Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

ALLOPATHIC MEDICINE HEALTH PROFESSIONS STUDENT LOANS PROGRAM AT THE STATE UNIVERSITY OF NEW YORK HEALTH SCIENCES CENTER AT BROOKLYN

BROOKLYN, NEW YORK

JUNE GIBBS BROWN
Inspector General

OCTOBER 1998
A-05-98-00018

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

OFFICE OF
INSPECTOR GENERAL

October 28, 1998
Common Identification No. A-05-98-00018

Lorraine Terracina, PH.D., Associate Vice President of
Student Affairs and Dean of Students
State University of New York
Health Science Center at Brooklyn
450 Clarkson Ave., Box 85
Brooklyn, NY 11203-2098

Dear Dr. Terracina:

This letter report provides the results of our audit of the Allopathic Medicine Health Professions Student Loans (HPSL) Program at the State University of New York (SUNY) Health Sciences Center at Brooklyn. 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 appropriately using HPSL funds to provide loans to eligible medical students and was in compliance with regulations concerning the use of investment income and maintenance of excess cash. However, we determined that a number of borrowers were not in compliance with the primary care service obligation criteria established by HRSA. We also determined that the University was carrying uncollectible loans in their accounting records and that edits were not in place to alert university officials to the expiration of the ten-year repayment period.

We are recommending that primary care loan recipients not complying with their primary care service obligation be placed in default status and that the University initiate loan repayment procedures. We are recommending that the University write-off loans totaling $2,333 in accordance with HRSA Policy Memorandum Number Fifteen. In addition, we are recommending that the University reimburse the HPSL fund $87,851 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 an edit which will alert them to loans that are about to exceed the ten-year repayment period.

In a letter dated October 2, 1998, the State University of New York agreed to place borrowers in default status for not meeting the primary care service obligation and to initiate loan repayment. The University concurred with our recommendation to write-off six loans totaling $2,333 and an additional eight loans totaling $47,268. The University was not in agreement with our recommendation that they reimburse the HPSL fund for six loans that were not referred for write-off approval totaling $40,583. 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.

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 SUNY has received $3.5 million in Federal funding. The program has provided HPSL and primary care loans to more than 3,100 students. The total dollar amount of loans provided to students exceeds $12 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 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 sample of 30 primary care loan borrowers was randomly selected 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 24 loans that were past due for more than three years, seven accounts which were classified or discharged as bankruptcy, and 16 loans written off under provisions precluding a penalty. Public Law 100-607 allows schools to write-off 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 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 31, 1997.

We conducted our field work at the Health Science Center Financial Aid Office in Brooklyn, NY and at the SUNY Loan Servicing Office in Albany, NY. Field work was performed during the months of January and February 1998.

RESULTS OF AUDIT

The University is currently crediting the HPSL loan pool for interest earned on HPSL invested funds and is not retaining excess cash. The primary care loan amounts were appropriate and loans retired under Public Law 100-607 were eligible for write-off. However, some of the HPSL borrowers were not meeting their primary care service obligation, and SUNY was carrying uncollectible loans in their accounting records that were not submitted to HRSA for write-off approval. Further, SUNY does not have a mechanism in place to alert them to the impending expiration of the ten-year repayment period.

Investment Income

Interest earned from HPSL invested funds is currently being reinvested into the HPSL program. During FY 1997, $18,938 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.

Primary Care Loans--Loan Amounts

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

Primary Care Loans--Compliance

Our review identified four individuals whose residency programs were not in a primary health care area: two individuals were matched to a residency in emergency medicine; one individual was matched to a residency in psychiatry; and one individual was identified as transitional (no residency program or specialization was selected). Current borrowers are required to enter and complete a residency program in a primary health care area and practice primary health care through the date on which the loan is repaid. Self-certification of compliance with the service obligation is required on an annual basis. However, the first year certification can be satisfied through the graduate student's medical school match, the program and speciality into which the student has been selected to perform their residency. Failure to comply with the primary care service obligation results in a recomputation of the balance due. The unpaid balance is computed at a higher rate of interest and the balance is due within three years from the date of their failure to comply with the primary care service obligation.

The three primary care loan recipients, who were not in compliance with their primary care service obligation, should be placed in default status, and the University should initiate loan repayment procedures. Interest penalty costs of more than $7,000, associated with the breach of the primary care service obligation, have been incurred as of 12/31/97. The borrower with the transitional classification should be placed in default status if she has not entered an acceptable primary care residency by the 1998/99 school year.

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

Six loans, three exceeding the ten-year repayment period and three discharged in bankruptcy, did not exceed $1,000. Collectively these loans totaled $2,333 and should have been written-off in accordance with Policy Memorandum Number Fifteen. Fourteen additional loans totaling $87,851 should have been submitted to HRSA for write-off approval as the University became aware that the loans were uncollectible. Ten loans exceeding the ten-year period, three loans pending bankruptcy and one loan discharged in bankruptcy had outstanding balances of $72,471, $10,494, and $4,886, 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. The regulations also state that the school must request permission to write-off an uncollectible loan within 30 days of the determination that it is uncollectible or reimburse the fund in the full amount of the loan. 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 are recommending that the University:

(i) place primary care loan recipients not complying with their primary care service obligation in default status,

(ii) initiate loan repayment procedures,

(iii) make a determination as to the possible default status of the borrower whose residency match was identified as transitional,

(iv) write-off six loans totaling $2,333 in accordance with HRSA Policy Memorandum Number Fifteen,

(vi) reimburse the HPSL fund $87,851 for loans that were not referred to HRSA for write-off approval within the required 30 day period, and

(vii) establish a means to identify loans that are about to exceed the ten-year repayment period.

****

University Comments

In a letter dated October 2, 1998, the State University of New York agreed to place borrowers in default status for not meeting the primary care service obligation and to initiate loan repayment. The University concurred with our recommendation to write-off six loans totaling $2,333 and an additional eight loans totaling $47,268. Although the University indicated that one of the eight loans had a grace period ending June 1998 and did not exceed the ten-year repayment period, further review determined that the grace period ended December 1987, as initially reported. The University also agreed to modify their system to better identify loans that are about to exceed the ten-year repayment period.

The University did not agree that they should reimburse the HPSL fund $40,583 for six loans that were not referred for write-off approval. Instead, the University requested permission to write-off $10,494, in accordance with Public Law 100-607, for three loans classified as pending in bankruptcy. The response identified one loan of $13,132 which exceeded the ten-year repayment period, but should not be subject to HRSA reimbursement because the borrower died in December 1985. The university indicated that it is still receiving monthly payments for the remaining two accounts reported as exceeding the ten-year repayment period. These accounts with reported loan balances of $13,868 and $3,089 have been reduced to current balances of $5,499 and $1,015, respectively. Since these accounts will be repaid within eight months, the University has requested that they not be required to reimburse the HPSL fund for the remaining balances. The University further requests that they not be required to reimburse the HPSL fund for any remaining balance as they have enhanced their system to ensure uncollectible loans are identified.

OIG Comments

Since a death certificate was provided to support the University's comments, we agree with the University's position regarding the deceased person's loan. However, at the time of our audit, the three loans classified as pending in bankruptcy and the two loans exceeding the ten-year repayment period were uncollectible. Without write-off approval, the loans are the responsibility of the University. We believe that the three loans subject to Public Law 100-607 write-off should be reviewed for allowability during the school's biennial audit or HRSA program review as provided for in HRSA Policy Memorandum Number Fifteen. Further, the University should reimburse the HPSL fund the current outstanding balances for the two loans on which the borrowers are making payments. The University should maintain their collection efforts and use the funds to offset their reimbursement.

****

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-05-98-00018 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

50 YEARS SERVICE, PRIDE & EXCELLENCE

STATE UNIVERSITY OF NEW YORK

DONALD G. DUNN
Executive
Vice Chancellor

System Administration
State University Plaza
Albany, NY 12246

518/443-5432
FAX: 518/443-5360

October 2, 1998

Mr. Michael Barton, Senior Auditor
U.S. Department of Health & Human Services
Office of Inspector General/Audit Services
280 North High Street, Room 710
Columbus, Ohio 43215

RE: Allopathic Medicine Health Professions Student Loans
State University of New York Health Science Center at Brooklyn
Common Identification Number: A-05-98-00018

Dear Mr. Barton:

This serves as the State University of New York's (State University) response to the draft report on the U.S. Department of Health and Human Services' (HHS) audit of the Allopathic Medicine Health Professions Student Loans (HPSL) Program at the State University Health Science Center at Brooklyn. Generally, we are pleased with the determination that State University is appropriately using HPSL funds in providing loans to eligible medical students and is in compliance with regulations concerning the use of investment income and maintenance of excess cash. With regard to the findings involving the confirmation of the borrower's primary care service obligation and the uncollectible loan write-off process, we offer the following comments:

1. Primary Care Loans - Compliance

The State University has taken steps to ensure that there are procedures in place to verify a primary care loan borrower's participation in an acceptable residency program. The Health Science Center at Brooklyn agrees that at the time of the exit interview it will obtain confirmation through the American Association of Medical College's national match program (NRMP) that the student borrower is participating in a primary care residency program.

After the borrower's separation from the campus, the Student Loan Service Center (SLSC), which services all of State University's HHS loans, confirms a borrower's continued participation in such a program through the Primary Care Loan self-certification process authorized by the Health Resources and Services

Administration (HRSA). If the SLSC does not receive the borrower's self-certification within 120 days of the due date, it adjusts the borrower's loan in accordance with HHS regulations and HRSA policies governing the Primary Care Loan program.

The audit report identified three borrowers who did not meet the primary care service requirement and recommended that the State University place such recipients in default status and initiate loan repayment procedures. The status of each borrower is as follows:

1. The borrower (acct. was identified as serving in an emergency care residency program; therefore, the borrower's loan was placed in default status and loan repayment has been initiated.

2. The borrower (acct. was identified as serving in an emergency care residency program; therefore, the borrower's loan was placed in default status and loan repayment has been initiated.

3. The borrower (acct. was identified as serving in a psychiatry residency program; therefore, the borrower's loan was placed in default status and loan repayment has been initiated.

A fourth borrower (acct. was identified as transitional during the medical school residency match. The borrower submitted a primary care residency self-certification for the period June 1, 1997 to May 31, 1998 which establishes the borrower's participation in a primary care program. Therefore, the borrower is in compliance with the primary care obligation and the loan need not be adjusted at this time.

2. <u>Uncollectible Loans</u>

The SLSC has modified its system to better identify loans that have been in repayment for nine years or greater. This change will ensure compliance with procedures for submitting uncollectible loans pursuant to HRSA Policy Memorandum Number Fifteen.

Our specific comments concerning the accounts identified in the audit report as uncollectible are as follows:

1. The six loans, each less than $1,000, totaling $2,333 have been written off in accordance with HRSA Policy Memorandum Number Fifteen.

2. The audit identified fourteen loans as uncollectible. The University feels that adjustments are necessary with regard to seven of these loans for the following reasons:

a) At the time of the audit, there were three accounts identified as "pending in bankruptcy" on the SLSC's system (acct. # and). The bankruptcy petition for the first account was filed in September 1976. Similarly, the borrower, who signed the notes for the last two loans, filed a petition for bankruptcy in March 1977. The SLSC never received a notice of discharge for any of these loans, which is why the loans were inadvertently listed as pending on its system. However, since the loans became uncollectible prior to August 1, 1985, they are not subject to HRSA Policy Memorandum Number Fifteen, and therefore we request permission to write off these loans in accordance with P.L. 100-607. The total amount of these loans was identified in the audit report as $10,494.

b) Of the loans identified as exceeding the ten-year repayment period, we offer the following comments:

   i) Acct. The borrower who held this note died in December 1985. We have reclassified this account as a cancellation for death and are retaining the proper documentation in our files. In light of this, we request permission to cancel the loan in accordance with 42 C.F.R. §57.211. The balance for this loan identified in the audit report is $13,132.

   ii) Acct. Due to student deferments, the grace period for this borrower ended in June 1988, and not in December 1987 as was determined during the audit; therefore, this loan should not have been considered uncollectible at the time of the audit. For this reason, we request that we be permitted to submit this account for write off at this time. The balance for this loan identified in the audit report is $13,926.

   iii) Acct The balance for this loan identified in the audit report is $13,868. However, the balance for this account currently reflected on the SLSC's system is $5,499, as monthly payments in the amount of $800 continue to be made. In light of the payment arrangements made with the borrower, this account will be paid in full within 8 months; therefore, we request that the University not be required to reimburse the HPSL fund for the remaining balance on this account at this time.

   iv) Acct . The balance for this loan identified in the audit report is $3,089. However, the balance for this account currently reflected on the SLSC's system is $1,015, as monthly payments of $200 continue to be made. In light of the payment arrangements made with the borrower, this account will be paid in full within 6 months; therefore, we request that the University not be required to reimburse the HPSL fund for the remaining balance on this account at this time.

In conclusion, the University believes that it has demonstrated a good faith effort to administer the HPSL program in accordance with all applicable regulations and policies, including the use of investment income and maintenance of excess cash. Furthermore, since we have enhanced our system to ensure the identification of uncollectible loans, we ask that we not be required to reimburse the HPSL fund for any remaining balance.

Thank you for the opportunity to respond to the draft audit report for the State University Health Science Center at Brooklyn. We look forward to your resolution of this matter. Please contact Maria Livolsi, Director of the Student Loan Service Center, or Sandra Casey at (518) 525-2628, if you have any questions or need additional information.

Sincerely,

Donald G Dunn

Donald Dunn
Executive Vice Chancellor

copy: Audit Committee
Health Sciences and Hospitals Committee
Chancellor Ryan
President Hitchcock
Interim President Feigelson
Mr. Buchanan
Mr. O'Connor
Dr. Salins
Mr. Steffey
Mr. Stenson