



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

Control Number
ED-OIG/A05N0004

September 30, 2014

Dr. Ted Mitchell
Under Secretary
U.S. Department of Education
400 Maryland Avenue, SW, Room 7E304
Washington, D.C. 20202

Dear Dr. Mitchell:

This final audit report, “Direct Assessment Programs: Processes for Identifying Risks and Evaluating Applications for Title IV Eligibility Need Strengthening to Better Mitigate Risks Posed to the Title IV Programs,” presents the results of our audit.¹ The objectives of our audit were to determine whether the U.S. Department of Education (Department) has addressed the risks that schools offering direct assessment programs pose to Title IV of the Higher Education Act of 1965, as amended (Title IV), programs and established processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV eligible. We evaluated the Department’s operations as of January 23, 2014.

We found that the Department did not adequately address the risks that schools offering direct assessment programs pose to the Title IV programs and did not establish sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV eligible. Not adequately addressing risks increases the likelihood that schools might create direct assessment programs that are not Title IV eligible, such as those that are really correspondence programs. Not establishing sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV eligible increases the risk that the Department will not obtain enough information to sufficiently evaluate the merits of all direct assessment program applications. During our audit, we identified two applications for which the Department could have obtained additional information from the school or the accrediting agency before making decisions about whether the programs were Title IV-eligible direct assessment programs.

¹ Throughout this report, we use the term “direct assessment program” to refer to a competency-based education program that measures a student’s learning through direct assessment, not credit or clock hours.

We provided the draft of this report to the Department for comment. In its comments on the draft report, the Department did not explicitly agree or disagree with the finding. However, it provided comments on each of the seven draft audit report recommendations, agreeing with four (Recommendations 1.1, 1.2, 1.4, and 1.7), partially agreeing with two (Recommendations 1.5 and 1.6), and disagreeing with one (Recommendation 1.3). Although the Department partially disagreed with two recommendations and disagreed with one recommendation, it proposed reasonable, alternative corrective actions that should eliminate the causes of the issues that we reported. We include the Department's comments on the draft audit report in their entirety as Attachment 2 to this final audit report.

We considered the Department's comments and its proposed corrective action plan and determined that the proposed actions were sufficient to address all seven recommendations. Where appropriate, we clarified the report and recommendations based on the Department's comments. Specifically, we clarified that responsibility for approving direct assessment programs for Title IV purposes lies solely with the Department. We revised Recommendation 1.2 to make it clear that the recommendation to create and maintain records sufficient to adequately document the review and approval of direct assessment program applications was directed toward employees who are responsible for reviewing direct assessment program applications. We also revised the subsection about involving Federal Student Aid school participation division managers in the application review process. We changed the corresponding recommendation (Recommendation 1.3) to emphasize that Federal Student Aid school participation division managers should be fully informed about, not necessarily actively involved with, the review of applications, before making decisions about a direct assessment program's Title IV eligibility. In addition, we revised Recommendation 1.5, clarifying that employees should gain an understanding of the processes used by accrediting agencies when evaluating a school's application to offer Title IV-eligible direct assessment programs. Finally, we modified Recommendation 1.6, using the language that the Department proposed because it better explains that employees should refer any accrediting agency that violates Department requirements or fails to follow its standards or fulfill its responsibilities to the Office of Postsecondary Education's Accreditation Group.

BACKGROUND

Section 8020 of the Higher Education Reconciliation Act of 2005 (HERA) amended the Higher Education Act of 1965, as amended (HEA), so that students enrolled in direct assessment programs could receive Title IV of the Higher Education Act of 1965, as amended (Title IV), funds. The HERA states that instructional programs that use direct assessment instead of credit or clock hours to measure student learning may qualify as a Title IV-eligible program if the assessment is consistent with the school's or program's accreditation. The HERA also states that the U.S. Department of Education (Department) must initially determine the Title IV eligibility of each program for which a school proposes to use direct assessment.

The Department published an interim final rule, effective September 8, 2006, implementing the HERA provisions. The interim final rule defined a direct assessment program, identified the information a school must include in its application for the program to be approved as a

Title IV-eligible program, and limited the use of Title IV funds to learning that results from instruction that the school provides or oversees. According to 34 Code of Federal Regulations (C.F.R.) § 668.10,² direct assessment is a measure—such as a paper, exam, or portfolio—that shows what a student knows and can do and provides evidence that a student has command of a specific subject, content area, or skill.

A school that offers a direct assessment program must apply to the Department before the program can be considered eligible for Title IV purposes. The regulations require the school's application to include a description of

- the credential offered and field of study,
- how the assessment of student learning will be done,
- how the program is structured,
- how and when the school determines what each student needs to learn,
- how the school assists students in gaining knowledge needed to pass assessments,
- the number of credit or clock hours to which the program is equivalent, and
- the methodology used to determine credit- or clock-hour equivalencies for the program and portions of the program students complete.

In addition, a school must include documentation from its accrediting agency that indicates the agency evaluated the program and has accredited the program. The school must also provide documentation showing that the accrediting agency or State licensing body agreed with the school's claim of credit- or clock-hour equivalency.

In September 2012, the Department created a direct assessment workgroup (workgroup) to review schools' direct assessment program applications and provide technical assistance to schools and other entities that had questions related to Title IV eligibility for direct assessment programs. After reviewing a school's application, the workgroup recommends approval or denial of the program for Title IV eligibility. The workgroup was also tasked with developing an application review process to ensure that all schools' applications are and will be consistently reviewed. The workgroup consists of employees from the Department's office of Federal Student Aid (FSA), Office of the General Counsel, and Office of Postsecondary Education (OPE). The Department selected the employees based on their prior Title IV experiences and areas of expertise. According to members of the workgroup, the Department plans to keep the workgroup in place as long as necessary but will eventually transfer responsibility for reviewing applications and recommending approval or denial to FSA's school participation divisions.

Before recommending approval of an application, the workgroup must evaluate whether a school provided a factual basis for its claim that a direct assessment program is equivalent to a specific number of credit or clock hours, including how the program meets the minimum requirement for

² All regulatory citations are to the July 1, 2013, version.

weeks of instructional time.³ According to Title IV requirements, educational activity in a direct assessment program includes regularly scheduled learning sessions; faculty-guided independent study; consultations with a faculty mentor; development of an academic action plan addressed to the competencies identified by the school; or, in combination with any of the foregoing, assessments. For purposes of direct assessment programs, independent study occurs when a student follows a course of study with predefined objectives but works with a faculty member to decide how the student is going to meet those objectives. The student and faculty member agree on what the student will do (for example, required readings, research, and work products), how the student's work will be evaluated, and what the relative timeframe for completion of the work will be. According to 34 C.F.R. § 668.10(a)(3), "The student must interact with the faculty member on a regular and substantive basis to assure progress within the course or program."

In a Dear Colleague Letter issued on March 19, 2013,⁴ the Department provided guidance to schools that want to have their direct assessment programs approved for Title IV eligibility under the direct assessment regulations. According to the letter, the Department planned to collaborate with both accrediting agencies and the higher education community to encourage the use of direct assessment programs, to identify promising practices, and to gather information to inform future policy. The Department also intended to use what it learned from participating schools to inform future discussions regarding the reauthorization of the HEA.

As of January 23, 2014, only five schools (Argosy University, Capella University, Northern Arizona University, Southern New Hampshire University, and University of Wisconsin Colleges) had submitted direct assessment program applications to the Department. Capella University and Southern New Hampshire University were the only two schools whose applications the Department had approved. According to members of the workgroup, Capella University and Southern New Hampshire University planned to start awarding Title IV funds to students enrolled in the approved programs in fall 2013 and January 2014, respectively.

Northern Arizona University submitted an application to the Department in July 2013 but subsequently withdrew it. (We discuss this situation in the finding under "Credit-Hour Equivalencies.") As of January 23, 2014, the Department had not approved the applications received from Argosy University and University of Wisconsin Colleges.

AUDIT RESULTS

As of January 23, 2014, the Department had not adequately addressed the risks that schools offering direct assessment programs pose to the Title IV programs and had not established sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV eligible. Not adequately addressing risks increases the likelihood that schools might create direct assessment programs that are not Title IV eligible, such as those that

³ A week of instructional time is defined as any 7-day period in which at least 1 day of educational activity occurs.

⁴ GEN-13-10, "Applying for Title IV Eligibility for Direct Assessment (Competency-Based) Programs."

are really correspondence programs. Not establishing sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV eligible increases the risk that the Department will not obtain enough information to sufficiently evaluate the merits of all direct assessment program applications.

Without a thorough assessment of the specific risks associated with schools offering direct assessment programs, the Department cannot implement control activities to ensure management's directives are carried out and actions are taken to address the risks. If its control activities are not robust and operating as intended, the Department might approve direct assessment programs that do not meet Federal regulatory requirements, putting Title IV funds at risk. The Department also might improperly deny a program, which would restrict students' access to Title IV funds and keep the Department from achieving its goal of being a supporter of innovative education methods.

The Department provided an overall comment along with its comments on all seven recommendations. The Department stated that it established a pilot workgroup to develop processes and procedures for approving direct assessment program applications because direct assessment was a new model for both the Department and schools. The Department further stated that, as is common to many pilot projects, the pilot workgroup's activities included testing processes and procedures; therefore, rules and management decisions evolved and will evolve as experience dictates. Rather than create policies up front, the workgroup was to identify and resolve principal direct assessment policy issues as they arose. In addition, the workgroup was to gain sufficient experience with the programs and applications to develop support tools to ensure consistency in the future review and approval processes that FSA's school participation divisions will use.

FINDING — The Department Could Better Manage the Risks That Direct Assessment Programs Pose to the Title IV Programs

The Department did not thoroughly assess the risks or develop and implement control activities sufficient to mitigate the risks that schools offering direct assessment programs pose to the Title IV programs. Furthermore, the Department did not ensure that it adequately communicated with and obtained information from accrediting agencies. Not adequately addressing risks increases the likelihood that schools might create direct assessment programs that are not Title IV eligible, such as those that are really correspondence programs. Not establishing sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV eligible increases the risk that the Department will not obtain enough information to sufficiently evaluate the merits of all direct assessment program applications.

We identified two applications for which the Department could have obtained additional information from the school or the accrediting agency before making decisions about whether the programs were Title IV-eligible direct assessment programs. In one instance, the Department and the accrediting agency arrived at different conclusions about whether the school had developed the required credit-hour equivalencies for direct assessment programs or was simply offering credit-hour programs. The Department followed up with the school to obtain more information but did not contact the accrediting agency to discuss why the agency considered the school's programs to be direct assessment. The school withdrew its application before the Department could determine whether the programs were Title IV-eligible direct assessment programs. In another instance, the Department did not follow up with either the school or

the accrediting agency about the expected level of interaction between students and faculty but approved the school's direct assessment program as Title IV eligible, even though the program might not have satisfied all the requirements in 34 C.F.R. § 668.10.

The Department did not establish an effective system of internal control because, according to members of the workgroup and FSA's Chief Risk Officer and Chief Compliance Officer, few schools have submitted applications to offer direct assessment programs, so the direct assessment program does not pose a significant risk. According to "Standards for Internal Control in the Federal Government,"⁵ management should comprehensively identify risks and then analyze those risks for their possible effects. Management should then implement sufficient control activities to ensure that employees carry out management's directives and address the risks identified. Examples of control activities include creation and maintenance of relevant records and appropriate documentation and reviews by management at the functional or activity level. The standards further state that management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that might have a significant impact on the Department achieving its goals.

Significant Risks Not Thoroughly Assessed

In its 2014 risk assessment, FSA identified only two risk areas associated with direct assessment programs: the Department might approve a direct assessment program that should not be approved, and schools might not implement approved programs in accordance with Title IV requirements. To mitigate the two identified risk areas, FSA planned to review each school's application and have a supervisor review the application file using a checklist to ensure that the file contained the required documents and information before final approval. In addition, FSA planned to conduct onsite program reviews of schools with approved programs.

Although the two risk areas that the Department identified are legitimate risk areas and require mitigation, the areas are too broad to allow the Department to implement specific control activities to mitigate all significant risks. For example, the two risk areas identified by the Department do not address the following risks that we considered significant:

- Students might receive Title IV funds for life experience. Title IV funds may be used only for learning that results from instruction the school provides or oversees. In certain programs, students might receive credit for a course or competency that they successfully completed based on their prior knowledge, without engaging the learning resources that the school offered.
- A direct assessment program might really be a correspondence program. For a school's direct assessment program to be eligible for Title IV purposes, Department regulations require a faculty member to work with a student to design a program of study and to interact with the student on a regular and substantive basis. To satisfy the requirement for regular interaction with students, a school might use employees who are not faculty members. Because direct assessment programs are self-paced, the school might not require regular and substantive interaction between students and faculty members. Therefore, the programs might actually be correspondence programs. Students enrolled in programs that are improperly defined as direct

⁵ U.S. Government Accountability Office, "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1, November 1999.

assessment programs will receive more aid than they are allowed because cost of attendance for students enrolled in correspondence programs is generally limited to tuition and fees. Additionally, a school might be ineligible to receive Title IV funds if it offers more than 50 percent of its courses by correspondence or if it enrolls 50 percent or more of its students in correspondence courses.

- A school might develop credit- or clock-hour equivalencies for the program that are not based on the regulatory definition of a credit or clock hour. Schools must equate the length of their direct assessment programs to credit or clock hours using the definition of credit or clock hours established by Title IV regulations. This equivalency helps determine whether the program meets the minimum Title IV requirements for an academic year and is used as the basis for defining a payment period and calculating the amount of Title IV awards. Direct assessment programs with improperly calculated credit- or clock-hour equivalencies could result in students receiving more Title IV funds than allowed.

Sufficient Control Activities Not Developed and Implemented

As of January 23, 2014, we identified two significant control activity weaknesses directly related to the Department's direct assessment program application review process. Specifically, the Department had not created and maintained documentation of relevant discussions the workgroup held and conclusions it reached during the review of applications and had not ensured that FSA school participation division managers were kept fully informed of issues raised during the application review process.

Not Documenting the Basis for Approval or Denial of an Application

At the time of our audit, the workgroup did not create or maintain records of relevant discussions it held, conclusions it reached, and common issues it identified during the reviews of applications. These records could provide valuable information to guide future decisions about the Title IV eligibility of direct assessment programs or the process the Department could use for future reviews of applications. Such historical records would be especially helpful as the employees reviewing applications change over time. According to the Department's Administrative Communications System Departmental Directive, "Records and Information Management Program," OM: 6-103, the Department must create and maintain official records that are sufficient to adequately document all of its functions, policies, decisions, procedures, and essential transactions.

Since we completed our fieldwork, the workgroup told us that it has started to retain documentation of the questions and answers the workgroup sends back and forth with schools during the application review process, and the workgroup will begin maintaining records of its discussions and conclusions.

FSA School Participation Division Managers Not Fully Informed of Issues Raised During the Application Review Process

FSA school participation division managers are responsible for approving the Title IV eligibility of direct assessment programs. However, FSA school participation division managers rely on the workgroup to review applications and provide recommendations regarding approval or denial. Through interviews with FSA school participation division managers, we learned that they did not receive specific information about issues that the workgroup identified during its review of direct assessment program applications. The FSA school participation division

managers received information only about the progress of the review and notification when the workgroup recommended approval. The FSA school participation division managers then approved the programs without being fully informed about the issues raised during the workgroup's review of the application or knowing how the workgroup resolved any issues. If the FSA school participation division managers were kept informed about issues identified during the review of applications and how any issues were resolved, they would be in a better position to make well-informed approval decisions. They also would gain experience that will be necessary to perform a thorough review of applications once the workgroup is disbanded and full responsibility for approving direct assessment programs is turned over to FSA's school participation divisions.

Communication With External Entities Involved in the Application Process Not Adequate to Make Well-Informed Decisions

The workgroup has not communicated with accrediting agencies to determine the agencies' standards for approvals of direct assessment programs—specifically, the agencies' evaluations of credit-hour equivalencies and faculty involvement. An accrediting agency is an external stakeholder that has a significant impact on a school's application to have its direct assessment programs approved for Title IV eligibility. The accrediting agency evaluates the school's programs and must include the programs as part of the school's accreditation. In addition, the accrediting agency must indicate agreement with the school's claim of the direct assessment program's equivalence in terms of credit or clock hours for Title IV purposes.

During our audit, we identified two situations, one involving credit-hour equivalencies and one involving student-faculty interaction, in which the workgroup could have communicated with and obtained additional information from accrediting agencies. Although approval of direct assessment programs for Title IV purposes lies solely with the Department, communication with accrediting agencies about credit-hour equivalencies and student-faculty interaction would ensure that the workgroup has sufficient information to make well-informed decisions about the Title IV eligibility of direct assessment programs.

Credit-Hour Equivalencies

For one school's application, the Department and the accrediting agency arrived at different conclusions about whether the school had developed the required credit-hour equivalencies for direct assessment programs or was simply offering credit-hour programs. The accrediting agency concluded that the school was offering direct assessment programs. However, the Department concluded that the programs as described in the application appeared to be credit-hour programs, not direct assessment programs, and asked the school for additional information. The Department did not contact the accrediting agency to discuss why the agency considered the school's programs to be direct assessment.

Without gaining an understanding of how and why the accrediting agency made its determination, the Department cannot be sure that it has made the correct decision to approve or deny the school's application or whether the accrediting agency is a reliable authority for making Title IV-related direct assessment determinations. In this case, the school withdrew its application based on questions posed by the Department. Because the school's application contained information that caused the Department to question whether the programs were direct assessment, the Department could have contacted the accrediting agency to obtain information about the accrediting agency's conclusion that the school's programs were direct assessment. It is essential for the Department to communicate with accrediting agencies as well

as the schools. Such communication will help the Department make a better-informed decision about whether a program is a direct assessment program or a credit- or clock-hour program and to ensure that only students enrolled in Title IV-eligible programs receive Title IV funds. Further, if communications with the accrediting agency lead one component of the Department to question the reliability of the agency's assessment of a school's program, that component should raise its concerns with OPE's Accreditation Group. Those concerns might include an agency violating the Department's requirements for recognition; the accrediting agency failing to follow its own standards, policies, or procedures; or the accrediting agency not fulfilling its responsibilities under the Title IV programs and approving a school's involvement of faculty below a level generally accepted in the higher education community or unreasonable methodology for establishing credit- or clock-hour equivalencies.

Student-Faculty Interaction

The Department approved another school's application to operate a Title IV-eligible direct assessment program even though it did not have sufficient information to determine whether the program met the requirement for the student to interact with a faculty member on a regular and substantive basis to ensure progress within the course or program (34 C.F.R. § 668.10(a)(3)(iii)). Rather than communicating with and obtaining additional information from the school and accrediting agency, the workgroup chose to rely on the accrediting agency's determination that the program was direct assessment and met the requirement for student-faculty interaction.

As described in the school's application, the program was to meet the requirement for weeks of instructional time through the use of faculty-guided independent study. The application stated that the program would use a "coach" to guide the student's independent study, and the application's glossary defined a coach as "a trained professional, typically with counseling or coaching experience, who works with the student to establish goals and set pace and who asks questions and recommends resources or support tools, as necessary." The application did not state that the coach was a faculty member or that a faculty member would guide students through independent study; the glossary was silent on the terms "faculty" and "faculty member." The application also did not state whether the coach was required to have subject matter expertise in the area the student was pursuing through independent study.

According to the accrediting agency's standards, the responsibilities of teaching faculty include instruction and the systematic understanding of effective teaching and learning processes and outcomes in courses and programs for which they share responsibility. Additional duties may include functions such as student advisement and academic planning. The accrediting agency's standards also explain that faculty must be allowed adequate time to provide effective instruction; advise and evaluate students; contribute to program and institutional assessment and improvement; continue professional growth; and participate in scholarship, research, creative activities, and service compatible with the mission and purposes of the institution. The accrediting agency's definition of faculty and the definition of a coach in the school's application did not match.

The workgroup discussed whether the position of coach, as described in a school's application, met the requirement for the student to interact with the faculty member on a regular and substantive basis. The workgroup decided that it would rely on the approval of the program given by the accrediting agency. We saw no evidence in the Department's records indicating that the workgroup sought additional information from the accrediting agency, even though the

accrediting agency documentation that the school included with its application did not mention any evaluation of faculty.

Reliance on the accrediting agency is not sufficient to evaluate whether a school is in compliance with Title IV requirements. The regulations might be interpreted in different ways by different entities. For example, not every entity will have the same interpretation of the specific level of faculty involvement needed to satisfy the regular and substantive interaction requirement in 34 C.F.R. § 668.10(a)(3)(iii). If the Department does not communicate with and obtain sufficient information from the accrediting agency, it cannot fully understand how the agency evaluated a school's direct assessment program, what standards the agency used, what aspects of the program the agency looked at, or how the agency reached its conclusions about the program. Therefore, it is incumbent on the Department to obtain sufficient information to make a well-informed determination about whether a direct assessment program meets Title IV requirements, including the requirement that students interact with faculty members on a regular and substantive basis. In this case, the Department decided not to make its own determination about whether the school provided regular and substantive interaction with a faculty member. Without such interaction, a program might not be Title IV eligible. Or, the lack of interaction with a faculty member could make the program a correspondence program and could affect the school's determination of enrollment status, student attendance, and other Title IV-related areas.

Title IV Funds Are at Risk

We agree with the Department that few schools offering direct assessment programs have applied to have their programs deemed Title IV eligible; so, the amount of Title IV funds currently at risk is relatively low. However, the program eligibility decisions the Department is making about these early-implementing schools could set a precedent for future direct assessment programs and have a lasting, negative impact on the Title IV programs. Approving programs that do not meet the Federal regulatory requirements puts Title IV funds at risk. Without documentation that is sufficient and appropriate for making decisions and clear and continuous communication between all involved with the application review and approval processes, the Department cannot effectively mitigate the risks posed to the Title IV programs and ensure that it approves only applications meeting Federal regulatory requirements as Title IV eligible.

For example, because a program's credit- or clock-hour equivalency is used as the basis for defining payment periods, a school that improperly establishes the equivalency might improperly define its payment periods. If the Department approves such a program, Title IV-related areas, such as disbursements and the determination of satisfactory academic progress, will be affected. Additionally, schools might use activities that are not academic in nature as evidence that students began, continued, or ceased attending. For instance, if the Department approves a program that uses coaches as faculty, the school might assume that it can accept a student's discussion with a coach as evidence of attendance even though that discussion might not pertain to the subject matter of a particular course or competency. Improperly determining student attendance might cause a school to incorrectly determine a change in enrollment status, satisfactory academic progress, disbursements, and return of Title IV aid calculations.

Additionally, without appropriate documentation and communication, the Department might improperly deny a school's application. Improperly or inadvertently denying a program that

meets Title IV requirements restricts students' access to Title IV funds and could keep the Department from achieving its goal of being a supporter of innovative education methods.

Recommendations

We recommend that the Under Secretary—

- 1.1 Reassess the risks that direct assessment programs pose to the Title IV programs, communicate the results of that risk assessment to Department employees, and develop additional control activities to mitigate any newly identified risks.
- 1.2 Require employees responsible for reviewing direct assessment program applications to create and maintain records that are sufficient to adequately document all of the functions, procedures, and decisions that are relevant to the review and approval of direct assessment program applications.
- 1.3 Ensure that FSA school participation division managers responsible for approving direct assessment programs are fully informed about the issues raised during the workgroup's review of school applications.
- 1.4 Require employees involved in the review and approval of applications to obtain adequate evidence to support their conclusions about a school's compliance with the direct assessment program requirements.
- 1.5 Require employees to gain an understanding of the processes that each accrediting agency used to evaluate a school's offering of direct assessment programs, including the level of student-faculty interaction and the methodology used to evaluate credit- or clock-hour equivalencies.
- 1.6 Require employees to refer to OPE's Accreditation Group any accrediting agency that (a) violates the Department's requirements for recognition; (b) fails to follow accrediting agency standards, policies, or procedures; or (c) fails to fulfill its responsibilities under the Title IV programs, such as approving a level of faculty involvement below that generally accepted in the higher education community or approving an unreasonable methodology for establishing credit- or clock-hour equivalencies.
- 1.7 Develop guidance on how schools meet the Federal regulatory requirement that direct assessment programs include regular and substantive interaction between students and faculty.

Department Comments

The Department agreed with Recommendation 1.1, stating that it considered the risks that it has identified to date to be comprehensive in nature. The Department added that it has been aware of the additional risks that the Office of Inspector General cited in the draft audit report and will have FSA reassess the risks that direct assessment programs pose to the Title IV programs; communicate the results of that risk assessment to employees; and develop additional control activities, as applicable, to mitigate any newly identified risks. In addition, the Department stated that, as it reviews additional applications, FSA will continue to evaluate potential risks. If

it identifies any additional risks, FSA will provide that information to employees and develop control activities to mitigate the newly identified risks.

The Department agreed with Recommendation 1.2, stating that the workgroup has been recording its activities and retaining documentation on the workgroup's SharePoint site. In addition, FSA will develop procedures for creating and maintaining records and will develop application review guidelines and a checklist for approval of applications based on the statutory and regulatory requirements for direct assessment.

The Department disagreed with Recommendation 1.3, stating that FSA school participation division managers are responsible for approving thousands of eligibility, compliance audit, financial statement, and program review actions every year and, therefore, cannot be "actively" involved in the review of every single one of these actions. For direct assessment program applications, the Department established a workgroup with subject matter experts. The workgroup is responsible for reviewing each application and recommending to the respective manager whether to approve or deny the application. FSA stated that as part of the procedures and review guidelines developed in response to Recommendation 1.2, it will document its practice that the workgroup include an employee from the respective school participation division as a member of the workgroup while a direct assessment application from the region is being reviewed. The Department also proposed that the workgroup provide a copy of the application along with copies of the questions and answers exchanged between the workgroup and the school. In addition, the workgroup will provide to the school participation division its recommendation, including any issues, concerns, or other information to assist the FSA school participation division managers and analysts in making a final decision on the direct assessment application.

The Department agreed with Recommendation 1.4, emphasizing that FSA has always required employees to obtain adequate evidence to support their conclusions about a school's compliance with the direct assessment program requirements. The Department further stated that the application review guidelines that will be developed in response to Recommendation 1.2 will be amended, as needed, when new issues are noted. The Department also informed us that a member of the workgroup provided training on direct assessment to school participation division managers and appropriate headquarters employees on July 8, 2014.

The Department partially agreed with Recommendation 1.5, stating that the workgroup should look beyond accrediting agency approval when reviewing direct assessment programs. Such review should include looking at the level of faculty involvement and the methodology used for evaluating credit- and clock- hour equivalencies. The Department also stated that the application review guidelines developed in response to Recommendation 1.2 will include information on this topic.

The Department partially agreed with Recommendation 1.6, stating that approval of a direct assessment program lies solely with the Department. The Department further stated that FSA will include in its application review guidelines a statement that the workgroup will refer any violations by an accrediting agency of the requirements for recognition, agency standards, policies, or procedures, and accrediting agency responsibilities under the Federal student aid programs, including any agency approval of faculty involvement below that generally accepted in the higher education community, and any agency approval of an unreasonable methodology

for establishing credit or clock hour equivalencies, to OPE's Accreditation Group, through the workgroup members who work in the Accreditation Group.

The Department agreed with Recommendation 1.7, stating that OPE will publish a Dear Colleague Letter to provide information on the differences between direct assessment and credit- or clock-hour competency-based education. The Dear Colleague Letter will also provide guidance on how schools can meet the Federal regulatory requirement that direct assessment programs include regular and substantive interaction between students and faculty.

Office of Inspector General Response

Because we agree with the Department's proposed corrective action(s) for draft audit report Recommendations 1.2, 1.4, and 1.7, we do not provide specific responses to the Department's comments for each of those recommendations.

We agree with the Department's proposed corrective actions for Recommendation 1.1 that it should reassess the risks that direct assessment programs pose to the Title IV programs, communicate the results of the risk assessment to employees, and develop additional control activities to mitigate any newly identified risks. However, we believe that the Department still needs to specifically address the three significant risks that we identified in the draft audit report: (1) students might receive Title IV funds for life experience, (2) a direct assessment program might really be a correspondence program, and (3) a school might develop credit- or clock-hour equivalencies for the program that are not based on the regulatory definition of a credit or clock hour.

We acknowledge that FSA school participation division managers cannot be actively involved with every action for which he or she is responsible and agree with the Department's proposed corrective actions for Recommendation 1.3. Therefore, we revised the subsection and corresponding recommendation to reflect that FSA school participation division managers should be fully informed of issues raised during the review of direct assessment program applications, not necessarily actively involved with the review process.

We agree with the Department's proposed corrective action that the workgroup continue to look beyond accrediting agency approvals and look at the level of faculty involvement and the methodology used for evaluating equivalencies. However, the Department also needs to consider the role of the accrediting agency when evaluating a school's direct assessment program application. As part of the application package, the Department requires a school to submit documentation from its accrediting agency indicating that the agency has evaluated the school's offering of direct assessment program(s), has included the program(s) in the school's grant of accreditation, and indicated agreement with the school's claim of the direct assessment program's equivalence in terms of credit or clock hours. We revised Recommendation 1.5 to clarify that employees need to gain an understanding of the processes used by accrediting agencies when evaluating a school's application to offer Title IV-eligible direct assessment programs, not that employees should evaluate the sufficiency of accrediting agencies' approvals of direct assessment programs.

Finally, we agree that approval of a school's application to offer a direct assessment program for Title IV purposes lies solely with the Department. We also agree with the Department's proposed corrective action for Recommendation 1.6. Accordingly, we revised the

recommendation, using the Department's proposed language because it better explains that employees should refer any accrediting agency that violates Department requirements or fails to follow its standards or fulfill its responsibilities to the OPE's Accreditation Group.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether the Department had addressed the risks that schools offering direct assessment programs pose to the Title IV programs and established processes to ensure that only programs meeting the Federal regulatory requirements were approved as Title IV eligible. We evaluated the Department's operations as of January 23, 2014. The purpose of this report is to assist the Department in taking a proactive approach to identifying and mitigating the unique risks that schools offering direct assessment programs could pose to the Title IV programs.

To achieve our objectives, we gained an understanding of selected provisions of the HEA, the HERA, Title IV regulations, and the Department's guidance, policies, procedures, and practices that were in place as of January 23, 2014. We also reviewed and gained an understanding of the "Standards for Internal Control in the Federal Government," and used the standards as criteria for evaluating the Department's system of internal control related to direct assessment programs.

To understand how the Department assessed risk and handled the review and approval of direct assessment program applications, we conducted interviews with workgroup members from FSA, the Office of the General Counsel, and OPE; officials from FSA's Program Compliance and Risk Management offices; an FSA school participation division employee who was involved with the application review process for one school; and FSA school participation division managers who were responsible for approving two applications. To help us understand management's attitude toward direct assessment programs and the risks associated with them, we also spoke to the former Acting Assistant Secretary for Postsecondary Education before his departure from the Department. Additionally, we reviewed copies of correspondence among members of the workgroup, FSA school participation division teams, and schools regarding the review of the applications. We also reviewed applications submitted to the Department for consideration by Capella University, Northern Arizona University, and Southern New Hampshire University—three of the five schools that had applied as of January 23, 2014—and compared them with the requirements set forth in 34 C.F.R. § 668.10. Finally, we reviewed and analyzed the Department's comments on the draft of this report and revised the report and recommendations as necessary.

We conducted our audit from March 2013 through January 2014 at the Department's offices in Washington, D.C., and our offices in Chicago, Illinois, and Kansas City, Missouri. We conducted interviews with Department employees in regional offices by teleconference. We discussed the results of our work with Department officials on August 29, 2013, and May 20, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

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

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions or require additional information, please do not hesitate to contact me at (202) 245-6900 or Gary D. Whitman, Regional Inspector General for Audit, at (312) 730-1620.

Sincerely,

/s/

Patrick J. Howard
Assistant Inspector General for Audit

Attachment 1

Acronyms, Abbreviations, and Short Forms Used in this Report

C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
Direct Assessment Program	Competency-based education program that measures a student's learning through direct assessment, not credit or clock hours
FSA	Federal Student Aid
HEA	Higher Education Act of 1965, as amended
HERA	Higher Education Reconciliation Act of 2005
OPE	Office of Postsecondary Education
Title IV	Title IV of the Higher Education Act of 1965, as amended
Workgroup	Direct assessment workgroup created by the Department to review schools' applications and provide technical assistance to schools and other entities that had questions related to Title IV eligibility for direct assessment programs

Attachment 2

MEMORANDUM

DATE: July 17, 2014

TO: Gary D. Whitman
Regional Inspector General for Audit Services
Office of Inspector General

Pat Howard
Assistant Inspector General for Audit Services
Office of Inspector General

FROM: Ted Mitchell
Under Secretary

SUBJECT: Draft Audit Report
Direct Assessment Programs: Processes for Identifying Risks and Evaluating
Applications for Title IV Eligibility Need Strengthening to Better Mitigate Risks
Posed to the Title IV Programs
Control No. ED-OIG/A05N0004

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft audit report, *Direct Assessment Programs: Processes for Identifying Risks and Evaluating Applications for Title IV Eligibility Need Strengthening to Better Mitigate Risks Posed to the Title IV Programs*, dated June 6, 2014. The objectives of the audit were to determine whether the U.S. Department of Education has addressed the risks that schools offering direct assessment programs pose to Title IV of the Higher Education Act of 1965 (as amended) programs and established processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV eligible.

This Memorandum provides the Department's comments and responses to the seven (7) recommendations in OIG's draft audit report. Federal Student Aid, the Office of Postsecondary Education, and the Office of the Under Secretary collaborated to provide the comments in this Memorandum.

The Department has created a Direct Assessment Workgroup (Workgroup) to review direct assessment program applications and to provide technical assistance to schools and other entities that have questions related to direct assessment. The Workgroup is comprised of subject matter experts from FSA's office of Program Compliance, OPE, and the Office of General Counsel.

As of January 23, 2014, only five applications for direct assessment programs had been received, and only two had been approved. The Workgroup's authority and responsibility is to provide recommendations to School Participation Divisions as to whether an application for the Department's approval of a direct assessment program satisfies the criteria in 34 C.F.R. 668.10.

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In addition, the Workgroup intends to identify and resolve principal direct assessment policy issues as they arise and to gain sufficient experience with these programs and applications to develop support tools to ensure consistency in the review/approval process by FSA's regional staff.

Because determining Title IV eligibility for direct assessment programs is a new model for both institutions and the Department, the Department chose to establish a pilot Workgroup to develop processes and procedures for approving direct assessment programs. As is common to many pilot projects, activities include testing processes/procedures, and rules and management decisions evolve as experience dictates.

FINDING — The Department Could Better Manage the Risks That Direct Assessment Programs Pose to the Title IV Programs

RECOMMENDATION 1.1 — Reassess the risks that direct assessment programs pose to the Title IV programs, communicate the results of that risk assessment to Department employees, and develop additional control activities to mitigate any newly identified risks.

Although we consider the risks identified to date to be comprehensive in nature, and have been aware of the two more specific risks cited in the draft report since inception, FSA will reassess the risks that direct assessment programs pose to the Title IV programs, communicate the results of that risk assessment to employees, and develop additional control activities as applicable to mitigate any newly identified risks. Also, as additional applications are reviewed, FSA will continue to evaluate potential risks and, if any are identified, provide that information to employees and develop control activities to mitigate the newly identified risks.

RECOMMENDATION 1.2 — Require employees to create and maintain records that are sufficient to adequately document all of the functions, procedures, and decisions that are relevant to the review and approval of applications.

We agree with this recommendation. The Direct Assessment Workgroup has been recording the activities of the group and retaining this documentation on the Workgroup's SharePoint site. FSA will develop procedures for creating and maintaining records and will develop application review guidelines and a checklist for approval of applications based on the statutory and regulatory requirements for direct assessment and will use that information in the review process.

RECOMMENDATION 1.3 — Ensure that regional FSA managers responsible for approving direct assessment programs are actively involved in the review of school applications.

We disagree with this recommendation. FSA managers are responsible for approving thousands of eligibility, compliance audit, financial statement, and program review actions every year. They cannot be "actively" involved in the review of every single one of these actions. Rather, FSA has subject matter experts who do the reviews and recommend approval or disapproval to

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the managers. For direct assessment applications, a Workgroup was established with subject matter experts from across the Department, with the responsibility to review and make recommendations to the respective manager on approval or denial of the application.

In addition, a member of FSA's New York/Boston School Participation Division (SPD) and a member of the Chicago/Denver School Participation Division were in close contact with the Workgroup when their respective school applications were under review, and were fully informed as to any issues. All issues were resolved prior to the Workgroup decision to recommend approval to the SPD. As part of the SPD approval process, a Team meeting is held to discuss the school's application. This discussion includes all relevant data and information about the school's current status, e.g., funding, default rates, financial scores, audit findings, accreditation, licensing, complaints, eligibility, media reports, etc. This discussion included any issues from the direct assessment Workgroup process.

That said, as part of the procedures and review guidelines developed in response to Recommendation 1.2, FSA will document its consistent practice that the Workgroup include a staff member from the respective SPD as a member of the Workgroup while a direct assessment application from the region is being reviewed. FSA will also include in the procedures that the Workgroup will provide a copy of the application and copies of the questions/answers exchanged between the workgroup and the institution. In addition, the Workgroup will provide to the SPD its recommendation, as well as any issues, concerns, or other information to assist the SPD manager and analysts in making a final decision on the direct assessment application.

RECOMMENDATION 1.4 — Require employees involved in the review and approval of applications to obtain adequate evidence to support their conclusions about a school's compliance with the direct assessment program requirements.

We agree with this recommendation and, in fact, FSA always required employees to obtain adequate evidence to support their conclusions about a school's compliance with the direct assessment program requirements. The regulations clearly state what institutions are required to provide as part of the application process. The application review guidelines that will be developed in response to Recommendation 1.2 will be amended and revised as the Workgroup reviews new applications and notes new issues. The Workgroup has expanded the review process as it has learned more about the varied ways that direct assessment programs are being implemented. In addition, training on direct assessment was provided to the regional managers and appropriate headquarters staff on July 8, 2014, by a member of the Direct Assessment Workgroup.

RECOMMENDATION 1.5 — Require employees to evaluate the sufficiency of accrediting agencies' approvals of direct assessment programs, including the level of faculty involvement in the program and the methodology used for evaluating the credit- or clock-hour equivalencies.

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We agree that the Workgroup should continue to look beyond accrediting agency approvals in reviewing direct assessment programs, including looking at the level of faculty involvement and the methodology used for evaluating equivalencies. The application review guidelines developed in response to Recommendation 1.2 will include information on this topic.

RECOMMENDATION 1.6 — Require employees to refer to the Office of Postsecondary Education’s Accreditation Group any accrediting agency that they believe may have incorrectly concluded that a school is offering a direct assessment program, particularly when the decision pertains to evaluating the level of faculty involvement or the methodology used for establishing credit- or clock-hour equivalencies.

We disagree with this recommendation to the extent it indicates that determining whether a program is a “direct assessment” program is an accrediting agency function. We have been advised by the Office of General Counsel that this is a determination to be made by the Department. FSA will include in the application review guidelines a statement that the Workgroup will refer any violations by an accrediting agency of the requirements for recognition, agency standards, policies, or procedures, and/or accrediting agency responsibilities under the federal student aid programs, including any agency approval of faculty involvement below that generally accepted in the higher education community, and any agency approval of an unreasonable methodology for establishing credit or clock hour equivalencies, to OPE’s Accreditation Group, through the Workgroup members who work in the Accreditation Group.

RECOMMENDATION 1.7 — Develop guidance on how schools meet the Federal regulatory requirement that direct assessment programs include regular and substantive interaction between students and faculty.

OPE will publish a Dear Colleague Letter (DCL) to provide information on the differences between direct assessment and credit or clock hour competency-based education. The DCL will also provide guidance on how schools can meet the Federal regulatory requirement that direct assessment programs include regular and substantive interaction between students and faculty. In addition, OPE has developed and scheduled training for accreditors on direct assessment to address this finding.

Again, thank you for the opportunity to comment on the draft audit report. If you have further questions, please feel free to contact Dawn Dawson, the audit liaison officer for this audit, at (202) 377-3468 or by email at dawn.dawson@ed.gov.