Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

DENTAL HEALTH PROFESSIONS STUDENT LOANS PROGRAM AT THE UNIVERSITY OF DETROIT MERCY

DETROIT, MICHIGAN

JUNE GIBBS BROWN
Inspector General

NOVEMBER 1998
A-05-98-00039

DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V
105 W. ADAMS ST.
CHICAGO, ILLINOIS 60603-6201

OFFICE OF
INSPECTOR GENERAL

November 24, 1998

Common Identification No. A-05-98-00039

Anne Watson
Director of Financial Aid
University of Detroit Mercy
P. O. Box 19900 FAC 200
Detroit, MI 48219-0900

Dear Ms. Watson:

This letter report provides the results of our audit of the Dental Health Professions Student Loans (HPSL) Program at the University of Detroit Mercy. 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 $4,318 in accordance with HRSA Policy Memorandum Number Fifteen. In addition, we are recommending that the University reimburse the HPSL fund $60,151 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 November 9, 1998, the University of Detroit Mercy concurred with our recommendations to write-off loans totaling $4,318 and to reimburse the HPSL fund $60,151 for loans that were not referred to HRSA for write-off approval. The University is in the process of establishing a plan to identify loans that are about to exceed the ten-year repayment period. 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 Dentistry program at the University of Detroit Mercy has received $1.3 million in Federal funding. The program has provided HPSL loans to more than 1,400 students. The total dollar amount of loans provided to students exceeds $6.4 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 23 accounts that were past due for more than 120 days and 17 accounts which were classified as pending bankruptcy or discharged in bankruptcy.

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 Detroit, Michigan. Field work was performed during the month of April 1998.

RESULTS OF AUDIT

With the exception of uncollectible loan write-offs, the Dentistry HPSL Program at the University of Detroit Mercy 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. 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, $16 was recorded as investment income on the Annual Operating Report.

Prior audit work performed by our office identified investment income on idle HPSL program funds that was not credited to the HPSL and Nursing Student Loan (NSL) accounts. The HRSA hired a contractor in 1988 to review the records of all schools which had received cumulative HPSL/NSL awards in excess of $500,000. The result of the review was a calculation of the amounts of interest earned, but not credited to the funds, for the years beginning FY 1965. As a result of the HRSA initiative, the University has refunded $109,581 of investment income to the HPSL program.

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

Seven loans exceeding the ten-year repayment period had outstanding balances of less than $1,000. Collectively these loans totaled $4,318 and should have been written-off in accordance with Policy Memorandum Number Fifteen. Twenty-six additional loans totaling $60,151 should have been submitted to HRSA for write-off as the University became aware that the loans were uncollectible. Fourteen loans exceeding the ten-year period and twelve loans discharged in bankruptcy had outstanding balances of $31,348 and $28,803, respectively. 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 seven loans totaling $4,318 in accordance with HRSA Policy Memorandum Number Fifteen. Further, we recommend the University reimburse the HPSL fund $60,151 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 November 9, 1998, the University of Detroit Mercy concurred with our recommendations to write-off loans totaling $4,318 and to reimburse the HPSL fund $60,151 for loans that were not referred to HRSA for write-off approval. The University is in the process of establishing a plan to identify loans that are about to exceed the ten-year repayment period. They are also preparing a plan for the referral of uncollectible loans to HRSA for write-off approval. The full text of the University's comments is attached as an appendix to this report.

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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-05-98-00039 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

UNIVERSITY OF DETROIT MERCY

Business and Finance

November 9, 1998

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

RE: University of Detroit Mercy Audit No. A-05-98-00039

Dear Mr. Barton:

The University of Detroit Mercy has reviewed the audit draft of the Dental Health Professions Student Loan Program and accepts the recommendations provided.

Seven loans totaling $4,318 will be written-off in accordance with HRSA Policy Memorandum Number Fifteen. Upon notification by HRSA, the University will reimburse the HPSL fund $60,151 for the fourteen loans identified as having exceeded the ten year repayment period and twelve loans discharged in bankruptcy that were not submitted to the Department for write-off.

The University is currently working with its servicer to establish a plan to identify loans that are about to exceed the ten year limit. Furthermore, the University is preparing a plan for the referral of uncollectible loans to HRSA for write-off approval.

We appreciate the assistance and guidance your office and Mr. Clifford Johnson have provided to our Student Loan Collection Office in the interpretation and implementation of relevant regulations.

Sincerely,
Martha Schultz
Martha Schultz
Controller

Cc: Dale Tucker, Vice President Finance
Bruce Graham, Dean Dental School
Anne Watson, Financial Aid Director
Linda Tinsley, Bursar
Betty Long, Loan Collections Supervisor

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