



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 Two Years Ended: June 30, 2011

Release Date: April 24, 2012

INTRODUCTION

This report covers our financial audit of the Illinois Student Assistance Commission (Commission) – Illinois Designated Account Purchase Program (IDAPP) as of June 30, 2011 and for the year then ended.

SYNOPSIS

- IDAPP did not have sufficient control over financial reporting.

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

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**FINANCIAL REPORTING PROCESS NEEDS
IMPROVEMENT**

**Insufficient controls over
financial reporting**

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) does not have sufficient control over financial reporting.

During our review of the draft financial statements of the Illinois Designated Account Purchase Program (IDAPP) provided to the auditors, several errors and omissions relating to the draft financial statements and note disclosures were identified and corrected. Some of the more significant items noted were as follows:

**\$70 million gain on advanced
refunding was recorded in the
current year in error**

- On October 27, 2010, ISAC entered into a Bond Purchase Agreement with a group of underwriters to sell \$604,000,000 Student Loan Asset Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes). As a result of the issuance of the LIBOR Floating Rate Notes and the purchase and cancellation of certain of the 2002 bonds, a deferred amount (gain) of approximately \$70 million was recorded. IDAPP erroneously recognized this gain on the Statement of Changes in Net Assets, rather than recording it as a component of the debt liability and amortizing it over the weighted average life of the LIBOR Floating Rate Notes of approximately 16 years resulting in an overstatement of assets and the increase in net assets of \$67 million.

**Economic loss of \$78 million and
\$303 million reduction of debt
service were not disclosed as
required**

- In relation to the issuance of the LIBOR Floating Rate Notes and refunding of the 2002 bonds noted above, IDAPP did not perform a calculation of or disclose the economic loss resulting from the transaction of \$78,648,720, or the reduction in debt service of \$303,797,090 over 34 years, as required by applicable accounting standards.

**Current student loan receivables
were overstated by \$3.9 million**

- The student loan receivable balance was not properly classified between the current and non-current portions on the Statement of Net Assets. \$3.9 million was reclassified from current student loans receivable to noncurrent student loans receivable.

According to IDAPP management, IDAPP did not initially regard the bond transaction as a refunding because it was not performed to reduce its annual debt service payments as discussed in the accounting standard. The current/non-current classification issue for the student loan receivable was due to IDAPP not having the latest draft of the report template from

last year as the change was made outside of IDAPP. (Finding 7, pages 34-35) **This finding was first reported in 2008.**

Commission agrees with auditors

We recommended the Commission improve controls over financial reporting to ensure accurate presentation and disclosure of IDAPP's annual financial statements. The Commission should take a comprehensive look at the entire financial reporting process and make changes needed to timely release financial reports to users and to auditors presented in accordance with generally accepted accounting principles.

Commission officials accepted our recommendation and indicated it's reviewing its policies and procedures regarding the preparation of the financial statements and that quality control checks will be put in place to ensure the submission of accurate financial statements. (For the previous IDAPP response, see Digest Footnote #1.)

AUDITORS' OPINION

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



WILLIAM G. HOLLAND
.. Auditor General

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SPECIAL ASSISTANT AUDITORS

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

DIGEST FOOTNOTE

#1 – Financial Reporting Process Needs Improvement

We accept the recommendation. IDAPP is reviewing all of its policies and procedures regarding the close process and the preparation of the financial statements. Quality control checks will be put in place to ensure the submission of accurate financial statements.