Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

ALLOPATHIC MEDICINE HEALTH PROFESSIONS STUDENT LOANS PROGRAM AT THE UNIVERSITY OF WASHINGTON SEATTLE, WASHINGTON

JUNE GIBBS BROWN
Inspector General

SEPTEMBER 1998
A-05-98-00019

DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V
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CHICAGO. ILLINOIS 60603-6201

OFFICE OF
INSPECTOR GENERAL

September 28, 1998

Common Identification No. A-05-98-000 19

Eric Godfrey
Assistant Vice President
and Director of Financial Aid
University of Washington
476 Schmitz Hall
Seattle, WA 98 195

Dear Mr. Godfrey:

This letter report provides the results of our audit of the Allopathic Medicine Health Professions Student Loans (HPSL) Program at the University of Washington. 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 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 a loan of $33 1 in accordance with HRSA Policy Memorandum Number Fifteen. In addition, we are recommending that the University reimburse the HPSL fund $16,412 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 57.2 10.

In a letter dated September 4, 1998, the University of Washington concurred with our recommendations. 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 the University of Washington has received $2.1 million in Federal funding. The program has provided HPSL loans to more than 1,500 students. The total dollar amount of loans provided to students exceeds $8 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 tiles, 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.

We selected a random sample of 30 primary care loan accounts 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 16 loans that were past due for more than 120 days, nine loans which were classified as pending bankruptcy or discharged in bankruptcy, and four 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. The period for our review of primary care loans was July 1, 1993 through December 3 1, 1997, while our review of the extent of uncollectible loans covered the period August 1, 1985 through December 3 1, 1997.

We conducted our field work at the University's Student Financial Aid and Student Loan offices in Seattle, Washington. Field work was performed during the month of February 1998.

RESULTS OF AUDIT

With the exception of uncollectible loan write-offs, the Allopathic Medicine HPSL Program at the University of Washington 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. The primary care loan amounts were appropriate, and the recipients were complying with their primary care service obligations. 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.

Investment Income

Interest earned from HPSL invested funds is currently being reinvested into the HPSL program. During FY 1997, $16,447 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) fund 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 $19 1,000 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.

Primary Care Loans--Loan Amounts

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

Primary Care Loans--Compliance

Medical students who received primary care loans were complying with their primary care service obligations.

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

One loan exceeding the ten-year repayment period and pending bankruptcy was less than $1,000 and should have been written-off in accordance with Policy Memorandum Number Fifteen. Three additional loans totaling $16,412 which had exceeded the ten-year repayment period and were pending bankruptcy should have been submitted to HRSA for write-off approval as the University became aware that the loans were uncollectible.

Recommendations

We recommend that the University write-off one loan totaling $33 l in accordance with HRSA Policy Memorandum Number Fifteen and reimburse the HPSL fund $16,4 12 for loans that were not referred to HRSA for write-off approval within the required 30 day period.

University Comments

In a letter dated September 4, 1998, the University of Washington concurred with our recommendations. The University stated that they have written-off one loan and reimbursed the HPSL fund for the other three loans not submitted 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-05-98-00019 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 WASHINGTON

OFFICE OF THE VICE PRESIDENT FOR STUDENT AFFAIRS

September 4, 1998

Mike Barton, Senior Auditor
DHHS/OIG/Audit Services
280 North High Street, Room 710
Columbus, OH 432 15

The University of Washington's responses to the recently concluded audit of its Health Professionals Loan Program are provided below.

1. One loan exceeding the ten-year repayment period and pending bankruptcy was less that $1,000 and should have been written off in accordance with Policy Memorandum Number Fifteen.

Recommendation: We recommend that the University write-off one loan totaling $331 in accordance with the Policy Memorandum Number Fifteen.

Response: We concur that the $330.57 uncollectable loan balance for was eligible for write-off as authorized by Policy Memorandum Number Fifteen: This loan has been written-off as recommended.

2. Three additional loans totaling $16,412 which had exceeded the ten-year repayment period and were pending bankruptcy should have been submitted to HRSA for write-off approval within the required 30 day period.

Recommendation: We recommend that the University reimburse the HPSL fund $16,4 12 for loans that were not referred to HRSA for write-off approval within the required 30 day period.

Response: We concur that write-off approval for three loans was not requested within the required time limit. These loans have been closed and the HPSL fund reimbursed:

	$ 1,799.37
	8,158.84
	6.453.65
Total:	$16,411.86

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If there are questions, please let us know.

Sincerely yours,

Eric S. Godrey
Assistant Vice President for Student Affairs
and Director of Student Financial Aid

ESG:la
3/309
cc: S. Kay Lewis
Frank H. Montgomery