

---

# Federal Student Aid's Oversight of Schools Participating in the Title IV Programs

---

## FINAL AUDIT REPORT



**ED-OIG/ A03L0001**  
**September 29, 2015**

---

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
Philadelphia, Pennsylvania

---

## **NOTICE**

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

September 29, 2015

**Memorandum**

**TO:** James W. Runcie  
Chief Operating Officer  
Federal Student Aid

**FROM:** Patrick J. Howard /s/  
Assistant Inspector General for Audit

**SUBJECT:** Final Audit Report  
Federal Student Aid's Oversight of Schools Participating in the Title IV Programs  
Control Number ED-OIG/A03L0001

Attached is the subject final audit report that covers the results of our review of Federal Student Aid's oversight of schools participating in the Title IV programs. We conducted our review at Federal Student Aid's offices in Washington, DC; Philadelphia, PA; Dallas, TX; and San Francisco, CA. Our review covered July 1, 2010, through January 31, 2011. We have provided an electronic copy to your audit liaison officer. We received your comments partially concurring with the findings and recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office(s) will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). The Department's policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 calendar days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Bernard Tadley, Regional Inspector General for Audit, at (215) 656-6279.

Enclosure

---

---

## TABLE OF CONTENTS

---

---

	<u>Page</u>
<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>3</b>
<b>AUDIT RESULTS .....</b>	<b>6</b>
<b>FINDING NO. 1 – FSA Did Not Conduct Program Reviews in Accordance     With Its Program Review Procedures.....</b>	<b>7</b>
<b>FINDING NO. 2 – FSA Was Not Considering Annual Dropout Rate Data for     Program Review Selections .....</b>	<b>14</b>
<b>OBJECTIVES, SCOPE, AND METHODOLOGY .....</b>	<b>16</b>
<b>Enclosure 1: Required Uses of FSA Program Review Documents.....</b>	<b>21</b>
<b>Enclosure 2: Federal Student Aid’s Comments .....</b>	<b>22</b>

## **Abbreviations, Acronyms, and Short Forms Used in this Report**

---

Department	U.S. Department of Education
Direct Loan Program	William D. Ford Federal Direct Loan Program
Eligibility Services	School Eligibility Service Group
FFEL	Federal Family Education Loan Program
Fiscal Worksheet	Fiscal Review Worksheet
FSA	Federal Student Aid
FY	Fiscal Year
HEA	Higher Education Act of 1965, as amended
Improvement Specialists	Institutional Improvement Specialists
Pell	Federal Pell Grant Program
PRQC	Program Review Quality Control
Review Specialists	Institutional Review Specialists
Student Worksheet	Student File Worksheet
Workplan	Program Review Workplan

---

---

## EXECUTIVE SUMMARY

---

---

The objective of our audit was to determine how Federal Student Aid (FSA) oversees schools' administration of the Title IV programs of the Higher Education Act of 1965, as amended. To address our objective, we focused our audit on FSA's Program Compliance division's program review process to ensure schools properly administered the programs.<sup>1</sup> Our original audit period covered program reviews conducted from July 1, 2010, through January 31, 2011. We performed follow-up work with FSA in March, April, and July 2014 to determine whether FSA had changed its policies and procedures for performing program reviews. We also expanded our audit period and reviewed FSA Performance Improvement and Procedures Services Group's revised quality control process and newly developed "Program Review Quality Control Procedures" for October 2013 through June 2014.

During our review of 47 program reviews FSA conducted during our original audit period, we found weaknesses in the Program Compliance division's processes for performing program reviews. We also found a weakness in selecting schools for program reviews. Specifically, we found the following.

- **FSA Did Not Conduct Program Reviews in Accordance With Its Program Review Procedures.** Program review staff did not (1) maintain all required forms and documents in the program review files or always complete the forms, (2) always adequately document fiscal testing for timely disbursement of funds and excess cash, (3) always conduct distance education program reviews in accordance with FSA's distance education program review procedures, and (4) determine schools' compliance with the Direct Loan Program quality assurance system requirement.

We also found limited evidence of supervisory review of the program review files to ensure program review procedures were adequately completed. Further, the time allotted to perform program reviews may not have been adequate.

- **FSA Did Not Consider Annual Dropout Rate Data for Program Review Selection.** We found that FSA's Program Compliance division managers did not consider high annual dropout rates when prioritizing schools for program reviews as required by the Higher Education Act of 1965, as amended.

During our follow-up work in 2014, we confirmed that FSA did not change its policies and procedures for conducting program reviews. However, we determined that in October 2013, the Performance Improvement and Procedures Services Group updated its program review quality control process. According to FSA's "Program Review Quality Control Procedures," the revised process was designed to address some of the findings identified in this audit and to review the mandatory requirements contained in FSA's program review procedures. We concluded that if

---

<sup>1</sup> FSA also monitors schools' administration of the Title IV programs through performing technical assistance, receiving student complaints, financial and administrative analysis, and audit resolution processes. We gained an understanding of how FSA uses these processes to identify high-risk schools for program reviews.

FSA follows the “Program Review Quality Control Procedures,” staff should identify deficiencies such as the lack of documentation and supervisory review we found. We reviewed 36 quality control review reports created under the new procedure as of June 2014, and the reports indicated that staff found similar deficiencies. However, according to the reports, School Participation Team managers were not required to take corrective action on the recommendations.

Additionally, we noted that the U.S. Department of Education uses the results of program reviews to calculate its annual estimates of improper payments for the Federal Pell Grant and Direct Loan Programs, under the Improper Payments Elimination and Recovery Act of 2010. However, because of the extent of the deficiencies we found with the program reviews, the annual estimates may not be valid. On May 15, 2015, the OIG issued a report that included a finding citing additional flaws using the results of program reviews to calculate improper payment rates for the Federal Pell Grant and Direct Loan Programs.<sup>2</sup>

We recommend that the Chief Operating Officer for FSA require the Program Compliance division’s Chief Compliance Officer to—

- Revise FSA’s “Program Review Procedures” to (1) ensure all work is documented and require supervisory review of the program review files, and (2) develop steps to review a school’s compliance with the Direct Loan Program quality assurance system.
- Require School Participation Team managers to take corrective action on the recommendations made as a result of the Performance Improvement and Procedures Services Group’s quality control reviews.
- Reassess whether the allotted time to complete a program review is adequate to allow for staff to document all work performed and for supervisors to complete reviews.
- Consult with the National Center for Education Statistics regarding the feasibility of collecting and calculating annual dropout rates for schools and use the rates as a factor to prioritize schools for program reviews.

We provided a draft of this report to FSA. In FSA’s comments on the draft report, FSA agreed with issues identified in Finding No. 1, “FSA Did Not Conduct Program Reviews in Accordance With Its Program Review Procedures.” FSA agreed with three of the five recommendations. While FSA did not explicitly agree with the other two recommendations, FSA noted that it will take corrective actions to address the recommendations. FSA disagreed with Finding No. 2, “FSA Was Not Considering Annual Dropout Rates for Program Review Selections,” and its related recommendation. However, FSA stated that it will take corrective action to address the recommendation.

We considered FSA’s comments on the draft report and did not make changes to the report in response. We summarized FSA’s comments at the end of each finding. FSA’s complete comments are included as Enclosure 2 of this report.

---

<sup>2</sup> “U.S. Department of Education’s Compliance with Improper Payment Reporting Requirements for Fiscal Year 2014,” ED-OIG/A03P0003.

---

## BACKGROUND

---

The U.S. Department of Education (Department) operates loan and grant programs authorized under Title IV of the Higher Education Act of 1965, as amended (HEA). The Title IV programs include the Federal Family Education Loan Program (FFEL Program), William D. Ford Federal Direct Loan Program (Direct Loan Program), Federal Perkins Loan Program, Federal Pell Grant (Pell) Program, Federal Supplemental Educational Opportunity Grant Program, and Federal Work Study Program. According to the Department's Federal Student Aid (FSA) 2014 annual report, in fiscal year (FY) 2014 FSA processed more than 20 million applications and delivered \$133.8 billion to about 12.9 million students and their families through the Title IV programs.

The Department operates two major student loan programs: the FFEL Program, which made loans available to students and families through private lenders, and the Direct Loan Program, which lends funds directly to students and families through participating schools. In response to disruptions in the credit markets and concern over access to FFEL Program loans, the Ensuring Continued Access to Student Loans Act of 2008 (Public Law 110-227) was enacted on May 7, 2008, and provided the Department with the authority to purchase FFEL Program loans to support new FFEL Program loan originations. However, between May 2008 and March 2010, some schools participating in the FFEL Program began transitioning to the Direct Loan Program because of the stability and reliability it provided.

On March 30, 2010, the Health Care and Education Reconciliation Act (Public Law 111-152), which included the SAFRA Act, was enacted, and required that all new student loans<sup>3</sup> be made through the Direct Loan Program beginning July 1, 2010. Schools participating in the FFEL Program transitioned to the Direct Loan Program. According to data obtained from the Department's National Student Loan Data System,<sup>4</sup> from July 1, 2008, through July 1, 2013, the number of schools participating in the Direct Loan Program increased by 185 percent, from 2,215 to 6,309 schools. According to the Department's Budget Summaries for Fiscal Years 2010 and 2015, the loan volume of new Direct Loans increased from \$18.2 billion in FY 2008 to \$101.3 billion in FY 2013, a 456 percent increase.

Under Section 498A of the HEA, the Department is required to conduct program reviews of schools participating in the Title IV programs, giving priority to schools that meet certain criteria. Within the Department, FSA is responsible for administering the Title IV programs. FSA is a performance-based organization that is staffed by more than 1,200 full-time employees working in various component groups in Washington, D.C., and regional offices throughout the country. Within FSA's Program Compliance division, the School Eligibility Service Group (Eligibility Services) is responsible for monitoring and oversight, including conducting program reviews of schools participating in the Title IV programs.

FSA's Eligibility Services is divided into eight School Participation Teams—seven for domestic schools and one team that focuses on foreign schools. Team members are located in FSA's

---

<sup>3</sup> Exclusive of Federal Perkins Loans, which are provided to students through participating schools.

<sup>4</sup> The National Student Loan Data System is the Department's central database for student financial aid.



10 regional offices and at headquarters. Each of the School Participation Teams is responsible for the oversight and monitoring of the schools within their regions. The School Participation Teams and staffing levels, as of June 2014, are shown in Table 1.

**Table 1: School Participation Team Offices and Compliance Staff**

<b>Office</b>	<b>Number of Staff</b>
New York and Boston	38
Philadelphia	28
Atlanta	27
Chicago and Denver	35
Dallas	23
Kansas City	27
San Francisco and Seattle	33
Washington, D.C., and New York (including foreign schools)	21
<b>TOTAL</b>	<b>232</b>

According to FSA’s Program Compliance division’s policies and procedures, School Participation Teams monitor schools and servicers through program reviews, financial and administrative analysis, audit resolution, student complaint, and technical assistance processes. Each School Participation Team has a division director who manages the School Participation Team. Within each School Participation Team, compliance managers supervise the School Participation Team staff. Institutional review specialists (review specialists) perform program reviews of schools and audit resolution. Financial analysts perform financial analysis to assess schools’ financial responsibility. Institutional improvement specialists (improvement specialists) provide technical assistance to schools through telephone contacts, written guidance, and specialized training for targeted groups; and as needed, assist review specialists with performing program reviews. From July 1, 2010, through January 31, 2011, FSA’s Program Compliance division hired 58 new review specialists. This resulted in a 74 percent growth in program review staff.<sup>5</sup> FSA also hired or transitioned seven people to the improvement specialist position.

A program review evaluates a school’s administration of the Title IV programs.<sup>6</sup> Review specialists are required to follow FSA’s “Program Review Procedures” when conducting program reviews. Review specialists performed three types of program reviews: general assessment, focused, and compliance assurance. A general assessment review, the most common type, generally evaluates a school’s compliance with the Title IV program requirements. A focused review has a narrowed scope to focus on specific issues, such as a school’s compliance with Federal campus security regulations, consumer information policies, or Title IV refunds. A compliance assurance review, which is conducted at schools determined as low-risk by FSA’s Eligibility Services, also has a limited scope and does not require fiscal testing to be performed. Fiscal testing is the review of a school’s cash management processes and delivery of funds to students.

<sup>5</sup> The staffing levels as of the end of our audit period, January 2011, totaled 201. Before July 1, 2010, FSA had 78 review specialists. From July 1, 2010, through January 31, 2011, the total number of review specialists was 136.

<sup>6</sup> FSA did not make any modifications to its program review process after the passage of SAFRA.

During our original audit period, FSA conducted 47 program reviews; 37 were conducted at schools that participated in the Federal Family Education Loan Program before the implementation of Public Law 111-152, which required that all new student loans be made through Direct Loan Program beginning July 1, 2010. Ten of these schools were already participating in the Direct Loan Program.

Section 498A of the HEA requires the program review selection process to give priority to a school's high cohort default rate, the high dollar volume of the school's default rate, significant fluctuations in a school's loan volume, deficiencies or financial aid problems of a school, high annual dropout rates, and risk of noncompliance with administrative capability or financial responsibility requirements. According to FSA's "Program Review Procedures," schools are also selected for program review as a result of one or more of the following:

- compliance initiatives, which target specific areas of potential weakness and are intended to improve compliance with Title IV program laws, regulations, and procedures;
- referrals or complaints; and
- a comprehensive compliance review process (also referred to as the case management process), which includes continuously researching and analyzing information available about a school.

FSA's procedures state that the School Participation Team performs a risk assessment, using the data obtained from the comprehensive compliance reviews process, to determine whether it should conduct a program review of a school.

According to FSA's Deputy Chief Compliance Officer, to aid its oversight process, FSA's Eligibility Services managers analyzes data and assesses overall risk of schools based on risk factors known or indicated by FSA's data workgroup, information collected from the National Student Loan Data System, and other departmental information systems. Eligibility Services develops compliance initiatives to target high-risk schools for program reviews. School Participation Teams issue a report on the results of the program review at the end of the program review process. The program review report includes recommendations to correct any findings of noncompliance identified during the program review. Liabilities may be assessed depending on the type of noncompliance identified. FSA's Eligibility Services classifies overall program review findings into three main levels:

- moderate—between \$1 and \$500,000 in liabilities,
- serious—between \$500,000 and \$1 million in liabilities, and
- very serious—more than \$1 million in liabilities.

---

## AUDIT RESULTS

---

The objective of our audit was to determine how FSA oversees schools' administration of the Title IV programs. FSA's Program Compliance division's policies and procedures state that FSA oversees schools' administration of the Title IV programs through performing program reviews, providing technical assistance to schools, addressing student complaints on schools, performing financial and administrative analysis, and performing audit resolution activities. To address our audit objective, we focused our audit on FSA's Program Compliance division's program review process to ensure schools' properly administer the Title IV programs. We did not assess the Program Compliance division's other oversight processes; however, we gained an understanding of how the processes were used to identify high-risk schools selected for program reviews.

We found significant weaknesses in the processes for performing program reviews. We also found a weakness in selecting schools for program reviews. These weaknesses are identified below.

- Program review specialists did not always conduct program reviews in accordance with FSA's program review procedures. Specifically, required forms and documents were missing from the program review files, and staff did not always complete forms, adequately document fiscal testing for timely disbursement of funds and excess cash, determine whether schools had implemented Direct Loan quality assurance systems, and conduct distance education program reviews. We also found limited evidence of supervisory review of the program review files to ensure program review procedures are adequately completed. Further, the time allotted to perform program reviews may not have been adequate.
- Program Compliance division managers did not consider high annual dropout rates when prioritizing schools for program reviews as required by the HEA.

As a result of the significant internal weaknesses we found, FSA has limited assurance that program reviews are appropriately identifying and reporting all instances of noncompliance.

Because the Department uses the results of program reviews to calculate its annual estimates of improper payments for the Pell and the Direct Loan Programs, under the Improper Payments Elimination and Recovery Act of 2010, the estimates may not be valid. On May 15, 2015, the OIG issued a report that included a finding citing additional flaws using the results of program reviews to calculate improper payment rates for the Federal Pell Grant and Direct Loan Programs.<sup>7</sup>

We provided a draft of this report to FSA. In FSA's comments on the draft report, FSA agreed with issues identified in Finding No. 1, "FSA Did Not Conduct Program Reviews in Accordance

---

<sup>7</sup> "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2014," ED-OIG/A03P0003.

With Its Program Review Procedures.” FSA agreed with three of the five recommendations. While FSA did not explicitly agree with the other two recommendations, FSA noted that it will take corrective actions to address the recommendations. FSA disagreed with Finding No. 2, “FSA Was Not Considering Annual Dropout Rates for Program Review Selections,” and its related recommendation. However, FSA stated that it will take corrective action to address the recommendation.

We considered FSA’s comments on the draft report and did not make changes to the report in response. We summarized FSA’s comments at the end of each finding. FSA’s complete comments are included as Enclosure 2 of this report.

### **FINDING NO. 1 – FSA Did Not Conduct Program Reviews in Accordance With Its Program Review Procedures**

We found that FSA did not conduct the program reviews in accordance with FSA’s “Program Review Procedures,” September 30, 2008. Specifically, we found that staff did not always (1) maintain required forms and documents in the program review files, (2) complete the forms; (3) adequately document fiscal testing for timely disbursement of funds and excess cash; (4) document required school interviews, sample the correct student population, test the mandatory program review elements, or obtain all required school student attendance information for distance education program reviews; or (5) determine a school’s compliance with the Direct Loan quality assurance system. Additionally, we found limited evidence that supervisors reviewed the program review files, and the number of days allotted to conduct program reviews may not have been adequate.

#### **Missing and Incomplete Program Review Documentation**

Review specialists were required to complete eight standard forms to document the results of the program review and note any instances of noncompliance or findings. These forms were to be maintained in the program review file. None of the 47 program review files we reviewed contained all required forms. Examples of the missing forms included the following: “Return of Title IV Funds Policies and Procedures Worksheet,” “Preliminary Findings Worksheet,” “Findings Matrix Worksheet,” and “Institutional Worksheet.” We found that all 47 of the program review files we reviewed had one or more required forms that were incomplete.

#### **Required Forms and Documents Were Missing**

Of the 317 required forms that should have been in the 47 program review files, 125 (39 percent) were missing. The 317 required forms exclude both the “Student File Worksheet” (Student Worksheet) for all 47 program reviews and the “Findings Matrix Worksheet” for 12 program reviews that did not have student-level findings.<sup>8</sup> Table 2 lists the eight required

---

<sup>8</sup> The 317 required forms consisted of 35 program reviews (47 minus 12) with 7 required forms and 12 program reviews with 6 required forms.

forms and the number of program reviews that were missing those forms by School Participation Team.<sup>9</sup>

For the 35 program review files that had student-level findings, none contained a “Findings Matrix Worksheet,” as reflected in Table 2. FSA’s “Program Review Procedures,” Section 18.1, requires review specialists to use this form to document which program reviews had student-level findings in order to ensure all findings were included in the program review report. If the review specialist does not use the “Findings Matrix Worksheet,” it can lead to student-level findings not being reported in the program review report. We found unreported student findings in 13 (37 percent) of the 35 program reviews that had student-level findings.

**Table 2: Number of School Program Reviews That Had Missing Forms**

<u>Form</u>	<u>Philadelphia</u>	<u>Dallas</u>	<u>San Francisco</u>	<u>Total</u>
Findings Matrix Worksheet	13	9	13	35
Return of Title IV Funds Policies & Procedures Worksheet	13	1	13	27
Institutional Worksheet	12	2	8	22
Preliminary Findings Worksheet	2	3	12	17
Program Review Report/Expedited Determination Letter Checklist	2	2	7	11
Postsecondary Education Participants System Data Entry Form	0	4	6	10
Program Review Workplan	0	0	3	3
Student File Worksheet	0	0	1	1
<b>Number of Program Reviews Conducted</b>	<b><u>17</u></b>	<b><u>13</u></b>	<b><u>17</u></b>	<b><u>47</u></b>

FSA’s “Program Review Procedures,” Section 10.3.3 required review specialists to include a copy of the first page of the Institutional Student Information Record in the program review files for each student sampled. The first page of the Institutional Student Information Record contains student eligibility data, which the review specialist was required to review and verify. We found that the first page of the form was not included for 45 students in 15 (34 percent) of the 44 program reviews which required the form. The first page of the Institutional Student Information Record was not required for 3 of the 47 program reviews because students were not sampled for those reviews.

**Required Forms Were Incomplete**

We found that 16 (34 percent) of the 47 program review files contained one incomplete required form. For these 16 program reviews, 5 of the 7 required forms were incomplete. Table 3 lists the five required forms that we found were incomplete and the number of program reviews that had the incomplete forms.

<sup>9</sup> See Enclosure 1 for details on the required uses of the forms not discussed in the finding. Only one form for each program review conducted (except for the “Student Worksheet”) was required to be in the file.

**Table 3: Number of School Program Reviews That Had Incomplete Forms**

<u>Form</u>	<u>Philadelphia</u>	<u>Dallas</u>	<u>San Francisco</u>	<u>Total</u>
Institutional Worksheet	3	2	3	8
Program Review Workplan	0	1	0	1
Preliminary Findings Worksheet	1	1	0	2
Program Review Report/Expedited Determination Letter Checklist	2	1	0	3
Return of Title IV Funds Policies & Procedures Worksheet	0	2	0	2
<b>Number of Program Reviews Conducted</b>	<b><u>17</u></b>	<b><u>13</u></b>	<b><u>17</u></b>	<b><u>47</u></b>

**Review Specialists Did Not Always Complete Required Sections of Student Worksheets**

We found that 90 percent of the Student Worksheets reviewed were incomplete.<sup>10</sup> Each of the 44 program reviews<sup>11</sup> contained about 30 Student Worksheets, one for each student sampled (generally 15 students sampled per award year). We reviewed a total of 1,148 Student Worksheets within the 44 program review files. Forty-one of the 44 program review files had incomplete Student File Worksheets. The Student Worksheet had 27 sections that were required to be completed (FSA’s “Program Review Procedures,” Section 11.1). These sections included elements such as confirmation of attendance, review of refund calculations, and confirmation of eligibility requirements. Table 4 provides a breakdown of how many sections of the student worksheets were incomplete.

**Table 4: Number of Incomplete Sections in Student Worksheets**

<u>Number of Incomplete Sections</u>	<u>Percent of Student Worksheets</u>
No deficiencies (worksheet was complete)	10
Up to 25 percent of worksheet sections incomplete	49
Between 26 and 50 percent of worksheet sections incomplete	25
Between 51 and 75 percent of worksheet sections incomplete	14
More than 75 percent of worksheet sections incomplete	3

**Note: The percent of Student Worksheets is rounded to the nearest percent**

**Two Required Forms Were Not Always Approved by Compliance Managers**

Compliance managers had not approved a “Program Review Workplan” (Workplan) for 5 (11 percent) of the 47 program reviews. FSA’s “Program Review Procedures” (Section 6.1) required compliance managers to review and approve Workplans before schools were notified of a program review. Workplans, which were required for all program reviews, defined the

<sup>10</sup> We considered the Student Worksheet incomplete if any of the sections on the form were not completed.

<sup>11</sup> Three program reviews did not have Student Worksheets because program eligibility was the focus of reviews.

purpose, scope, and program review methodology. The approval of Workplans provides evidence of supervision in the planning phase of the review and documents that management approved the scope, methodology, and type of review (general, focused, or compliance assurance) performed.

Further, compliance managers had not approved a “Preliminary Findings Worksheet” for 11 (23 percent) of the 47 program reviews. FSA’s “Program Review Procedures” (Section 16.1) required compliance managers to sign and date the “Preliminary Findings Worksheet” for all program reviews. The worksheet was used to list the preliminary findings and other issues noted during a program review and to brief School Participation Team management. The approval of the “Preliminary Findings Worksheet” documents evidence of supervision in the reporting phase of the program review.

### **Review Specialists Did Not Always Adequately Document Fiscal Testing for Timely Disbursement of Funds and Excess Cash**

Review specialists did not always adequately document fiscal testing for the timely disbursement of funds to students and excess cash during program reviews. Our review of 23 general assessment reviews and 1 focused review showed that 8 had inadequate documentation of testing for the timely disbursement of funds to students and 7 of the 8 also had inadequate documentation of testing for excess cash. Fiscal testing was required only for general assessment reviews and focused reviews on fiscal management.

Review specialists were required to review a sample of the school’s drawdowns of Title IV funds from the Department and trace them to the school’s bank accounts and students’ records to determine whether excess cash existed and whether funds were disbursed to students timely (FSA’s “Program Review Procedures,” Section 14.1). Excess cash is any amount of Title IV program funds<sup>12</sup> that is not disbursed to students’ accounts within 3 business days after the date the school received the funds. Although FSA’s “Fiscal Review Worksheet” could be used to document fiscal testing, its use was not required.

Inadequate documentation of the testing of excess cash was previously reported as a finding in an OIG audit report, “Case Management and Oversight’s Monitoring of Postsecondary Institutions,” September 30, 2004, ED-OIG/A04D0014. FSA agreed to clarify that fiscal review should be documented whether or not there are findings. However, FSA’s “Program Review Procedures” do not provide such clarification.

### **School’s Compliance With the Direct Loan Quality Assurance System Requirement Was Not Reviewed**

Although required by “FSA’s Program Review Procedures,” in Section 13.3.7.3.14, all of the 17 review specialists we interviewed stated they were unfamiliar with the requirement that schools had to establish a Direct Loan quality assurance system and did not determine a schools’ compliance. Also, the five compliance managers we interviewed also stated they were unfamiliar with this requirement.

---

<sup>12</sup> Excess cash excludes Federal Perkins Loan Program funds.

Schools that participate in the Direct Loan Program are required to implement a quality assurance system, as established by the Department and developed in consultation with schools of higher education, to ensure that the schools are complying with program requirements and meeting program objectives (Section 454(a)(4) of the HEA and 34 Code of Federal Regulations 685.300(b)(9)). On November 13, 2013, FSA's Program Management Office issued an electronic announcement reminder memorandum to schools that participate in the Direct Loan Program.

### **Distance Education Program Reviews Were Not Properly Conducted**

FSA School Participation Team members did not comply with the procedures in OIG/FSA's "Guide for Review Conducted for 2009–2010 OIG/FSA Risk Project," April 1, 2010, and the "Program Review Distance Education Final Procedures," July 30, 2010. We found that the teams did not always (1) document required student and faculty interviews during all reviews, (2) sample the correct student population, (3) test the mandatory program review elements for all students in the distance education sample, or (4) obtain all of the required information about the school's student attendance policies and practices.

FSA performed a total of 25 program reviews of schools' distance education programs. Our audit included 10 (40 percent) of the 25 program reviews.

#### **Student and Faculty Interviews**

For 6 of the 10 distance education program reviews, we found no documentation of student and/or faculty interviews, although the team should have conducted interviews to test for regular and substantive interaction between the students and the instructor.

#### **Testing of Student Eligibility**

Only 5 of the 10 distance education reviews performed used samples drawn from the population of distance education students. The other five distance education reviews used samples drawn from the population of all students receiving Title IV program funds.

We also found no documentation to show that all of the required program review elements were tested during 4 of the 10 distance education reviews. Specifically, the required elements that were not documented included return of Title IV funds, student account credit balances, satisfactory academic progress, professional judgment, dependency override, cost of attendance, and calculation and disbursement of Title IV funds.

#### **Student Attendance**

We did not see any evidence of attendance documentation to show the review of the school's process for determining student attendance, a student's withdrawal date, or a student's last date of attendance in 8 of the 10 distance education program review files. Two program reviews files contained attendance documents but did not contain documentation of the team's review of the school's process for determining student attendance.

Additionally, 9 of the 10 distance education program reviews did not have documentation in the files to show that the review teams asked faculty questions about how the school verifies student attendance.



## **Overall Internal Control Deficiencies With Supervisory Review**

We found no evidence, other than approval of the Workplan and the Preliminary Findings Worksheet, to show that compliance managers reviewed the program review files. Supervisory review of the program review files should have found and addressed the missing and incomplete program review documentation, and the inadequately documented testing we identified. Compliance managers should have documented their review of the program review files to ensure that all elements were tested and adequately supported by documentation.

## **Quality Control Procedures**

FSA's Program Compliance division developed quality control procedures in December 2010; however, the procedures were not adequate. FSA's Performance Improvement and Procedures Service Group was responsible for the ongoing quality control process for the program review function. The quality control review focused on five general risk areas that included data entry into FSA's case management information system for four aspects of the program review process and the timeliness and prioritization of program reviews. Although the quality control procedures stated that the process was used to evaluate the effectiveness of and compliance with program review procedures, the quality control procedures did not include a requirement to review the work papers supporting a program review.

During our follow-up work in April 2014, we found that FSA's Performance Improvement and Procedures Services Group implemented a new peer review quality control process in October 2013. School Participation Teams performed peer reviews of other School Participation Teams' program reviews; these peer reviews covered 28 program reviews that were started in FY 2012 and closed in FY 2013.

In February 2014, FSA's Performance Improvement and Procedures Services Group implemented a nationwide program review quality control (PRQC) process. According to FSA's "Program Review Quality Control Internal Procedures," June 5, 2014, the PRQC process will be continuous and performed at least annually for all School Participation Teams. It also states that the procedures address the exception areas the OIG identified in this audit and the "must" areas from FSA's 2008, 2011, and 2012 "Program Review Procedures." We reviewed the PRQC procedures and the results of the 36 PRQC reviews as of June 2014. All 36 reviews noted issues similar to those we identified, such as missing or incomplete program review documentation. The PRQC review reports noted there was inconsistent use of checklists as evidence of supervisory review of the program review work papers. As a result, the PRQC review reports contained recommendations that compliance managers (or division directors, where applicable) review the program review work papers before approving the program review reports and that review specialists ensure such approval is retained in the program review files. Although FSA provided the PRQC reviews report to the School Participation Teams and included recommendations to address the issues noted in the review, the reports specified that School Participation Team managers were not required to take corrective action on the recommendations in the report.

### **Time Allotted to Perform Reviews May Not Be Adequate**

The time allotted for a program review may not be sufficient to perform and document all of the required tasks specified in FSA's "Program Review Procedures." Five of the 17 review specialists that we interviewed from the School Participation Teams specifically stated that they felt overwhelmed with the amount of work they were required to perform onsite in the time allotted for a program review (generally, 1 week onsite). Four of the six compliance managers that we interviewed stated that the 50 days allotted to complete a program review (from the end of the onsite fieldwork to the preparation of the program review report) may not be adequate because some reviews are more time-consuming and complex than others based on the types of findings identified. The limited time allotted to perform program reviews could be a contributing factor for the lack of documentation and limited supervisory review.

### **RECOMMENDATIONS**

We recommend that the Chief Operating Officer for FSA require the Chief Compliance Officer to—

- 1.1 Revise the "Program Review Procedures" to require documentation of supervisory review of the program review file.
- 1.2 Ensure review specialists complete and document all aspects of the program review process.
- 1.3 Ensure review specialists are reviewing and documenting the review of a school's Direct Loan quality assurance system.
- 1.4 Require School Participation Team management to take corrective action on the recommendations made in the PRQC review reports.
- 1.5 Reassess whether the current total time allotted to perform a program review is adequate to complete and document all required procedures.

### **FSA's Comments**

FSA acknowledged that some staff did not conduct program reviews in accordance with FSA's program review procedures that require completion of the required documentation. However, FSA did not agree with the assertions in the report that "FSA has limited assurance that program reviews are appropriately identifying and reporting all instances of noncompliance" and our conclusions that this calls into question the validity of the estimates used to calculate the Department's improper payments. FSA stated that it is unreasonable that FSA or any organization can ensure that all instances of noncompliance are identified. The findings and amounts of liabilities identified during the program reviews FSA conducted during the period in question demonstrate that significant instances of noncompliance were identified.

FSA agreed with Recommendations 1.1, 1.2, and 1.4. While FSA did not specifically agree with Recommendations 1.3 and 1.5, FSA noted that it will take corrective actions to address these recommendations.

### **OIG Response**

FSA acknowledged that it did not conduct program reviews in accordance with its program review procedures and did not dispute any of the issues identified in Finding No. 1. We did not state that FSA must identify all instances of noncompliance. FSA's program review procedures required specific documentation to support the work performed during a program review and that when there is documentation to support a finding that it be reported. This was not the case during our review.

We found issues with all 47 program reviews in our sample, including unreported student-level findings in 37 percent of the 35 program reviews that had student-level findings. Because program review files contained insufficient documentation to support a school's compliance in multiple required program review areas, and because staff did not report actual findings, we stand by our conclusions in this report that (1) FSA has limited assurance that program reviews are appropriately identifying and reporting all instances of noncompliance and (2) because the Department uses the results of program reviews to calculate its annual estimates of improper payments for the Pell and the Direct Loan Programs, the resulting estimates may not be valid.

We did not draw any conclusions on the significance of the amount of noncompliance identified through program reviews. We concluded only that FSA does not know whether the instances of noncompliance and improper payment amounts reported in program review reports should have been greater than those identified and used for the improper payment calculations. The instances of noncompliance and improper payment amounts reported in program review reports in no way compensate for the lack of documentation to support a school's compliance or that staff did not report actual findings.

### **FINDING NO. 2 – FSA Was Not Considering Annual Dropout Rate Data For Program Review Selections**

FSA's Program Compliance division management was not in compliance with the Title IV HEA program review requirements at Section 498A(a)(2)(E) of the HEA because FSA did not consider high annual dropout rates to prioritize schools for program reviews. FSA's Program Compliance division management did consider the other statutory program review requirements included in Section 498A(a)(2)(A) through (a)(2)(D) and (F) of the HEA. These requirements include giving priority consideration for program review to schools with a high loan cohort default rate (in excess of 25 percent or a default rate that places them in the highest 25 percent of such schools); a high default rate in dollar volume (school is in the top 25 percent of schools based on loan dollar volume); significant fluctuations in loan or grant award volume; and reported deficiencies or financial aid problems by a State oversight agency.

Section 1.1 of FSA's "Program Review Procedures" states that schools do not currently report the dropout rate data element. However, the National Center for Education Statistics could collect dropout rates as a part of the data collection in the Integrated Postsecondary Education

Data System (as provided for in Section 487(a)(17) of the HEA and 34 Code of Federal Regulations 668.14(b)).

## **RECOMMENDATION**

We recommend that the Chief Operating Officer for FSA require the Chief Compliance Officer to—

- 2.1 Consult with the National Center for Education Statistics regarding the feasibility of collecting and calculating annual dropout rates for schools and use the rates as a factor to prioritize schools for program reviews.

### **FSA's Comments**

FSA disagreed with this finding. FSA stated that it used dropout rate data in selecting schools for program reviews. FSA stated that the statute does not provide a definition nor does it describe how to calculate such a rate, including whether the rate should include all students or only Title IV recipients. FSA stated that the dropout rate could be calculated in a number of different ways. FSA chose to use the number of withdrawals compared to the total number of those who graduated and withdrew in calculating a school's dropout rate. This data was based on enrollment status data reported in the National Student Loan Data System.

Regarding Recommendation 2.1, FSA agreed to consult with the National Center for Education Statistics on collecting dropout rate data, but FSA believes that the recommendation should be directed to the National Center for Education Statistics.

### **OIG Response**

The statutory requirement for FSA to use dropout rate data in selecting schools for program review has been in Section 498A of the HEA since 1992. During our audit, FSA informed us that the data to calculate a dropout rate comparing the number of students who enrolled with the number who withdrew or graduated was not available.

FSA did not use the alternative rate based on number of withdrawals versus graduates and withdrawals until 2013. The rate was not a reasonable approximation of a dropout rate because it did not compare withdrawals with enrollments.

Regarding Recommendation 2.1, the HEA charges the Department with selecting schools for program review based in part on dropout rates. FSA selects schools for and performs program reviews; as such, FSA is responsible for obtaining the data sufficient to calculate a reasonable dropout rate. The recommendation is appropriately directed to FSA, even if it needs to obtain the assistance of other Department offices for implementation.

---

## OBJECTIVES, SCOPE, AND METHODOLOGY

---

The objective of our audit was to determine how FSA oversees schools' administration of the Title IV programs. Our original audit objectives were to determine how FSA ensures that schools participating in the Direct Loan Program were (1) properly administering the program and (2) timely delivering program funds to eligible students. We determined that FSA used the same program review procedures for the Direct Loan Program as it used for all other Title IV programs. Because the procedures we reviewed applied to all Title IV programs, we modified the report title and objective accordingly. We also determined that program reviews generally cover the timely delivery of program funds to eligible students, which negated the need to separately examine that issue under the second original objective. To accomplish our audit objective, we focused our review only on FSA's Program Compliance division's program review process to ensure schools' properly administer the Title IV programs that was used for conducting program reviews during our audit period. Our original audit period covered program reviews conducted during July 1, 2010, through January 31, 2011. We expanded our audit period and performed additional work for the period October 2013 through June 2014.

We held follow-up discussions with FSA's Program Compliance Division and Performance Improvement and Procedure Services Group managers in March and April 2014. We also held follow-up discussions with the division directors and compliance managers from the three School Participation Teams we reviewed in July 2014. Further, we reviewed additional documents pertaining to FSA's new quality control processes developed in 2014 and reviewed the 36 quality control review reports as of June 2014. We performed the follow-up work during March, April, and July 2014 to determine whether FSA's Program Compliance division has taken any corrective actions. We did not verify whether the quality control processes have been fully implemented.

The Program Compliance division's policies and procedures state that it oversaw schools' administration of the Title IV programs through performing program reviews of schools, providing technical assistance to schools, addressing student complaints received on schools, performing analysis related to the financial responsibility and administrative capability of schools, and conducting audit resolution activities. We did not evaluate the technical assistance, audit resolution, financial and administrative analysis, or student complaint processes that FSA's Program Compliance division performed. We gained an understanding of how these processes were used in the identification of high-risk schools for selection for program review. We gained an understanding of the program review process, which included performing preliminary risk assessments of schools using analysis related to the financial responsibility and administrative capability of the schools, selecting schools for program review based on the risk assessment, and conducting program reviews of schools.

We judgmentally selected three (38 percent) of FSA's eight regional School Participation Teams to review: Philadelphia, Pennsylvania; Dallas, Texas; and San Francisco, California. Our selections were based on a combination of (1) the number of schools participating in the Direct Loan Program in the School Participation Team's regional area (school volume), (2) the number of review specialists on the School Participation Team relative to school volume, (3) the amount

of Direct Loan Program funding received by schools in each regional area, (4) the number of program reviews each School Participation Team conducted during our audit period, and (5) the percentage of schools new to the Direct Loan Program after July 1, 2010, in each regional area. We also based our selections on geographic location. We selected one School Participation Team from the northwest, one from the northeast, and one from the south central regions of the United States. We selected the San Francisco School Participation Team because it had the highest volume of schools in its regional area and a high rate of schools new to the Direct Loan Program. We selected the Dallas School Participation Team because of the small number of program reviews completed relative to its staff size. We selected the Philadelphia School Participation Team because it had a high volume of schools and the number of program reviews completed. Because our audit was limited to three School Participation Teams, the results may not be representative of the entire universe of program reviews conducted during our audit period.

For background related to our audit objective, we obtained and reviewed background information on the Title IV programs and FSA's processes and systems.

1. We reviewed the HEA and regulations related to our objectives.
2. We reviewed the U.S. Government Accountability Office's "Standards for Internal Control in the Federal Government," November 1999.
3. We reviewed prior audits and other reports:
  - a. OIG management information report, "Federal Student Aid's Efforts to Ensure the Effective Processing of Student Loans under the Direct Loan Program," September 16, 2010, ED-OIG/X19K0008;
  - b. OIG management information report, "Review of Federal Student Aid's Enterprise Risk Management Program," May 5, 2009, ED-OIG/I13I0005;
  - c. OIG "Case Management and Oversight's Monitoring of Postsecondary Institutions," September 30, 2004, ED-OIG/A04-D0014;
  - d. FSA's Direct Loan Compliance Enhancement Workgroup report, July 2009, and related emails;
  - e. FSA's Internal Review Group "Program Compliance Management Review Executive Report," July 2012; and
  - f. FSA's Compliance Initiative reports for FYs 2008, 2012, and 2013.
4. To gain an understanding of FSA's processes and systems used pertaining to the objective of our review we:
  - a. Interviewed officials from FSA's Program Compliance division, including the acting chief compliance officer, the deputy chief compliance officer, and the South Central team director. We also interviewed officials from the Administrative Actions and

- Appeals Service Group, Performance Improvement and Procedures Service Group, and the Business Operations–Internal Control Division;
- b. Interviewed officials from the three School Participation Teams including the division directors (3) (formerly titled the area case manager), and the compliance managers (6) (formerly titled team leader), review specialists (17), and improvement specialists (6). We judgmentally selected 17 of the total of 42 review specialists to interview based on varying number of years in their position so that we could interview staff with a range of experience. We interviewed all of the improvement specialists from the three School Participation Teams reviewed;
  - c. Reviewed the Direct Loan Program training tools provided to the schools on FSA’s Information for Financial Professionals Web site;
  - d. Reviewed FSA’s program review selection processes;
  - e. Reviewed FSA’s 2011, 2012, and 2013 “School Monitoring Risks and Mitigation Strategies” risk matrices;
  - f. Reviewed FSA’s Direct Loan Program quality assurance requirements and guidance;
  - g. Reviewed FSA’s “Program Review Procedures,” September 30, 2008; “Comprehensive Compliance Review Procedures,” May 3, 2007; “Guide for Review Conducted for 2009–2010 OIG/FSA Risk Project,” April 1, 2010; “FSA/OIG Distance Education Program Review Procedures,” April 10, 2010; and the “Program Review Distance Education Final Procedures,” July 30, 2010;
  - h. Reviewed FSA’s procedures for performing reviews of Internal Quality Control;
  - i. Reviewed all 47 program reviews (23 general assessment, 17 focused, and 7 compliance assurance) conducted during our audit period by the three School Participation Teams. This represented 34 percent of the 137 total reviews conducted by all 8 of the School Participation Teams. School Participation Teams conducted the program reviews from July 2010 through February 2011. School Participation Teams conducted (started and completed) 38 reviews in 2010 and 8 in 2011; and 1 was begun in 2010 and completed in 2011. Thirty-seven of the schools reviewed were FFEL schools prior to the effective date of SAFRA and 10 schools were already participating in the Direct Loan Program; and
  - j. Reviewed the program review files to determine whether (1) the review specialists followed FSA’s “Program Review Procedures,” and (2) the program review reports included all findings and exceptions noted during the program review. Table 5 shows the number of program reviews each School Participation Team conducted.

**Table 5: Reviews Conducted and Analyzed  
By School Participation Teams**

<b>School Participation Team</b>	<b>Program Reviews Conducted and Analyzed</b>	<b>Distance Education Reviews Conducted and Analyzed</b>
Philadelphia	17	4
Dallas	13	0
San Francisco	17	6
<b>TOTAL</b>	<b>47</b>	<b>10</b>

Note: The 10 distance education reviews are included in the total of 47 program reviews.

The program reviews covered award years 2008–2009 through 2010–2011, except for the 2 reviews noted in Table 6. Table 6 shows the number of reviews that covered each respective award year.

**Table 6: Award Years Reviewed**

<b>Award Year (July 1 through June 30)</b>	<b>Number of Program Reviews</b>
2008–2009	2
2007–2008 and 2008–2009	1
2008–2009 and 2009–2010	14
2009–2010	11
2009–2010 and 2010–2011	16
2010–2011	1
Other <sup>13</sup>	2
<b>TOTAL</b>	<b>47</b>

Of the 47 reviews, School Participation Teams issued 14 program review reports in 2010, 29 in 2011, and 1 in 2012. FSA did not issue a program review report for three reviews as of January 2015.

School Participation Teams classified the finding levels for the 47 program reviews as follows:

- 34 reviews had moderate finding levels;
- 7 reviews had serious finding levels (no report was issued for 2 of these reviews);
- 2 reviews had very serious finding levels;

<sup>13</sup> One program review was a follow-up review and covered award years 1998–1999 through 2005–2006; the other program review covered three award years: 2008–2009, 2009–2010, and 2010–2011.



- 3 reviews had no findings and a no finding program review report was issued; and
- 1 review did not have a finding level identified, as of January 2015.

### **Internal Controls**

As a part of our audit, we assessed the system of internal controls, policies, and procedures applicable to program reviews for schools participating in the Title IV programs. We gained an understanding of FSA's internal controls used for assessing risk for the selection of schools for program review and for performing program reviews, as well as FSA's quality control processes. We also reviewed FSA's Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Appendix A, Internal Controls Over Financial Reporting assessments for FY 2010 through FY 2013. Because of inherent limitations, an evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the internal controls. Our overall assessment disclosed significant internal control weaknesses in FSA's program review process. These weaknesses are fully discussed in the Audit Results section of this report.

### **Data Reliability**

Use of computer-processed data was limited to program review and school data obtained from FSA's Postsecondary Education Participants System. We used the information in this system to determine the number of program reviews conducted during our audit period and to obtain school and program review data, such as program review dates and award years, program review results, and finding deficiency levels. We assessed the reliability of the data through interviewing FSA officials knowledgeable about the data, and reviewing School Participation Team program review files. We determined that the data were sufficiently reliable for the objective of this audit.

We visited FSA's offices at the following sites on the following dates: FSA offices in Washington, DC, from February 14, 2011, through February 18, 2011; the Philadelphia School Participation Team in Philadelphia, PA, from September 20, 2011, through February 27, 2012; the Dallas School Participation Team in Dallas, TX, from June 4, 2012, through June 8, 2012; and the San Francisco School Participation Team in San Francisco, CA, from August 20, 2012, through August 28, 2012. We held an exit conference with FSA officials to discuss the results of our audit on June 5, 2013. In addition, we performed follow-up work with FSA in March, April, and July 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Enclosure 1: Required Uses of FSA Program Review Documents**

**Institutional Worksheet.** Reviewers were required to use the Institutional Worksheet to document the review of a school's information to ensure that the school met the Title IV program requirements and had adequate policies and procedures in place. Areas requiring review included school eligibility, a school's admission and refund policies and procedures, and student consumer information.

**Return of Title IV Funds Policies and Procedures Worksheet.** Reviewers were required to use the Return of Title IV Funds Policies and Procedures Worksheet to document the review of a school's refund policy. The reviewer was required to determine whether the school's refund policies and procedures contained the required elements, such as how Title IV funds are treated when a student withdraws from the school.

**Program Review Report/Expedited Determination Letter Checklist.** The compliance manager and the division director were required to use the Program Review Report/Expedited Determination Letter Checklist to document the review of the program review report or the expedited determination letter (used for reviews that have only minor deficiencies). The checklist also served as the compliance manager's and the division director's approval of the program review report or the expedited determination letter.

**Postsecondary Education Participants System Data Entry Form.** Reviewers were required to use the Postsecondary Education Participants System Data Entry Form to document pertinent program review data in the system, such as the date of the program review, the scope of the program review, and the level of finding deficiencies (for example, moderate or significant) identified during the program review.

## Enclosure 2: Federal Student Aid's Comments

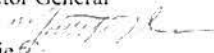


AUG 20 2015

### MEMORANDUM

**DATE:**

**TO:** Bernard Tadley  
Regional Inspector General for Audit  
Office of Inspector General

**FROM:** James W. Runcie   
Chief Operating Officer

**SUBJECT:** Response to Draft Audit Report:  
Federal Student Aid's Oversight of Schools  
Participating in the Title IV Programs  
Control No. ED-OIG/A03L0001

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft audit report, *Federal Student Aid's Oversight of Schools Participating in the Title IV Programs*, dated July 10, 2015. Federal Student Aid (FSA) is committed to a strong oversight policy of all Title IV participants. As you note in your draft report, we have taken a number of steps to improve our procedures and processes, and have continued to do so since your work concluded last year.

It is important to note that the results of the audit did not identify significant weaknesses in the program review procedures themselves, but rather the files lacked documentation to confirm that staff had followed the procedures. However, FSA agrees that staff failure to comply with the procedures' documentation requirements is a significant concern. When this finding was brought to our attention two years ago, FSA immediately took steps to tighten controls over the process. A senior managers' meeting was scheduled after the audit exit conference to discuss the findings and identify corrective actions we could implement immediately. As a result of this meeting, FSA established a special quality review team to visit the regional offices to conduct on-site reviews of program review work papers produced during the period which had been audited. As expected, the team noted the same missing documentation that your audit team found. After completion of the pilot process, in February 2014, the Program Review Quality Control Process (PRQC) was rolled out as a permanent component of FSA's quality control processes to review School Participation Teams' work on at least an annual basis to evaluate and ensure staff compliance with Program Compliance's national standard procedures for program reviews. The PRQC process is monitored and modified as necessary to ensure continuous process improvement and to identify staff training needs.

**Federal Student Aid**  
An OFFICE of the U.S. DEPARTMENT of EDUCATION

830 First Street, NE, Washington, DC 20202  
StudentAid.gov

Page 2

FSA also created a Forms, Checklists and Procedures (FCAP) workgroup to review and strengthen the program review documentation process. FSA management and staff in the workgroup were asked to review the current procedures and identify changes to assist in consolidating the various worksheets to create a more efficient process that will demonstrate clear evidence of supervisory review. The workgroup's recommendations are to develop a new checklist that is adaptable to the appropriate stage of the review (e.g., Program Review Report (PRR), Expedited Program Review Determination Letter (EDL), or Final Program Review Determination (FPRD)) to ensure the process for that stage of review is appropriately followed. The workgroup also recommended modifications to the preliminary findings worksheet to address the resolution of potential findings that may or may not become part of the program review report depending on the resolution of the item. The Performance and Procedures Improvement Service Group is in the process of implementing these two recommendations.

In addition, each of the School Participation Divisions has implemented additional internal quality assurance processes that staff and/or compliance managers follow to evaluate the completeness of review documentation. These processes are tailored to support how each division approaches workload assignments and includes steps to review the completeness, organization and managerial sign-off of review materials. For example, some regions have established Quality Control (QC) processes that outline review steps and roles/responsibilities for those steps among their team members; they have developed checklists to guide the review of program review materials within their organization; or they have other reviewers from the review team reviewing documents for completeness; they have a supervisor initial the date he/she conducted the work paper review on the FPRD Review checklist; or the sampling of files for reviews conducted by their team. Each approach is intended to ensure the accuracy and completeness of review documentation, ensuring review documents are well organized, and that managerial sign-off has occurred.

We have responded to each finding and recommendation in detail below:

**FINDING NO. 1 – FSA Did Not Conduct Program Reviews in Accordance With Its Program Review Procedures**

FSA acknowledges that some staff did not conduct program reviews in accordance with FSA's program review procedures that require completion of the required documentation.

However, FSA does not agree with the assertions in the report that "*FSA has limited assurance that program reviews are appropriately identifying and reporting all instances of noncompliance*"; which calls into the question the validity of the estimates used in the calculation of the Department's improper payments. It is unreasonable that FSA or any organization can ensure that *all* instances of noncompliance are identified. In fact, it is standard practice for an oversight agency to disclose in its report that although a review is thorough, it does not claim to be all inclusive. However, the findings and liabilities identified during the reviews conducted during the period in question clearly demonstrate that the significant instances

Page 3

of noncompliance were identified. For fiscal year 2011, FSA assessed \$65 million in liabilities stemming from 315 program reviews. In contrast, for the same fiscal year, \$34 million in liabilities were assessed from the 1,377 audits conducted by independent accountants. The significant differences in the amount of liabilities assessed, relative to the number of institutions reviewed, clearly demonstrates that FSA was not only selecting the highest risk institutions to review, but was also identifying significant instances of non-compliance.

**Recommendation 1.1: Revise the “Program Review Procedures” to require documentation of supervisory review of the program review file.**

**Response:** We agree and the new PRQC process requires validation that the supervisory review of specific documents has occurred.

**Recommendation 1.2: Ensure review specialists complete and document all aspects of the program review process.**

**Response:** We agree and based on recommendations from the FCAP workgroup, FSA has already revised many of the worksheets and documents used during a program review to ensure review specialists are carefully documenting all aspects of the process. Program reviewers were provided training on the completion of those documents. In addition, the PRQC process includes validation that the review specialists complete and document the specific points in the program review process.

**Recommendation 1.3: Ensure review specialists are reviewing and documenting the review of a school’s Direct Loan quality assurance system.**

**Response:** The PRQC procedures require testing of a school’s Direct Loan quality assurance system. Verification of this process is being reviewed as part of the PRQC process as of February 2014.

**Recommendation 1.4: Require School Participation Team management to take corrective action on the recommendations made in the PRQC review reports.**

**Response:** We agree that School Participation Team management should be required to take corrective actions as warranted. The management of the School Participation Team has already been taking corrective actions as warranted, but they had not been properly documented. The PRQC process will be updated to incorporate validation and documentation that corrective actions have been taken.

**Recommendation 1.5: Reassess whether the current total time allotted to perform a program review is adequate to complete and document all required procedures.**

Page 4

**Response:** FSA will reassess whether the current total time allotted to perform a program review is adequate to complete and document all required procedures. However, with 200 staff members responsible for overview of more than 6,000 institutions, resource constraints will come into play in these decisions. For instance, allotting more time to each program review, due to these personnel constraints, will result in fewer reviews being performed.

**FINDING NO. 2 – FSA Was Not Considering Annual Dropout Rate Data For Program Review Selections**

We disagree with this finding. FSA did use annual dropout rate data, as prescribed in the statute, in selecting schools for program reviews. Section 498A of the Higher Education Act of 1965, as amended, states that institutions with a high annual dropout rate shall be given priority for program reviews. The statute does not provide a definition nor does it describe how to calculate such a rate, including whether the rate should include all students or only Title IV recipients. The statute only states that we “shall give priority for program review to institutions of higher education that are institutions with high annual dropout rates”. FSA determined that calculating the dropout rate for Title IV recipients meets the statutory standard. A dropout rate could be calculated in a number of different ways, for example, by comparing students who start to those who complete. FSA chose to look at the number of dropouts versus graduates.

For this calculation, FSA used enrollment status data reported to the National Student Loan Data System (NSLDS) to calculate the percentage of students who withdrew during an award year out of all students who left school during the same award year. For example, if 25 students withdrew and 75 students graduated, the dropout rate would be  $25 / (75 + 25)$  or 25%. FSA performs this calculation annually and considers five years of data to look for trends.

FSA also uses data from the Integrated Postsecondary Education Data System (IPEDS) to validate the results of the dropout calculations using NSLDS data. For most schools, the inverse of the completion rate or a “did not complete” rate, which is calculated by considering whether a student earned a credential within 150% time, closely tracks the dropout rate calculated from the NSLDS described above. FSA compares these two rates and if they differ significantly further analysis is conducted.

**Recommendation 2.1: Consult with the National Center for Education Statistics regarding the feasibility of collecting and calculating annual dropout rates for schools and use the rates as a factor to prioritize schools for program reviews.**

**Response:** As described above, FSA already has a methodology for calculating the annual dropout rate which has been used in prioritizing schools for program reviews per the statutory requirement. However, FSA agrees to consult with National Center for Education Statistics (NCES) on this issue. With regard to the feasibility of NCES collecting and calculating annual dropout rates for schools, we believe that recommendation should be directed to NCES, not FSA. If NCES is able add a dropout rate to their IPEDS data collection, as the OIG suggests, FSA will

Page 5

consider using those rates as a factor to prioritize schools for program reviews, per the statutory requirement.

Thank you again for the opportunity to review and respond to this report.