Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

PHARMACY HEALTH PROFESSIONS STUDENT LOANS PROGRAM AT THE UNIVERSITY OF MISSOURI-KANSAS CITY

KANSAS CITY, MISSOURI

JUNE GIBBS BROWN
Inspector General

OCTOBER 1998
A-05-98-00056

DEPARTMENT OF HEALTH AND HUMAN SERVICES
REGION V
105 W. ADAMS ST.
CHICAGO, ILLINOIS 60603-6201

OFFICE OF
INSPECTOR GENERAL

October 9, 1998

Common Identification No. A-05-98-00056

Patrick McTee
Director of Financial Aid
and Scholarships
University of Missouri-Kansas City
101 Administrative Center
5100 Rockhill Road
Kansas City, Missouri 64110-2499

Dear Mr. McTee:

This letter report provides the results of our audit of the Pharmacy Health Professions Student Loans (HPSL) Program at the University of Missouri-Kansas City. 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 University was generally in compliance with regulations concerning the administration of loans. However, our audit revealed that the University was carrying uncollectible loans in their accounting records.

We are recommending that the University write-off loans totaling $79 in accordance with HRSA Policy Memorandum Number Fifteen. In addition, we are recommending that the University reimburse the HPSL fund $70,808 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. We are also recommending that the University develop a means to identify loans that are about to exceed the ten-year repayment period.

In a letter dated September 28, 1998, the University of Missouri-Kansas City concurred with our recommendations to write-off loans totaling $79 and develop a method to identify loans which are about to exceed the ten-year repayment period. The University did not concur with our recommendation to reimburse the HPSL fund for loans amounting to $70,808 which were not referred to HRSA for write-off approval. The full text of the University'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.

The Pharmacy program at the University of Missouri-Kansas City has received $737,000 in Federal funding. The program has provided HPSL loans to more than 887 students. The total dollar amount of loans provided to students exceeds $3.6 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, and (iii) the university was not carrying uncollectible loans in its accounting records. To achieve our audit objectives, we interviewed university 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.

A random sample of 100 HPSL borrowers was drawn for a review of uncollectible accounts. Additional reviews included 17 loans that were past due for more than 120 days and 23 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 for investment income and excess cash was limited to the 1997 Fiscal Year corresponding to the Annual Operating Report, while our review of the extent of uncollectible loans covered the period August 1, 1985 through December 31, 1997.

We conducted our field work at the University's Student Financial Aid and Student Loan offices in Kansas City, Missouri. Field work was performed during the month of June 1998.

RESULTS OF AUDIT

With the exception of uncollectible loan write-offs, the Pharmacy HPSL Program at the University of Missouri-Kansas City was generally in compliance with program regulations. The University 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. Loans retired under Public Law 100-607 were eligible for write-off. However, the University was carrying uncollectible loans in their accounting records that were not submitted to HRSA for write-off approval. The University also did not have a mechanism to identify loans which were about to exceed the ten-year repayment period.

Investment Income

Interest earned from HPSL invested funds is currently being reinvested into the HPSL program. During FY 1997, $834 was recorded as investment income on the Annual Operating Report.

Excess Cash

The University 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 University reported a negative amount of excess cash.

Uncollectible Loans

The University 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 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 eleven uncollectible loans that the University should have written-off or requested write-off approval.

One loan exceeding the ten-year repayment period did not exceed $1,000 and should have been written-off in accordance with Policy Memorandum Number Fifteen. Ten additional loans totaling $70,808 which had exceeded the ten-year repayment period should have been submitted to HRSA for write-off approval as the University became aware that the loans were uncollectible.Since the 30 day period to request write-off approval had lapsed, the University is responsible for reimbursing the HPSL fund the outstanding balance of the loans.

HPSL regulations require that a loan must be considered uncollectible when the ten-year repayment period has expired. Review of specific loan accounts are only required on an annual basis and collection efforts need only be performed on a semi-annual basis once a loan has been in default more than three years. The infrequent monitoring requirement dictates the need for a system that will alert university officials, in a timely manner, of the approaching repayment expiration date. We noted that the University did not have a mechanism in place to identify loans which were about to become uncollectible through the expiration of the ten-year repayment period.

Recommendations

We recommend that the University write-off one loan totaling $79 in accordance with HRSA Policy Memorandum Number Fifteen. Further, we recommend the University reimburse the HPSL fund $70,808 for loans that were not referred to HRSA for write-off approval within the required 30 day period. We are also recommending that the university establish a means to identify loans that are about to exceed the ten-year repayment period.

University Comments

In a letter dated September 28, 1998, the University of Missouri-Kansas City concurred with our recommendations to write-off loans totaling $79 and develop a method to identify loans which are about to exceed the ten-year repayment period. The University did not concur with our recommendation to reimburse the HPSL fund $70,808 for loans which were not referred to HRSA for write-off approval. The University stated that previous attempts to write-off loans were denied as a result of technical interpretations by HRSA. The University contends that regulations in effect were met and adequately documented through the University's computerized processes. The University is requesting DHHS approval to write-off the $70,808 of questioned costs.

OIG Comments

HRSA Student Financial Aid Guidelines and the Code of Federal Regulations state that in any instance where the Secretary determines that a school has failed to exercise due diligence in the collection of a loan, the school will be required to place in the fund the full amount of principal, interest, and penalty charges that remains uncollected on the loan. The University's comments indicate that HRSA determined that the University did not meet the due diligence requirement with respect to certain loans. Without write-off approval, the loans are the responsibility of the University. We recommend that the University reimburse the HPSL fund $70,808 for the loans exceeding the ten-year repayment period.

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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-05-98-00056 in all correspondence to this report.

Paul Swanson

Paul Swanson
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:
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

UMKC

Financial Aid and Scholarships Office

University of Missouri-Kansas City
5100 Rockhill Road
Kansas City, Missouri 64110-2499

816 235-1154
Fax 816 235-5511

Location Address
Administrative Center
101 AC

September 28, 1998

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

Re: A-05-98-00056

Dear Mr. Barton:

This is in response to the referenced draft audit report.

We concur with writing off the $79 loan.

We do not concur with reimbursing the HPSL fund $70,808 and are requesting write-off approval. We were able to locate a piece of correspondence from 1992 related to one of the loans in question. When attempting to write off that loan, we presented what we thought then, and do now, adequate explanation and documentation of due diligence. Our explanation and documentation was related to established processes and procedures and electronic documents, rather than paper copies expected by the Division of Student Assistance. We contended then, as now, that regulations in effect were met and adequately documented through the University's established computerized processes and electronic means even though the Division of Student Assistance interpreted the regulations as strictly requiring traditional paper documentation.

Because of the age of some of the loans, we have not been able to document the complete process followed for each. We are confident, though, that a similar process was followed for each loan in question. As a result, we believe that every effort was made to write off these loans in accordance with DHHS regulations but were denied as a result of technical interpretations at the time. Therefore, we are requesting DHHS approval to write off $70,808 at this time.

We concur that loans approaching the ten-year repayment period be identified and reviewed.

Thank you for the opportunity to respond to the draft report.

Sincerely,

Patrick McTee

Patrick McTee
Director, Financial Aid

cc: Rudy Koch