

Review: 4356
Statewide Single Audit
Year Ended June 30, 2010
Illinois Student Assistance Commission

FINDINGS/RECOMMENDATIONS – 7
Repeated – 3

Accepted – 1
Implemented – 6

10-61. The auditors recommend ISAC establish procedures to ensure borrower payments from outside collection attorneys are received on a timely basis. (Repeated-2005)

Findings: ISAC does not deposit the federal share of borrower payments into the Federal Fund within the required 48 hours. During testwork over 40 borrower payments, auditors noted three instances where borrower payments were not deposited into the Federal Fund within the required 48 hours. The delays were approximately five to eight days. ISAC is aware of the delay, and, as a result, calculates interest on funds remitted outside of the 48-hour requirement. During the year ended June 30, 2010, ISAC transferred approximately \$2,450 from the operating fund to the Federal Fund as interest payments on untimely remittances.

In discussing these conditions with ISAC officials, they stated that delays in receipt of borrower payments from certain outside legal collection agencies were the reason for non-compliance with the 48-hour rule.

Response: Implemented. Payments received untimely from certain outside collection attorneys are 1% of total borrower payments. Ninety-nine percent of borrower payments are deposited on a timely basis. ISAC has thoroughly evaluated its deposit process and is working with the outside legal collection agencies to reduce processing time for remitting collections into the Federal Fund. In addition, ISAC continues to transfer interest on a monthly basis for those deposits that fall outside the 48-hour deposit period into the Federal Fund.

10-62. 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 quarterly 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. ISAC runs a semi-annual report that identifies loans in the guaranty system that have been in repayment status for twelve years, and that have not been updated through any lender reporting in the past four years. The status of these loans is then changed from repayment to paid in full, and reported as such to the NSLDS.

The second process is called the “unreported loans” process. Through this process, ISAC runs a semi-annual report 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. The primary mechanism available to ISAC is the bi-annual compliance reviews of the lenders performed by ISAC personnel, in which the status of the unreported loans list is noted.

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. For one loan in the sample, the guaranty system had an outstanding loan balance of \$75 as of March 31, 2010, while the lender reported an outstanding loan balance of \$13.50 as of March 31, 2010. For one loan in the sample, the lender was unable to locate the loan in their records. The outstanding loan balance in the guaranty system was \$2,625 as of March 31, 2010. For one loan in the sample, auditors were unable to obtain a response from the lender.

Response: Implemented. 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.

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.

10-63. 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, 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 does not have a process to ensure lender agreements are complete and enforceable.

ISAC works directly with eligible lenders to provide individuals subsidized and unsubsidized Federal Stafford loans and Federal PLUS loans. During an internal review of twenty lender agreements, ISAC identified three lender agreements that did not specify the loan programs ISAC authorized and guaranteed. In addition, ISAC noted one lender agreement wherein the lender's authorization signature was not dated on the lender agreement. However, no follow-up was performed by ISAC to review the remaining population of lender agreements to ensure they were complete and enforceable. In addition, during the review of 25 lender agreements, auditors identified four lender agreements that did not specify the loan programs ISAC authorized and guaranteed.

Response: Implemented. The following business processes are in place with ISAC and the U.S. Department of Education (ED) to ensure that lender agreements are complete, enforceable and reviewed periodically:

- A process has been in place to ensure lender agreements are complete at the time of initial execution since the ISAC Compliance department became responsible for this activity in 2003. An Agreement Check List has been used to ensure that all agreements are properly executed. To our knowledge, this process was not reviewed during field work testing. Although ISAC provided a listing of Lender Agreements executed within the audit period, FY10, the sample of agreements chosen by the auditors did not include any of these agreements in order to test the current process. All Lender Agreements found to be incomplete were executed prior to 2003. (It also is important to clarify that the Lender Agreements found in the auditor's review that do not have check marks next to the loan programs are those identified by ISAC and are not additional.)
- The U.S. Department of Education determines whether a lender is eligible to participate in the FFEL programs, not ISAC. - "In accordance with 34 CFR

Section 682.503(a)(1), to participate in the Federal Guaranteed Student Loan Programs, a lender must have a guarantee agreement with the Secretary.” The Secretary is the U.S. Department of Education (ED) and a lender is determined eligible to participate in the FFEL programs by ED. Before making FFELP loans to borrowers, lenders must enter into agreements with guarantors and receive U.S. Department of Education approval to participate. The lender is not eligible to begin making FFELP loans until a complete Lender Participation Questionnaire is approved by ED.

- ISAC has a supplemental process in place to gather information about loan programs - As part of the lender participation process, ISAC has had a procedure in place since the 1980's that gathered loan program data in order for the guaranty operations to correctly identify and guarantee the loan types in which the lender wanted to participate. The procedure calls for a lender data sheet to supplement the Lender Agreement. The lender data sheet contains specific contact information along with a notation of the programs for which the lender is/was to participate. It was from this form that the loan programs were entered into the guaranty system.
- The U.S. Department of Education already has a process in place that requires lenders to submit a newly signed Organization Participation Agreement (OPA) every two years. This process makes a periodic review of lender agreements by ISAC redundant and unnecessary since lender participation is determined by ED.
- ISAC has a procedure in place that requires lenders to submit new agreements when program changes impact the terms and conditions as stated in the Lender Agreement.

Final note: ISAC will not be executing any new lender participation agreements due to the elimination of the Federal Family Education Loan Program (FFELP) effective July 1, 2010.

Auditors' Comment: *As discussed above, seven out of 45 lender agreements tested did not specify the loan programs ISAC authorized or guaranteed and one out of 45 did not include the date of the lender's signature. After identification of this issue of incomplete lender agreements, ISAC failed to follow up on the remaining population of lender agreements to ensure they were complete and enforceable.*

10-64. 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 specifies the number and criteria for assignment of loans to the USDE.

Findings: ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in federal regulations (34 CFR 682.409) are assigned to the USDE.

In June 2009, USDE lifted a moratorium on the assignment of defaulted loans that was enacted in FY08. As a result, ISAC is required to assign all defaulted loans that meet certain criteria by April 15th of each year to the USDE. Auditors noted 7,021 defaulted loans should have been assigned to the USDE but were not as of August 4, 2010. Management indicated it was their practice to only assign approximately 10,000 loans per year.

Updated Response: Accepted. ISAC will make every attempt to assign all eligible loans in a timely manner. It should be noted that the Department of Education (ED) put a hold on assignment of files beginning April 22, 2011. Another email was received from ED on April 27, 2011 which changed the hold date to May 6, 2011. Per another email from ED, the hold date was changed to August 1, 2011. During these change dates, ISAC did send assignment files, attempting to keep up with the changes. The hold was lifted on October 8, 2011 and we began to assign loans once again. On December 23, 2011, ED again placed a hold on assigning loans and the hold remains in effect as of today (January 11, 2012).

10-65. The auditors recommend ISAC review its current process for performing post claim reviews and consider any changes necessary to ensure reviews are completed within the required timeframes.

Findings: ISAC did not review post claim data within the required timeframes.

On a quarterly basis, ISAC performs a post claim review over a sample of claims of defaulted loans purchased from lenders to verify data provided by lenders on claim filing forms matches the actual collection and repayment history of the loan. If any errors are observed during the post claim review of the claims, ISAC expands the sample of claims from the specific lender whose account contained the error.

Auditors noted the post claim reviews for the quarters ended March 31, 2010 and June 30, 2010 were not performed within the required timeframes. Specifically, the post claim reviews for these quarters were not completed until November 4, 2011.

In discussing these conditions with ISAC officials, they stated that the reviews were late due to a change in staffing.

Response: Implemented. ISAC post claim sampling reviews are currently submitted within the required timeframes.

10-66. The auditors recommend ISAC review its current process for remitting payment receipts on defaulted loans and consider any changes necessary to ensure such payment receipts are remitted in a timely manner.

Findings: ISAC did not ensure payments on defaulted loans were remitted to U.S. Department of Education (USDE) within the required timeframes.

ISAC receives payments on defaulted loans directly from borrowers and indirectly through outside collection agencies. When a borrower makes payments on a loan after the guarantee agency has paid a claim on that loan, the guarantee agency must pay the USDE an equitable share of those payments within 45 days. ISAC remits the USDE share of those payments by netting the payment against future claims and reports the payments on the monthly claiming reports. During testwork over 40 payment receipts (totaling \$49,265) on defaulted loans, auditors noted one payment for \$508 that was not remitted to the USDE within 45 days of the payment because it was improperly excluded from the subsequent month's claiming report. The delay in remitting this payment receipt was five days after the required federal timeframe.

In discussing these conditions with ISAC officials, they stated this was a one time issue due to human error.

Response: Implemented. ISAC has reviewed its current process for remitting payment receipts. Amounts posted are reconciled to amounts deposited daily. Any discrepancies are immediately investigated and resolved.

10-67. The auditors recommend ISAC implement procedures to perform formal reviews of user access rights on a periodic basis to ensure that the access rights granted to each user are appropriate based on their job responsibilities and that the planned level of segregation of duties is achieved on a continuing basis. Additionally, the auditors recommend ISAC review its current process for performing system change validation procedures and consider any changes necessary to ensure such procedures are formally documented. Lastly, the auditors recommend ISAC review the password complexity and account lockout settings for the system network and implement any changes necessary to ensure those setting are properly configured in accordance with the internal password policy.

Findings: ISAC does not have adequate documentation of access and program development controls over the information systems that support the Federal Family Education Loans (FFEL) program.

During testwork over the access, program change and development, and computer operations controls of the two systems, auditors noted the following:

- There are no formal procedures to periodically review user access for each user of the Loan Guarantee System.
- There is no formal documentation maintained to support the periodic review of user access for each user of the Odyssey Accounting System.

- There were two program and application changes in our sample of 5 system changes for which no formal documentation was maintained to support the testing and validation procedures performed before the system changes were implemented and placed into production.
- The password complexity and account lockout settings for the system network are not properly configured in accordance with the internal password policy.

In discussing these conditions with ISAC officials, they stated the reviews of system access for personnel transferring within the Agency were not documented.

Updated Response: Implemented. ISAC acknowledges the benefit of performing formal reviews of user access rights on a periodic basis. IT staff initiated a formal, comprehensive review of all user access privileges in fall 2010, and completed the review prior to June 30, 2011. The process is intended to be performed annually for all staff. The procedure will be formalized in our agency security policy, which was updated by management 7/25/2011, and reviewed and signed by all staff by August 31, 2011.

Regarding system change validation, production migration procedures were enhanced this year to specifically check for evidence of User Acceptance Test signoff. With this enhancement, production migration staff will not promote a change request from the application maintenance and development teams without first seeing evidence of UAT signoff. In conjunction with this procedural enhancement, ISAC implemented a robust project/change request system this year. JIRA is a collaborative, transparent request management software tool employed by both IT and business unit staff. Issues are 'opened' by staff from business units and 'closed' by them as well. The significance of this aspect of JIRA is that not only do we now capture all activities relating to a request in a single, centralized repository, we also including such things as UAT sign-off and final production implementation user-verification (via the 'close' action) by business users as well. In addition, project-related documents are attached to JIRA requests, so that artifacts like requirements and scope documents, project plans, test plans, test results documents are now all a part of the permanent work request record, saved in a centralized, transparent repository.

While we agree that a disparity existed between our published password policy and the actual settings in our network, we do not view this as a substantive risk. In November 2010, ISAC increased the password complexity required for access to both our network and mainframe. Our users were informed of the new password complexity requirements via all-staff email, and all staff are scheduled to review and sign ISAC's updated security policy in August 31, 2011.