Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

ALLOPATHIC MEDICINE HEALTH PROFESSIONS STUDENT LOANS PROGRAM AT THE MEDICAL COLLEGE OF WISCONSIN MILWAUKEE, WISCONSIN

JUNE GIBBS BROWN
Inspector General

SEPTEMBER 1998
A-05-98-00025

DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V
105 W. ADAMS ST.
CHICAGO. ILLINOIS 60603620 1

OFFICE OF
INSPECTOR GENERAL

September 1, 1998

Common Identification No. A-05-98-00025

Kenneth J. Mount, CPA
Assistant Vice President, Finance
Medical College of Wisconsin
8701 Watertown Plank Road
Post Office Box 26509
Milwaukee. WI 53226-0509

Dear Mr. Mount:

This letter report provides the results of our audit of the Allopathic Medicine Health Professions Student Loans (HPSL) Program at the Medical College of Wisconsin (the College). The HPSL program was implemented through the Public Health Service Act. The Health Resources and Services Administration (HRSA) has overall management responsibilities for the program at the Federal level.

We determined that the College was appropriately using HPSL funds to provide loans to eligible medical students and was generally in compliance with regulations concerning the administration of loans. However, our audit revealed that the College was carrying uncollectible loans in their accounting records.

We are recommending that the College write off loans totaling $2,456 in accordance with HRSA Policy Memorandum Number Fifteen. In addition, we are recommending that the College reimburse the HPSL fund $78,223 for loans that were not referred to HRSA for write-off approval in accordance with HRSA's Student Financial Aid Guidelines and the Code of Federal Regulations 42 CFR Part 57.210.

In a letter dated August 19, 1998, the College concurred with our findings and has taken action to address our recommendations. The College has also implemented procedures to ensure that future uncollectible loans are written-off in the required time frame. The full text of the College's comments is attached as an appendix to this report.

INTRODUCTION

Background

In response to an anticipated national shortage of doctors, nurses and health professionals, the Congress established HPSL through Public Law 88-129 in 1963 The legislation authorized funds for use by educational institutions in making long-term, low-interest loans to eligible students. To be eligible for the programs, students must have a need for financial assistance and be taking courses to become a physician, osteopath, dentist, optometrist, pharmacist, podiatrist or veterinarian.

In 1992 the Health Professions Education Extension Amendments (Public Law 102-408) established new requirements for the use of HPSL funds for allopathic and osteopathic medical schools. Effective July 1993, new medical and osteopathic students who receive HPSL funds are required to practice primary health care.

The Allopathic Medicine program at the Medical College of Wisconsin has received $2 miliion in Federal funding. The program has provided HPSL and primary care loans to more than 1,400 students. The total dollar amount of loans provided to students exceeds $7 million. The amount of the loan pool continues to increase due to the addition of interest income earned on student loans.

Scope of Audit and Methodology

Our audit was performed in accordance with generally accepted government auditing standards. Our objectives were to determine that (i) interest income earned on HPSL invested balances was properly credited to the HPSL loan pool, (ii) excess cash from the HPSL account was not being maintained, (iii) the amounts and use of primary care loans were appropriate, (iv) the recipients of primary care loans were complying with their primary care service obligation, and (v) the college was not carrying uncollectible loans in its accounting records. To achieve our audit objectives, we interviewed college officials, researched applicable laws and program regulations, reviewed accounting data and student files, and performed other auditing procedures as considered necessary.

We reviewed accounting records to document the amount reported as Investment Income on the Fiscal Year (FY) 1997 Annual Operating Report. Accounting records and a review of prior loan activities were used to assess the validity of data reported in the Excess Cash Work Sheet section of the FY 1997 Annual Operating Report.

We selected all 12 primary care loan accounts to review the dollar amount of the loan, the use of third and fourth year student loans to repay outstanding medical school loans, and the compliance with the primary care service obligation. A separate random sample of 100 HPSL borrowers was drawn for a review of uncollectible accounts. Additional reviews included 49 loans that were past due for more than 120 days, 19 accounts which were classified as pending bankruptcy or discharged in bankruptcy, and 11 loans written-off under provisions precluding a penalty. Public Law 100-607 allows schools to write-off all HPSL loans determined to be uncollectible prior to August 1, 1985, without penalty.

The period covered by our audit of investment income and excess cash was limited to the 1997 Fiscal Year which corresponded to the Annual Operating Report. The period for our review of primary care loans was July 1, 1993 through December 31, 1997, while our review of the extent of uncollectible loans covered the period August 1, 1985 through December 3 1, 1997.

We conducted our field work at the College's Student Billing and Collections Office in Milwaukee, WI. Field work was performed during the month of February 1998.

RESULTS OF AUDIT

With the exception of uncollectible loan write-offs, the Allopathic Medicine HPSL Program at the Medical College of Wisconsin was generally in compliance with program regulations. The College is currently crediting the HPSL loan pool for interest income earned on HPSL invested funds and is not retaining excess cash from the HPSL program. The primary care loan amounts were appropriate, and the recipients were complying with their primary care service obligations. Loans retired under Public Law 100-607 were eligible for write-off. However, the College was carrying uncollectible loans in their accounting records that were not submitted to HRSA for write-off approval.

Investment Income

Interest earned from HPSL invested funds is currently being reinvested into the HPSL program. During FY 1997, $1 1,015 was recorded as investment income on the Annual Operating Report.

Excess Cash

The College was not retaining excess cash from the HPSL program. In fact, according to the documentation used to prepare the FY 1997 Annual Operating Report, the College reported a negative amount of excess cash.

Primary Care Loans--Loan Amounts

The dollar amount of loans and use of the loans provided to primary care loan borrowers were allowable.

Primary Care Loans--Compliance

Medical students who received primary care loans were complying with their primary care service obligations.

Uncollectible Loans

The College was carrying uncollectible loans in their accounting records that should have been submitted to HRSA for write-off approval. HRSA's Student Financial Aid Guidelines and 42 CFR Part 57.210 requires schools to request permission to write-off uncollectible loans within 30 days of the determination that the loan is uncollectible or reimburse the fund in the full amount of the principal, interest and penalty charges that remain uncollectible. HRSA policy Memorandum Number Fifteen simplifies the write-off procedures for loan balances that do not exceed $1,000. Under this criteria, schools may write-off loans without requesting approval from HRSA so long as the school can demonstrate due diligence in its collection practices. We identified 24 uncollectible loans that the College should have written-off or requested write-off approval.

Four loans, one exceeding the ten-year repayment period and three discharged in bankruptcy, did not exceed $1,000. Collectively these loans totaled $2,456 and should have been written-off in accordance with Policy Memorandum Number Fifteen. Twenty additional loans totaling $78,223 should have been submitted to HRSA for write-off approval as the College became aware that the loans were uncollectible. Seven loans exceeding the ten-year period, two loans pending bankruptcy and eleven loans discharged in bankruptcy had outstanding balances of $3 1,545, $5,175, and $41,503, respectively. Since the 30 day period to request write-off approval had lapsed, the College is responsible for reimbursing the HPSL fund the outstanding balance of the loans.

Recommendations

We recommend that the College write-off four loans totaling $2,456 in accordance with HRSA Policy Memorandum Number Fifteen. Further, we recommend that the College reimburse the HPSL fund $78,223 for loans that were not referred to HRSA for write-off approval within the required 30 day period

University Comments

In a letter dated August 19, 1998, the College concurred with our findings and has taken action to address our recommendations. The College has also implemented procedures to ensure that future uncollectible loans are written-off in the required time frame. The letter states that the College has reimbursed the HPSL fund an amount of $30,329 for loans outstanding more than ten years, The College intends to write-off five bankruptcy loans totaling $30,508 under Public Law 100-607. The HPSL fund will be reimbursed for the remaining loans in bankruptcy. The full text of the College's comments is attached as an appendix to this report.

OIG Comments

At the time of our audit the loans classified as pending bankruptcy and discharged in bankruptcy were uncollectible. We request that loans subsequently written-off under Public Law 100-607 be reviewed for allowability during the school's biennial audit or HRSA program review as provided for in HRSA Policy Memorandum Number Fifteen.

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Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this report. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG/OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.) To facilitate identification, please refer to Common Identification Number A-05-98-00025 in all correspondence to this report.

Paul Swanson

Paul Swanson
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Offkial:
Chief, Cost Advisory and Audit Resolution Branch
Division of Grants and Acquisition Management
Health Resources and Services Administration
Parklawn Building, Room 13A-27
5600 Fishers Lane
Rockville, MD 20857

APPENDIX

MEDICAL
COLLEGE
OF WISCONSIN

Assistant Vice President for Finance

August 19, 1998

Mike Barton, Senior Auditor
DHHS/OIG Audit Services
280 North High Street, Room 710
Columbus, Ohio 43215

Subject: Common Identification Number A-05-98-00025

Dear Mr. Barton:

We have reviewed the draft audit report of the Allopathic Medicine Health Professions Student Loans (HPSL) program at the Medical College of Wisconsin issued in June 30, 1998. We are in agreement with the findings and have taken the following actions based on your recommendations:

The College had one loan outstanding more than ten years and three loans in bankruptcy where the balance due was less than $1,000. The loan balances totaled $2,456. The outstanding loan was written off under Policy Memorandum Number Fifteen and reported in the HPSL Annual Operating Report for the period ended June 30, 1998. The loans in bankruptcy will also be written off under Policy Memorandum Number Fifteen and reported in the HPSL Annual Operating Report for the period ended June 30, 1999.

The College reimbursed the HPSL fund in March, 1998 for $30,329 related to loans outstanding more than ten years. This amount is less than the amount of $31,545 stated in the audit, because one borrower paid the loan in full in the interim period. The repayments were reflected in the HPSL Annual Operating Report for the period ended June 30, 1998.

The College was not aware that loans with finalized bankruptcy paperwork also needed to be submitted to HRSA for write-off approval. The College has reviewed the thirteen loans in bankruptcy and found five loans totaling $30,508 went into bankruptcy prior to August 1, 1985. These loans will be written off under Public Law 100-607. The College will reimburse the HPSL fund for the amount due on the remaining eight loans. These actions will be reflected in the HPSL Annual Operating Report for the period ended June 30, 1999.

To prevent these issues from reoccurring, we have implemented procedures to handle future write-off requests within the thirty day period. This will insure uncollectible balances can be cleared with Federal funds.

Sincerely,

Kenneth Mount
Assistant Vice President, Finance

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