

Review: 4406
Statewide Single Audit
Year Ended June 30, 2012
Illinois Student Assistance Commission

FINDINGS/RECOMMENDATIONS -4
Repeated- 3

Accepted - 2
Implemented - 2

12-53. The auditors recommend ISAC review its process to ensure that loan information is properly verified and reported to the National Student Loan Data System. (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.

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 four confirmations were returned "incorrect", three were returned to sender and one was not completed. For three loans of the four "incorrect" confirmations, the loans had been paid in full/consolidated; however, they were not updated within the guaranty system. For one of the loans of the four "incorrect" confirmations, the loan was canceled subsequent to fiscal year end, but before the confirmation request was sent, and the lender was unable to access the loan information.

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 to verify unreported loans.

Response: Accepted. The following business processes will remain 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 regular 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 verification and determination that the lender/servicer is diligently working unreported loan reports to reduce overall unreported loan rates.

12-54. The auditors recommend ISAC assign all defaulted loans to the U.S. Department of Education (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. (Repeated-2010)

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 5,820 defaulted loans that meet these criteria as of July 17, 2012 that should have been assigned to the USDE but were not. Management indicated the Department of Education has put a moratorium on the subrogation of loans starting in December 2011. As such, ISAC has not subrogated any loans since December.

Response: ISAC believes that if the moratorium on assignment of loans to the U.S. Department of Education had not been in place, all eligible loans could have been assigned. During the period of the moratorium, ISAC revised its procedures to help ensure that more loans would pass USDE's assignment edits. Therefore, ISAC should be able to fulfill the number of loans due to be assigned to USDE for the coming fiscal year, assuming the U.S. Department of Education does not put a new moratorium in place.

It should be noted that the number of loans that are eligible to be assigned to USDE changes daily as loans reach the criteria for assignment eligibility. Therefore, there will always be loans that are waiting to be assigned.

Updated Response: Implemented.

12-55. 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. (Repeated-2011)

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.

During testwork, auditors noted that funds are invested 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, 2012, the investment pool's \$5,822,884,000 portfolio of investments contained \$3,150,026,000 of bank repurchase agreements, and \$1,759,786,000 of corporate commercial paper 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 and therefore, does not have an ability to select or monitor the investments in the pool.

Response: Accepted. ISAC requested a waiver from the U.S. Department of Education on June 28, 2012, to allow for investment in the State of Illinois pooled investments maintained by the Illinois State Treasurer. We followed up with them on April 23, 2013 and are waiting for their response.

12-56. The auditors recommend ISAC review its procedures and implement any necessary changes to ensure loan records are accurately updated in accordance with program requirements.

Findings: ISAC did not accurately update borrower records within required timeframes which is within ten business days of receipt.

During testwork over a sample of 40 payments applied to borrower accounts, the auditors noted one payment sampled was posted to the wrong borrower's account. In addition, during testwork over 40 borrower repayment status changes, loan records for one borrower were not updated within 10 days of receipt. Specifically, the borrower's records were updated 28 days after ISAC was notified of the change.

In discussing these conditions with ISAC officials, they stated that these issues on these two accounts were due to human error.

Response: ISAC follows regulations to ensure that bankruptcy proof of claim information is entered timely upon receipt of documentation. Staff has been thoroughly trained and the process is closely monitored by management.

Regarding the item manually posted to the wrong account, processes have been put in place to ensure all manual postings are reviewed the day after posting, and if any errors are detected they are corrected immediately. It should be noted that the vast majority (over 96%) of payment postings are automated and are not subject to a manual process.

Updated Response: Implemented.