Office of the State Auditor

Audit Report

Office of Student Assistance

July 1, 1993 to February 28, 1995
Office of Student Assistance

Audit Report

Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Scope</td>
<td>3</td>
</tr>
<tr>
<td>Objectives</td>
<td>3</td>
</tr>
<tr>
<td>Methodology</td>
<td>3</td>
</tr>
<tr>
<td>Conclusions</td>
<td>4</td>
</tr>
<tr>
<td>Finding and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Distinguished Urban Scholars</td>
<td>5</td>
</tr>
<tr>
<td>Minority Academic Career Program</td>
<td>6</td>
</tr>
<tr>
<td>Cash Receipt Internal Controls</td>
<td>8</td>
</tr>
<tr>
<td>Veterinary School Contracts</td>
<td>9</td>
</tr>
<tr>
<td>Departmental Response</td>
<td>10</td>
</tr>
</tbody>
</table>
We have completed an audit of the **Office of Student Assistance** for the period July 1, 1993 to February 28, 1995.

We found that the financial transactions included in our testing were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems. However, we did note the need to re-evaluate certain student aid programs, opportunities for potential cost savings and the need to improve controls over cash receipts. Details of these and other findings and recommendations are included in our report.
This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor
Office of Student Assistance

Scope

We have completed an audit of the Office of Student Assistance (OSA) for the period July 1, 1993 to February 28, 1995. Our audit included financial activities accounted for in the state’s General Fund. The OSA is responsible for administering the federal Student Loan Program which was not part of this audit.

Total expenditures during the twenty month audit period were $263 million. The responsibilities of the Office of Student Assistance include the administration of student grant and award programs to New Jersey higher education students. Revenues of the agency totaled $5 million during our audit period. The major component of revenue was receipts for the federal State Student Incentive Grant.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the office’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of a significant condition noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1.6 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 agency. 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 agency personnel to obtain an understanding of the programs and the internal control structure.

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. Transactions in certain accounts were judgmentally selected for testing. Other sample transactions were randomly selected.

To ascertain the status of the finding applicable to the Office of Student Assistance included in our prior Department of Higher Education report, we identified corrective action taken by the agency and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the objectives of the agency, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain significant internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the agency has resolved the significant issue noted in our prior report.

Details of our findings and recommendations follow.
Distinguished Urban Scholars

Finding

The Distinguished Urban Scholars program offers awards of $1,000 for each year that an eligible student attends a New Jersey institution of higher education. To be eligible for the scholarship the New Jersey Administrative Code 9:7-4.2(d) requires that a student must have attended a secondary school within a Department of Education District Factor Group (DFG) classification of A or B. The Code also establishes specific academic eligibility criteria which is applied at the end of the junior year to determine which students are eligible.

During our review we noted that OSA was not aware that the Department of Education had issued new DFG classifications in July 1993. This revised list designated 16 additional secondary schools as Group A or B and eliminated 12 other secondary schools which previously had an A or B designation. The changes would take effect for scholarships starting with the academic year 1995-1996. When we notified OSA management of the change, 200 offers of scholarships had already been made to students who were attending the 12 schools which were no longer eligible. Award offers had not been made to the 280 eligible students attending the 16 newly designated schools.

The OSA initiated the following corrective action. The incorrect scholarship offers will be honored and immediate notification and scholarship offers were made to the 280 eligible students left off the original offering.

The OSA estimates that the additional cost to the program to fund the ineligible urban scholars will approximate $315,000 over the students' entire four year period of renewal eligibility, based on historic enrollment and persistence data. This amount takes into account the Office of Student Assistance's projected acceptance rate of the offers and those ineligibles who would have then accepted a Garden State Scholarship (GSS), a $500 per year award program with different eligibility criteria.

Recommendation

We recommend that the Office of Student Assistance create a mechanism such as annually verifying the DFG districts with the Department of Education to assure that future changes in school district designations are not unnoticed.
Minority Academic Career Program

Finding

In 1984, the New Jersey Legislature found that there existed an under representation of minority faculty members with doctoral degrees in New Jersey colleges. Within the Department of Higher Education the Minority Academic Career (MAC) program was established to provide loans of up to $10,000 per year, for up to 4 years, to eligible individuals to assist them in pursuing a doctorate degree. As part of the enabling legislation, those participants who complete the doctorate program may reduce their loan by one-quarter for each full academic year of service as a faculty member at a New Jersey college. During our audit period, the program received appropriations of $966,000 to fund approximately 55 MAC participants currently pursuing their doctorates. Our review of the MAC program found that:

C Neither the enabling legislation nor the Department of Higher Education established identifiable goals to measure its efficiency and effectiveness. By not establishing goals and measuring effectiveness and efficiency against those goals the success or failure of the program can not be determined. The fact that only 12 of the 39 participants that have completed the program have become faculty members at a New Jersey college does not speak well for the program. However this may be attributable, in part, to a lack of positions in the participant’s discipline upon completion of the doctorate or there being more lucrative opportunities at out-of-state institutions.

C MAC program participants were required to apply for federal guarantee of their loans through fiscal year 1994. If eligible, the federal government would guarantee up to $8,500 of each loan per year. With the initiation of the Direct Lending Program at several New Jersey colleges in 1994, the MAC loans to students at these colleges are no longer federally guaranteed. Thus any defaults subsequent to fiscal year 1994 will be absorbed entirely by the state. For school year 95-96, 19 of the 24 students who borrowed through the MAC program were attending direct lending colleges. For these students the state's potential risk could be as much as $40,000 per student. This is significant since our review noted that 7 of the 27 participants who have completed the program and not become faculty members, have defaulted on their loans.

C The Department of Higher Education revised a contract with Seton Hall University's New Jersey Institute for Collegiate Teaching and Learning (NJICTL) to include support services to the MAC program. The department committed a total of $268,000 of MAC appropriations during fiscal years
1993 and 1994 for the MAC doctorate portion of the contract and extended the contract period to June 30, 1995. OSA personnel stated that the contract was necessary due to the loss of department program personnel to budget cuts. The contract provides for NJICTL to advise, mentor, and place MAC doctoral students. These costs averaged 28 percent of program appropriations during the two year period and were in addition to the 5 percent allowable for administrative costs per the appropriation acts of 1993 and 1994. Expenditures at this level represent an administrative cost of approximately $2,900 per student per year.

**Recommendation**

We recommend that the program be evaluated by the Office of Student Assistance to determine if the current low success rate warrants the continuation of the program. The results of this evaluation should be sent to the Legislature and Governor's Office of Policy and Planning. If the program is continued the OSA should establish identifiable goals for the program and periodically determine the success in attaining those goals. Not meeting established goals could then serve as an impetus to change.

We also recommend that the Office of Student Assistance comply with any future administrative cost caps established in the appropriation acts.
Cash Receipt Internal Controls

Finding

It is management’s responsibility to establish an adequate internal control structure. Such a structure for receipts would include reconciliations, segregation of duties and restrictively endorsing checks at the point of receipt. Our review disclosed these control attributes were not in place in the processing of over $6.5 million in receipts (refunds) by the Office of Student Assistance (OSA) during our audit period. Specifically we noted:

C No reconciliations or comparisons are performed between the mail log and the cash receipt ledger. Furthermore, neither the mail log nor the cash receipt ledger are reconciled to the New Jersey Comprehensive Financial System (NJCFS). Reconciliations provide a mechanism to disclose errors or irregularities timely. Our independent comparison of the three records disclosed differences for fiscal year 1994.

C The mail room forwarded 60 checks totaling $723,000 to an employee who has the ability to post the receivable records as paid on the OSA’s grant system. A process which includes the handling of checks with the ability to cancel debt, combined with no reconciliation process, creates a high risk of misappropriation. Subsequent substantive testing by the audit staff disclosed no improprieties. However, if improprieties did exist these control weaknesses would preclude timely detection by management.

C Checks are not restrictively endorsed until the end of the process when they are prepared for deposit. Restrictively endorsing the checks at the point of receipt would reduce the risk of misappropriation.

Recommendation

We recommend that all checks received from the mail room be posted to the mail log and be restrictively endorsed. They should then be recorded in the cash receipt ledger by a person independent of the accounts receivable posting process. An independent person should then periodically reconcile the cash ledger to NJCFS and the mail log.
Veterinary School Contracts

Finding

Since there are no educational programs in New Jersey for the professional training of students in the field of veterinary medicine, New Jersey statutes allow the Office of Student Assistance to contract with out-of-state schools of veterinary medicine to reserve seats in their programs for New Jersey students. The state has historically contracted with the same four veterinary schools. The average cost to hold a seat at these schools was $17,000 for the freshman class who entered school in the fall of 1994. Fiscal year 1995 costs to fund the ninety students in the program totaled $1.4 million. These payments reserve the seats and, in most cases, allow the student to pay tuition at the in-state rate. The contracts with the veterinary schools are entered into upon the advice and consent of the statutorily mandated Veterinary Medicine Education Advisory Committee.

Our review disclosed that while the same four schools are contracted each year, there are 26 states which have veterinary schools. In 1992, one of the schools under contract offered to reserve four additional seats at a rate $5,500 less than the current contract rate at that time. The advisory board did not accept the offer. While it is understood that cost should not be the only factor in deciding schools to contract with, it is possible that significant cost savings or the reservation of more seats could be attained through the competitive solicitation of offers from all interested schools of veterinary medicine.

Recommendation

We recommend that the Office of Student Assistance competitively solicit the reservation of seat at schools of veterinary medicine.