

**REPORT DIGEST**

**ILLINOIS BOARD OF HIGHER EDUCATION  
FINANCIAL AND COMPLIANCE AUDIT  
(In Accordance With The Single Audit Act of 1984  
and OMB Circular A-128)  
FOR THE TWO YEARS ENDED JUNE 30, 1995**

{Expenditures and Activity Measures are summarized on the reverse page.}

## **FINDING, RECOMMENDATION AND AGENCY RESPONSE**

### **MONITORING OF GRANTS AWARDED TO SUBRECIPIENTS**

The Board of Higher Education lacked sufficient procedures to effectively monitor its specific purpose grants to colleges and universities, which totalled nearly \$59 million. The Agency administers four program-specific grants: Higher Education Cooperation Act (HECA), Cooperative Work Study, Engineering and the federally-funded Title II program.

Since our last audit, the Agency documented in writing its procedures for reviewing audit reports from its grant subrecipients and for evaluating grant programs. Based on our review of these procedures, we believe improvements could be made in the following areas:

#### **Subrecipient Audit Reports and Refunds**

oIn our review of subrecipient audit reports, we noted two federally-funded Title II grants, totalling \$232,000, which were not audited in accordance with federal audit standards.

oFive state-funded HECA grant refunds totalling \$33,579 and two federally-funded Title II grant refunds totalling \$9,658 were not received. These refunds involved cases where: the Agency requested no refund, the Agency requested the wrong amount, or the subrecipient made only partial payment or no payment at all.

oSeven state-funded grant refunds totalling \$47,771 were remitted late.

#### **Interest Earned and Retained by Subrecipients**

The Agency did not require grant subrecipients to account for and report interest earned on grant funds. All of the Agency's agreements with grant subrecipients, regardless of the grant amount, permit grant subrecipients to retain any interest earned. We believe the Agency should establish grant thresholds above which interest on grants would accrue to the principal.

A significant portion of grant funds are advanced to subrecipients early in the grant period. Using a conservative interest rate of 2.5 percent on and, the State would potentially lose about \$13,000 for every week in which its grant funds (in total) are advanced. Subrecipients, in turn, would have the potential to earn a comparable amount, without accounting to the granting Agency for these interest earnings.

#### **No Independent Program Evaluations**

The Agency did not require independent program evaluations of the various grant programs which it operates at public and private colleges.

After considering its administrative cost constraints and expected benefits, the Agency elected not to conduct on-site monitoring of each grant program administered on college campuses. Formal evaluation of grant programs were not conducted. Instead the Agency relied primarily on

two mechanisms:

(1) the grant award process, which occurred before each grant was given out.

(2) annual evaluation program reports, prepared on campus by grant program directors; these directors lacked independence since they were responsible for running these same grant programs, and since a portion of their wages may have been paid from grant funds.

Neither mechanism provided the Agency an independent evaluation of the grant program itself. Considering the number and value of grants administered, good business practice would indicate the need for an independent party to evaluate the grant programs.

According to the Fiscal Control and Internal Auditing Act, all state agencies must establish a system of internal fiscal and administrative controls to assure that resources are utilized efficiently, effectively, and in compliance with applicable laws.

We recommended the Agency establish sufficient procedures to ensure effective monitoring of the program-specific grants awarded to colleges and universities, including: (a) adequate technical reviews of subrecipient audit reports and prompt follow-up on refunds or weaknesses noticed, and (b) independent attestations on program evaluation reports.

We also recommended the Agency require subrecipients account for and report interest earned on grants, in cases where such accounting is cost beneficial. (Finding Code 95-1, page 7.)

According to the response, the Agency Board concurred with our recommendation (a), regarding adequate technical reviews and follow up on subrecipient audit reports and refunds. The Board did not accept the remainder of our recommendation. Regarding interest earnings, the Board stated they would examine the use of thresholds, above which interest income would be treated as additional grant principal.

## **OTHER FINDING**

The report presents one additional finding regarding the Architecture-Engineering Internship Act of 1983, for which the Agency promulgated no rules for program administration. The Agency believes similar programs exist at various universities and therefore, the Agency states it will seek a revision to the law. (Finding Code 95-2, page 12.)

There were no other material audit findings. Dr. Richard Wagner, Executive Director, provided the Agency's responses to the findings.

**AUDITORS' OPINION**

Our auditors state that the Illinois Board of Higher Education's financial statements as of June 30, 1994 and 1995 are fairly presented.

\_\_\_\_\_ WILLIAM G. HOLLAND, Auditor General

WGH:JHL:

**SUMMARY OF AUDIT FINDINGS**

This Audit Last Audit

Audit Findings 2 1

Recommendations Repeated 0 0

Recommendations Implemented

or Not Repeated 1 2

**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors on this engagement were Nykiel, Carlin, Lemna & Co.

**ILLINOIS BOARD OF HIGHER EDUCATION**  
**FINANCIAL AND COMPLIANCE AUDIT**  
**For The Two Years Ended June 30, 1995**

<b>EXPENDITURE STATISTICS</b>	<b>FY 1995</b>	<b>FY 1994</b>	<b>FY 1993</b>
<b>●Total Expenditures (All Funds)</b>	<b>\$62,743,507</b>	<b>\$68,921,384</b>	<b>\$50,622,386</b>
<u>OPERATIONS TOTAL</u> % of <b>Total</b> Expenditures	\$2,169,845	\$2,303,350	\$2,101,959 4%
Personal Services % of Operations Expenditures Average No. of Employees	\$1,551,228	\$1,718,122	\$1,533,709 73% 34
Other Payroll Costs (FICA, Retirement) % of Operations Expenditures	\$77,252	\$75,614	\$82,026 4%
Contractual Services % of Operations Expenditures	\$349,770	\$379,826	\$372,149 18%
All Other Operations Items % of Operations Expenditures	\$191,595	\$129,788	\$114,075 5%
<u>GRANTS TOTAL</u> % of <b>Total</b> Expenditures State-Funded, General Purpose	\$60,573,662	\$66,618,034	\$48,520,427 96% \$31,713,828 \$14,170,599 \$2,636,000
State-Funded, Specific Purpose			
Federally-Funded, Title II			
<b>●Cost of Property and Equipment</b>	<b>\$432,543</b>	<b>\$412,968</b>	<b>\$391,900</b>
<b>CASH RECEIPTS</b>	<b>FY 1995</b>	<b>FY 1994</b>	<b>FY 1993</b>
●General Revenue Fund, Including Refunds	\$151	\$20	\$ 0
●Higher Ed Title II Fund - 983			\$
●State Projects Fund - 279			2,876,719
Total			<u>0</u> <u>\$2,876,719</u>
<b>EXECUTIVE DIRECTOR</b>			
During Audit Period: Dr. Richard Wagner Currently: Dr. Richard Wagner			