

DEPARTMENT OF HEALTH AND HUMAN SERVICES

**OFFICE OF
INSPECTOR GENERAL**

**Faculty Loan Repayment Program - Making
More Effective Use of Program Funds**



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JANUARY 2002
OEI-12-01-00510

OFFICE OF INSPECTOR GENERAL

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OIG Final Report: Faculty Loan Repayment Program - Making More Effective Use of Program Funds, OEI-12-01-00510

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Purpose

This memorandum addresses the requirement that academic institutions with faculty members who participate in the Faculty Loan Repayment Program (FLRP) contribute an amount that is equivalent to the payments made to the faculty members by the Health Resources and Services Administration (HRSA). We conducted this study upon learning that this matching requirement was frequently being waived.

Summary

We found that the FLRP routinely waives an institutional matching requirement; such waivers have the potential impact of reducing the effectiveness of Federal funds.

The program provides degree-trained health professionals from disadvantaged backgrounds with loan repayments of up to \$20,000 per year. In exchange, these individuals agree to serve as faculty members at academic medical or health related institutions for at least 2 years. Its goals include the development of a faculty that is diverse and that can serve as effective role models and mentors for disadvantaged students. Under the statute, the academic institution is required to match the Federal loan repayment, unless they can demonstrate a financial hardship, in which case they can request a waiver. We found that waivers are routinely granted without an in-depth review of the institutions' financial condition. Since institutional matching of Federal loan repayments has the potential of "stretching" Federal dollars, we recommended that HRSA develop detailed policy guidance for evaluating waiver requests. The HRSA agreed with our recommendation.

Background

The Faculty Loan Repayment Program was enacted as part of Public Law 101-527, Section 761 (November 6, 1990), the Disadvantaged Minority Health Improvement Act of 1990, and was codified in Section 738 (a) of the Public Health Service Act. The FLRP is designed to attract disadvantaged health professionals into faculty positions in accredited health professions schools. The program provides a financial incentive for degree-trained health

professions personnel from disadvantaged backgrounds who will serve as members of the faculties of those schools. The goals of the program include the development of a faculty that is diverse and that can serve as effective role models and mentors. Eligible schools are public or nonprofit private accredited schools of medicine, nursing, pharmacy, podiatric medicine, optometry veterinary medicine, public health or schools that offer graduate programs in clinical psychology.

Under Section 738 (a), the FLRP provides eligible faculty members a loan repayment, for each year of service, toward the outstanding principal and interest on the individuals educational loans. Individuals must agree to serve as faculty members for a minimum of 2 years. Schools are required to pay an equal amount, unless HRSA determines that the repayment will impose an undue financial hardship on the school. The maximum amount of each Federal loan repayment is limited to \$20,000 per year.

Individuals who wish to apply for assistance must submit the following: an application form, loan disclosure form, documentation demonstrating “disadvantaged background,” letter from employing school that states the school agrees to match the amount of the Federal loan repayment (unless the school requests a waiver). Individuals are eligible for loan repayments if they are new faculty or long-term employees.

According to HRSA guidelines, a person is considered to be from a “disadvantaged background” if the individual comes from a family with an annual income below a level based on low-income thresholds published by the U.S. Bureau of Census and adjusted by the Secretary of HHS for use in health professions and nursing programs or comes from an environment that has inhibited the individual from obtaining the knowledge, skill, and abilities required to enroll in and graduate from a health professions school. The HRSA policy provides the following examples:

- ◆ An individual graduated from a high school with low per capita funding.
- ◆ An individual comes from a family that receives public assistance (Temporary Assistance for Needy Families, public housing, Medicaid, etc).
- ◆ An individual participated in an academic enrichment program funded by the Health Career Opportunity Program.
- ◆ The individual was the first generation to attend college.

Individuals find out about the FLRP from such places as school financial aid staff and national professional associations and societies.

On November 13, 1998, former President Clinton signed Public Law 105-392, the Health Professions Education Partnership Act of 1998. This law made the following changes to the Faculty Loan Repayment program.

- ◆ Part-time faculty are now eligible.
- ◆ The range of eligible professions has been broadened to include, for example, dental hygiene and occupational and physical therapy.
- ◆ Loan repayments are no longer limited to 20 percent of outstanding principal and interest.
- ◆ The maximum amount of each Federal loan repayment is limited to \$20,000 per year.

Funding for the program has been as follows: FY 2000, \$849,000; FY 2001, \$1 million; FY 2002, \$557,000. During Academic Year 2000-2001, HRSA had a total of 76 loan repayment contracts with individual faculty members.

Waiver of Institutional Financial Responsibility and Determination of Loan Repayment Amount

The FLRP authorizes HRSA to grant an academic institution a waiver of the matching requirements if HRSA determines that such a contribution will impose a financial hardship on the school.

We reviewed the listing of Academic Year 2000-2001 contracts and found that almost 70 percent of the institutions received a waiver. Since the start of the program in 1992, a waiver request from a school has never been rejected.

The legislative history of the FLRP shows that Congress expected HRSA to apply certain criteria when making waiver decisions. House Report No. 101-804, page 41, states as follows:

A...The Secretary may waive the requirement regarding equal loan payments if the Secretary determines that the requirement would impose an undue financial hardship on the school involved. The Committee notes in particular that schools that have limited endowment funds, have experienced recent financial distress, or can otherwise document persuasively to the Secretary that such payments would constitute a hardship, would be eligible for such a waiver..."

A January 29, 1997 Program Announcement (62 Federal Register 4312) outlined the waiver requirements for FY 1997 as follows:

“In the event of undue financial hardship to a school, the school may obtain from the Secretary a waiver of its share of payments while the participant is serving under the terms of the contract. For purposes of this program, “undue financial hardship,” as seen by the Secretary, is based on a school’s particular financial status as influenced by such circumstances as budget cutbacks. Decisions will be made on a case-by-case basis, and must be supported by the school’s documentation of comparative yearly financial allocation of funds; or the most current certified public accounting audit, including the balance sheet and statement of Income and Expenses for the past several years...”

We reviewed a sample of 6 of the 55 school waiver requests for faculty members funded during Academic Year 2000-2001 and found that none of the requests provided any documentation, e.g. audit report, financial statement.

It should be noted that subsequent FLRP program announcements published in the HRSA Preview for FY 1998-2000 did not continue the January 29, 1997 documentation requirements for schools requesting a waiver. Instead, the program has required that a school requesting a waiver of the matching requirement provide a letter explaining the circumstances which have created undue financial hardship. For FY 2001, in response to the OIG inquiry, the FLRP program is requiring that each school provide financial documentation to support a request for a waiver of the matching requirement.

According to the February 2000 “The Chronicle of Higher Education” listing of college and university endowments, 5 of the 6 schools in our sample were in the top 20 with respect to endowments. For our sample schools, endowments ranged from \$2 billion to \$14 billion. We recognize that endowment funds can be limited to specific purposes, and such limitations should be taken into account in consideration of an institution’s financial viability when it applies for a waiver.

The HRSA officials acknowledge that they have never denied a waiver, primarily because they have had no leverage with an institution to require a match, and they have not wanted to make an otherwise eligible faculty applicant ineligible merely because the institution does not match the HRSA award. To make the best of this problem, and leverage as much matching money as possible, HRSA has implemented a preference of funding an eligible applicant whose employing institution would commit to matching the Federal award. Under this preference, applicants at schools that match receive funding before applicants at schools that request a waiver of the match.

Although the funding preference has been partially successful in leveraging institutional matches, the number of approved waivers is still high.

In 1994, the United States House of Representatives voted to remove the matching requirement. The House Report on the legislation, Minority Health Improvement Act of the 1994, House Report No. 103-501, May 11, 1994, noted as follows: "...the Committee amendment removes the requirement that schools contribute matching ..funds to defray the loan repayment costs of faculty members. The Committee has learned that the Department has historically granted waivers of the matching requirement, thereby negating the effect of the current...provision...". The amendment was passed by the House, but was not passed by the Senate before the 103rd session of Congress ended.

According to HRSA staff, the amount of Federal loan repayment to individual applicants is apportioned, based on the following considerations: the maximum amount of Federal repayment is limited (by law) to \$20,000 per year; HRSA tries to assure that each approved applicant obtains a reasonable amount; each approved applicant gets approximately the same percentage of their total eligible student loan indebtedness.

While HRSA gives preference to applicants from institutions that provide a match, it makes no such distinction in determining the actual amount of loan repayment available to each individual.

We believe that institutional matching payments have the potential to maximize the use of Federal funding and that HRSA's ability to "stretch" or maximize Federal funds is limited by institutions' use of the waiver provision and HRSA's inability to require institutions to provide matching funds. If more institutions matched HRSA's awards, then HRSA would be able to ensure that eligible faculty receive more loan repayment funds. In addition, the use of institutions' funds combined with HRSA's funds would allow the program to provide loan repayments to more applicants by stretching or leveraging the Federal dollars with the institutions' funds. For example, if a faculty member is eligible to receive a loan repayment of \$20,000 and the institution commits to a \$10,000 award, HRSA could utilize the "saved" \$10,000 to provide additional loan repayment funds for current applicants or, for additional applicants.

Recommendation

We recommended that HRSA utilize the 1997 FLRP Program Guidance as a basis for developing a more detailed policy and process for evaluating waiver requests. Such a policy should include guidance on what documentation should be submitted. As part of this guidance, HRSA may want to provide more precise and practical definition(s) of what

constitutes “financial hardship,” perhaps including examples of circumstances that might warrant requesting a waiver. We believe that adherence to such requirements will allow HRSA to more effectively leverage Federal funds to promote the hiring and retention of teachers from disadvantaged backgrounds. In doing so, current participants may be able to receive more funding, and there is the potential for the program to serve additional eligible faculty by providing them with loan repayment funds through the program.

In developing policy guidance, HRSA should consult with representative stakeholders, such as the American Association of Medical Colleges, National Association of College and University Business Officers, Association of American Universities, etc. Such discussions should address institutional commitment to this program and the need to make the most effective use of Federal funding, particularly since appropriations for this program have recently declined significantly.

Agency Response

The agency agreed with our recommendation to consider developing policy guidance on defining “financial hardship” for institutions requesting a waiver of the requirement to match a Federal award to an eligible applicant. However, HRSA disagreed with the OIG conclusion that this has the potential for “stretching” Federal dollars to assist more disadvantaged faculty applicants.

OIG Response

We are pleased that HRSA concurred with our recommendation to develop policy guidance for reviewing waiver requests. We continue to believe that the effect of using these criteria would be to maximize the reach of Federal dollars available for this program.

A copy of HRSA’s response to our draft report is attached as Appendix A.