

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**FINANCIAL AUDIT REPORT
STUDENT AID COMMISSION
GUARANTEED STUDENT LOAN PROGRAM
YEAR ENDED JUNE 30, 1980**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

067

FINANCIAL AUDIT REPORT
STUDENT AID COMMISSION
GUARANTEED STUDENT LOAN PROGRAM
YEAR ENDED JUNE 30, 1980

MAY 1981



California Legislature

Joint Legislative Audit Committee

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May 11, 1981

067

The Honorable Speaker of the Assembly
 The Honorable President pro Tempore of the Senate
 The Honorable Members of the Senate and the
 Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Student Aid Commission's Guaranteed Student Loan Program, year ended June 30, 1980.

Respectfully submitted,

WALTER M. INGALLS
 Chairman, Joint Legislative
 Audit Committee

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a financial audit of the Student Aid Commission's Guaranteed Student Loan Program. This audit was requested by the Student Aid Commission to meet its obligation to provide audited financial statements to lenders participating in the loan program. The Office of the Auditor General is also conducting a performance audit of the Guaranteed Student Loan Program as well as other programs of the commission. The results of the performance audit will be issued in a separate report.

The Guaranteed Student Loan Program was created by Chapter 1201, Statutes of 1977, which authorized the Student Aid Commission to serve as a guarantee agency for student loans. This program carries out the provisions of the Federal Guaranteed Student Loan Program instituted within the federal education amendments of 1976. The commission is responsible for guaranteeing reinsured loans to eligible students.

The commission has contracted with United Student Aid Funds, Incorporated, a nonprofit corporation, for administrative support services. The corporation's services include processing and approving all student loan applications, servicing loans guaranteed, processing claims from lenders, and preparing reports required by the United States Office of Education.

The Guaranteed Student Loan Program is supported primarily by insurance premiums paid by students and from federal funds.


AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the balance sheet of the Student Aid Commission's Guaranteed Student Loan Program as of June 30, 1980 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Except as disclosed in the following paragraph, our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

A substantial portion of the revenues of the Guaranteed Student Loan Program consists of insurance premiums collected on behalf of the commission by United Student Aid Funds, Incorporated, a nonprofit corporation. Also, this corporation deducts the contract fees due from the commission before remitting the commission's net proceeds. It was not practical to satisfy ourselves with respect to such revenues and expenditures beyond amounts reported by and received from United Student Aid Funds, Incorporated.

In our opinion, except for the effects, if any, of the matter discussed in the preceding paragraph, the financial statements present fairly the financial position of the Student Aid Commission's Guaranteed Student Loan Program at June 30, 1980 and the results of operations and changes in fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



WESLEY E. VOSS
Assistant Auditor General

Date: January 5, 1981

Staff: Richard I. LaRock, CPA
Jeffrey A. Winston, CPA
Patricia Duncan

STUDENT AID COMMISSION
GUARANTEED STUDENT LOAN PROGRAM

BALANCE SHEET

JUNE 30, 1980

ASSETS

Cash	\$ 10,113
Deposits in Surplus Money	
Investment Fund (Note 2)	5,195,000
Accounts receivable (Note 3)	700,628
Due from Surplus Money	
Investment Fund (Note 2)	220,936
Due from other funds	294,790
Equipment	<u>39,658</u>
Total Assets	<u>\$6,461,125</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Due to the General Fund (Note 4)	<u>\$1,763,447</u>
Total Liabilities	<u>1,763,447</u>
Fund Equity:	
Investment in general fixed assets	<u>39,658</u>
Fund Balance:	
Reserved for federal advance (Note 5)	1,079,211
Undesignated	<u>3,578,809</u>
Total Fund Balance	<u>4,658,020</u>
Total Fund Equity	<u>4,697,678</u>
Total Liabilities and Fund Equity	<u>\$6,461,125</u>

The notes to the financial statements are an integral part of this statement.

STUDENT AID COMMISSION
GUARANTEED STUDENT LOAN PROGRAM

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 1980

Revenues:	
Insurance premiums (Note 6)	\$3,784,849
Intergovernmental revenues (Note 7)	779,878
Interest from Surplus Money	
Investment Fund (Note 2)	<u>280,012</u>
Total Revenues	<u>4,844,739</u>
Other Sources:	
Federal advance (Note 5)	<u>1,079,211</u>
Total Revenues and Other Sources	<u>5,923,950</u>
Expenditures:	
Personal services	237,242
Operating expenses and equipment	170,256
Contract fees (Note 8)	490,131
Interest	178,194
Miscellaneous (Note 9)	<u>(181,865)</u>
Total Expenditures	<u>893,958</u>
Excess of Revenues and Other Sources over Expenditures	5,029,992
Fund Balance - July 1, 1979	<u>(371,972)</u>
Fund Balance - June 30, 1980	<u>\$4,658,020</u>

The notes to the financial statements are an integral part of this statement.

STUDENT AID COMMISSION
GUARANTEED STUDENT LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1980

(1) Summary of Significant Accounting Policies

The accompanying financial statements reflect the financial position and results of operations of the Student Aid Commission's Guaranteed Student Loan Program. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting. Below is a summary of the more significant policies:

A. Fund Accounting

The Guaranteed Student Loan Program is accounted for separately as a part of the State Guaranteed Loan Reserve Fund. The State Guaranteed Loan Reserve Fund was created to account for all monies received for guaranteeing loans to college students and reimbursements to lending institutions for defaulted student loans.

This fund is accounted for as an Expendable Trust Fund. Expendable Trust Funds are used to account for assets held by the governmental unit as a trustee or as an agent for individuals, private organizations, other governmental units, and other funds.

B. Basis of Accounting

Expendable Trust Funds are accounted for on a modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized, if measurable, in the accounting period in which the liability is incurred.

C. Vacation and Sick Leave

Costs of vacation and sick leave are charged at the time these benefits are used rather than when they are earned.

(2) Deposits in Surplus Money Investment Fund

This account includes temporary cash reserves of program funds transferred to the Surplus Money Investment Fund for cash flow and pooled investment purposes. Earnings derived from investments of the Surplus Money Investment Fund are apportioned to the contributing funds in proportion to the cash resources each fund provided during the period. Interest due from the Surplus Money Investment Fund is accrued at June 30, 1980.

(3) Accounts Receivable

This account represents insurance premiums collected by United Student Aid Funds, Incorporated in June 1980. The commission received the premium payments from this corporation in July 1980.

(4) Due to the General Fund

Chapter 1201, Statutes of 1977, authorized a \$2 million loan from the General Fund for expenditures of the program in fiscal years 1977-78, 1978-79, and 1979-80. The balance in this account includes a principal amount of \$1,413,260 transferred from the General Fund, accrued interest of \$220,435, and costs of \$129,752 incurred and accrued by the General Fund for support of this program. The principal and interest were fully repaid to the General Fund on January 8, 1981.

(5) Reserved for Federal Advance

This account represents funds the United States Commissioner of Education has advanced. In accordance with Section 177.403(f)(5) of Title 45 of the Code of Federal Regulations, the U.S. Commissioner may require the commission to repay part or all of the advance if the U.S. Commissioner finds that the commission no longer needs the funds advanced to maintain an adequate reserve.

(6) Insurance Premiums

Student borrowers pay insurance premiums at the time the loan is disbursed by the lending institution. The premiums may be used to underwrite loans and to cover costs the commission incurs in administering the loan program.

(7) Intergovernmental Revenues

These revenues represent federal funds received from the U.S. Commissioner of Education.

(8) Contract Fees

This figure represents amounts paid to United Student Aid Funds, Incorporated for administrative support services. The fees are calculated as a percentage of the cumulative amount of loans outstanding at the end of each month.

(9) Miscellaneous Expenditures

Miscellaneous expenditures consist of adjustments of expenditures charged to prior periods.

(10) Retirement Commitments

Regular employees of the commission are members of the Public Employee's Retirement System (PERS), which is a defined benefit, contributory retirement plan. The amount the commission and its employees contribute to the PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The commission's share of retirement contributions for the year totaled \$33,042.

(11) Federal Reinsurance Agreement

The commission has entered into an agreement with the U.S. Commissioner of Education whereby the commissioner repurchases 100 percent of the amount of defaulted loans purchased by the commission through federal fiscal year 1983-84. For federal fiscal year 1984-85 and thereafter, if the default rate under the federal formula exceeds 5 percent, the reinsurance rate will be 90 percent for defaults in excess of 5 percent, but not in excess of 9 percent; for all defaults in excess of 9 percent, the reinsurance rate will be 80 percent.

(12) Reserve Requirement

The commission's agreement with lending institutions requires that it maintain a Guarantee Reserve Fund. This fund must be represented by cash and marketable securities having a market value of not less than 1 percent of the aggregate amount of unpaid principal and interest of all approved notes covered by federal reinsurance under the agreement between the commission and the U.S. Commissioner of Education. At June 30, 1980, the commission's reserves exceeded the amounts required.

OTHER COMMENTS

As an integral part of our examination, we reviewed the commission's accounting procedures and its related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the Guaranteed Student Loan Program's financial statements present its financial position and the results of operations in accordance with generally accepted accounting principles consistently applied.

As part of our review, we issued a management letter to the commission (1) suggesting action that should be taken to assure that the commission receives the funds it is entitled to and (2) recommending adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The commission is taking action to assure that it receives the funds it is entitled to. The commission generally concurs with the adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps