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Review of Case Management & Oversight's  
Program Review Function

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**FINAL AUDIT REPORT**



**Control Number ED-OIG / A04-90003**  
**September 2000**

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U.S. Department of Education  
Office of Inspector General  
Atlanta, Georgia

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# NOTICE

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

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**UNITED STATES DEPARTMENT OF EDUCATION**

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

September 21, 2000

**MEMORANDUM**

**TO:** Greg Woods  
Chief Operating Officer  
Student Financial Assistance

**FROM:** Lorraine Lewis

**SUBJECT: FINAL AUDIT REPORT**  
Review of Case Management & Oversight's Program Review Function, **Control**  
**Number ED-OIG/A04-90003**

Attached is our subject final report that covers the results of our review of Case Management & Oversight's program review function during fiscal year 1998. We received your comments generally concurring with the findings and recommendations in our draft audit report.

Please provide the Supervisor, Post Audit Group, Financial Improvement, Receivables and Post Audit Operations, Office of Chief Financial and the Office of Inspector General, Planning, Analysis, and Management Services with semiannual status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are 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. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

If you have any questions, please call Carol Lynch, Regional Inspector General for Audit, at (404) 562-6462.

Attachment

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## EXECUTIVE SUMMARY

### REVIEW OF CASE MANAGEMENT & OVERSIGHT'S PROGRAM REVIEW FUNCTION

We performed an audit of the Case Management & Oversight's<sup>1</sup> (CMO) program review function. The objective of our audit was to determine whether CMO is utilizing program reviews effectively within its case management system to monitor and improve institutional performance. The audit period covered Fiscal Year 1998 (October 1, 1997 through September 30, 1998).

Although CMO does have a process in place to conduct program reviews within the case management system, we concluded that CMO does not have proper controls to ensure the effective utilization of program reviews to monitor and improve institutional performance.

- The number of on-site program reviews performed within the mix of case management tools needs to be increased. Whereas the number of on-site program reviews conducted prior to case management (FY96) was 746, the number conducted under case management (FY98) decreased to 128, a reduction of 618. In addition, we concluded that there were institutions where program reviews were warranted, but were not conducted.
- CMO's program review process needs improvement. Specifically, report quality, timeliness, supervisory review, file maintenance, documentation of program reviews, and data entry into the Case Management Information System (CMIS).

We recommend that the Chief Operating Officer (COO) for Student Financial Assistance (SFA):

1. Institute management controls within the case management process to ensure a consistent and appropriately balanced use of program reviews to monitor institutional compliance with Title IV requirements.

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<sup>1</sup>At the time of our review, Case Management & Oversight was known as Institutional Participation & Oversight Service. In the fall of 1999, Student Financial Assistance (SFA) was reorganized. The operational procedures of the Institutional Participation and Oversight Service did not change, however it was renamed Case Management & Oversight, a division within the SFA Schools Channel.

2. Update the 1994 Program Review Guide to reflect the reorganization to case management and clarify guidelines for the timely issuance of program review reports.
3. Establish policies and procedures that provide formal guidance to ensure consistent application of supervisory review, file maintenance, documentation of program reviews, and data entry into the CMIS.

#### DEPARTMENT'S REPLY

The Department generally concurred with much of the information provided in the first finding and recommendation. However, they did not agree with all of the assessments and conclusions. The Department stated that as they work to develop program review measures and refine goals, they will clarify the importance of program reviews for the case teams and emphasize the need for a more balanced use of reviews in case management. The Department believes that concentrating program review efforts and resources on institutions that appear to be high risk will minimize the need for a large number of reviews. To accomplish this, the case teams will increase the number of program reviews at high-risk institutions. To examine the integrity of the risk analysis system, case teams will also conduct reviews at 25 non-risk school in FY2001.

The Department also concurred with the second finding and the recommendations. The Department stated that a workgroup has been formed to update the 1994 Program Review Guide within the first half of FY2001. Policies and procedures will be reviewed and updated as required.

See APPENDIX for the full text of the Department's response to this all findings.

## BACKGROUND

As of June 30, 1998, there were a total of 5,846 institutions within the United States certified as eligible to participate in the Federal Student Financial Assistance (SFA) programs and 122 institutional review specialists<sup>2</sup> making up case teams to perform institutional monitoring. Program reviews are required by the Higher Education Act (HEA) to protect the interest of taxpayers and students. To achieve this, CMO case teams monitor institutional compliance with the Title IV statute and its regulations through on-site assessments of the administration of the Federal Student Financial Assistance (SFA) programs. When institutions are identified that are seriously mismanaging or abusing the SFA programs, they are referred to the Department's Administrative Actions & Appeals Division (AAAD) for administrative action, to include termination, when appropriate. Program reviews also address financial harm to the taxpayer through liability assessments.

Section 498A of the HEA states that the Secretary shall provide for the conduct of program reviews on a systematic basis designed to include all institutions of higher education participating in the SFA programs.

Work previously conducted by the Office of Inspector General in 1997 determined that there had been a significant decrease in the number of program reviews performed by CMO. During the eight month period ended May 31, 1997, approximately 61 reviews were performed compared to 746 reviews during the previous twelve month period. Reasons given for the decrease in the number of program reviews were: resources were redirected to recertification, a significant amount of training was conducted as a result of the CMO reorganization, and a risk-based method of selecting institutions for review was adopted. While CMO had given a low priority to program reviews for fiscal year 1997, we were informed that it planned to conduct more reviews in fiscal year 1998.

Given the decrease in the number of program reviews performed by CMO, we conducted an audit to determine whether CMO is utilizing program reviews effectively within its case management process to monitor and improve institutional performance.

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<sup>2</sup> This figure was as of September 30, 1998.

## AUDIT RESULTS

### FINDING #1

THE NUMBER OF ON-SITE PROGRAM REVIEWS CONDUCTED WITHIN THE MIX OF CASE MANAGEMENT TOOLS NEEDS TO BE INCREASED

Since CMO's reorganization to case management, the total number of on-site program reviews conducted has decreased. Whereas the number of on-site program reviews conducted prior to case management (FY96) was 746, the number conducted under case management (FY98) decreased to 128, a reduction of 618. In addition, we concluded that there were institutions where a program review was warranted but one was not conducted.

#### RECENT HISTORY OF CMO

At the time of our review, CMO was one of six services within Student Financial Assistance that was responsible for administering the SFA programs. Its responsibilities included determining institutions' eligibility to participate in the federal SFA programs, certifying institutions for participation, developing and implementing policies and procedures for monitoring institutions participating in the programs to ensure compliance with the HEA, regulations, and policies, and conducting on-site reviews of participating postsecondary institutions.

Prior to 1996, these functions were performed separately by different sections within CMO. Compliance and financial statement audits were used to monitor institutions' compliance with Title IV requirements. However, according to CMO officials, program reviews were the primary monitoring device. Through these on-site assessments of institutions' administration of the SFA programs, institutions were assessed liabilities for noncompliance and some of those identified as mismanaging or abusing these programs were also referred to AAAD for a fine, limitation, and/or termination action.

The HEA amendments of 1992 provided for additional areas of responsibility for CMO with specific timeframes. Financial statement audits of institutions participating in the SFA programs were required annually. Compliance audits, which were required biennially prior to the 1992 amendments, were also required annually (effective July 1, 1994). This required CMO to resolve twice as many audits as they had previously. Additionally, all institutions' eligibility to participate in the SFA programs after the date of the enactment expired within five years. Prior to the amendments, once an institution was initially certified to participate in the SFA programs, no review of its eligibility and certification was performed unless the Department deemed it necessary. Also, CMO would have to recertify institutions to



participate in the SFA programs every four years.<sup>3</sup>

According to CMO officials, in order to accommodate these changes they began restructuring into a team-based case management organization in November 1996. This new multidisciplinary approach was designed to help CMO focus its resources on institutions that posed a significant risk to the SFA programs. The reorganization significantly changed the way that CMO conducts business. All aspects of monitoring institutions that were once performed independently, such as recertification, audit resolution, financial analysis, and program reviews, were consolidated into several teams, with each team being responsible for an assigned portfolio of institutions. Additionally, CMO's focus shifted to a more customer oriented approach and placed an emphasis on technical assistance.

### **NUMBER OF PROGRAM REVIEWS DECREASED**

Subsequent to the reorganization, the number of program reviews performed decreased significantly. Reasons given for the decrease were: resources were redirected to recertification, a significant amount of training was conducted as a result of the CMO reorganization, and the risk-based method of selecting institutions for review was adopted. While CMO had given a low priority to program reviews for FY97, we were informed in 1997 that it planned to conduct more reviews in FY98.

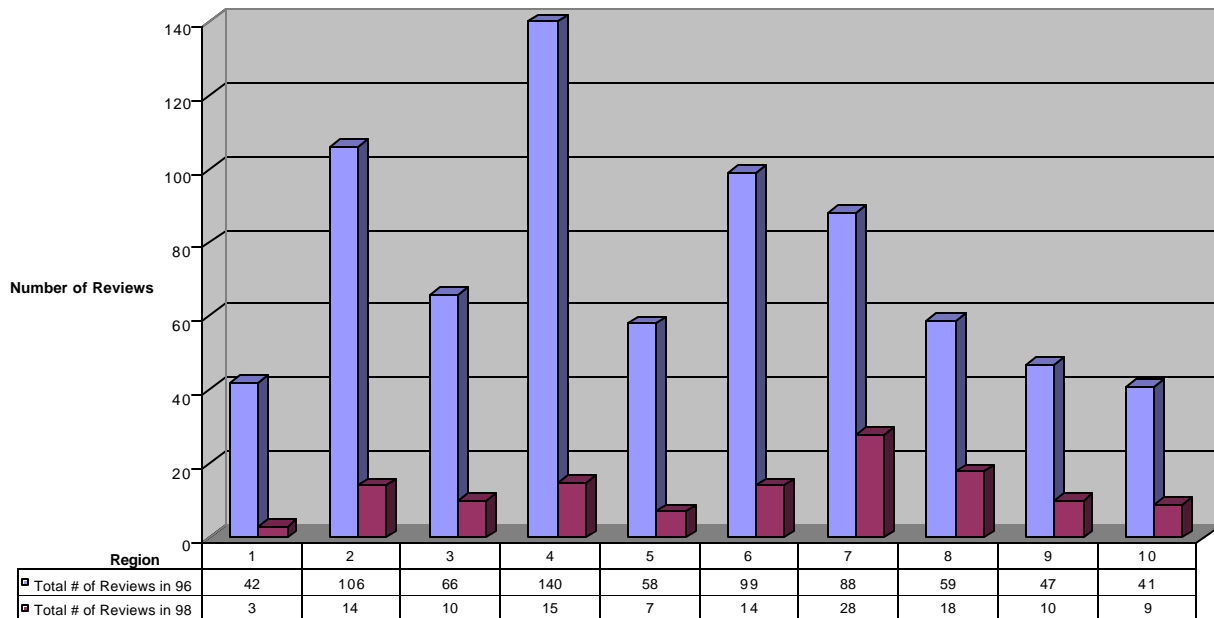
During FY98, the total number of on-site program reviews conducted nationwide remained low. An analysis of data contained in the Postsecondary Education Participants System (PEPS) revealed that CMO conducted 128 on-site program reviews nationwide under case management (FY98). The number of reviews conducted prior to case management (FY96) was 746. This is a reduction of 618 on-site program reviews. Based on data provided by CMO officials, during FY99 the total number of on-site program reviews conducted was 116.

The following graph illustrates the decrease in the total number of on-site program reviews, by region, between FY96 and FY98.

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<sup>3</sup> The 1998 amendments to the HEA extended the recertification period to every six years.

Total On-Site Program Reviews FY96 vs FY98



Based on an analysis of case management decisions made during FY98 at judgmentally selected institutions in the three regions visited, we concluded that a program review was warranted, but was not conducted, at 11 out of 163 institutions. Our conclusions were reached using the same criteria that CMO case teams use when making the decision to conduct a program review. Areas such as the institution's financial strength, past program review history, audit history, default rates, fluctuations in loan volume, problems reported by state agencies or accrediting agencies, and drop out rates were all taken into consideration. In addition, we reviewed data available within CMIS and the Risk System that was available to the case teams during FY98, and spoke with Area Case Directors in each region to obtain information available about the institution that may not have been documented within these systems.

One institution where a program review was warranted but was not conducted had a high risk score and was in borderline financial condition. The institution's previous program reviews resulted in major findings and it was on the reimbursement method of payment. Another institution had significant audit findings resulting in liabilities of approximately \$192,000 over a two-year period. The risk system showed "more loans defaulting than average" at this institution and "50% of audits deficient." The Area Case Director explained that the region was waiting for guidance from headquarters before conducting this program review. These examples illustrate instances where CMO case teams did not consistently apply their criteria to determine whether or not a program review should be conducted.

Section 498A of the HEA, as amended, states that the Secretary shall provide for the conduct of program reviews on a systematic basis designed to include all institutions of higher education participating in the SFA programs. Priority for program reviews shall be given to institutions with high cohort default rates, significant fluctuation in Federal Stafford Loan, Federal Direct Stafford Loan or Federal Pell Grant award volume, deficiencies or financial aid problems, high annual dropout rates, or the failure to possess administrative capability or financial responsibility as determined by the Secretary.

Although case management is the process used by CMO for monitoring and oversight of institutions, we are concerned that it does not include a consistent and balanced use of program reviews. This is evidenced by the fact that instances were identified where a program review seemed warranted, but was not conducted, and the significant decrease in the number of reviews conducted. As CMO case teams strive to meet these many demands, program reviews are no longer given the priority that they were in the past.

#### DECREASED LIABILITIES

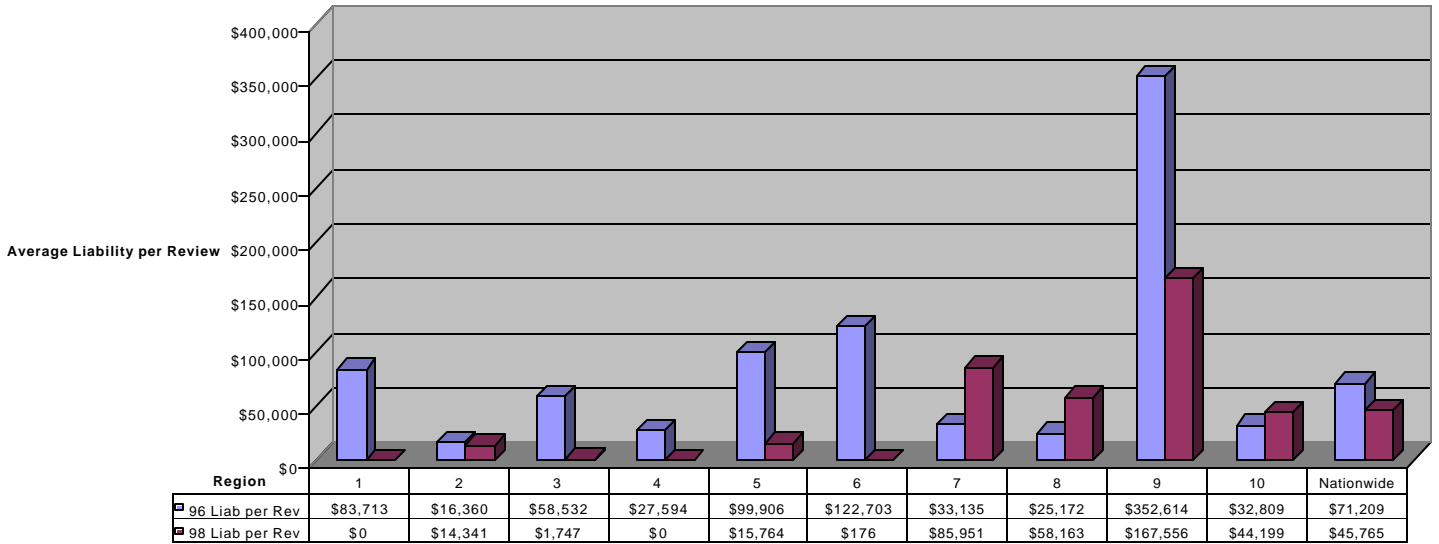
CMO informed us that although fewer program reviews are conducted under case management, the program reviews conducted are better targeted at institutions truly needing a review. However, we found that CMO has assessed fewer liabilities at institutions as a result of a program review since its reorganization to case management. This was determined by examining the relationship between liabilities assessed at institutions for on-site program reviews, by region and nationwide, prior to case management (FY96) and under case management (FY98) using information extracted from the PEPS system.<sup>4</sup> We found that \$0 liabilities were assessed as a result of a program review more often under case management (FY98) than prior to case management (FY96). In FY98, 73% of the on-site program reviews assessed liabilities of \$0. Prior to the reorganization to case management (FY96), only 54% of the on-site program reviews assessed liabilities of \$0.

Not only did total liabilities assessed nationwide as a result of on-site program reviews decrease from FY96 to FY98, but the average liabilities assessed per review also decreased. From FY96 to FY98, total liabilities assessed decreased by \$47 million and the average liabilities assessed as a result of an on-site program review decreased by \$25,444. During FY96, the average liabilities assessed per review nationwide were \$71,209, whereas in FY98 they were only \$45,765. Additionally, the average liabilities assessed per review from FY96 to FY98 decreased in 7 out of 10 regions. The following graph illustrates the relationship between average liabilities assessed per review in FY96 and FY98 by region and nationwide.

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<sup>4</sup> All reviews assessing liabilities equal to all Title IV funds received over a several year period were eliminated for the purposes of our analysis. Including reviews assessing such liabilities would have distorted the average amount of liabilities imposed per Region.

Average Liabilities per Review by Region FY96 vs. FY98



In FY99, the liabilities assessed as a result of an on-site program review continued to decrease. Data provided by CMO officials showed that during FY99 a total of \$536,398 in liabilities was assessed nationwide for on-site program reviews, and the average liabilities assessed decreased to \$4,624.

Program reviews protect the interests of taxpayers and students by identifying institutions that are mismanaging SFA programs or not complying with Title IV requirements. Without a consistent application of the criteria used to determine whether a program review should be performed, an appropriate balance of program reviews being performed within the mix of case management tools is not achieved. There is also an increased risk of unidentified institutional misuse of federal funds.

DEPARTMENT'S REPLY

The Department generally concurred with much of the information provided in the finding and the recommendation. However, they did not agree with all of the assessments and conclusions. Specifically, they did not agree that program reviews are neglected. Despite this disagreement, the Department stated that as they work to develop program review measures and refine goals, they will clarify the importance of program reviews for the case teams and emphasize the need for a more balanced use of reviews in case management. The Department believes that concentrating program review efforts and resources on institutions that appear to be high risk will minimize the need for a large number of reviews. To accomplish this, the case teams will increase the number of program reviews at high-risk institutions. To examine the integrity of the risk analysis system, case teams will also conduct reviews at 25 non-risk schools in FY2001.

Additionally, the Department did not entirely concur with our conclusion that program reviews were not conducted when warranted for 11 of the 163 cases judgmentally

selected. See APPENDIX for the full text of the Department's response to this finding.

#### **IG'S REPOSE**

We have considered the Department's response regarding program reviews being neglected and have modified the wording of the report.

The Department did not entirely concur with our conclusion that program reviews were not conducted when warranted for 11 of the 163 cases judgmentally selected. We have reviewed their response and have not changed our conclusion.

#### **RECOMMENDATION**

We recommend that the COO for SFA institute management controls within the case management process to ensure a consistent and appropriately balanced use of program reviews to monitor institutional compliance.

**FINDING #2**  
**THE PROGRAM REVIEW REPORT PROCESS NEEDS IMPROVEMENT**

Management controls over CMO's program review report process need improvement. In reviewing 29 program review report files, 24 final program review determination files, and interviewing various members of the case teams, we determined the following<sup>5</sup>:

- Program review reports and final program review determinations contain errors in general report content and math computations. In addition, the scope of reports (where a focused review was conducted) is often stated in very general terms rather than reflecting the focus of the review.
- Program review reports and final program review determinations are not always issued in a timely manner. We found two different criteria regarding the time period within which a program review report should be issued. The first criterion is that a report should be issued within 30 days from the conclusion of the review. The second criterion is that a report is to be sent to the school within 60 days from the conclusion of the review. In many instances, CMO is failing to meet the suggested guideline of issuing the report within 60 days of the conclusion of the review.
- Extensive periods of time pass before the issuance of final program review determinations. During this time there is no evidence of communication between CMO and the institution.
- CMO does not have a formal and consistent supervisory review process in place. Each region visited has a unique supervisory review procedure for reports. This is documented differently in each region, and in one region it is not documented at all.
- Institutional files are poorly maintained and do not always adequately document program review information. File contents are organized inconsistently which make documents difficult to locate. Additionally, program review workpaper files do not always sufficiently document the work performed. Items such as entrance/exit conference notes, interview notes, and/or documents pertaining to sampling methodology are missing.

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<sup>5</sup> Details regarding this information may be found in the EXHIBIT.

- Data is not entered consistently into the CMIS. The CMIS was designed as a communication vehicle for tracking, managing, and reporting case information across CMO. In many instances it was not possible to determine that a program review was performed by looking in the CMIS. Start and completion dates of program review activity were entered inconsistently.

We also found that CMO's guidance for program reviews needs improvement. First, CMO's most recent program review guide is out of date. The 1994 Program Review Guide does not reflect CMO's reorganization to case management. Specifically, survey reviews, previously the standard review approach, have been replaced with more concentrated (focused) reviews. In addition, the guide specifies that a program review report "generally should be issued no later than 30 days of the conclusion of the review visit." However, two Department publications conflict with this requirement. *The Blue Book*, (June, 1999) whose primary purpose is to provide guidance to institutional personnel who administer and manage SFA programs, states that the program review team sends a program review report to a school within 30 to 60 days of the review. According to the 1999-2000 Student Financial Aid Handbook, the report should be sent to the school within approximately 60 days of the review.

The HEA requires guidelines for the conduct of program reviews. As stated in Section 498A, as amended, "the Secretary shall establish guidelines designed to ensure uniformity of practice in the conduct of program reviews of institutions of higher education and make available to each institution participating in programs authorized under this title complete copies of all review guidelines and procedures used in program reviews."

#### DEPARTMENT'S REPLY

The Department generally concurred with the recommendations. The Department stated that a workgroup has been formed to update the 1994 Program Review Guide within the first half of FY2001. Policies and procedures will be reviewed and updated as required. See APPENDIX for the full text of the Department's response to this finding.

#### RECOMMENDATIONS

We recommend that the COO for SFA:

- 2.1 Update the 1994 Program Review Guide to reflect its reorganization to case management and clarify requirements regarding the recommended time period within which program reports should be issued.
- 2.2 Establish policies and procedures that provide formal guidance to ensure consistent application of supervisory review, file maintenance, documentation of program reviews, and data entry into the CMIS.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether CMO is utilizing program reviews effectively within its case management system to monitor and improve institutional performance.

The audit period covered Fiscal Year 1998 (October 1, 1997 through September 30, 1998). We performed our fieldwork in CMO headquarters, Washington, DC, November 17-20, 1998. Fieldwork was also performed at four CMO regional offices located in Kansas City (Region VII) January 11-15, and 26-29, 1999, Denver (Region VIII) February 1-5, 1999, Philadelphia (Region III) March 22-26, 1999, and Chicago (Region V) June 21-30, 1999. Additional analysis was performed at our offices through November 1999, and an exit conference was held with CMO officials on December 15, 1999. Our review was conducted in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

To achieve our objective we performed the following:

- Interviewed agency officials, CMO case team directors, and other regional staff, analyzed and reviewed applicable laws and regulations, and reviewed the most recent copy of the Program Review Guide and Institutional Review Specialist Guide.
- Analyzed information regarding the volume of program reviews performed and resolved (from PEPS), and technical assistance provided (from CMIS).
- Selected a judgmental sample of program reviews conducted and resolved and technical assistance provided within each region visited. These were reviewed with particular attention given to the selection process, staff assignments, quality, supervisory review, documentation, and file maintenance.
- Examined FY98 case management decisions at 163 selected institutions from those regions visited, and determined whether a program review was warranted.



## STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we made an assessment of CMO's management controls, procedures, and practices applicable to the scope of our audit. Our assessment was performed to determine the level of control risk for determining the nature and extent of substantive tests to accomplish the audit objective. For the purposes of this report we reviewed management controls over the program review function which included the institutional selection process, quantity of reviews, assignment of staff to perform the reviews, quality of reviews, supervisory review process, documentation and file maintenance kept for each program review, closure of reviews, and issuance of final program review determinations.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, we noted the management control weaknesses that are discussed in the audit results section.

**EXHIBIT**

**ADDITIONAL DETAILS REGARDING FINDINGS**

CONDITION	KANSAS CITY	DENVER	PHILADELPHIA	CHICAGO	TOTAL
Program review reports contained errors in general report content, math computations, and/or grammar.	8 out of 10 files	4 out of 5 files	5 out of 9 files	5 out of 5 files	22 out of 29 files
Final Program Review Determinations contained errors in general report content, math computations, and/or grammar.	3 out of 7 files	1 out of 5 files	2 out of 4 files	2 out of 8 files	8 out of 24 files
Program review reports scope was stated in very general terms instead of stating the focus of the review.	6 out of 10 files	5 out of 5 files	0 out of 9 files	4 out of 5 files	15 out of 29 files
Program review reports were not issued within 60 days after the conclusion of the review visit	2 out of 10 files	2 out of 5 files	6 out of 9 files	2 out of 5 files	12 out of 29 files
Extensive periods of time passed before the issuance of Final Program Review Determinations without any evidence of communication between CMO and the institution.	1 out of 7 files	1 out of 5 files	1 out of 4 files	5 out of 8 files	8 out of 24 files
Overall file maintenance. (Based on institutional file being maintained in such a way that documents were easy to locate within each file).	POOR	GOOD	GOOD	POOR	
Program review workpaper files inadequately documented the work performed during the program review. Items such as entrance/ exit conference notes, interview notes, and/or documents pertaining to sampling methodology were missing.	8 out of 10 files	2 out of 5 files	3 out of 9 files	3 out of 5 files	16 out of 29 files
Adequate documentation was not present in CMIS to show that a program review was performed.	4 out of 10 files	1 out of 5 files	4 out of 9 files	0 out of 5 files	9 out of 29 files

UNITED STATES DEPARTMENT OF EDUCATION



*Student Financial Assistance  
Chief Operating Officer*

August 4, 2000

Ms. Lorraine Lewis  
Inspector General  
U.S. Department of Education

Dear Ms. Lewis:

Thank you for the opportunity to review and comment on the draft audit report entitled "*Review of Case Management & Oversight's Program Review Function*," ACN ED-OIG A04-90003.

We are pleased that your draft report notes the increased oversight responsibilities that the Department has been required to perform. We share the Office of Inspector General's conclusion that conducting program reviews is a critical oversight function. However, we feel it is important for other oversight tools, such as reviewing institutional audits and financial statements, performing certification reviews, and providing technical assistance, to be recognized as being equally effective and critical in ensuring institutional compliance with statutes and regulations and in safeguarding student financial assistance funds.

While it is our goal to utilize every available oversight tool as effectively as possible, there will always be situations where there are issues of judgment regarding which course of action is the most appropriate. For example, the draft report states that program reviews were not conducted at eleven schools that warranted an on-site review. We believe that our case teams took appropriate actions considering the information available. Information on these schools is contained in the enclosed Appendix. Nonetheless, we are using this opportunity to re-evaluate and improve our existing procedures and practices for conducting institutional oversight.

The enclosure provides the Department's response to each recommendation. Again, we appreciate the opportunity to review and comment on the draft report.

Sincerely,

***/S/***

Greg Woods

Enclosure

cc: Carol Lynch  
Pat Howard  
Kay Jacks  
Jim Lynch

## APPENDIX

Response to OIG Draft Audit Report, "Review of Case Management and Oversight's Program Review Function," Control Number ED-OIG / A04-90003, June 2000.

### **Finding 1**

***The number of on-site program reviews conducted within the mix of case management needs to be increased.***

**Recommendation:** *Institute management controls within the case management process to ensure a consistent and appropriately balanced use of program reviews to monitor institutional compliance with Title IV requirements.*

**Response:** We concur with much of the information provided in the finding and with the recommendation. However, we do not agree with all of your assessments and conclusions.

The draft audit report recognizes that the number of financial and compliance audits has doubled because of the statutory requirement for annual instead of biennial audit submissions. The draft audit report also recognizes that Student Financial Assistance (SFA) was required to review every participating institution's certification by 1997, and at least every four (recently changed to six) years thereafter. We met our statutory responsibilities without increasing the number of staff but doing so did mean we did not conduct as many on-site reviews. However, as the result of the recertification process and the imposition of cohort default rate penalties, we have eliminated a significant number of non-performing institutions.

The case management process is designed to be an outcome-based system. It is dependent on a discussion of each institution's merits and problems as outlined by its financial strength, audit findings and risk profile. Consistent and appropriate outcomes do not always conclude with the need for a program review to be conducted. There are instances where we determine that technical assistance would be a better approach and, to deliver such assistance effectively, institutional improvement specialists were added to case management teams. Since then, SFA has endeavored to increase institutional administrative capability and compliance through focused attention on individual institutions and technical assistance to groups of institutions.

While the number of program reviews clearly decreased, we do not agree that program reviews are neglected. In addition to program reviews, we believe the audit report should also recognize all the oversight tools and technical assistance as critically important tools utilized by the case management teams. However, as we work to develop program review measures and refine goals, SFA will clarify the importance of program reviews for the case teams and emphasize the need for a more balanced use of reviews in case management.

## APPENDIX

The draft report notes that liability assessment decreased. Liability assessment in and of itself is not a valid measurement of the success or failure of any particular oversight tool. We cannot presume that liabilities should continually increase in order to prove the success of any compliance activity. Providing technical assistance to institutions and the closure of non-performing institutions may account for the reduced liabilities assessed as a result of program reviews. If technical assistance and other oversight activities are successful, liabilities should decrease.

While we believe that oversight through case management has partially compensated for the reduction in the number of program reviews and liabilities, SFA believes that concentrating program review efforts and resources on institutions that appear to be high risk will minimize the need for a large number of reviews.

To accomplish this, the case teams will increase the number of program reviews at high-risk institutions. However, to examine the integrity of the risk analysis system, case teams will also conduct reviews at 25 non-risk schools in FY 2001. The balance of the reviews in FY 2001 will be conducted specifically at high-risk schools. That number will be dependent upon the overall capacity of the case teams, the introduction of the new Program Review Guide and the implementation of training for program reviewers.

We do not entirely concur with your conclusion that program reviews were not conducted when warranted for 11 of the 163 FY98 cases judgmentally selected by the IG for the audit.

Of the 11 institutions cited, case teams had recommended, but had not yet scheduled prior to the audit, that program reviews be conducted at three institutions and that a technical assistance visit be conducted at a fourth. Two program reviews were conducted: one resulted in no liability, the other in a nominal liability. The third program review is currently underway and the technical assistance visit will be conducted prior to the end of the fiscal year.

A review of the other seven institutions revealed the following: two were able to meet the financial responsibility standards (one belonged to a corporate entity that issued an initial public offering and raised sufficient funds to retire its debt, the second met the standards by posting a 50% letter of credit) and a third institution took all required corrective actions and resolved all outstanding issues. There was no other issue for these schools that would have warranted a program review.

The remaining four institutions were a part of the same corporate structure. The case team conducted a program review at the two largest locations. Both reviews resulted in an Expedited Final Program Review Determination letter being issued. Because neither of those reviews resulted in a liability, it was determined that no further action was necessary at the other two institutions.

### **Finding 2**

*The program review report process needs improvement.*

*Recommendation 2.1: Update the 1994 Program Review Guide to reflect the reorganization to case management and clarify requirements for the timely issuance of program review reports.*

Response: We concur with the recommendation. A workgroup is being formed to accomplish this task within the first half of FY 2001. However, we wish to note that while it is certainly preferable to update and maintain the Program Review Guide (Guide) so it is always current and reflects the current organizational structure, we strongly believe the case teams understood how to conduct program reviews under the case team organizational structure, especially since the Guide is not the only document case teams rely upon for guidance on conducting program reviews.

Regarding the timely issuance of program review reports, we will clarify the time period for issuance. However, most delays in issuing reports were due to schools seeking extensions to gather information to respond to tentative findings, not because case teams were being unreasonably dilatory. We do not wish to preclude the ability of schools to provide their input because this saves SFA time and expense in the long run by avoiding a lengthy resolution and appeal process. We will examine how best to keep track of extensions requested by institutions to ensure case teams issue reports as expeditiously as possible.

*Recommendation 2.2: Establish policies and procedures that provide formal guidance to ensure consistent application of supervisory review, file maintenance, documentation of program reviews, and data entry into the CMIS.*

Response: We concur with most of this recommendation. Policies and procedures will be reviewed and updated as required. The new Guide will also clarify expectations and provide operational guidance to staff. It will outline the steps and provide revised criteria necessary for a well-documented, timely and error free program review report. Additionally, training will be developed and provided to case team members responsible for the conduct or oversight of program reviews.

However, we believe the finding placed too great an emphasis on program review data within the Case Management Information System (CMIS). CMIS was designed to be, and will continue to be utilized as, an internal workflow tracking system. CMIS was not intended to be the official repository for program review data. The PEPS system is, and will continue to be, the official database for program review information. Accordingly, it is important to have complete, accurate and up to date institutional information maintained in PEPS.

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