New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Higher Education Student Assistance Authority
Administrative Expenditures

July 1, 2002 to September 30, 2004

Richard L. Fair
State Auditor
The Honorable Richard J. Codey
Acting Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Albio Sires
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Higher Education Student Assistance Authority Administrative Expenditures for the period July 1, 2002 to September 30, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
February 24, 2005
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Higher Education Student Assistance Authority
Administrative Expenditures

Scope

We have completed an audit of the Higher Education Student Assistance Authority Administrative Expenditures for the period July 1, 2002 to September 30, 2004. Our audit included financial activities accounted for in the state’s General Fund and the authority’s off system account.

The prime responsibility of the authority is the administration of various state and federal student assistance grant, loan, savings, and scholarship programs. The authority is in but not of the Department of State and functions independently of any supervision and control by the department, which makes the authority an independent entity. Total administrative expenditures of the authority during the audit period were $46.0 million.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the authority’s programs, were reasonable, and were recorded properly in the state’s accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the authority. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation, and through our samples of financial transactions. We also read the budget message, reviewed financial
trends, and interviewed authority personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were sorted and transactions were judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing were related to the authority’s programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.
Travel and Official Reception Expenditures

Adequate internal control procedures are essential to ensure that costs are reasonable and proper, and processed in compliance with established rules and regulations. Without these controls there is an increased risk for misuse of state funds.

During the audit period, the authority expended over $440,000 for travel and official receptions. Our test of 237 travel and official reception transactions totaling $153,500 disclosed that these transactions were not always supported by sufficient detail documentation nor always in compliance with established policies and procedures. We noted exceptions in 31 percent of the transactions tested. Generally, employees who were issued a travel charge card were not required to submit itemized receipts to support their charges. In most instances, the only documentation was a signed slip showing the total amount charged. Details of our review are as follows:

- Itemized receipts were not submitted to support 129 business meals totaling $16,300. In most cases, names, titles and/or the purpose of the meeting were not provided. It appears that these business meals often included college financial aid officers with whom the authority had or sought to have a business relationship. Other insufficiently supported transactions in our sample included: train tickets ($1,400), a personal cell phone bill ($400), airfare ($400), and airport parking ($200).

- The authority reimburses employees for meals based on established federal per diem rates. In seven instances, employees claimed meal reimbursements of $650 in excess of the federal per diem rates without sufficient justification.
Other expenses which we considered to be unnecessary or unreasonable included limousine service ($1,400), personal phone calls ($200), and rental car insurance ($90).

We recommend that the authority require employees to submit adequate detail documentation to support expenses claimed. Additionally, travel expense reimbursements should be properly reviewed to ensure that only reasonable and necessary business expenses are paid.

The authority should rethink the need for an off system bank account.

In December 2001, the authority opened up a separate bank account. Revenues derived from services provided by the authority to its lending partners and institutions are cleared through this account prior to transfer to the state’s Cash Management Fund. Over $4.8 million has been deposited in this account since the account was opened. Previously, funds were deposited into an established state bank account.

In addition, a balance of approximately $30,000 is maintained to serve as an alternate means of payment for expenses incurred for general purposes. Between December 20, 2001 and July 30, 2004, the authority expended over $199,000. The authority uses the state accounting system to process their expenditures. We found no compelling reason to have these expenditures paid out of this bank account because they could have been processed through the state accounting system. However, we did note purchases for a vehicular computerized navigation system ($1,800), a staff Christmas party ($1,700), business meals ($1,300), and a PDA device ($600) which we considered to be unnecessary, unreasonable, or insufficiently supported. None of the expenditures paid through this account were reflected on the state accounting system.
We recommend the authority reconsider the need for this bank account.

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**Employee vs. Independent Contractor**

Circular Letter 97-18-OMB states that the primary criteria to be used in determining whether an individual is to be considered an employee or an independent contractor is whether the party for whom work is performed has the right to direct and control the way in which that person works, both as to final results and as to the detail of when, where, and how the work is to be done. Five individuals were hired by the authority as consultants prior to being placed on the payroll as permanent employees. Additionally, 11 summer interns were also paid as consultants. Amounts paid as consultants totaled $56,000. These employees were under the control of the authority and thus subject to federal and state withholding taxes. Failure to comply with federal and state laws could result in the authority being subject to unnecessary penalties and interest.

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We recommend the authority comply with applicable federal and state laws regarding employees and consultants.

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**Payroll**

The authority records employees’ leave time on an exception basis. Leave time taken is recorded on bi-weekly time records for each organizational unit. These records are reviewed and signed by the unit supervisor and subsequently inputted into the Time and Leave Reporting System by eight different timekeepers. The timekeepers are also responsible for recording and entering their own time, and as a
result, there is an increased risk that errors or irregularities may go undetected. However, no errors were noted.

**Recommendation**

We recommend the authority develop and implement policies and procedures that provide for an adequate segregation of duties, thus providing reasonable assurance that errors and irregularities will be detected in a timely manner.
Mr. Richard Fair  
State Auditor  
Office of the State Auditor  
125 So. Warren St.  
PO Box 067  
Trenton, NJ 08625  

Dear Mr. Fair:

The Higher Education Student Assistance Authority ("Authority") has conducted a thorough review of the draft audit report of Authority administrative expenditures for the period July 1, 2002 through September 30, 2004.

We appreciate your conclusion that "financial transactions included in your testing were related to the Authority's programs, were reasonable, and were recorded properly in accounting systems." We further appreciate your bringing certain matters to our attention, which you believe warrant strengthening. We address those matters further herein.

As was explained to the auditors, it is important to recognize that the Authority participates in the Federal Family Education Loan (FFEL) program as a guaranty agency under agreements with the United States Department of Education. The Authority must compete with other guaranty agencies for its business through public awareness efforts and by marketing the quality of its services to the higher education institutions and residents of New Jersey. Furthermore, the Authority has no mandate from the federal or state government requiring schools in New Jersey or elsewhere to utilize its services. Therefore, the Authority's public awareness campaigns and marketing efforts are critical to its financial viability. In addition, the revenues generated from the FFEL program help sustain the infrastructure of New Jersey's grant and scholarship programs. Authority staff is also actively involved at the national level with the development of best practices in student lending and the software platforms that make the delivery of the program services efficient and effective to both institutions and to the residents of the State. The Authority maintains membership in trade organizations and Authority staff actively participates in workshops and meetings to stay current with industry trends and promote competitiveness. This necessary activity is reflected in the Authority's travel expenditures.
As an independent Authority of the State, we strive for the highest level of integrity and accountability. We appreciate the recommendations contained in the Audit and have implemented necessary steps to incorporate the same, where applicable. Outlined below, please find our specific responses to the respective Audit findings.

Finding: Controls over travel and official reception expenditures should be strengthened.

Response: The Authority’s travel and official reception policies have been revised to incorporate guidelines published by the State Office of Management and Budget. Staff is required to submit original receipts and itineraries for all travel and official reception related expenditures in addition to the facsimile receipts provided by American Express as part of the State’s travel card program. Further, the Authority has established a zero tolerance policy towards knowingly inappropriate travel or official reception expenditures.

Finding: The authority should rethink the need for an off system bank account.

Response: As part of the ongoing, comprehensive enhancement of its operations, the Authority will examine the need for this off-system account. Notably, the State Auditor does not consider the Authority’s use of the off-system account a prohibited or improper practice. Numerous other independent authorities maintain off-system accounts. To ensure integrity, the off-system account undergoes an external audit, the result of which is made part of the Authority financial statements reported annually to OMB for inclusion into the State’s Comprehensive Annual Financial Report. Additionally, appropriate supervision and safeguards are in place through internal Authority control structures, as well as through the independent audit process called for in Executive Order 122, and corresponding Board audit committee oversight.

Finding: The Authority should properly classify their employees.

Response: The Authority has modified its personnel policies to resolve concerns over employee classification. Notably, all consultants were provided with IRS Form 1099 and corresponding wages were properly reported.

Finding: The Authority needs to strengthen its timekeeping functions.

Response: The Authority has a detailed set of policies and procedures in place with regard to time and leave reporting and uses the statewide Time And Leave Reporting System (TALRS) to record all leave time by employees. Although the audit noted no errors in the Authority’s timekeeping, the Authority will shift the responsibility for timekeepers’ time and leave reporting to the next approval level as is currently done with the supervisors signing the time and leave reports. This should address the concern raised in the Audit report and strengthen the Authority’s current internal controls and procedures.
Mr. Richard Fair  
February 7, 2005  
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Thank you for the opportunity to respond to your report. Should you require any further information or clarification please do not hesitate to contact me at (609)588-7113.

Sincerely,

E. Michael Angulo, Esq.  
Executive Director

cc: Thomas R. Meseroll  
Assistant State Auditor