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# REPORT DIGEST

## ILLINOIS STUDENT ASSISTANCE COMMISSION – ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM

**FINANCIAL AUDIT**  
For the Year Ended:  
June 30, 2009

Summary of Findings:

Total this audit.....3  
Total last audit.....2  
Repeated from last audit.....1

Release Date:  
March 3, 2010



State of Illinois  
Office of the Auditor General  
**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## INTRODUCTION

This digest covers our financial audit of the Illinois Student Assistance Commission (Commission) – Illinois Designated Account Purchase Program (IDAPP) for the year ended June 30, 2009.

## SYNOPSIS

- ◆ The Commission was not in compliance with one of the covenants relating to the agency’s revolving credit line agreement.
- ◆ The Commission did not apply cash collections in a timely manner.
- ◆ The Commission did not provide the auditors with complete and accurate financial statements on a timely basis.

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

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**ILLINOIS STUDENT ASSISTANCE COMMISSION**  
**ILLINOIS DESIGNATED ACCOUNT PURCHASE PROGRAM**  
**FINANCIAL AUDIT**

**For the Year Ended June 30, 2009 (in thousands)**

<b>FINANCIAL OPERATIONS</b>	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES</b>		
Interest - student loans.....	\$ 49,495	\$ 70,770
Interest - investments.....	<u>1,314</u>	<u>4,142</u>
Total.....	<u>\$50,809</u>	<u>\$74,912</u>
<b>OPERATING EXPENSES</b>		
Interest and other student loan expenses .....	\$ 39,005	\$ 77,794
Salaries and employee benefits .....	6,101	9,691
ISAC shared expenses .....	4,167	-
Management and professional services .....	3,596	5,119
External loan servicing.....	3,515	5,992
Other operating expenses.....	<u>1,617</u>	<u>2,578</u>
Total.....	<u>\$58,001</u>	<u>\$101,174</u>
<b>OPERATING (LOSS).....</b>	<b>\$(7,192)</b>	<b>\$(26,262)</b>
<b>NONOPERATING REVENUES</b>		
Federal special allowance and student interest subsidy..	(1,891)	20,829
<b>SPECIAL ITEMS AND TRANSFERS</b>		
Special item.....	(2,730)	(10,855)
Transfers in.....	-	682
Transfers out .....	<u>-</u>	<u>(2,500)</u>
Change in net assets .....	<u>\$ (11,813)</u>	<u>\$ (18,106)</u>
<b>SELECTED BALANCE SHEET ACCOUNTS</b>	<b>2009</b>	<b>2008</b>
<b>Unrestricted current assets:</b>		
Cash and investments.....	\$1,131	\$6,108
<b>Restricted current assets:</b>		
Cash and cash equivalents .....	61,822	58,204
Investments (including interest accrual) .....	138,999	-
Notes receivable .....	35,693	51,585
Student loans and interest receivable.....	242,917	229,248
Federal special allowance and interest subsidy.....	(2,677)	1,786
<b>Restricted noncurrent assets:</b>		
Notes receivable .....	7,516	42,206
Student loans receivable, net.....	982,669	932,355
<b>Current liabilities:</b>		
Current portion of revenue bonds payable and Revolving line of credit.....	495,047	390,770
Accounts payable and accrued expenses.....	3,474	2,971
Due to other funds.....	3,234	1
<b>Noncurrent liabilities:</b>		
Revenue bonds payable.....	931,200	879,441
<b>Net Assets.....</b>	<b>39,506</b>	<b>51,319</b>
<b>AGENCY DIRECTOR</b>		
During audit Period: Mr. Andrew Davis		
Currently: Mr. Andrew Davis		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**NEED TO COMPLY WITH DEBT COVENANTS**

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**Noncompliance with debt covenants**

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

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**Matter related to the coverage condition ratio**

During our audit of the agency’s June 30, 2009 financial statements Agency management disclosed they had potentially violated one of the covenants relating to the agency’s revolving credit line (loan) agreement with a bank. The non-compliance pertained to a “coverage condition ratio” covenant. The line of credit agreement with the bank defines the “Forbearance Excess Amount”. It is the aggregate value of all eligible student loans that are subject to forbearance. This amount is to be used in the calculation of the coverage condition ratio covenant. When Agency management completed the report the result was an inaccurate calculation for the amount for the loans in forbearance. Once the error was discovered and the coverage condition ratio was recalculated. This recalculation showed a lack of compliance with the Coverage condition ratio.

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**Bank report produced an inaccurate ratio**

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**Bank remedies**

As a result of the violation the bank has certain remedies available to it under the terms of the loan agreement. Specifically, the right 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, as of the end of fieldwork had not communicated any intent to exercise the remedies available to it under the terms of the loan agreement. Agency management believes the bank has little incentive to call the line of credit and begin servicing the student loans itself, particularly because the Agency has made all of its required payments in a timely fashion. The balance of the line of credit with the bank was \$395,956,827 at June 30, 2009.

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**Balance of loan approximately \$396 million at June 30, 2009**

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**First covenant violation triggered default with another bank**

The debt covenant violation with the bank also triggered a default condition with one of the covenants in the loan agreement with another bank. This other bank granted the Agency a deferment from exercising its rights in

connection with such default until January 30, 2010. The balance in the line of credit with this bank was \$2,990,109 at June 30, 2009. (Finding 1, pages 30-31)

Agency management accepted our recommendation to improve controls over calculation of and monitoring of debt covenants.

### **NEED TO APPLY CASH COLLECTIONS IN A TIMELY MANNER**

The Illinois Student Assistance Commission (the Designated Account Purchase Program) did not apply cash collections in a timely manner.

During our analysis of the deferred credit fees account and a review of the year-end reconciliation for this account, we noted unapplied student loan payments totaling \$760,113. This condition relates to cash received that had not yet been applied to the respective borrower loan accounts or returned to sender as of June 30, 2009. Based upon a review of the detailed report for these cash receipts, we noted that some of the amounts that were unapplied date back to fiscal year 2003. The cash amount fluctuates daily. Historically, month-to-month changes can occur in the hundreds of thousands of dollars.

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**\$760,113 in unapplied student loan payments at year end**

According to Agency management, loan sales have occurred over the last several years. As a result, many payments, vouchers and wires were sent to the Agency with no supporting information or sender contact information. Agency officials tracked down the remitter and found that in many instances they no longer own or never owned the underlying loans associated with the funds. Until the Agency is instructed by the remitter on what to do with the cash receipts, the funds will remain unapplied. (Finding 2, pages 32-33)

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**Agency attributes condition to loan sales**

We recommended that cash collection be posted to the respective accounts in a timely manner and that all significant accounts be reconciled and reviewed on a regular basis by an additional Agency employee to ensure that the information is accurately reported.

Agency management accepted our recommendation and

indicated they had addressed the situation by creating a team of employees whose primary focus was to resolve the unapplied items. By December 31, 2009 the unapplied list was below \$15,000 and the oldest items on the list are from mid-2007.

### **NEED TO IMPROVE TIMELINESS IN PREPARATION OF DRAFT FINANCIAL STATEMENTS**

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) did not provide the auditors with complete and accurate financial statements on a timely basis.

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**Financial statements were not provided to auditors timely**

During the audit entrance conference on May 26, 2009, a timeline for submission of the Illinois Designated Account Purchase Program (IDAPP)'s draft financial statements was determined and agreed to by the auditors and IDAPP management. The deadline for delivery of the complete draft financial statements to the auditors for fiscal year 2009 was October 2, 2009. An initial draft was provided to the auditors on October 9, 2009. However, the information was incomplete and had not been fully reviewed by the agency and all parties involved with the preparation and approval of the financial statements. Changes and adjustments to the initial draft occurred as late as November 17, 2009.

According to Agency management, changes subsequent to the initial delivery of the draft financial statements were the result of the ongoing review of the financials by the agency officials and the Illinois State Comptroller's office. (Finding 3, page 34)

We recommended the Agency take a comprehensive look at the entire financial reporting process and make changes needed to timely release financial reports to users and to auditors.

Agency management accepted our recommendation and indicated that they committed to completing financial

statements accurately and in a timely manner. Many of the reporting issues were the result of revisions being made to the Statement of Cash Flows.

**AUDITORS' OPINION**

Our auditors stated the financial statements of IDAPP were fairly presented in all material respects.

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WILLIAM G. HOLLAND, Auditor General

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**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for this audit were McGladrey & Pullen, LLP.