

**STUDENT LOAN ASSISTANCE PROGRAM  
ADMINISTERED BY THE  
UNIVERSITY OF HAWAII**

**EXAMINATION OF  
INTERNAL CONTROL SYSTEM**

Conducted by

**Ishimoto, Imamoto & Co.  
Certified Public Accountants**

**A Report to the Governor and the Legislature of the State of Hawaii**

**Submitted by the  
Legislative Auditor of the State of Hawaii**

**Report No. 80-3  
February 1980**

## **Introduction**

This is a report on the examination of the financial and internal control system of the student loan assistance program administered by the University of Hawaii. The examination was conducted by Ishimoto, Imamoto & Co., an independent certified public accounting (CPA) firm.

While the CPA firm did not examine the accuracy of the financial statements of the student loan program, and thus does not express its opinion on the statements, the financial statements (unaudited) are included in this report to provide some financial information on the program.

The student loan assistance program was established by Act 230, SLH 1969 (section 304-91, HRS). The act also created a special fund known as the state higher education loan fund to be administered by the Board of Regents of the University of Hawaii. The fund accounts for all payments of interest and principal received on loans disbursed to needy students in accordance with rules and regulations of the Board of Regents.

## **System of Internal Control**

The financial and internal control system was reviewed in accordance with generally accepted auditing procedures. As part of the procedures, an examination was made of selected transactions. The system as a whole was found to be adequate in all material respects, except for the deficiencies noted below.

**Distribution of loan checks.** The distribution of the loan checks to student applicants is performed by the financial aids office, which is also charged with the responsibility of approving applications for financial aid. This dual assignment violates a basic internal control principle—segregation of duties—by permitting one person to handle both functions.

We recommend that the financial aids office cease the practice of distributing loan checks and that such duties be performed by the treasury or business office.

**Loan collections not recorded promptly.** Students are requested to mail all installment loan payments to a post office box, which is a removable type of box that is picked up daily by the armored car service and delivered to the depository, Bank of Hawaii, where such funds are deposited to the credit of University of Hawaii loan collection account. Once a month, a transfer is made from the account to the University of Hawaii general account (UHGA). When the transfer is made, the bank forwards copies of the transfer slip to the business office, where the university treasury deposit slip is prepared in three copies. One copy is attached to the transfer slip and kept at the business office, and the remaining copies are taken to the university treasury to be validated, at which time one copy is retained at treasury to record the transaction and the order is returned to the business office. However, we noted that because the general ledger does not provide for a loan collection account, the collection of loan payments are not recorded into the university's books until the treasury deposit slips are validated. Consequently, the cash receipts are not recorded on a timely basis on the university's books.

We recommend that an account, "Cash in bank – loan collection," be opened in the University's general ledger to account for cash receipts as they are deposited into the bank. When the validated deposit slip is received, an entry can be made to record the transfer from the collection account to the UHGA.

#### **Response by University of Hawaii**

A preliminary draft of this report was transmitted to the president of the University of Hawaii for his comments regarding the recommendations. The president has reported that procedures were changed to require distribution of loan checks by the business offices of the various campuses. With regard to the establishment of a general ledger account, "Cash in bank – loan collection," the president states that such an account will be established.

#### **Financial Statements**

This section contains the financial statements on the student loan assistance program, including the Balance Sheet, and the Statement of Changes in Fund Balances.

The Balance Sheet presents the assets, liabilities and fund balance of the student loan assistance program, and the Statement of Changes in Fund Balances summarizes the results of the financial transactions of the program during the fiscal year.

**University of Hawaii  
Student Loan Program**

**Balance Sheet  
(unaudited)  
June 30, 1978**

*Assets*

Cash on hand and in depository .....		\$ 1,104,262
Student loans receivable .....	\$9,896,591	
Less allowance for doubtful receivables (Note B) .....	<u>689,527</u>	9,207,064
Due from other funds .....		<u>429</u>
		<u>\$10,311,755</u>

*Liability and Fund Balances*

Liability		
Due to other funds .....		\$ 51,232
Fund balances		
U.S. government grants refundable .....	\$7,581,532	
University funds — restricted .....	<u>2,678,991</u>	<u>10,260,523</u>
		<u>\$10,311,755</u>

The accompanying notes are an integral part of this statement.

**University of Hawaii**  
**Student Loan Program**  
**Statement of Changes in Fund Balances**  
**(unaudited)**  
**Year Ended June 30, 1978**

Changes in fund balances during the year		
Revenues and other additions:		
Federal grants and contracts .....	\$1,038,255	
State appropriations .....	370,201	
Investment income .....	113,381	
Unclassified .....	3,388	\$ 1,525,225
Expenditures and other deductions:		
Administrative and collection costs .....	32,040	
Loan cancellations and write-offs .....	62,055	
Increase in allowance for uncollectible accounts .....	195,711	
	289,806	
Transfers		
Administrative overhead charges .....	59,961	349,767
Net increase in fund balances .....		1,175,458
Fund balances — July 1, 1977 .....		9,085,065
Fund balances — June 30, 1978 .....		<u>\$10,260,523</u>

The accompanying notes are an integral part of this statement.

**Student Loan Program, University of Hawaii**  
**Notes to Financial Statements**

**Note A – Background Information**

The University of Hawaii administers several programs that provide financial assistance for students. The loan programs reported on in this section include the National Direct Student Loan Program, State Higher Education Student Loan Program, Nursing Professions Student Loan Program, and Health Professions Student Loan Program. The legislative authority for the establishment of such programs are as follows:

1. National Direct Student Loan Program – Originally established under Title II, National Defense Education Act of 1958 (Public Law 85–864 as amended) and amended under Education Amendments of 1972 (Public Law 92–318).
2. State Higher Education Student Loan Program – Established under Act 230, Session Laws of Hawaii 1969 (Hawaii Revised Statutes, Chapter 304–91 through 304–95).
3. Nursing Professions Student Loan Program – Established under Title VIII, Part B, Public Health Service Act of 1964, and amended by Nurse Training Act of 1965.
4. Health Professions Student Loan Program – Established under Title VII, Part C, Public Health Service Act of 1964 and amended by Health Professions Educational Assistance Act of 1976.

Students must meet the following requirements to be eligible for the loan programs:

1. Be a U.S. citizen, a U.S. national, a permanent resident of the U.S. or Trust Territories or have formal refugee status in the federally funded programs. In addition to the foregoing, a one-year residency requirement is necessary when loans are authorized by the State of Hawaii.
2. Be accepted for admission and is expected to make normal academic progress towards attainment of a degree.
3. Apply each year for financial aid and demonstrate a financial need.

4. Be enrolled at least halftime for National Direct Student Loan and Nursing Professions Student Loan and fulltime for State Higher Education Loan and Health Professions Student Loan.

The amount of the loan and related terms are as follows:

1. National Direct Student Loan

- a. \$2,500 for first two years and \$5,000 aggregate undergraduate and \$10,000 aggregate graduate.
- b. Minimum repayment of \$90 per quarter, including interest charged at 3% per annum, begins nine (9) months after graduation or withdrawal from the institution for a maximum of ten years.
- c. The loan may be totally cancelled by reason of death, permanent and total disability or full-time teaching in a depressed area, special education or Headstart preschool program or a 50% cancellation while in military service in a hostile area.

2. State Higher Education Loan

- a. Tuition, student and laboratory fees and \$200 per month without any aggregate limit.
- b. Minimum repayment of \$45 per quarter, including interest charged at 3% per annum, that begins nine (9) months after graduation or withdrawal from the institution for a maximum of ten years.
- c. The loan may be totally cancelled by reason of death, permanent and total disability.

3. Health Professions Student Loan

- a. The lesser of \$2,500 plus tuition in one academic year or financial need, without any aggregate limit.
- b. Minimum repayment of \$45 per quarter, including interest charged at 7% per annum, that begins twelve (12) months after graduation or withdrawal from the institution for a maximum of ten years.

- c. The loan may be totally cancelled by reason of death, permanent and total disability or an 85% cancellation provision for medical practice in a shortage area.
4. Nursing Professions Student Loan
    - a. The lesser of \$2,500 or amount of financial need for one academic year and an aggregate limit of \$10,000.
    - b. Minimum repayment of \$45 per quarter, including interest charged at 3% per annum, that begins nine (9) months after graduation or withdrawal from the institution for a maximum of ten years.
    - c. The loan may be totally cancelled by reason of death, permanent and total disability or an 85% cancellation for a registered nurse in a public non-profit agency.

**Note B – Significant Accounting Policies**

The accounts of the Student Loan Program, University of Hawaii, are kept in accordance with generally accepted accounting principles for colleges and universities. The financial statements do not include the assets, liabilities, fund balance and revenue and expenditures of the University Foundation Loan Program. Certain of these accounting policies are as follows:

1. The allowance for doubtful receivables represents the unpaid balances of all accounts that are outstanding for over six months. However, federal and Hawaii statutes prohibit the write-off of accounts deemed uncollectible, except under certain circumstances (death, bankruptcy, disability or the performance of specific teaching or nursing service). Consequently, delinquent accounts have remained on the books since the inception of the National Direct Student Loan Program on July 1, 1972. Subsequent collection of such delinquent loans reduces the allowance by the amount collected. A summary of the allowance for doubtful receivable is presented below:

National Defense/Direct Student Loans	\$535,669
Nursing Loans	26,785
State Higher Education Loans	<u>127,073</u>
	<u>\$689,527</u>

2. Interest on loans outstanding is not recorded until collected.