

Review: 4385
Statewide Single Audit
Year Ended June 30, 2011
Illinois Student Assistance Commission

FINDINGS/RECOMMENDATIONS – 4

Repeated – 3

Accepted –4

11-60. The auditors recommend ISAC review its process to ensure that loan information is properly verified and reported to the NSLDS. (Repeated-2008)

Findings: ISAC does not have an adequate process to verify unreported loans.

ISAC maintains loan level information in its guaranty loan subsidiary ledger (guaranty system) for all loans guaranteed by ISAC through the Federal Family Education Loans program. This information is reported to the National Student Loan Data System (NSLDS). The information in the guaranty system is updated by lenders primarily through an electronic lender manifest (update file) submitted to ISAC on a monthly basis.

In addition to lender manifests, ISAC has additional processes in place to identify and adjust the guaranty system records for loans with no activity reported from lenders. The first process is the “presumed paid” process.

The second process is called the “unreported loans” process that identifies loans in the guaranty system that have not been updated through the lender manifest reporting process during the previous 180 days. Any loans included on this listing are sent to the lenders with instructions to review the loan information and update as appropriate in the next lender manifest. However, ISAC has limited means to follow-up with the lenders to verify that the lenders have made the appropriate changes.

During testwork over the accuracy of the loan information included in the guaranty system, auditors selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender, noting six confirmations were returned ‘incorrect’. For four loans in the sample, the loans had been paid in full/consolidated, however, they were not updated within the guaranty system. For two loans, the outstanding loan balance in the guaranty system did not agree to the outstanding loan balance reported by the lender. The guaranty system had outstanding loan balances of \$29,350 and \$27,603 as of April 30, 2011, while the lender reported outstanding loan balances of \$27,392 and \$24,704 as of April 30, 2011, respectively.

In discussing these conditions with ISAC officials, they stated that ISAC recognizes the importance of obtaining accurate and timely data from its lenders. As there is not a federal requirement for lenders to respond to the unreported loans report, ISAC relies on

standard business processes with the approval of the U.S. Department of Education (ED) to verify unreported loans.

Response: The following business processes will continue to be in place to accept changes and updates to loan records:

- ISAC will continue to process monthly lender manifest submissions.
- ISAC will continue its “presumed paid” process which is a method to change the loan status to presumed paid for loans that have been in repayment status for twelve years and that have not been updated through any lender reporting in the past four years.
- ISAC will continue to create the semi-annual unreported loans report as the means for lenders to report changes and updates to loan records
- ISAC will continue to initiate an unreported loans follow up process with e-message reminders to lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission. The reminders will be sent at 60 day intervals to remind lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission.
- ISAC will continue to participate in the Common Review Initiative (CRI) to conduct the compliance audits of participating lenders. The CRI review process includes a verification and determination that the lender/servicer is diligently working unreported loan reports to reduce overall unreported loan rates.

11-61. The auditors recommend ISAC review its process to ensure that lender agreements are executed fully and the lender agreements specify the loan programs for which the agreement is being executed. Further, the auditors recommend ISAC should have a process in place to periodically review lender agreements in order to ensure they are complete and enforceable. (Repeated-2009)

Findings: ISAC did not ensure lender agreements were complete and enforceable.

ISAC works directly with eligible lenders to provide individuals subsidized and unsubsidized Federal Stafford loans and Federal PLUS loans. All lenders must execute an ISAC lender agreement prior to participating in the Federal Family Educations Loans (FFEL) program through ISAC. In FY09, an internal review of 20 lender agreements identified three lender agreements with deficiencies. Further, since this internal review was performed, no follow up has been performed to review the remaining population of lender agreements to ensure they were complete and enforceable.

In discussing these conditions with ISAC officials, they stated although no new lender agreements have been executed since July 1, 2010 (date that loan origination activities were terminated in the Federal Family Education Loan Program - FFELP), Holder Agreements continue to be executed, as required, with lenders maintaining an FFELP portfolio. Procedures are in place to ensure that holder agreements are complete and enforceable.

Response: ISAC will continue to follow business processes and procedures to ensure that Holder Agreements are complete and enforceable.

In addition, ISAC will make every attempt to ensure properly executed agreements are in place with the four lenders identified during the 2009 Internal Audit. By June 30, 2012, ISAC will execute Holder Agreements where applicable.

Updated Response: Accepted. ISAC has implemented holder agreements where required.

11-62. The auditors recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in federal regulations or obtain a written waiver which specified the number and criteria for assignment of loans to the USDE. (Repeated-2004)

Findings: ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in federal regulations are assigned to the USDE.

ISAC is required to assign all defaulted loans that meet certain criteria as of April 15th of each year to the USDE. During the audit of the Federal Family Education Loan Program, auditors noted there were approximately 3,646 defaulted loans that meet these criteria as of July 22, 2011 that should have been assigned to the USDE during the fiscal year but were not.

In discussing these conditions with ISAC officials, they stated the Department of Education imposed temporary holds on assigning loans during State FY11 which limited ISAC's ability to assign loans.

Updated Response: Accepted. During most of the audit period mandatory assignment was on hold, however, ISAC has implemented changes to processes and procedures. As of January 2012, labels, folders and promissory notes were readied for quick turn-around so as to be ready when ED resumed the assignment process. The assignment process had been on hold since December 2011 and was reopened in November 2012. We have also made improvements to our automated selection process to include more loans for assignment as of July 2012.

11-63. The auditors recommend ISAC review its process of monitoring the investing activities of funds transferred in the Federal Fund to ensure such funds are invested in approved securities or securities that comply with program regulations.

Findings: ISAC invests funds held in the Federal Fund in an investment pool which contains securities that do not comply with regulations for the Federal Family Education Loans program.

A guaranty agency must establish and maintain a Federal Student Loan Reserve Fund (the Federal Fund) to pay reimbursable claims and process refund payments made by or on behalf of borrowers. The assets of the Federal Fund and the earnings on those assets are the property of the United States federal government. ISAC maintains its cash and investment accounts, including the Federal Fund, with the State Treasurer's Office. Any federal monies received are commingled with the State general funds, deposited into the appropriate accounts, and subsequently invested in securities in accordance with the Illinois State Treasurer's Investment Act through an investment pool.

During testwork, auditors noted the investment policy allows investments in securities that are not guaranteed by the United States, not guaranteed by a State, nor approved by the USDE as required by the federal regulations. Further, ISAC does not monitor the investing activities of the investment pool to ensure funds are invested in approved securities or obtain the appropriate approval for such investments.

For the year ended June 30, 2011, the investment pool's \$5,572,615,000 portfolio of investments contained \$2,275,000,000 of bank repurchase agreements, \$1,575,000,000 of corporate commercial paper, and \$14,175,000 in certificates of deposit investments that did not comply with program regulations.

In discussing these conditions with ISAC officials, they stated that as a state agency, ISAC is required to invest its funds with the State Treasurer's Office.

Updated Response: Accepted. ISAC requested a waiver from the US Department of Education to allow for investment in the State of Illinois pooled investments maintained by the State Treasurer.