Indicators</u></b>		
Number of loans guaranteed	227,896	222,981
Dollar value of new loan guarantees (in millions)	\$ 1,182.5	\$ 1,181.7
Number of defaults averted	75,790	74,835
Dollar value of default collections (in millions)	\$ 37.7	\$ 40.8
<b><u>Outcome Indicators</u></b>		
Number of defaults	34,212	27,417
Percent of Illinois student loans guaranteed by ISAC	42 %	42 %
Percent of delinquent accounts resolved	69 %	73 %
Borrower satisfaction ratings	87 %	86 %
<b><u>Efficiency/Cost-Effectiveness Indicators</u></b>		
Cost per dollar guaranteed (in dollars)	\$ 0.02	\$ 0.02
Costs per dollar collected (in dollars)	\$ 0.33	\$ 0.25

State of Illinois  
 Illinois Student Assistance Commission

Service Efforts and Accomplishments (Unaudited)  
 Two Years Ended June 30, 2006 and 2005

**Mission Statement:** To encourage and better enable Illinois families to finance the cost of higher education.

- Program Goals:**
1. Increase the number of families purchasing College Illinois! Contracts.
 

**Objectives:**

    - a. The number of families participating in College Illinois! and the amount of contracts administered shall increase each year.
  2. Expand outreach efforts to meet the informational needs of prospective purchasers.
 

**Objectives:**

    - a. The effectiveness of program promotional efforts will improve each year.

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual
<b><u>Input Indicators</u></b>		
Total expenditures - all sources (in thousands)	\$ 3,232	\$ 3,672
Average monthly full-time equivalent employees	5	5
<b><u>Output Indicators</u></b>		
College Illinois! contracts purchased (excluding cancellations)	5,632	4,972
Cumulative College Illinois! contracts purchased	48,256	53,270
Total Internet site visits (through enrollment period)	989,000	1,050,515
Total phone calls (through enrollment period)	6,961	6,412
Total TV/Radio ads aired	25,163	20,014
Total newspaper articles	623	509
Total number of news reports	113	91
Annual contract sales (in millions)	\$ 128	\$ 123
<b><u>Outcome Indicators</u></b>		
Percent of population covered by marketing efforts	98 %	98 %
Minority beneficiaries as a percent of total contracts	10 %	10 %
Estimated years of college purchased	15,160	13,923
Cumulative years of college purchased	153,500	168,630
<b><u>External Benchmarks</u></b>		
College Illinois! National rank among other prepaid tuition programs	8	N/A
<b><u>Efficiency/Cost-Effectiveness Indicators</u></b>		
Media cost per contract (in dollars)	\$ 144	\$ 185
Total marketing cost per contract (in dollars)	\$ 288	\$ 360

State of Illinois  
Illinois Student Assistance Commission

Schedule of Federal and Nonfederal Expenditures  
Years Ended June 30, 2006

(expressed in thousands)

	Amount	Percent
Federal Expenditures (A)	\$ 276,103	44.10%
Nonfederal Funds	<u>350,044</u>	<u>55.90%</u>
Totals (B)	<u>\$ 626,147</u>	<u>100.00%</u>

Source:

(A) Schedule of Expenditures of Federal Awards

(B) Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
and the Statement of Activities - Proprietary Funds, for year ended June 30, 2006 (excluding IDAPP)