REPORT DIGEST

ILLINOIS STUDENT ASSISTANCE COMMISSION
FINANCIAL AND COMPLIANCE AUDIT
(In Accordance with the Federal Single Audit Act of 1984, and OMB Circular A-128)
For The Two Years Ended June 30, 1993

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE CONTROL OVER FIXED ASSETS

The Commission did not maintain proper accountability over its fixed assets.

A physical inventory of fixed assets was performed by the Commission and compared to the fixed assets general ledger account balance. Numerous discrepancies were noted as a result of inadequate controls over the physical count of inventory. The following are specific deficiencies noted:

●The Commission could not track assets charged to the loan insurance program. Federal Regulation 34CFR section 682.407 requires that proceeds from the sale or conversion of assets to non-guaranteed student loan use must be repaid to the Department of Education.

●Two equipment items classified as capital leases were improperly excluded from the inventory control listing. According to CUSAS procedure 29.10.30 page 1, "Capital Lease Property which meets one of the four criteria for classifying capital leases should be capitalized and recorded as an asset." Excluding these equipment items understated fixed assets by approximately $276,000.

●A $6,036 piece of equipment used by the Illinois Designated Account Purchase Program (IDAPP) was paid for by the Commission and accounted for in the General Fixed Asset Account Group, rather than the proprietary fund.

●IDAPP, which is accounted for as a proprietary fund, did not maintain a detailed fixed asset listing that provided information supporting the cost and accumulated depreciation for each of its capitalized assets. IDAPP relied on records maintained by the Commission, which only documents the cost of the assets, when recording its fixed asset additions and deletions. Without a detailed fixed asset listing, any gain or loss resulting from a disposal cannot be determined and properly reflected on the financial statements.

There were other instances where old and new tags remained on the same equipment; equipment valued at less $100 was tagged as capitalizable; and some equipment was counted twice as it was moved from one location to another. (Finding 1, page 7)

Commission officials accepted our recommendations to take appropriate steps to improve accountability over fixed assets. They stated a group comprised of Accounting and Administrative Services staff has been formed to address the issue of property control and appropriate reconciliation of inventory records.

FAILURE TO COMPLY WITH BOND COVENANT REQUIREMENTS

The Commission did not comply with certain bond covenants supporting outstanding bond issues of approximately $60 million for the Illinois Opportunity Loan Program (ILOP).

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

●The Commission failed to submit a quarterly statement of the amount of revenues received within 45 days of each calendar quarter end. The Commission did not prepare or submit any of these statements during fiscal years 1993 and 1992.

●A copy of the Commission's annual report, accompanied by the opinion of its certified public accountants, was not submitted within 120 days after the end of the fiscal year. The annual reports for fiscal years 1992 and 1993 were not submitted until January 1993 and January 1994, respectively.

●Financial data was not submitted within 62 days of the Commission's year end. Some of the required information was not submitted until September 11, 1992, and September 9, 1993, eleven and nine days after its due date for fiscal years 1992 and 1993, respectively.

●The Bond resolution required the submission of twelve reports of which the Commission only submitted two for fiscal year 1993.

The Commission did obtain waivers in the form of extensions from the relevant parties, however, prior to the waivers, $60 million of student revenue bonds were potentially due on demand. (Finding 2, page 8)

Commission officials agreed with our recommendation and stated that a staff person had been assigned the responsibility for ensuring the timely completion and submission of required reports.

INADEQUATE CONTROL OVER GROUP INSURANCE COSTS

The Commission did not establish an adequate appropriation to cover reimbursable employer group insurance costs. Untimely timely payments were also remitted to the Department of Central Management Services (DCMS).

During our review of reimbursements made to DCMS for group insurance cost we noted the following weaknesses:

●For fiscal year 1993, $1,752,811 was due to DCMS for reimbursable group insurance costs. The Commission paid $1,232,336 which represents $998,000 of original appropriation plus an appropriation transfer of $234,336. The remaining balance due of $520,475 was not processed through a supplemental appropriation.

●DCMS communicated its plans for a significant rate increase in FY 1993 through an Administrative Bulletin dated May 9, 1992. Appropriate personnel failed to alert the accounting department/budgeting personnel regarding a pending rate increase until May 1993. This resulted in errors in the FY 1993 budgeting process for estimating group insurance cost.

●The Commission paid its group insurance cost on a semi-annual basis for the first six months of each year under audit, and quarterly for the second six months. DCMS requires that payments for group insurance costs be remitted upon completion of each pay period. DCMS, however, has been accepting them on a monthly basis to decrease the amount of paperwork for processing.

Failure to properly monitor and budget for reimbursable group insurance cost could result in the inadequate use of time and resources to process unnecessary appropriation transfers or supplemental appropriations. (Finding 8, page 13)

Commission officials agreed with our recommendation to establish policies and procedures to properly monitor group insurance costs and analyze future appropriations needs.

INADEQUATE ACCOUNTABILITY FOR FEDERAL REPORTING

The Commission did not maintain proper accountability over the "Guarantee Agency Monthly Claims and Collections" report (1189 Report) which is submitted to the federal Department of Education (DOE).

During our review of the Commission's monthly 1189 Reports, we noted the following deficiencies:

●The November 1991 1189 Report contained a mathematical error. Total collections for the 90% reinsurance reimbursement category were reported as $4,461,744 rather than actual collections of $461,682, resulting in an overstatement of total collections in the amount of $4,000,062. The error was apparently due to lack of effective supervisory review of the 1189 Report prior to submission to the DOE.

●For seven out of twenty-four monthly 1189 Reports reviewed, the Commission could not locate the necessary detail to support remittances made to the DOE for collections on defaulted loans. For three of these seven months, the Commission could not recreate the detail to support the amounts reported. The missing support was apparently due to the lack of awareness of the importance of maintaining an audit trail.

The DOE uses the information from the 1189 Report to determine and process payments from and to the agency. Inaccuracies on the 1189 Report could lead to the inappropriate allocation of State and federal monies. (Finding 31, page 81)

Commission officials agreed with our finding and recommendation. They said the typographical error in one of the 1189 Reports was not used to calculate amounts due to the DOE, however, management's review of the reports is essential. They also said a system to review and sign off on all 1189 Reports was instituted in 1992.

OTHER FINDINGS

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

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

AUDITORS' OPINION

Our auditors stated that the June 30, 1993 combined financial statements were fairly presented.

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WILLIAM G. HOLLAND, Auditor General

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SUMMARY OF AUDIT FINDINGS

Number ofThis AuditPrior Audit

Audit findings2526
Repeated audit findings1013
Recommendations implemented
or not repeated16 8

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were the accounting firm of KPMG Peat Marwick.

ILLINOIS STUDENT ASSISTANCE COMMISSION
FINANCIAL AND COMPLIANCE
For The Two Years Ended June 30, 1993
(All dollar amounts are expressed in thousands)

APPROPRIATED FUNDS EXPENDITURE STATISTICS	**FY 1993**	**FY 1992**	**FY 1991**
● **Total Operating Fund Revenue**	$338,010	$319,020	$310,251
OPERATIONS TOTAL % of Total Revenues	$338,010 100%	$319,020 100%	$310,251 100%
Personal Services % of Operations Expenditures Average No. of Employees	$11,202 3.3% 545	$9,905 3.1% 519	$9,509 3.1% 494
Other Payroll Costs (FICA, Retirement) % of Operations Expenditures	$2,922 0.9%	$2,171 0.7%	$1,849 0.6%
Contractual Services % of Operations Expenditures	$6,982 2.0%	$6,526 2.0%	$6,547 2.1%
All other Operations Items % of Operations Expenditures	$316,904 93.8%	$300,418 94.2%	$292,346 94.2%
GRANTS TOTAL % of **Total** Expenditures	$220,890 65.4%	$204,084 64%	$200,905 64.8%
● **Cost of Property and Equipment**	$25,904	$4,072	$3,707

PROPRIETARY FUND FINANCIAL OPERATIONS	**FY 1993**	**FY 1992**	**FY 1991**
REVENUES			
Interest on loans and investments	$49,883	$50,042	$51,584
Federal Special Allowance and interest	13,580	13,332	13,454
Other	1,453	2,365	1,594
Total	$64,916	$65,739	$66,632
EXPENSES			
Salaries and employee benefits	$4,338	$3,787	$3,544
Outside loan servicing	2,141	1,951	1,512
Line of credit fees	1,341	1,168	1,060
Note and bond interest expense	46,736	46,399	49,869
Other	4,362	3,156	6,955
Total	$58,918	$56,461	$62,940
SELECTED PROPRIETARY FUND BALANCES			
Cash and cash equivalents	$72,634	$53,400	$102,864
Investments	252,445	$221,103	$$199,088
Receivables	$549,485	$504,060	$449,317
Revenue notes and bonds payable	$800,040	$709,086	$690,719
Retained Earnings	$60,433	$55,004	$45,726

AGENCY DIRECTOR(S)

During Audit Period: Larry E. Matejka
Currently: Larry E. Matejka