LEGISLATIVE
AUDIT
COMMISSION

Review of
Illinois Student Assistance Commission
Year Ended June 30, 2011

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: 4387
ILLINOIS STUDENT ASSISTANCE COMMISSION
YEAR ENDED JUNE 30, 2011

FINDINGS/RECOMMENDATIONS - 10
ACCEPTED - 1
IMPLEMENTED - 9

REPEATED RECOMMENDATIONS - 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 6

This review summarizes the financial audit report of the Illinois Student Assistance Commission for the year ended June 30, 2011, filed with the Legislative Audit Commission April 24, 2012. The report consists of three sets of financial statements as follows: Illinois Student Assistance Commission; Illinois Designated Account Purchase Program (IDAPP); and Illinois Prepaid Tuition Program (Program). The auditors performed the financial audit in accordance with *Government Auditing Standards*. The auditors stated that the financial statements presented fairly, emphasizing that the Prepaid Tuition Program has a deficit of $262 million as of June 30, 2011.

The Illinois Student Assistance Commission (ISAC) was established through the Higher Education Student Assistance Law in 1957. Ten persons are appointed by the Governor to serve as Commission members without compensation for a term of six years, except for one member who serves for a term of two years. The Commission was created to establish and administer a system of financial assistance through loan guarantees, scholarships, and grant awards and a prepaid tuition program for residents of the State of Illinois to enable them to attend qualified public or private institutions of their choice within Illinois. The Chair of the Commission since May 2011 is Ms. Kym Hubbard.

ISAC is a part of the executive branch of government. Activities of ISAC are subject to the authority of the Office of the Governor and other departments of the executive branch such as CMS and GOMB, the State Treasurer's Office and the State Comptroller's Office. All funds appropriated to ISAC and all other cash received are under the custody and control of the State Treasurer. The Illinois Designated Account Purchase Program (IDAPP) and College Illinois! are administered by the Commission.

Andrew Davis was Executive Director of the Commission during the audit period. He had served in that position since January 1, 2007, and was placed on administrative leave on July 8, 2011. Mr. Davis is no longer with the Agency. Thereafter, Mr. John Sinsheimer, ISAC's Chief Financial Officer and Managing Director of Financial Products and Services served as Acting Director until Mr. Eric Zarnikow was appointed Executive Director in February 2012. Mr. Zarnikow was not previously employed by the Agency.

The average number of full-time equivalent employees from the FY10 compliance report was:

Division	2010	2009	2008
Executive	39	39	40
Public Service		31	14
Marketing and Communications	17		
College Access and Outreach	17		
Program Services and Compliance	55	63	76
Business and Financial Services			
Claims & Collections	66	67	77
Accounting Services	41	48	53
Management Information Services	41	49	57
Human Resources	6	8	8
Administrative Services	13	15	15
Total Full-time Employees	**295**	**320**	**340**
Full-time equivalent part-time employees	4	3	7
Illinois Designated Account Purchase Employees	62	76	100
Total Employees	**361**	**399**	**447**

Financial Information

Appendix F presents a Statement of Net Assets and a Statement of Activities for the Illinois Student Assistance Commission. The summary includes both Governmental and Enterprise funds for FY11 and FY10.

Illinois Designated Account Purchase Program

The Illinois Designated Account Purchase Program (IDAPP) is a self-supporting program whereby the Commission purchases guaranteed student loans from eligible lenders to reduce their lender collection and administrative costs. Generally, IDAPP does not purchase loans which are more than 90 days delinquent.

The Program is accounted for as a proprietary fund. At June 30, 2011, the fund had total assets of $1.055 billion. The table appearing in Appendix G presents a statement of net assets at June 30, 2011 and 2010.

Appendix H presents a summary of revenues and expenditures for the Designated Account Purchase Program.

College Illinois!

College Illinois! is a prepaid tuition program approved in 1997 to provide Illinois families with an affordable tax-advantaged method to pay for college. The Program is administered by ISAC with advice and counsel from an investment advisory panel consisting of seven members appointed by ISAC. 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. As of June 30, 2011 the Program had 53,644 contracts. The purchase of the new contracts was suspended in September 2011, amid questions about the Program's financial stability and oversight, and reinstated in October 2012.

Total assets in the prepaid tuition program at June 30, 2011 exceeded $1.13 billion. However, the program is operating at a current fund deficit of $262 million. Appendix J provides a summary of the Program for FY11 and FY10. According to an actuarial evaluation report, the present value of the Program's assets together with the present value of expected future payments is $1.340 billion while the actuarial present value of future payments expected to be made is $1.818 billion, or almost $479 million less than the present value of payments expected to be made by the program. The Actuary's Report as of June 30, 2011 indicates the Program's cash flow is expected to remain positive through FY2021 even without reflecting expected proceeds from contracts sold after June 30, 2011.

The June 30, 2011 actuarial valuations are based on an investment return assumption of 7.5% and assumption of 2,500 new contract sales each year. Significant changes in the actuarial assumptions as compared to the prior year have contributed to the increase in deficit from the prior year. The investment return assumption of 7.5% compares to an assumed investment return of 8.4% in the prior year report and resulting in an increase in the deficit of approximately $112 million compared to June 30, 2010. Investment returns for FY11 were higher than the actuarial projections and weighted average tuition rate increase were lower than projected.

Accountants' Findings and Recommendations

Condensed below are the 10 findings and recommendations, five repeated, included in the financial report. The recommendations are classified on the basis of updated responses provided by Shoba Nandhan, CFO, in a memo received via electronic mail on January 29, 2013.

Accepted or Implemented

1. **Comply with the requirements set forth in the Illinois Procurement Code and Administrative Rules in procuring professional and artistic services.**

   Establish policies whereby RFPs are thoroughly reviewed before issuance to ensure that all aspects of the needed services are thoroughly described. If a

Accepted or Implemented - continued

> **necessary service is needed and was not initially included in the original RFP, issue an addendum to the services needed provided that the RFP response submission deadline has not expired. In the event that the RFP deadline has expired, issue a new RFP describing the new service needed.**
>
> **Revisit fee based compensation methods when contracting for opinions on investment purchase decisions that may influence the objectivity or the perception of the objectivity of the opinion rendered. (Repeated-2010)**

Finding: The Illinois Prepaid Tuition Program of the Illinois Student Assistance Commission (Commission) did not comply with the competitive procurement requirements of the Illinois Procurement Code. Auditors noted the following pertaining to the procurement process:

1. The Commission awarded a contract for investment due diligence services (due diligence services) for College Illinois. The RFP issued to procure the due diligence services was not specific to due diligence services, but rather was for real estate investment manager services.

2. Pricing for the due diligence services noted above was not included in the vendor's proposal and was negotiated at a later date, outside the competitive procurement process. The fee arrangement with the consultant awarded the due diligence services noted above did not ensure objectivity in the performance of the work which was the subject of the contract.

3. The required competitive procurement process for awarding investment manager contracts was not followed. During FY11, two new investment managers were awarded investment manager contracts based on due diligence services performed by an investment consultant of the Commission (see 1 above), and not through a competitive bidding process in violation of the procurement law.

The terms of the agreement with the vendor performing the due diligence stated the vendor will receive as payment for services, an acquisition fee amounting to 0.75% of the aggregate capital investment for each of the new investments to be made. By paying the vendor on this basis, the Commission may have created an incentive for the vendor to recommend the investment. The vendor was awarded a contract for an amount not to exceed $390,000 for advisory services, $85,000 for due diligence services for each prospective investment, plus up to $2,500 in expenses in addition to the contingent fee. The contingent fee totals $787,500 based on 0.75% of the $105 million aggregate capital commitment made to the two investment managers. Fees paid to the vendor as of the date of this report were $271,875.

Upon completion of the due diligence report by the vendor noted above, the Commission awarded investment contracts to manage $105 million in real estate investments to the two investment managers that were the subject of the due diligence performed, circumventing the required procurement process. The investment managers were paid fees ranging from 0.5%-1.5% of the amount invested.

Based on the RFP issued, there was no clear basis for awarding a contract for investment due diligence services in a fair and competitive manner that allowed all interested parties the opportunity to participate in the procurement opportunity. There may have been numerous vendors who specialize in the above mentioned types of services who did not reply to the requests for proposal because they did not appropriately describe the services needed.

Response: Accepted. ISAC's future RFPs will have more precise descriptions of services to be solicited with clearer pricing requirements. Moreover, we have changed our procedures for RFPs that result in a large number of qualified bidders in order to ensure that services begin only after the contract is signed. We have reinforced our procedures that require review and sign-off of contract deliverables before vendor payments are processed. We will not use contingency-fee based compensation methods based on transaction completion.

In addition, a new procurement process has been instituted that includes review, approval, and monitoring by both the Agency Procurement Officer and the externally appointed State Procurement Officer.

It should also be noted that beginning July 2011, there have been significant changes made to the management and administration of the Agency. The changes include:

- Appointment of new members to the Commission and a new Chairperson.
- Appointment of a new Interim Executive Director in July 2011.
- Appointment of a new Executive Director in February 2012.
- Appointment of a new General Counsel with a reporting line to the Commission.
- Hiring of a new Chief Investment Officer with a reporting line to the Commission.

We believe that these changes will ensure our procurement process is sound going forward.

Updated Response: Implemented.

2. Comply with the investment policy and;

- **Conduct a formal review of the investment policy,**
- **Formally review and approve the investment policy annually,**
- **Establish the Investment Committee consisting of two members of the Commission appointed by the Chair of the Commission as required by the Policy to provide guidance to the Chief Investment Officer on issues related to investments,**

Accepted or Implemented - continued

- **Take the actions necessary to fill the vacancies on the Investment Advisory Panel and ensure the Investment Advisory Panel meets twice yearly,**
- **Establish the Portfolio Committee and ensure that it meets monthly to review and rebalance the investment portfolio according to the investment policy guidelines, and**
- **Maintain minutes of all meetings for any committees or panels that have been established as required by the investment policy. With the meeting minutes document all pertinent discussions held by the respective committee or panel. Use clear and concise documentation for all significant decisions and recommendations to support decisions made by these groups.**

Finding: The Illinois Prepaid Tuition Program of the Commission did not fully comply with the guidelines established in its investment policy. Auditors tested the Commission's adherence to its investment policy and identified the following instances of noncompliance with the investment policy.

- The investment policy requires that the investment policy be reviewed on an annual basis. Commission personnel began the process of reviewing and proposing revisions to the Policy during fiscal year 2011, however this process was never finalized. The Commission last approved an investment policy on January 22, 2010.
- In accordance with the investment policy, the Commission was required to establish an Investment Committee consisting of two members of the Commission's board appointed by the Chair. This Committee was never established.
- In accordance with the investment policy, the Investment Advisory Panel is required to hold two meetings per year. The auditors were provided with evidence to support only one meeting held during FY11. In addition, there were three vacancies on the Investment Advisory Panel as of June 30, 2011 with vacancies ranging from September 2003 to March 2011.
- In accordance with the investment policy, the Portfolio Committee is required to meet monthly. Evidence to support the occurrence of meetings was only available for September 2010 and October 2010.

According to Commission management, during FY11 the Agency did not have a Director of Portfolio Management. Therefore, during this time, the Portfolio Committee consisted of the Executive Director (ED) and Chief Investment Officer (CIO). The CIO and ED communicated on a weekly basis to discuss the portfolio performance, evaluation and rebalancing of asset allocations needed to ensure compliance with the investment policy. Most of the communications between the CIO and ED were not formalized in "minutes".

Response: Accepted. Beginning July 2011, there have been significant changes made to the management and administration of the program. The changes include:

- Appointment of new members to the Commission and a new Chairperson.
- Appointment of new members to the Investment Advisory Panel.
- Appointment of a new Interim Executive Director in July 2011.
- Appointment of a new Executive Director in February 2012.
- Appointment of a new General Counsel with a reporting line to the Commission.
- The Commission hired a new Chief Investment Officer with a reporting line to the Commission.
- Establishment of an Investment Committee.

The new Commission along with the Executive staff of the agency is in the process of reviewing and approving new changes to the Agency's investment policy. These changes will be formalized in a revised Investment Policy. The Agency will continue to review its Investment Policy and suggest revisions on an ongoing basis.

Management believes that the changes at the agency will ensure that sufficient controls are in place to eliminate all instances of non-compliance with the investment policy.

Updated Response: Implemented. In addition to the Agency changes noted in the original response, on May 23, 2012, the Investment Advisory Panel and the Investment Committee jointly reviewed a draft Statement of Investment Policy that the Commission subsequently adopted at its June 25, 2012 meeting. The Commission approved minor changes to the Policy at its meeting on September 14, 2012. The new policy clearly defines and establishes operational guidelines for each asset class. The agency Chief Investment Officer and the General Counsel and Compliance Officer will monitor to ensure there is an annual review of the Policy.

Management believes that the changes at the Agency and to the investment policy will ensure that sufficient controls are in place to eliminate all instances of non-compliance with the investment policy.

3. Improve controls over financial reporting to ensure accurate presentation of the Illinois Prepaid Tuition Program's credit risk disclosures. Also, assign an experienced employee the responsibility for ensuring securities ratings provided by the custodian at year-end are accurate and properly disclosed in the financial statements.

Finding: The Illinois Prepaid Tuition Program of the Commission does not have sufficient control over its financial statement preparation.

Debt security investments subject to credit risk totaled $199 million at June 30, 2011. During testing, auditors identified various inaccuracies in the debt service investment credit ratings reported for corporate bonds, municipal bonds, corporate asset backed

Accepted or Implemented - continued

securities and U.S. agency obligations. Additionally, approximately $30.5 million of government agency mortgage backed securities, were not reported as “Not Rated” as required. These securities were omitted from the credit risk disclosure altogether. Upon investigating the errors and omissions it was determined that the ratings reported in the custodian’s report were not ratings as of June 30, 2011. The Commission did not discover this issue prior to preparing the draft financials for submission to the auditors.

According to Commission management, the Commission hired a new Custodian beginning fiscal year 2011. The GASB 40 information was provided by the new Custodian. The Custodian did not have standardized reports for one of the rating agencies and as a result provided inaccurate rating information.

Response: Accepted. The new Custodian will run the proper reports at June 30^{th} of each year to ensure accurate credit ratings are obtained for disclosure in the financial statements. Additionally, we have hired a new Director of Accounting and Finance that will ensure securities ratings provided by the Custodian are accurate and properly disclosed in the financial statements.

Updated Response: Implemented.

4. **Maintain documentation for each alternative investment to support the existence of monitoring controls over the investment. Support should be in the form of meeting agendas, meeting notes, copies of any communications received from the investment manager, evidence of review of audited and unaudited financial statements or any operational reports received from the respective investment manager.**

   Have internal investment personnel charged with determining the value of alternative investments. Investment valuation should include a comparison of investment value at the date of the investment funds’ most recent audited financial statements and a rollforward analysis of investment activity from that date to the Commission’s fiscal year-end.

   Maintain documentation to support any significant changes in investment valuation due to unrealized gains and/or losses. Documentation may include a comparison of unaudited statements from the investment fund to the investment value recorded, discussions with the investment manager, reviews of operational reports provided by the investment manager, a comparison of investment performance to comparable investments, a review of any appraisal reports obtained by the investment manager to support valuation (if applicable), etc.

Monitor and maintain evidence of review of all fees charged by the investment manager for reasonableness. Compare fees assessed to the investment agreements to ensure that the Commission is being properly charged.

<u>Finding:</u> The Illinois Prepaid Tuition Program has not established policies and procedures to monitor and value its alternative investments for financial reporting purposes. Additionally, review of fees paid to investment managers was not adequately documented.

Alternative investments consist of real estate, infrastructure, hedge fund and private equity investments. As of June 30, 2011, alternative investments represent $482 million or 42.6% of the Commission's portfolio. Alternative investments pose significant valuation concerns as these investments do not have readily available market data for valuation purposes.

During testing of investments, auditors determined that the Commission does not have proper valuation protocols in place for alternative investments. Management asserts that investment staff participated in investor calls, site visits, corresponding with the general partner, attended annual meetings and reviewed interim financial information pertaining to these investments. In addition, management asserted that investment staff participated as members of advisory committees for the alternative investment fund and held quarterly meetings with investment managers. Auditors were unable to obtain evidence that supports these monitoring controls were in place during fiscal year 2011, and there was no written policy or procedure that required these or other monitoring and valuation procedures.

Auditors noted that the Commission does not prepare an analysis comparing audited financial statements of the alternative investment entity (Fund) to the investment balance as reported by the Commission, as of the Funds' year end. Additionally, the Commission does not perform a rollforward analysis of significant activity from this date (Fund year-end) to the Commission's year-end and compare the ending investment balance to that reported by the investment manager. Management values alternative investments using the investment statements received from the investment manager, custodian statements and investment consultant reports. However, the custodian and investment consultant only report the balances provided to them by the investment manager and do not perform independent valuation services.

During testing of fees paid to investment managers, auditors noted there was no evidence of review of the fees being charged to the investment agreements to ascertain whether the fees charged are appropriate and in accordance with the agreed-upon terms of the arrangement.

According to Commission management, the monitoring and valuation of the alternative investments were primarily the responsibility of the Portfolio Committee which consisted of the Executive Director, the Chief Investment Officer (CIO) and the Director of Portfolio Management. During fiscal year 2011 the Commission did not have a Director

Accepted or Implemented - continued

of Portfolio Management. Therefore, during this time, the Portfolio Committee consisted of the Executive Director (ED) and Chief Investment Officer (CIO). The CIO and ED communicated on a weekly basis to discuss the portfolio performance, evaluation and rebalancing of asset allocations needed to ensure compliance with the investment policy. Most of the communications between the CIO and ED were not formalized in "minutes".

Response: Accepted. Alternative investments are not publicly traded like stocks and therefore valuations are based on estimates by management working in conjunction with investment managers and investment advisors. However, the agency will do everything possible to gather support and retain documentation regarding investment valuation.

As stated previously, we have a new CIO who will ensure that appropriate investment valuations are obtained and that adequate backup documentation is maintained. Such documentation may include a comparison of unaudited statements from the investment fund to the investment value recorded, notes from discussions with the investment manager, reviews of operational reports provided by the investment manager, a comparison of investment performance to comparable investments, a review of any appraisal reports obtained by the investment manager to support valuation (if applicable), site visits (if applicable), and other documentation deemed appropriate.

Updated Response: Implemented.

5. Work with the actuary to ensure the actuarial valuation report is completed in a timely fashion to enable timely completion of the Illinois Prepaid Tuition Program's financial reports.

Finding: The Commission did not obtain a final actuarial valuation report pertaining to the soundness of the College Illinois Program in a timely fashion.

The draft financial statements are due to the auditors by October 3, 2011 and were due to the State Comptroller by October 15, 2011, extended to October 24, 2011. According to Commission management the actuarial report was not scheduled to be issued until February 2012, approximately three months after the draft financial statement reporting deadline.

According to Commission management, the contracted actuary for the Commission passed away in April of 2011. The Commission had to issue a new RFP for actuarial services. This has resulted in a delay in the timing of the final actuarial evaluation report for fiscal year 2011.

Updated Response: Implemented. The Actuarial Report was timely in FY12.

6. Comply with the requirements set forth in the Illinois Procurement Code and Administrative Rules in procuring professional and artistic services. Establish

policies whereby RFPs are thoroughly reviewed before issuance to ensure all aspects of the needed services are thoroughly described. If a service is needed that was not initially included in the original RFP, issue an addendum to the services needed provided that the RFP response submission deadline has not expired. If the RFP deadline has expired, issue a new RFP describing the new service needed.

<u>Finding:</u> The Illinois Student Assistance Commission Illinois Designated Account Purchase Program (IDAPP) did not comply with certain competitive procurement requirements of the Illinois Procurement Code.

The Commission awarded a vendor contract for assistance in analyzing account balance issues pertaining to one of IDAPP's third party loan servicers. Pricing for the loan processing services was not requested in the Commission's request for proposal, and was not included in the vendor's proposal. Pricing for this service was negotiated at a later date, outside the competitive procurement process.

Based on the RFP issued, there was not a clear request for loan processing related services which would have resulted in a fair and competitive process that allowed all interested parties the opportunity to participate in the procurement opportunity, including competitive pricing.

<u>Response:</u> Accepted. IDAPP's future RFPs will have more precise descriptions of services to be solicited with clearer requirements.

<u>Updated Response:</u> Implemented.

7. Improve controls over financial reporting to ensure accurate presentation and disclosure of Illinois Designated Account Purchase Program's (IDAPP) annual financial statements. 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. (Repeated-2008)

<u>Finding:</u> The IDAPP does not have sufficient control over financial reporting. During a review of the draft financial statements of the 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:

- 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,

Accepted or Implemented - continued

- 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.

- 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.

- 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 reclassed from current student loans receivable to noncurrent student loans receivable.

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.

Response: Implemented. IDAPP is reviewing its policies and procedures regarding the preparation of the financial statements. Quality control checks are put in place to ensure the submission of accurate financial statements.

8. Direct IDAPP management to closely monitor each service organization used to manage its student loan portfolio. Include reviews of the service organization's "Reports on controls at a service organization" prepared and issued by independent auditors in accordance with the Statement on Standards for Attestation Engagements No. 16. Investigate and correct any noted variances in application of borrower payments in a timely manner. (Repeated-2010)

Finding: The IDAPP did not properly apply student loan payments to principal and interest. IDAPP utilizes several external service organizations to manage and monitor its student loan portfolio. IDAPP management indicated it was aware of a system problem relating to the processing of payments at one of its service organizations. Subsequent to IDAPP's fiscal year ended June 30, 2011, the service provider performed a retrospective review calculation for propriety. In addition, the Commission hired an independent third party to review the service provider's retrospective calculation. Based on the review, misapplied payments as of June 30, 2011 totaled approximately $638,773, resulting in an overstatement of IDAPP's student loan receivable balance by the same amount. This amount was deemed immaterial and was not recorded at year end.

According to IDAPP management, this is the result of issues with the vendor's loan servicing software package in which certain transactions did not get processed correctly.

Updated Response: Implemented. The borrower account balances have all been reconciled. The agency is in the in the process of transitioning all the loans to a new servicer. Before June 30, 2013 the loans will be serviced by the new vendor. In addition, SAS70/SSAE16 reports are reviewed and followed up on by management to prevent any future issues.

9. Improve controls to ensure that accounting staff complies with current policy and procedures in place regarding the timing of the write-offs of student loan receivables. (Repeated-2010)

Finding: The IDAPP was not in compliance with its non-cash write-off policy regarding the student loan receivable balances.

During an analysis of IDAPP's student loan receivable balance, auditors noted that IDAPP's current write-off policy requires the Loan Accounting department to write-off the loan balance within three business days of receiving the completed and approved write-off form. None of the three selections reviewed were written-off within three business days, as required by the policy. They were written off 23 days from the date of receiving the completed and approved write-off form.

According to IDAPP management, timeliness of the write-offs was the result of reductions in the workforce occurring within IDAPP.

Response: Implemented. IDAPP is reviewing its policies and procedures regarding the write-off of student loans. The policies and procedures will take into account the outsourcing of the loan servicing operations and the current number of employees.

Additionally, the agency's credit agreement with Citi Bank does not allow us to write off loans. IDAPP recognizes an allowance for uncollectible loans in its balance sheet instead of writing off student loans. This should not be a problem going forward.

10. Continue to monitor the loan covenant violations and continue seeking remedies from the lender involved. (Repeated-2009)

Accepted or Implemented - concluded

REVIEW: 4387

Finding: The IDAPP was not in compliance with two of the covenants relating to the agency's revolving line of credit agreement.

During the audit of the agency's June 30, 2009 financial statements, the Illinois Designated Account Purchase Program (IDAPP) management brought to the auditors' attention that they had potentially violated one of the covenants relating to the agency's revolving credit line (loan) agreement with a bank. The noncompliance pertained to the "Coverage condition ratio" covenant. The minimum Coverage condition ratio required by the line of credit agreement is 104% and the current ratio as of June 30, 2011 was 102%.

During the audits of the agency's June 30, 2010 and 2011 financial statements, auditors noted that IDAPP was in violation of the same covenant noted above. In addition, the agency was in violation of the "Default ratio." IDAPP is required to maintain a maximum Default ratio of 6.25%. As of June 30, 2011, IDAPP's Default ratio was 13.39%, resulting in noncompliance with the Default ratio by IDAPP.

According to IDAPP management, the noncompliance with the Coverage condition ratio and the Default ratio is due to the increased level of delinquent accounts in the portfolio. The level has increased due to the poor global economic conditions.

Response: Accepted. IDAPP will continue to monitor these loan covenants. Commission management has been in constant communication with the lender and is working with them to resolve the violations and to refinance the facility.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY11, ISAC filed no affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The Agency indicated as of July 2011 that no employees were assigned to locations other than official headquarters.