



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

**ILLINOIS STUDENT ASSISTANCE COMMISSION -
 ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM**

**Financial Audit
 For the Year Ended June 30, 2014**

Release Date: February 11, 2015

FINDINGS THIS AUDIT: 1				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	0	1	1	2009	14-01		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This report covers our financial audit of the Illinois Student Assistance Commission (Commission) - Illinois Designated Account Purchase Program (IDAPP) as of June 30, 2014 and for the year then ended.

SYNOPSIS

- **(14-01)** IDAPP was not in compliance with two of the covenants relating to the Commission's revolving line of credit agreement.

- Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
- Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
- Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

ILLINOIS STUDENT ASSISTANCE COMMISSION
ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM
FINANCIAL AUDIT
For the Year Ended June 30, 2014 (in thousands)

STATEMENT OF NET POSITION	2014
Unrestricted assets	
Cash and cash equivalents.....	\$ 13,471
Investments.....	4,009
Restricted assets	
Cash and cash equivalents.....	22,062
Student loans receivable, net.....	559,215
Accrued interest.....	12,376
Other.....	16
Total.....	<u>611,149</u>
Liabilities	
Accounts payable and accrued expenses.....	339
Accrued interest payable.....	771
Federal special allowance and interest subsidy.....	1,522
Revolving credit line.....	211,857
Notes payable, net.....	324,323
Due to State and other ISAC funds.....	2,375
Compensated absences.....	71
Total.....	<u>541,258</u>
Deferred Inflows of Resources	
Unamortized deferred amount on refunding.....	49,184
Total.....	<u>49,184</u>
Net Position	
Restricted for debt service.....	6,013
Unrestricted.....	14,694
Total.....	<u>\$ 20,707</u>
REVENUES, EXPENSES AND CHANGES IN NET POSITION	2014
Operating revenues	
Interest - student loans.....	\$ 25,144
Fees.....	214
Interest - investments.....	13
Total.....	<u>25,371</u>
Operating expenses	
Provision for loan losses.....	7,496
Interest on revenue bonds.....	969
Student loan costs and fees.....	3,290
External loan servicing.....	2,477
Salaries and employee benefits.....	853
Management and professional services.....	1,094
Other.....	48
Total.....	<u>16,227</u>
Operating income	9,144
Federal special allowance and excess interest.....	(6,487)
Loss on sale of loan portfolio.....	-
Change in net position.....	<u>\$ 2,657</u>
AGENCY EXECUTIVE DIRECTOR	
During Audit Period: Mr. Eric Zarnikow	
Currently: Mr. Eric Zarnikow	

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

DEBT COVENANT VIOLATION

Noncompliance with debt covenants

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) was not in compliance with two of the covenants relating to the agency's revolving line of credit agreement.

Minimum coverage condition ratio not met

During our audits of the agency's June 30, 2009, 2010, 2011, 2012, and 2013 financial statements, we noted that IDAPP was in violation of one or more debt covenants related to the agency's revolving credit (loan) agreement. In addition, the facility matured on July 27, 2010 and has not been repaid. Per the agreement, the minimum required coverage condition ratio is 104%, while the ratio as of June 30, 2014 was 101.7%. Also per the agreement, the default ratio is set at a maximum of 6.25%, but at June 30, 2014 this ratio was 6.72%.

Lender has right to call loan but has not communicated any intent to exercise remedies available

As a result of the debt covenant violation and the maturity of the facility, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the event of default and the maturity of the loan and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. The balance of the line of credit with the bank was \$211,856,827 at June 30, 2014.

According to Commission management, the coverage condition and default issues are due to the poor performance of the portfolio. The portfolio continues to experience a high level of delinquent accounts. The line of credit has not been refinanced because of the conditions in the private loan credit market. (Finding 1, page 27) **This finding was first reported in 2009.**

Commission agrees with auditors and continues to review on a monthly basis

Commission officials accepted our finding and recommendation to continue to monitor the loan covenant violations and continue seeking remedies from the lender involved. Commission officials indicated the loan covenants are reviewed on a monthly basis and that they continue to talk to Citibank about the portfolio. (For the previous IDAPP response, see Digest Footnote #1.)

AUDITOR'S OPINION

Our special assistance auditors stated the financial statements of IDAPP are fairly presented in all material respects.



WILLIAM G. HOLLAND
.. Auditor General

WGH:JGR

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were McGladrey LLP.

DIGEST FOOTNOTES

#1 - DEBT COVENANT VIOLATION

2013 – We agree with the recommendation. The loan covenants are reviewed on a monthly basis. We continue to talk to Citibank about the portfolio.