McGladrey & Pullen
Certified Public Accountants

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Financial Statements
For the Year Ended June 30, 2007

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

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

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State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Agency Officials

Executive Director (01/01/07 – Current)	Andrew Davis
Executive Director (07/01/06 – 12/31/06)	Larry Matejka
Chief Financial Officer (03/19/07 – Current)	John Sinsheimer
Chief Financial Officer (07/01/06 – 03/18/07)	Theresa Morgan
General Counsel (02/08/07 – Current)	Kim Barker Lee
General Counsel (07/01/06 – 02/07/07)	Karen Salas

Agency offices are located at:

1755 Lake Cook Road
Deerfield, IL 60015-5209

500 West Monroe
Springfield, IL 62704

100 West Randolph
Suite 3-200
Chicago, IL 60601

Summary

The audit of the accompanying financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission (Program) was performed by McGladrey and Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Program's financial statements.

Summary of Findings

The auditors identified matters involving the Program's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 30-31 of this report, as finding 07-1, (Financial Reporting), and finding 07-2, (Internal Auditing). The auditors also consider finding 07-1 to be a material weakness.

Exit Conference

The findings and recommendations appearing in this report were discussed with Program personnel at an exit conference on February 11, 2008. Attending were:

Illinois Student Assistance Commission	
Thomas Hood	IDAPP Comptroller
Su Ju	IDAPP Assistant Comptroller
John Sinsheimer	Chief Financial Officer
Shoba Nandhan	ISAC Comptroller
McGladrey & Pullen, LLP	
Linda Abernethy	Partner
Rolake Adedara	Manager
Office of the Auditor General	
Jon Fox	Audit Manager

The responses to the recommendations were provided by Shoba Nandhan in a letter dated February 12, 2008.

McGladrey & Pullen
Certified Public Accountants

Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois ,and

Mr. Donald J. McNeil
Honorable Chairman of the Governing Board
Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Illinois Student Assistance Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Illinois Prepaid Tuition Program, a fund of the State of Illinois, Illinois Student Assistance Commission and do not purport to, and do not, present fairly the financial position of the State of Illinois, Illinois Student Assistance Commission as of June 30, 2007, and its changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission, as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The State of Illinois, Illinois Student Assistance Commission has not presented a management's discussion and analysis for the Illinois Prepaid Tuition Program that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 2008 on our consideration of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 14, 2008

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Net Assets
June 30, 2007

Assets	
Current	
Cash and cash equivalents	$ 7,267,562
Receivables:	
Accrued interest on investments	54,373
Total current assets	7,321,935
Noncurrent	
Investments	986,333,459
Total assets	993,655,394
Liabilities	
Current	
Accounts payable and accrued expenses	982,803
Tuition payable	28,832,041
Accreted tuition payable	2,170,154
Due to other State funds	57,956
Compensated absences	30,000
Total current liabilities	32,072,954
Noncurrent	
Tuition payable	716,245,769
Accreted tuition payable	208,952,760
Compensated absences	62,459
Total noncurrent liabilities	925,260,988
Total liabilities	957,333,942
Net assets, unrestricted	$ 36,321,452

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2007

Operating revenues:	
Income from investment securities	$ 124,331,458
Interest revenue - other	532,768
Application and other fees	2,258,664
Total operating revenues	127,122,890
Operating expenses:	
Salaries and employee benefits	735,765
Accreted tuition expenses	54,684,342
Management and professional services	3,179,054
Investment management fees	3,041,955
Total operating expenses	61,641,116
Operating income	65,481,774
Transfer - out	(25,000)
Change in net assets	65,456,774
Net assets (deficit), July 1, 2006	(29,135,322)
Net assets, June 30, 2007	$ 36,321,452

See Notes to Financial Statements.

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows
Year Ended June 30, 2007

Cash flows from operating activities	
Cash receipts from prepaid tuition contracts	$ 119,794,784
Cash received from application and other fees	2,258,664
Cash paid for refund of contracts	(6,190,717)
Cash paid for tuition and accretion	(28,336,559)
Cash payments to suppliers for goods and services	(3,049,917)
Cash payments to employees for services	(729,344)
Net cash provided by operating activities	83,746,911
Cash flows from noncapital financing activities	
Transfer Out	(25,000)
Cash flows from investing activities	
Purchase of investment securities	(416,383,786)
Sales and maturities of investment securities	311,060,944
Interest and dividends on investments	21,164,846
Cash paid to investment managers	(3,041,955)
Net cash used in investing activities	(87,199,951)
Net decrease in cash and cash equivalents	(3,478,040)
Cash and cash equivalents, July 1, 2006	10,745,602
Cash and cash equivalents, June 30, 2007	$ 7,267,562

(Continued)

State of Illinois
Illinois Student Assistance Commission
Illinois Prepaid Tuition Program

Statement of Cash Flows (Continued)
Year Ended June 30, 2007

Reconciliation of operating income to net cash provided by operating activities:

Operating income	$ 65,481,774
Adjustments to reconcile operating income to net cash provided by operating activities:	
Investment and other interest income	(124,864,226)
Accreted tuition expense	54,684,342
Investment management fees	3,041,955
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	135,840
Due to other State funds	(6,702)
Tuition payable	85,267,507
Compensated absences	6,421
Total adjustments	18,265,137
Net cash provided by operating activities	$ 83,746,911

Supplemental disclosure of noncash transactions:	
Net appreciation in fair value of investments	$ 103,708,616

See Notes to Financial Statements.

Note 1. Description of Program

The Illinois Student Assistance Commission (ISAC) administers the nonshared proprietary fund, Illinois Prepaid Tuition Program (*College Illinois!*) described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

Legislation authorizing ISAC to administer an Illinois Prepaid Tuition Program was passed in November 1997. The Illinois Prepaid Tuition Program is administered by ISAC with advice and counsel from an investment advisory panel consisting of seven members appointed by ISAC. The purpose of this program is to provide Illinois families with an affordable tax-advantaged method to pay for college. Illinois Prepaid Tuition contracts will allow participants to prepay the cost of tuition and mandatory fees at Illinois public universities and community colleges at current program prices, which are significantly 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 first contracts were offered for sale in 1998. After nine enrollment periods, as of June 30, 2007, the Illinois Prepaid Tuition Program had 49,814 contracts in force with a purchased value of $1,185 million. As of June 30, 2007, the fund has received cash collections of $823,838,110.

The Illinois Prepaid Tuition Program Fund is a non-appropriated fund.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Illinois Prepaid Tuition Program administered by ISAC have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

A. Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependency on the primary government.

Based upon the required criteria, the Illinois Prepaid Tuition Program does not have component units, nor is it a component unit of any other entity. However, because the Illinois Prepaid Tuition Program is not legally separate from the State of Illinois, it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

Note 2. Summary of Significant Accounting Policies - Continued

A. Reporting Entity - Continued

The financial statements present only the Illinois Prepaid Tuition Program administered by the State of Illinois, Illinois Student Assistance Commission (ISAC) and do not purport to, and do not, present fairly the financial position of the State of Illinois or ISAC as of June 30, 2007, and changes in financial positions and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. Basis of Presentation

In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows have been presented for the Illinois Prepaid Tuition Program administered by ISAC.

Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Due to the nature of the Illinois Prepaid Tuition Program activities, income from investments is considered an operating activity in the Statement of Revenues, Expenses and Changes in Net Assets. Nonoperating revenues and expenses result from nonexchange transactions or ancillary activities.

C. Basis of Accounting

The Illinois Prepaid Tuition Program is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. The fund accounts for resources received and used for financing self-supporting activities of the Illinois Prepaid Tuition Program that offers services on a user-charge basis to the general public.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Program’s operations.

D. Cash and Cash Equivalents

Cash and cash equivalents consist principally of deposits held in the State Treasury. Cash and cash equivalents include cash on hand, cash in banks, interest bearing deposits with banks, and securities with maturities at the date of purchase of 90 days or less.

Note 2. Summary of Significant Accounting Policies - Continued

E. Investments

The Illinois Prepaid Tuition Program presents investments on its Statement of Net Assets at fair value. The net appreciation or depreciation in the fair value of investments is included in income from investment securities in the Statement of Revenues, Expenses and Changes in Net Assets. The investments are classified as noncurrent, as current cash flows cover current payouts for the program and the program has no plans to withdraw investments in the near future.

F. Interfund Transactions

The Illinois Prepaid Tuition Program has the following type of interfund transactions with other funds of the State:

Loans - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e. due from other funds) in lender funds and interfund payables (i.e. due to other funds) in borrower funds.

Reimbursements—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund.

Transfers—flows of assets (such as cash or goods) without equivalent flow of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

G. Compensated Absences

The liability for compensated absences reported in the Illinois Prepaid Tuition Program consists of unpaid, accumulated vacation and sick leave balances for Illinois Prepaid Tuition Program employees. The liability has been calculated using the vesting method in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., Social Security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

H. Tuition Payable

Tuition payable in the Illinois Prepaid Tuition Program represents the net principal payments received for the 49,814 contracts held by the fund as of June 30, 2007.

Note 2. Summary of Significant Accounting Policies - Continued

I. Net Assets, Unrestricted (Deficit)

Net assets, unrestricted consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

J. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Funding and Actuarial Assumptions

Program funding is derived entirely from payments received from contract purchasers and the investment income earned by the Fund. The Commission has obtained actuarial assistance in order to establish, maintain and certify assets sufficient to meet the Fund's obligations. The assets of the fund are to be preserved, invested and expended solely pursuant to and for the purposes of the Fund and may not be loaned or otherwise transferred or used by the State of Illinois for any other purpose.

In the event the Commission, with the concurrence of the State of Illinois, determines the Illinois Prepaid Tuition Program to be financially infeasible, the Commission may discontinue, prospectively, the operation of the Illinois Prepaid Tuition Program. Any beneficiary who has been accepted by and is enrolled, or will within five years enroll, at an eligible institution shall be entitled to exercise the complete benefits of his/her contract. All other contract holders shall receive an appropriate refund of all contributions and accrued interest up to the time the Illinois Prepaid Tuition Program is discontinued.

Note 3. Deposits and Investments

A. Investment Authority and Legal Compliance

The State Treasury is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. The investment authority for the State Treasury is found in the State Treasurer Act (15 ILCS 505), which authorizes the State of Illinois primary government and its component units to engage in a wide variety of investment activities. For further details please refer to the State of Illinois CAFR, available in the Office of the Treasurer, Fiscal Officer Responsibilities Audit Report. A copy of the report can be obtained from the State Treasurer at 300 West Jefferson, Springfield, Illinois, 62701.

The Illinois Prepaid Tuition Program independently manages cash and cash equivalents maintained outside the State Treasury. The Commission by statute (Illinois Prepaid Tuition Act, 110 ILCS 979) is required to appoint an investment advisory panel to offer advice and counseling regarding the investments of the Illinois Prepaid Tuition Program. The panel is required to annually review and advise the Commission on provisions of the strategic investment plan, which will specify the investment policies to be utilized by the Commission in the administration of the Illinois Prepaid Tuition Program.

Note 3. Deposits and Investments - Continued

A. Investment Authority and Legal Compliance - Continued

The Commission may direct that assets of those Funds be placed in savings accounts or may use the same to purchase fixed or variable life insurance or annuity contracts, securities, evidence of indebtedness, or other investment products pursuant to the comprehensive investment plan and in such proportions as may be designated or approved under that plan.

Investment managers are hired who, by their record and experience have demonstrated their fiduciary responsibility, their investment expertise, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment managers retained for the Illinois Prepaid Tuition Program acknowledge in writing, a fiduciary relationship with respect to the Illinois Prepaid Tuition Program and need to be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis. The Commission has established investment guidelines for the investment managers and conducts thorough due diligence before the appointment of all investment managers.

A qualified investment consultant, on an ongoing basis, evaluates the Illinois Prepaid Tuition Program. Written reports are provided to the Commission by the investment consultant no later than 45 days after the end of each calendar quarter. The investment consultant meets with the various investment managers on a regular basis to review the investment guidelines and analyzes the general liability structure of the Illinois Prepaid Tuition Program. They also assist the Commission and the Investment Advisory Panel with the selection of investment managers and custodians. The qualified investment consultant retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage. Additionally, the program has contracted with Marquette Associates to evaluate the investment performance of the Illinois Prepaid Tuition Program on a quarterly basis.

The Illinois Prepaid Tuition Program investment policy dictates certain guidelines and restrictions that apply to investments in domestic equities by the investment managers. The manager may only hold up to 5% of its portfolio in a money market and/or cash. The only exception to this rule is during trading activity, which can only be maintained for very short time periods, i.e. less than 30 days. Further, options, financial futures, private placements, restricted stock, issues related to the investment manager, or venture capital may not be purchased. The policy also prohibits the purchase of securities on margin and short selling. Also, investments cannot be made in securities not traded on a U.S. exchange or traded in U.S. dollars.

The investment policy authorizes the Commission to utilize a third party custodian to safe-keep the assets of the fund and to provide reports on a monthly basis to all necessary parties. The custodian is responsible for sweeping all interest and dividend payments and any other un-invested cash into a short-term money market fund for re-deployment. The custodian retained by the Commission is required to exercise discretion within the parameters set forth in the investment policy guidelines for the portfolio(s) they manage on behalf of the fund.

Note 3. Deposits and Investments - Continued

B. Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Illinois Prepaid Tuition Program's deposits may not be returned to it. State law (30 ILCS 230/2C) requires that all deposits of public funds be covered by FDIC insurance or eligible collateral. The Illinois Prepaid Tuition Program has no policy that would further limit the requirements under State law. As of June 30, 2007, the Illinois Prepaid Tuition Program's locally held deposits were not exposed to custodial credit risk.

The State Treasurer is the custodian of the State's cash and cash equivalents for the Illinois Prepaid Tuition Program maintained in the State Treasury. Deposits in the custody of the State Treasurer totaled $5,020,939 at June 30, 2007. These deposits are pooled and invested with other State funds in accordance with the Deposits of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been addressed as to custodial credit risk because the Illinois Prepaid Tuition Program does not own individual securities. Details on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

C. Investments

ISAC is required annually to adopt a comprehensive investment plan to invest the funds received through contract payments. The Commission approved the Illinois Prepaid Tuition Program's most recent revision to the investment plan in January 2007. The comprehensive investment plan specifies the investment policies to be utilized by the Commission in its administration of the Illinois Prepaid Tuition Program. The Commission may direct that assets of those funds be invested in a manner that will provide the investment return and risk level consistent with the actuarial return requirements and risk levels and cash flow demands of the Fund. The investments should be in compliance with all applicable federal and state laws and other statutes governing the investment of Illinois Prepaid Tuition Program resources.

ISAC has retained State Street Global Advisors, J P Morgan Investment Advisors, William Blair & Company, LSV Asset Management, Holland Capital, New Amsterdam Partners, Kenwood Capital, Nicholas Applegate, Denver Investment Advisors, Galliard Capital, Income Research, and Rhumb Line Advisors as investment managers to assist with the investment of the fund assets for the Illinois Prepaid Tuition Program. Approximately $84,700,000 of additional contract payments received have been invested as of the end of the fiscal year June 30, 2007. The program has contracted with Marquette Associates to evaluate the investment performance of the Program on a quarterly basis. Use of funds invested on behalf of the Illinois Prepaid Tuition Program by the investment managers is restricted to the payout of tuition and fee benefits for program beneficiaries.

As of June 30, 2007, 59% of the funds were invested in Domestic Equities, 34% in Domestic Fixed Income, 6% in International Equity and 1% as Cash and Equivalents. Investments of the Fund are recorded at fair value based on quoted market prices.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

The Illinois Prepaid Tuition Program's cash and investments at June 30, 2007 are presented below at fair value by investment type and by investment manager:

Investment Managers
Asset Allocation
June 30, 2007

Asset Class	Investment Manager	Fair Value	Actual Allocation
Fixed Income-Core	J P Morgan	$ 120,071,677	12.08%
Fixed Income-Intermediate	Galliard Capital	81,547,125	8.21%
Fixed Income-Intermediate	Income Research	81,770,765	8.23%
Fixed Income-Core	SSgA Passive Bonds	56,585,494	5.69%
Total Fixed Income Portfolio		339,975,061	34.22%
Large-Cap Core Equity	SSgA S&P 500 Index	149,422,437	15.04%
Large-Cap Value Equity	LSV Asset Management	82,724,990	8.33%
Large-Cap Value Equity	SSgA	83,351,795	8.39%
Large-Cap Growth Equity	William Blair & Company	43,204,742	4.35%
Large-Cap Growth Equity	Holland Capital	41,446,495	4.17%
Large-Cap Growth Equity	New Amsterdam Partners	42,120,592	4.24%
Small-Cap Core Equity	Nicholas Applegate	52,385,472	5.27%
Small-Cap Core Equity	Denver Investment Advisors	48,335,578	4.86%
Small-Cap Value Equity	Rhumb Line Advisors	24,075,607	2.42%
Small-Cap Value Equity	Kenwood Capital	23,009,518	2.32%
Total Domestic Equity		590,077,226	59.39%
International Equity	LSV Asset Management	56,281,172	5.66%
Total International Equity		56,281,172	5.66%
Total Investments		986,333,459	99.27%
Cash and Equivalents	N/A	7,267,562	0.73%
Total Cash Equivalents		7,267,562	0.73%
TOTAL PORTFOLIO		$ 993,601,021	100%

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Illinois Prepaid Tuition Program's policy for managing interest rate risk is to ensure that the investment managers comply with its investment policy guidelines.

As per the investment policy, the operational guidelines for the Fixed Income Securities Managers require that the average duration of the manager's portfolio not vary more than +/- 30% of the duration of the Lehman Brothers (LB) Intermediate Government/Credit Index and the LB Aggregate Index respectively (see schedule of investments on previous page).

The duration of the portfolios, by Manager, for the fixed income securities, compared to the benchmark index(s) is as follows:

Fixed Income Portfolio Manager	Portfolio Average Duration	LB Aggregate Index	LB Intermediate Government/ Credit Index
JP Morgan	4.2 years	4.7 years	N/A
Galliard Capital	3.6 years	N/A	3.7 years
Income Research Management	3.5 years	N/A	3.7 years
SSgA	4.2 years	4.7 years	N/A

As of June 30, 2007, all portfolios are within the guidelines permitted by the investment policy.

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Interest Rate Risk –Continued

Portfolio Weighted Average Maturity

Investment Type	Fair Value	Weighted Average Maturity (in Years)
U.S. treasury notes	$ 43,373,784	6.4
U.S. treasury bonds	22,350,894	4.5
U.S. treasury strips	11,683,645	9.0
U.S. agency obligations	62,490,825	6.1
Municipal Debt	10,052,134	4.0
Corporate debt securities	54,661,381	5.9
Money market mutual funds	8,267,031	0.0
Corporate asset-backed securities	19,732,468	8.3
Foreign debt securities	796,564	7.0
Corporate mortgage backed securities	25,937,962	3.2
Mortgage backed securities:		
Pass through (fixed rate, adjustable rate)	9,952,829	4.1
Collateralized mortgage obligations	3,964,419	5.5
Delegated underwriting and servicing bonds and surety bonds	9,367,756	4.3
Debt security mutual fund	757,875	0.0
Passive bond index fund	56,585,494	7.2
Total Fair Value	$ 339,975,061	
Portfolio weighted average maturity		5.8

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission is authorized to hire competent registered professional investment managers to manage the assets of the Illinois Prepaid Tuition Program.

The operational guidelines as set forth in the Illinois Prepaid Tuition Program investment policy for fixed income investments dictate that no securities with a credit rating below BBB- by Standard & Poor's or Ba3 by Moody's may be purchased. In the case of a split rating, the higher rating shall apply. Securities, which are downgraded below the policy minimum, may only be held at the manager's discretion for up to 6 months.

The following tables indicate credit ratings, as of June 30, 2007, for the Program's debt security investments (other than obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which are not considered to have credit risk). Ratings for debt security investments that have multiple ratings are on the following page:

Credit Ratings (Excludes Multiple-Rated Securities)
June 30, 2007

		Credit Rating		
	Total Fair Value	Moody's	Standard & Poor's	Fitch
U.S. agency obligations	$ 62,490,825	Aaa	AAA	AAA
Money market mutual funds	8,267,031	Aaa	AAA	AAA
Debt security mutual fund	757,875	NR	NR	NR
Passive bond index fund	56,585,494	NR	NR	NR
Mortgage backed securities	23,285,004	Aaa	AAA	AAA

NR= Not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk – Continued

The following tables indicate credit ratings, as of June 30, 2007, for debt security investments that received multiple ratings:

Credit Ratings (Multiple-Rated Securities)
June 30, 2007

Rating Agency	Investment Type	Credit Rating*	Fair Value
Moody's:	Corporate debt securities	Aaa	$ 3,859,044
	Corporate debt securities	Aa	16,347,917
	Corporate debt securities	A	20,172,656
	Corporate debt securities	Baa	13,856,764
	Corporate debt securities	NR	425,000
			54,661,381
Standard and Poors:	Corporate debt securities	AAA	2,257,306
	Corporate debt securities	AA	14,637,921
	Corporate debt securities	A	23,865,603
	Corporate debt securities	BBB	12,930,374
	Corporate debt securities	NR	970,177
			54,661,381
Fitch:	Corporate debt securities	AAA	226,234
	Corporate debt securities	AA	16,828,028
	Corporate debt securities	A	21,420,038
	Corporate debt securities	BBB	10,380,752
	Corporate debt securities	NR	5,806,329
			54,661,381
Moody's:	Corporate asset-backed securities	Aaa	18,517,686
	Corporate asset-backed securities	NR	1,214,782
			19,732,468

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk – Continued

Credit Ratings (Multiple Rated Securities), continued
June 30, 2007

Rating Agency	Investment Type	Credit Rating*	Fair Value
Standard and Poors:	Corporate asset-backed securities	AAA	$ 18,629,220
	Corporate asset-backed securities	NR	1,103,248
			19,732,468
Fitch:	Corporate asset-backed securities	AAA	17,695,119
	Corporate asset-backed securities	NR	2,037,349
			19,732,468
Moody's:	Corporate mortgage backed securities	AAA	22,460,792
	Corporate mortgage backed securities	NR	3,477,170
			25,937,962
Standard and Poors:	Corporate mortgage backed securities	AAA	24,659,388
	Corporate mortgage backed securities	NR	1,278,574
			25,937,962
Fitch:	Corporate mortgage backed securities	AAA	22,912,585
	Corporate mortgage backed securities	NR	3,025,377
			25,937,962
Moody's:	Municipal Debt	AAA	7,462,927
	Municipal Debt	AA	1,229,826
	Municipal Debt	A	960,315
	Municipal Debt	NR	399,066
			10,052,134

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Credit Risk – Continued

Credit Ratings (Multiple Rated Securities), continued
June 30, 2007

Rating Agency	Investment Type	Credit Rating*	Fair Value
Standard and Poors:	Municipal Debt	AAA	$ 3,834,052
	Municipal Debt	AA	2,268,264
	Municipal Debt	A	508,913
	Municipal Debt	NR	3,440,905
			10,052,134
Fitch:	Municipal Debt	AAA	3,778,794
	Municipal Debt	AA	725,623
	Municipal Debt	NR	5,547,717
			10,052,134
Moody's:	Foreign Debt	A	181,378
	Foreign Debt	Aa	109,010
	Foreign Debt	Baa	506,176
			796,564
Standard and Poors:	Foreign Debt	A	290,388
	Foreign Debt	BBB	506,176
			796,564
Fitch:	Foreign Debt	A	71,914
	Foreign Debt	AA	109,010
	Foreign Debt	BBB	388,235
	Foreign Debt	NR	227,405
			796,564

* NR - not rated

Note 3. Deposits and Investments - Continued

C. Investments - Continued

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Illinois Prepaid Tuition Program will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Program does not have an investment policy for custodial credit risk for investments.

As of June 30, 2007, all investments were held by the Program's agent in the Program's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The operational guidelines as set forth in the Illinois Prepaid Tuition Program's investment policy for fixed income investments dictate that no single security should comprise more than 10% of the portfolio's overall allocation after accounting for price appreciation, except for any U.S. Treasury or U.S. agency security, which may comprise no more than 15% of the portfolio's overall allocation after accounting for price appreciation. In the case of investments in domestic equities the policy states that no single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation. Additionally, in the case of the small-cap investment managers at no point in time should the portfolio hold a security such that the investment management firm's aggregate position in that company exceeds 20% of the fair value of the outstanding stock of the company.

There were no investments in any single issuer (other than U.S. Treasury or securities explicitly guaranteed by the U.S. government) that exceeded 5% or more of the total investment portfolio as of June 30, 2007.

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment.

The Commission's investment policy authorizes a maximum of 6% of the portfolio for investments in international equities. As of June 30, 2007, 6% is invested in international equities; however, none of these investments are denominated in foreign currencies.

Note 4. Balances Due to Other State Funds and Transfers

As of June 30, 2007, the Illinois Prepaid Tuition Program owed the Audit Fund $57,927 for the cost of the fiscal year 2006 audit, and owed $29 to the Communications Revolving Fund for telephone service. During the year, $25,000 was transferred to the ISAC COP Debt Service Fund for lease payments.

Note 5. Compensated Absences Payable

Changes in compensated absences for the year ended June 30, 2007, were as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
Compensated absences	$ 86,038	$ 39,903	$ 33,482	$ 92,459	$ 30,000

Note 6. Tuition Payable

Tuition payable activity for the year ended June 30, 2007 is as follows:

Balance July 1, 2006	$ 657,825,432
Add:	
Contributions	119,794,784
Less:	
Return of contributions	(6,190,717)
Tuition payments	(26,351,689)
Balance June 30, 2007	$ 745,077,810
Reported as:	
Current	$ 28,832,041
Noncurrent	716,245,769
	$ 745,077,810

Note 7. Accretion Payable

Accretion payable is management’s estimate of the present value of the estimated tuition payment to be made in excess of principal payments received and is expected to be financed from investments of prepaid tuition contracts. The accretion expense for fiscal year 2007 is estimated as a percentage of net tuition contracts paid to date. The rate is 8.12% and is based on the average increase in tuition for Illinois colleges.

Note 7. Accretion Payable - Continued

Average monthly tuition payable over the year	$ 680,255,041
Estimate of 8.12% increase of tuition payable	$ 55,236,709
Present value	$ 54,684,342
Beginning balance accretion payable as of July 1, 2006	$ 158,423,442
Accretion expense	54,684,342
Accretion payments	(1,984,870)
Ending balance accretion payable as of June 30, 2007	$ 211,122,914
Reported as:	
Current	$ 2,170,154
Noncurrent	208,952,760
	$ 211,122,914

The accretion expense is calculated on a monthly basis on the balance in the tuition payable account. Accretion expense is reflected as an expense in the Statement of Revenues, Expenses and Changes in Net Assets and as an increase to liabilities on the Statement of Net Assets.

Note 8. Pension Plan

Substantially all of ISAC's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined/benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Commission pays employer retirement contributions for the Illinois Prepaid Tuition Program based upon an actuarially determined percentage of its payroll. For fiscal years 2007, 2006 and 2005, the employer contribution rate was 11.5%, 7.8% and 16.1%, respectively. The required and actual contribution for fiscal years 2007, 2006 and 2005 was $59,974, $41,922 and $71,839, respectively.

Note 9. Post-employment Benefits

The State provides health, dental, and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State-sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to $5,000 per annuitant age 60 and older.

Costs incurred for health, dental, and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2007.

Post-employment costs for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the Illinois Comprehensive Annual Financial Report for the State. Cost information for retirees by individual fund or State agency is not available. Payments are made on a "pay-as-you-go" basis.

Note 10. Fund Deficits

College Illinois!, the State's section 529 prepaid tuition program, has taken action to reduce and ultimately eliminate its $84 million current actuarially determined deficit over time. (Notably, the current actuarial deficit is $63 million less than the $147 actuarial deficit reported on June 30, 2006.) The Illinois Student Assistance Commission (ISAC), administrator of the *College Illinois!* program, has added a premium to contract prices during each of the six enrollment periods, 2001-02 through 2006-07 to partially amortize the current actuarial deficit, and the Commission could perpetuate these or similar actions in subsequent years, if necessary, until any deficit is fully amortized.

In terms of the program's actuarially determined deficit, actual investment performance is only one influencing factor. Expected future investment performance is another factor, as is the level of actual tuition and fee increases at Illinois public universities, new contracts for each <u>future</u> enrollment period, as well as <u>future</u> expectations for tuition and fee increases at those institutions. A large proportion of the program's actuarial deficit is related to increasing the Illinois public universities' tuition growth expectation to 11% for FY 2008 and 7.75% long-term. Beginning with FY 2008, the assumption regarding future contract sales is lowered from 5,000 to 4,500 per year. The principal factor contributing to the overall decrease in the actuarial deficit from FY2006 to FY2007 is that the program's long-range investment performance assumption was recently revised to 8.25% in FY 2008, 8.5% in FY 2009, 8.75% in FY 2010 and 9.0% in FY 2011 and each subsequent year.

Each year when setting plan prices, the Commission reviews the assumptions that influence the actuarial deficit. Since 2002, recognizing that the State's budget has provided minimal increases for the state's institutions of higher education and tuition and fee increases have as a result been higher than anticipated, the assumption concerning tuition increases has been adjusted higher on a temporary basis. Also in 2002, the Commission reduced the program's long-term investment return assumption temporarily, in recognition that the economy was recovering more slowly than expected due to external shocks that have adversely affected financial markets during the past several years. In FY2007, it was decided to return to the original long-term investment performance assumption of 8% based on the economic trends at that time. The most recent change to the investment return assumptions is a result of investment policy modifications approved by the Commission in fiscal year 2007 that introduced several new asset classes to the program's investment portfolio.

Note 10. Fund Deficits - Continued

Implementation of the Truth-in-Tuition law (in 2004) has impacted and will continue to impact future tuition increases for classes of new students entering the State's public universities. Another significant fact that only became evident after the law was implemented, was that while tuition rates charged to students who remain enrolled for continuous academic years must remain level, public universities typically continue to increase fees annually for all students, not just new enrollees.

Beginning with FY2006, fee increase assumptions separate from tuition increase assumptions were developed. For FY2006 these assumptions were 8% for one year and 6% long-term. For FY2007, the fee increase assumptions were raised to 10% and 8% long-term. Those assumptions were recently reconsidered and based on the current State budget situation and the recent history of fee increases at the public universities, fees are assumed to increase 11.00% in FY2008 and then 7.5% per year thereafter. Considering the potential impact of fee increases, as well as a refinement made in the calculation of weighted average tuition and fees for students impacted by Truth-in-Tuition, the actuarial deficit has been impacted as well.

	Actuarial Evaluation (Unaudited)
Net assets, before tuition/accretion payable	$ 992,522,175
Actuarial present value of future payments expected to be made by contract purchasers	187,396,351
Subtotal	1,179,918,526
Actuarial present value of future payments expected to be made by the program	1,264,132,424
Actuarial deficit as of June 30, 2007	$ (84,213,898)

Note 11. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self insured) for these risks except for insurance purchased by the Commission for the building and EDP equipment. There has been no reduction in insurance coverage from coverage in the prior year. Settlement amounts have not exceeded coverage for the current or prior two years. The Commission's risk management activities for workers compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Commission and, accordingly, have not been reported in the Commission's financial statements for the year ended June 30, 2007.

Note 12. New Governmental Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements:

Statement No. 48*, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes criteria that governments will use to ascertain whether the proceeds received in exchange for an interest in their expected cash flows from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. This Statement also requires disclosures pertaining to future revenues that have been pledged or sold and is intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. The Commission is required to implement this Statement for the year ending June 30, 2008.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* establishes accounting and financial reporting requirements for intangible assets. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The Commission is required to implement this Statement for the year ending June 30, 2010.

Management has not yet completed their assessment of these Statements, however, they are not expected to have a material effect on the overall financial statement presentation.

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's 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, and

Mr. Donald J. McNeil
Honorable Chairman of the Governing Board
Illinois Student Assistance Commission

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois Prepaid Tuition Program of the State of Illinois, Illinois Student Assistance Commission (Commission), as of and for the year ended June 30, 2007, and have issued our report thereon dated February 14, 2008. 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 Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (findings 07-1 and 07-2).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding 07-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We are currently conducting a State compliance examination of the Commission as required by the Illinois State Auditing Act. The results of that examination will be reported to management under separate cover.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

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, the Commission Board 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
February 14, 2008

Current Findings – ***Government Auditing Standards***

07-1 Financial Reporting

(Note: This finding is also reported in the Department-wide audit of the Illinois Student Assistance Commission.)

The Illinois Student Assistance Commission (Commission) does not have sufficient controls over the financial reporting process.

During our review of the draft financial statements of the Illinois Prepaid Tuition Program (the Program), the disclosures related to the multiple ratings of securities as required by the Governmental Accounting Standards Statement No. 40, *Deposit and Investment Risk Disclosures* were not properly calculated by the Commission. These disclosures were subsequently corrected and are properly disclosed on the final financial statements. The Program's investments subject to these disclosures totaled approximately $994 million.

The Commission stated that they rely on their contractual investment advisor to prepare this information.

Good internal controls should be designed and operated to allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements in the financial statements and the related disclosures.

Deficiencies in internal control allowed errors in calculating deposit and investment risk disclosures to go undetected by management in the normal course of performing their assigned functions. As a result of the revisions that were necessary to the draft financial statements, completion of the financial audit was delayed beyond the originally agreed upon completion date and could result in delays for the completion of the statewide financial statements. (Finding Code No. 07-1).

Recommendation

We recommend internal controls over financial reporting be strengthened. Individuals preparing financial statements should cross-check all amounts and disclosures to ensure they are in compliance with the applicable governmental accounting standards.

Commission Response

Agree. The Commission will implement quality control procedures to ensure that all note disclosures are reviewed to ensure that they are calculated correctly in accordance with applicable governmental accounting standards.

07-2 Internal Auditing

(Note: This finding is also reported in the Department-wide audit of the Illinois Student Assistance Commission and in the Illinois Designated Account Purchase Program financial audit of the Illinois Student Assistance Commission.)

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.

Based on our examination of the Commission's internal audit program, we noted that the Commission did not audit 4 of its 12 (33%) major systems of internal accounting and administrative controls within the last two years. Specifically, the Commission failed to audit the following (last FY audited):

1. Revenues, Cash Receipt & Payment Posting (FY 2005)
2. US Department of Education - Reporting & Due Diligence:
    a. General (FY 2004)
    b. Default Prevention (FY 2004)
    c. Default Collection (FY 2004)

Good business practice requires that significant internal controls be periodically evaluated and assessed to determine that the controls are sufficient and operating effectively.

Per Commission management, the internal auditor position has been vacant since 2005. Although the Commission was able to complete some internal audits by using an outside public accounting firm, they were not able to complete all required audits.

Significant areas of internal control must be reviewed and evaluated regularly 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. 07-2, 06-3).

Recommendation

We recommend the Commission complete an internal audit of all major systems of internal accounting and administrative control within a two-year period of time.

Commission Response

Agree. The Commission has contracted with an external public accounting firm to complete the internal audits on a timely basis. An internal audit plan has been put in place. The Commission is confident that by the end of FY 2008 audits of all major systems will be completed timely on a two-year cycle.