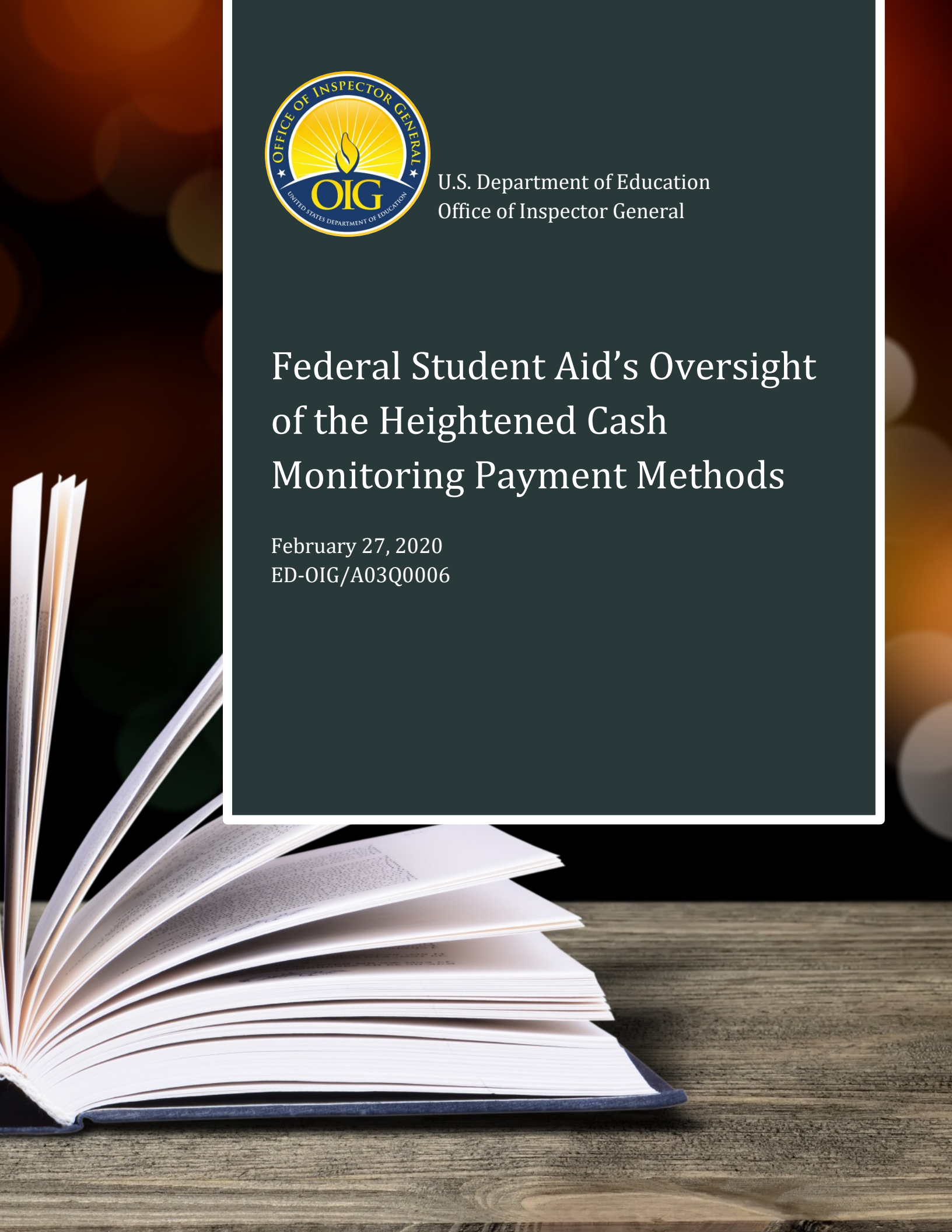

U.S. Department of Education
Office of Inspector General

Federal Student Aid's Oversight of the Heightened Cash Monitoring Payment Methods

February 27, 2020
ED-OIG/A03Q0006

NOTICE

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. The appropriate Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

February 27, 2020

TO: Mark A. Brown
Chief Operating Officer
Federal Student Aid

FROM: Bryon S. Gordon /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report, "Federal Student Aid's Oversight of the Heightened Cash Monitoring Payment Methods," Control Number ED-OIG/A03Q0006

Attached is the subject final audit report that consolidates the results of our review of Federal Student Aid's oversight of the heightened cash monitoring payment methods. We have provided an electronic copy to your audit liaison officers. We received your comments including corrective actions that Federal Student Aid has planned or implemented in response to the findings and recommendations in our draft report.

U.S. Department of Education policy requires that you develop a final corrective action plan within 30 days of the issuance of this report. The corrective action plan should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this final audit report. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

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.

We appreciate your cooperation during this review. If you have any questions, please contact me at (202) 245-6051 or at Bryon.Gordon@ed.gov or Teri Lewis, Assistant Regional Inspector General for Audit, at (215) 656-6276 or at Teri.Lewis@ed.gov.

Attachment

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Results in Brief

What We Did

The audit objectives were to determine whether (1) Federal Student Aid (FSA) consistently administered its heightened cash monitoring payment methods and (2) FSA's use of heightened cash monitoring is an effective oversight tool. Our audit covered FSA's oversight of schools on heightened cash monitoring from July 1, 2014, through June 30, 2016. We conducted follow up audit work in April through June 2019 to confirm that FSA's oversight procedures had not changed subsequent to our audit period.

Generally, schools operate under the advance payment method, where they draw down Title IV of the Higher Education Act of 1965, as amended (Title IV) funds from the U.S. Department of Education (Department) before disbursing funds to eligible students and parents. However, the Department may place schools on a heightened cash monitoring payment method (under two different levels) when it determines that additional oversight of the school's cash management of its Title IV program funds is necessary because of financial, administrative, or compliance issues. FSA is responsible for this oversight and monitoring. The two levels of heightened cash monitoring are as follows.

- **Heightened Cash Monitoring 1.** A school must make disbursements to eligible students from its own funds and then submit the payment records to the Department's Common Origination and Disbursement System[1] before the school can draw down its Title IV program funds to cover the disbursements.[2]
- **Heightened Cash Monitoring 2.** A school must make payments to students from its own funds and then submit a payment request with supporting documentation to FSA to be reimbursed for the payments. FSA reviews the documentation for a sample of students in the request to determine whether to reimburse the school for all the students in the submission.

[1] The Common Origination and Disbursement System is the Department's system for processing all awards and disbursement data for participants in Title IV programs.

[2] The Department considers a school to have made a disbursement if the school has either credited a student's account or paid a student or parent directly with its own funds.

Our audit focused on the top five reasons[3] FSA placed a school on heightened cash monitoring: (1) negative accreditation actions, (2) late or missing annual financial statements, (3) failure to meet one or more standards of administrative capability, (4) failure to be financially responsible based on a composite score,[4] and (5) severe findings found during a FSA program review.[5] We used a stratified random sampling approach and selected a sample from each of the top five reasons from the 809 schools that FSA placed on heightened cash monitoring.[6]

For objective one, to determine whether FSA's placement of the schools on heightened cash monitoring was consistently administered, we reviewed applicable regulations and FSA's "Method of Payment Procedures" for placing a school on a heightened cash monitoring payment method for one of the top five reasons. We also reviewed the supporting documentation for a sample of 43 schools consisting of 18 schools on heightened cash monitoring 1, and 25 schools on heightened cash monitoring 2. Our review also included all 303 schools with late annual financial statements and all 659 schools with composite scores that fell below the minimum financial responsibility score.[7]

For objective two, to determine whether FSA's use of a heightened cash monitoring payment method was an effective oversight tool, we reviewed FSA's processes and supporting documentation for removing a school from a heightened cash monitoring payment method. We also reviewed FSA's processes for reimbursing schools that submit payment requests to the Department and the supporting documentation for schools on the heightened cash monitoring 2 payment method that submitted a request to the Department for reimbursement.

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[3] The top five reasons accounted for about 87 percent of the heightened cash monitoring placements during the audit period.

[4] The composite score is based on financial ratios that the Department calculates using information from the school's audited financial statements (34 Code of Federal Regulations (C.F.R.) Section 668.172(a)). All regulatory citations are to the edition dated July 1, 2014.

[5] FSA conducts program reviews to evaluate compliance with Federal student aid requirements, such as eligibility, financial responsibility, and administrative capability.

[6] Our results cannot be projected to the universe of schools on heightened cash monitoring during our audit period as we did not weight results by each school's probability of selection.

[7] Generally, a school must have a minimum composite score of 1.5 to be considered financially responsible (34 C.F.R. Section 668.171(b)(1)).

Specifically, we determined effectiveness based on whether FSA's processes provided a reasonable assurance that (1) schools placed on a heightened cash monitoring payment method implemented the required corrective actions before FSA returned them to the advance payment method and (2) schools placed on the heightened cash monitoring 2 payment method submitted the required documentation before the Department reimbursed them. We reviewed FSA's "Method of Payment Procedures" to determine whether it included adequate processes and controls to reasonably ensure that FSA removed schools from a heightened cash monitoring placement only after schools implemented corrective actions FSA required. We also reviewed the documentation for a sample of 25 of the 278 schools that FSA removed from heightened cash monitoring and returned to the advance payment method.

In addition, we reviewed FSA's "Method of Payment Procedures" to determine whether it provided reasonable assurance that schools submitted the required documentation supporting payment requests to FSA before the Department reimbursed them. We also reviewed the documentation supporting the largest payment requests for 5 of the 25 schools that FSA placed on the heightened cash monitoring 2 payment method from the sample of 43 schools noted above.

What We Found

FSA consistently administered its heightened cash monitoring payment methods for schools that FSA placed on heightened cash monitoring for the top five reasons, and the documentation generally supported FSA's placement of the schools on heightened cash monitoring. In our review of supporting documentation for 43 of the 809 schools on a heightened cash monitoring payment method for the top five reasons, we generally found that (1) the reason for a school's placement was consistent with applicable regulations and FSA's "Method of Payment Procedures" and (2) the documentation consistently supported the level of heightened cash monitoring.

However, FSA did not have adequate internal controls to reasonably ensure it consistently placed schools on a heightened cash monitoring payment status when they submitted late annual financial statements or had composite scores that fell below the minimum financial responsibility score. As a result, School Participation Divisions[8] (School Divisions) did not consistently or timely cite and place schools on provisional

[8] FSA's School Divisions monitor schools to determine Title IV eligibility, administrative capability, financial responsibility, and noncompliance with Title IV laws and regulations.

certification[9] and heightened cash monitoring for submitting financial statements after the due dates. We determined that FSA took appropriate actions for 283 (93 percent) of the 303 schools that submitted late annual financial statements during the audit period.[10] Of the 303 schools with late annual financial statement submissions, there were 177 that FSA should have timely cited and, as warranted, placed on provisional certification and a heightened cash monitoring payment method. Of those 177 schools, we identified 20 (11 percent) that FSA did not cite, did not place on provisional certification and a heightened cash monitoring payment method, or did not perform these actions timely.

Also, FSA did not have control activities to track a school's method of payment status from the School Division's recommendation for heightened cash monitoring placement until the placement was made. We determined that 99 percent of the schools (653 of 659) with composite scores below the minimum financial responsibility score either were properly placed on stop payment[11] or required by FSA to participate under alternative standards and requirements. However, one of FSA's eight School Divisions did not take the required actions for 6 (5 percent) of 113 schools[12] with composite scores that fell below the minimum score for financial responsibility. Specifically, the School Division did not place the six schools on heightened cash monitoring or obtain a letter of credit from the six schools.

Further, FSA did not retain all required documentation for administering its heightened cash monitoring payment methods for some of the 43 schools we sampled. While the documentation generally supported FSA's placement of schools on heightened cash monitoring, we found that FSA did not retain all required documentation for 9 schools (21 percent). For the 25 schools we sampled, FSA did not retain at least one required

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[9] Provisional certification involves placing special conditions on a school in order to remain eligible to participate in Title IV programs.

[10] The 283 schools include 126 schools that FSA appropriately did not cite or place on provisional certification and a heightened cash monitoring payment method and 157 schools that FSA appropriately placed on a heightened cash monitoring payment method or on stop payment. This is further detailed in Finding No. 1.

[11] A school placed on stop payment is prevented from drawing down funds on its Title IV awards.

[12] The New York/Boston School Division oversaw 113 of the 659 schools with minimum composite scores during the audit period.

document for 12 schools (48 percent) removed from a heightened cash monitoring payment method.

Overall, FSA's use of heightened cash monitoring was an effective oversight tool. Our review of FSA's "Method of Payment Procedures" found that the processes, as designed, provided reasonable assurance that a school (1) placed on a heightened cash monitoring payment method implemented the required corrective actions before FSA returned the school to the advance payment method and (2) placed on heightened cash monitoring 2 submitted the required student payment documentation to FSA before being reimbursed by the Department. For the 25 schools that FSA removed from a heightened cash monitoring payment method, we found that FSA staff verified that schools took required corrective actions before returning the school to the advance payment method. Additionally, for the 5 of the 25 schools on heightened cash monitoring 2, FSA verified that the students were eligible for the Title IV funding requested before the school was reimbursed by the Department.

What We Recommend

We recommend that the Chief Operating Officer for FSA develop and implement controls that (1) ensure consistent, appropriate, and timely actions are taken when schools fail to submit financial statements timely or receive nonpassing composite scores; (2) track a school's method of payment status from the recommendation for placement until the change is implemented; and (3) ensure that all required heightened cash monitoring documentation is retained.

FSA Comments

We provided a draft of this report to FSA on December 5, 2019. FSA did not explicitly agree or disagree with Finding 1. FSA agreed that, for the 20 schools identified that had late annual financial statement submissions, it did not take timely and appropriate action. However, FSA disagreed with how the administration of heightened cash monitoring payment methods was presented in Finding 1. FSA requested that the report language and error rate calculation be revised to reflect all 303 schools with late annual financial statement submissions.

FSA requested that based on documentation it provided with its response detailing actions taken for the schools identified in the finding with late annual financial statement submissions, the Finding 1 recommendation to take appropriate action for these schools be eliminated from the final report. FSA partially agreed with the Finding 1 recommendation to develop and implement controls to assure that FSA timely places schools that have not submitted a financial statement when due on provisional certification and heightened cash monitoring. FSA agreed with the other Finding 1 recommendations.

FSA did not explicitly agree or disagree with Finding 2. However, FSA requested that Finding 2 be revised to reflect the limitations of the sampling methodology identified in the "Scope and Methodology" section of the draft report. FSA agreed with the recommendation for Finding 2.

FSA agreed with Finding 3, which is a positive finding with no recommendations.

OIG Response

We added language in Finding 1 to clarify that FSA took appropriate actions for 283 (93 percent) of the 303 schools that submitted late financial statements. However, to place the errors into context, we continue to report that for 20 (11 percent) of the 177 schools FSA either did not (1) cite the school for being late, or (2) place the school on provisional certification and heightened cash monitoring, or (3) perform the applicable actions timely. Based on our review of the documentation FSA provided detailing the corrective actions taken by FSA for each of the 20 schools, we removed the recommendation that FSA's School Divisions perform appropriate actions for the schools identified in the finding that submitted late annual financial statements and were either not cited or not placed on provisional certification and heightened cash monitoring. We also revised the recommendation that FSA place all schools that submit late financial statements on heightened cash monitoring and provisional certification in a timely manner.

We added clarifying language to Findings 2 and 3 to reflect the limitations of the sampling methodology.

We summarize FSA's comments at the end of the findings and include the full text of FSA's comments at the end of this report.

Introduction

Background

Title IV of the Higher Education Act of 1965, as amended, authorizes various programs that provide financial aid, typically in the form of grants or loans, to eligible students enrolled in eligible programs at eligible postsecondary schools (schools). In fiscal year 2018, FSA administered about $122.4 billion in Title IV program funds delivered to more than 12.7 million postsecondary students and their families. These students attended about 6,000 schools that participated in the Title IV programs.

The Higher Education Act of 1965, as amended, gives the Department the discretion to determine a school's eligibility to participate in Title IV programs. Eligibility is based, in part, on a school's capability to administer funds in compliance with all applicable regulations (administrative capability), and on the school's financial health and responsibility (financial responsibility). Demonstrating administrative capability includes administering the Title IV programs in accordance with all applicable statutory and regulatory provisions, designating a person to be responsible for the administration of Title IV program funds, having adequate staff to administer the program, having sufficient controls over the processes used to administer program funds, and maintaining required records (34 C.F.R. Section 668.16). Financial responsibility is based, in part, on a school's ability to provide the services described in its official publications and statements, to properly administer the Title IV programs in which it participates, and to meet all of its financial obligations (34 C.F.R. Section 668.171).

If the Department has concerns that a school's administrative capability is impaired or determines that a school is not financially responsible, it may provisionally certify[13] the school's eligibility to continue to participate in the Title IV programs (34 C.F.R. Section 668.13(c)).

Section 498(c) of the Higher Education Act of 1965, as amended, requires schools to demonstrate they are maintaining the standards of financial responsibility necessary to participate in the Title IV programs. Under 34 C.F.R. Section 668.23(d), participating schools must submit audited financial statements following the close of each fiscal year. For public and private nonprofit schools subject to Office of Management and Budget

[13] Rather than granting full approval to participate, the Department may grant a school conditional approval (referred to as provisional certification) to participate in the Title IV programs for up to 3 years.

(OMB) Circular A-133 requirements,[14] audited financial statements are due no later than 9 months after the last day of the school's fiscal year-end. For for-profit schools, audited financial statements are due no later than 6 months after the last day of the school's fiscal year-end. Schools are required to submit their annual audited financial statements to the Department via the eZ-Audit[15] automated system. A school's failure to submit an acceptable annual financial statement timely is a past performance violation (34 C.F.R. Section 668.174), which results in, among other things, FSA provisionally certifying the school, requiring the school to post a letter of credit, and placing the school on a heightened cash monitoring payment method (34 C.F.R. Section 668.175(f)).

One of the standards the Department uses to assess a school's financial health is a composite score. The composite score is based on financial ratios that the Department calculates using information from the school's audited financial statements. The methodology is detailed in 34 C.F.R. Section 668.172. The composite score reflects the relative financial health of the school on a scale from negative 1.0 to positive 3.0. A school must score at least 1.5 to be considered financially responsible (34 C.F.R. Section 668.171(b)(1)). A school that scores in the range of 1.0 to 1.4 may continue to participate in the Title IV programs under the "zone alternative" and should be placed on a heightened cash monitoring payment method (34 C.F.R. Section 668.175(d)). A school that scores less than 1.0 is not financially responsible but may be provisionally certified to continue to participate in the Title IV programs. A school that is provisionally certified for this reason is required to post a letter of credit equal to a minimum of 10 percent of the Title IV program funds it received in its most recently completed fiscal year and should be placed on a heightened cash monitoring payment method (34 C.F.R. Section 668.175(f)). A school that posts a letter of credit of at least 50 percent of its Title IV program funds is considered financially responsible (34 C.F.R. Section 668.175(c)).

Heightened Cash Monitoring

Under 34 C.F.R. Section 668.162, the Department has the discretion to determine the method under which Title IV program funds are provided to schools. Program funds are generally provided under the advance payment method, by which the school requests

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[14] An annual A-133 audit is an audit conducted in accordance with the Single Audit Act Amendments of 1996; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," the OMB Circular Compliance Supplement, and Government Auditing Standards.

[15] The eZ-Audit system is a web application that provides schools with a paperless, single point of submission for financial statements and compliance audit reports to the Department.

the funds needed for immediate disbursements and must disburse those funds no later than 3 business days following the date the school received the funds.

The Department may place a school on a heightened cash monitoring payment method to provide additional oversight of its management of Title IV funds when either financial or compliance issues are disclosed. Examples of issues that may result in a school being placed on a heightened cash monitoring payment method include issues identified in audits and program reviews, issues with school ownership, a school's outstanding liabilities, the school's recertification was denied but its program participation agreement[16] has not yet expired, the loss of eligibility at a location or branch of the school, provisional certification, an Office of Inspector General (OIG) referral, FSA Administrative Action and Appeals Service Group administrative actions, or failing to report to the National Student Loan Data System (the Department's central database for student aid). There are two levels of heightened cash monitoring.

- **Heightened Cash Monitoring 1.** A school must make payments to eligible students from its own funds and then submit the payment records to the Department's Common Origination and Disbursement System, before the school can draw down Title IV program funds to cover the disbursements.

- **Heightened Cash Monitoring 2.** A school must make payments to students from its own funds, and then submit a payment request to the Department to be reimbursed for the payments. FSA reviews the documentation for a sample of students in the request to determine whether to pay for all the students in the submission.

Schools could be placed on either heightened cash monitoring 1 or heightened cash monitoring 2 based on the severity of issues or findings that warrant additional monitoring. Usually a school is placed on heightened cash monitoring 2 when an audit or program review finding identifies a systemic or material regulatory violation. When a school corrects the issues that resulted in its placement on heightened cash monitoring, FSA may transition the school from its heightened cash monitoring status to a less restrictive payment method (from heightened cash monitoring 2 to heightened cash monitoring 1) or back to the advance payment method.

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[16] A program participation agreement is an agreement between a school and the Department that lists the conditions for initial and continued participation in any Title IV, HEA program.

Reimbursement Method of Payment

Under the reimbursement method of payment (34 C.F.R. Section 668.162(d)), the school must first disburse funds to students and then submit a request for reimbursement of those funds to the Department.[17] In its request, the school must submit all required documentation to the Department showing that each student included in the request was eligible for, and received, those funds. FSA reviews the documentation for every student in the request.

Schools should be placed on reimbursement if there are serious violations that require an extensive student file review. Circumstances include the existence of one or more of the conditions mentioned under heightened cash monitoring 2, suspicion of fraud, initiation of a termination action, falsification of student files, providing incorrect data to Department officials to cover up violations, or activity that is, or appears to be, criminal.

FSA Structure

FSA manages the administrative and oversight functions supporting the Title IV programs, including ensuring the integrity of the programs (Sections 141(a)(1) and 141(b)(2)(A)(vi) of the Higher Education Act of 1965, as amended). As part of its oversight responsibilities, FSA is responsible for the oversight and monitoring of schools to ensure compliance with Title IV program requirements.

FSA's Program Compliance office oversees the schools participating in the Title IV programs. The Program Compliance office includes the School Eligibility Service Group (School Group). The School Group is responsible for the eligibility, certification, and oversight of schools participating in the Title IV programs.

The School Group is divided into eight School Participation Divisions (School Divisions) that monitor schools in their respective area to determine compliance with Title IV program requirements and administer the heightened cash monitoring process. There are eight School Divisions, as follows.

- New York/Boston School Division
- Philadelphia School Division
- Atlanta School Division
- Chicago/Denver School Division
- Dallas School Division
- Kansas City School Division

[17] During the audit period, one school was placed on the reimbursement method of payment for one day.

- San Francisco/Seattle School Division
- Multi-Regional and Foreign Schools School Division

Finding 1. FSA Needs to Improve its Administration of Heightened Cash Monitoring Payment Methods

FSA consistently administered its heightened cash monitoring payment methods for schools that FSA placed on heightened cash monitoring for the top five reasons, and the documentation generally supported FSA's placement of the schools on heightened cash monitoring. However, FSA did not have adequate internal controls to reasonably ensure it consistently placed schools on heightened cash monitoring when they submitted late annual financial statements or had composite scores that fell below the minimum for financial responsibility (nonpassing composite scores). As a result, School Divisions did not consistently or timely cite and place schools on provisional certification and heightened cash monitoring for submitting financial statements after the due dates. In addition, schools with nonpassing composite scores were not consistently placed on heightened cash monitoring or required to submit a letter of credit.

FSA Consistently Administered its Heightened Cash Monitoring Payment Methods for Schools Placed on Heightened Cash Monitoring for the Top Five Reasons

FSA consistently administered its heightened cash monitoring payment methods for schools that FSA placed on heightened cash monitoring for the top five reasons. We reviewed applicable regulations and FSA's "Method of Payment Procedures" for placing a school on a heightened cash monitoring payment method. We also reviewed the supporting documentation for a sample of 43 of the 809 schools on heightened cash monitoring for one of the top five reasons during our audit period. We generally found that (1) the reason for the school's placement was consistent with applicable regulations and FSA's "Method of Payment Procedures" and (2) the documentation consistently supported the level of heightened cash monitoring on which the school was placed.[18]

FSA Did Not Ensure Timely and Appropriate Action Was Performed for Schools That Submitted Late Annual Financial Statements

We found that 303 schools submitted late (more than 30 days after the due date) annual financial statements that were due during the audit period. Of the 303 schools,

[18] The 43 schools included 18 schools placed on heightened cash monitoring 1 and 25 schools placed on heightened cash monitoring 2.

FSA took appropriate action for 283 (93 percent).[19] For 177 of the 303 schools, FSA should have timely cited and, as warranted, placed these schools on provisional certification and a heightened cash monitoring payment method. We found that FSA appropriately placed 157 of the 177 schools on a heightened cash monitoring payment method or on stop payment.[20] However, for 20 (11 percent) of the 177 schools FSA either did not (1) cite the school for being late, or (2) place the school on provisional certification and heightened cash monitoring, or (3) perform the applicable actions timely. For the remaining 126 of the 303 schools, FSA appropriately did not cite these schools or place them on provisional certification and a heightened cash monitoring payment method.[21]

We also found inconsistencies in FSA's School Divisions' administration of the heightened cash monitoring process for schools that submitted late annual financial statements. Each School Division had schools with late financial statements where actions should have been performed. Although three of the eight School Divisions consistently placed schools on heightened cash monitoring for submitting late financial statements, five of the eight School Divisions did not consistently or timely cite and place schools on provisional certification and heightened cash monitoring for submitting late financial statements. For a summary of the number of schools with late financial statements by School Division, see Table 1.

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[19] The 283 schools include the 126 schools that FSA appropriately did not cite or place on provisional certification and a heightened cash monitoring payment method and the 157 schools that FSA appropriately placed on a heightened cash monitoring payment method or on stop payment.

[20] A school placed on stop payment is prevented from drawing down funds on its Title IV awards.

[21] For the 126 schools, the reasons for the actions taken included receiving waivers for the citation, extensions to file the financial statements, reinstatements to participate in Title IV programs, and changes in the school type (for example, from nonprofit to proprietary).

Table 1. Summary of Late Financial Statements by School Division

School Division	Number of Schools with Late Financial Statements	Number of Schools Appropriately Not Cited or Placed on Provisional Certification and HCM*	Number of Schools Appropriately Placed on HCM or Stop Payment	Number of Schools Not Cited or Not Placed on Provisional Certification and HCM, or the Appropriate Actions Were Not Performed Timely
New York/Boston	41	6	28	7
Philadelphia	42	26	16	0
Atlanta	27	12	12	3
Chicago/Denver	99	37	60	2
Dallas	22	12	8	2
Kansas City	15	5	10	0
San Francisco/Seattle	43	21	16	6
Multi Regional and Foreign Schools	14	7	7	0
Total	**303**	**126**	**157**	**20**

*HCM is heightened cash monitoring.

According to Federal regulations, a school is not financially responsible if it does not timely submit acceptable required annual financial statements. A school that is not financially responsible may continue to participate in the Title IV programs by qualifying under an alternative standard. Under the provisional certification alternative, FSA may permit a school that is not financially responsible to participate in the Title IV programs under a provisional certification for no more than 3 consecutive years if the school is not financially responsible because of a condition of past performance (such as the late submission of financial statements) and the school demonstrates that it has satisfied or resolved that condition. In addition to other requirements, schools participating under the provisional certification alternative must (1) be placed under a heightened cash monitoring or reimbursement method of payment and (2) if a private nonprofit or

proprietary school, submit an irrevocable letter of credit[22] for a minimum of 10 percent of the Title IV program funds received by the school during its most recently completed fiscal year.[23]

FSA's Late Annual Report Citation Process

Each month, FSA's Technical and Business Support Service Group sends a "Cite Letter Report" to its Performance Improvement and Procedures Service Group (Performance Group).[24] The Performance Group provides the report to the School Divisions. A school is identified on the "Cite Letter Report" for having a late financial statement only for the initial month in which the school's financial statements were more than 30 days late; after the initial month, the school is not listed on subsequent "Cite Letter Reports." FSA's procedures provide that School Divisions should confirm whether the schools listed on the "Cite Letter Report" did not timely submit their financial statements. Upon confirming a school's financial statements were not submitted timely, FSA School Divisions should issue an "Annual Submission Citation Letter" (cite letter) because the required financial statement submission is over 30 days late.[25]

According to FSA's "Financial Analysis Procedures,"[26] a School Division's financial analyst should issue the cite letter within 7-10 days of receiving the "Cite Letter Report." The cite letter states that the citation for failure to submit an acceptable annual financial statement timely is a past performance violation under Department regulations, which

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[22] An irrevocable letter of credit is a financial instrument issued by a financial institution on behalf of a school, which is generally secured by collateral (generally cash reserves), held by the bank. The bank will pay the letter of credit funds to the Department when the Department initiates collection for reasons that are listed in the letter of credit. The letter of credit mitigates the monetary risk of schools not in compliance with various regulatory standards yet allows the school to continue Title IV participation, while improving or eliminating the issue that required the letter of credit.

[23] For schools with late financial statements, our review was limited to determining whether the school was placed on provisional certification and heightened cash monitoring, if warranted.

[24] The "Cite Letter Report" is created by a contractor using programming structured query language statements to access data from the eZ-Audit system and provided to FSA's Technical and Business Support Service Group.

[25] A foreign school is cited for a late financial statement submission if the report is more than 90 days overdue.

[26] All references to FSA's "Financial Analysis Procedures" are from the November 14, 2012, version.

results in, among other things, provisional certification, the posting of a letter of credit, and placement on a heightened cash monitoring payment method, for a minimum of 5 years. The cite letter permits a school 7 calendar days to appeal the citation with evidence that it submitted its annual financial statement in a timely manner.

A Performance Group management and program analyst stated that the School Divisions are required to document the actions taken for the schools listed on the "Cite Letter Report," including

- the School Division's comments, if applicable;
- the date a cite letter issue was opened in FSA's Case Management Information System (case system);[27]
- the date the cite letter was issued;
- the date the cite letter issue was closed in the case system; and
- the date the "Letter of Credit Request – First Year Past Performance Provisional Certification" letter (past performance letter) was issued.

If the school does not appeal the cite letter or FSA denies the appeal, School Division staff should place the school on provisional certification and heightened cash monitoring and send the school a past performance letter.[28] The past performance letter informs the school that its untimely submission of an acceptable financial statement constitutes a failure of financial responsibility, and that it will be provisionally certified, placed on a heightened cash monitoring method of payment, and required to submit an irrevocable letter of credit.

A Performance Group management and program analyst stated that she reviews the actions taken by the School Division on the "Cite Letter Report," concurs or nonconcurs with the actions, and provides comments back to the School Division. The Performance Group management and program analyst also stated that the review of the School Divisions' responses is typically completed within 3 business days.[29]

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[27] FSA uses the case system to document and track information about a school's participation in the Title IV programs. The case system records contain items such as call logs, notes, review results, recommendations made by School Divisions, and any past and current actions at the school.

[28] If the appeal is approved the school may be given a waiver for the past performance citation.

[29] The Performance Group management and program analyst stated that there is an exception to completing the review within 3 days during months where there is a high volume of reports due.

FSA's Heightened Cash Monitoring Placement Process

Once a School Division staff member determines a school meets the criteria for heightened cash monitoring placement, the staff member should first present the issues and recommendation for placement to the full School Division for concurrence. For heightened cash monitoring 2 recommendations, written concurrence from FSA's Enforcement Office's Administrative Actions and Appeals Service Group is also required. When concurrence with the recommendation is obtained, the School Division should complete the following actions.

For heightened cash monitoring 1 recommendations, the School Division staff member making the recommendation should prepare the heightened cash monitoring 1 notification letter and complete the "Change in Method of Payment Form." The "Change in Method of Payment Form" is used to place a school on a method of payment including heightened cash monitoring 1 and heightened cash monitoring 2, remove a school from a method of payment, and remove a school from a stop payment. The "Change in Method of Payment Form" includes the

- method of payment change requested (for example, from advance payment to heightened cash monitoring 1);
- school's information including the name of the school, its officials, and location;
- reason for the change in the method of payment; and
- division director's signature approving or disapproving the requested change.

The heightened cash monitoring 1 notification letter and "Change in Method of Payment Form" are forwarded to the School Division director for approval and signature. After receiving approval, a payment analyst in the School Division should change the school to heightened cash monitoring 1 in the Postsecondary Education Participants System (PEPS).[30]

For heightened cash monitoring 2 recommendations, the School Division staff member making the recommendation prepares a written synopsis that supports the recommendation and completes the "Change in Method of Payment Form." The synopsis, Administrative Actions and Appeals Service Group concurrence, and "Change in Method of Payment Form" are forwarded to the School Division director for approval. After receiving approval, a payment analyst in the School Division should change the

[30] The PEPS is FSA's management information system that maintains eligibility, certification, demographic, financial, program review, audit, and default rate data about schools, lenders, and guarantors participating in the Title IV programs.

school to heightened cash monitoring 2 in the PEPS and update the G5 system[31] to prevent the school from accessing their funds.

School Divisions' Did Not Appropriately and Timely Perform Actions for Late Financial Statement Submissions

We identified 20 schools that had late financial statement submissions for which FSA's School Divisions did not perform the appropriate action or did not perform the action timely. FSA had internal control weaknesses over its "Cite Letter Report" process. Specifically, we found that FSA's controls did not reasonably ensure that (1) all schools with required annual financial statement submissions over 30 days late were included on the "Cite Letter Reports" and (2) School Divisions completed the appropriate actions for all the schools listed on the "Cite Letter Report." Consequently, the Performance Group did not have reasonable assurance that the School Divisions performed all appropriate heightened cash monitoring actions or performed them in a timely manner.

We also identified an internal control weakness over the heightened cash monitoring process where FSA did not have a process to reasonably ensure all schools identified for heightened cash monitoring were placed on a heightened cash monitoring payment method. As a result of these weaknesses, School Divisions did not consistently perform appropriate actions or perform the actions timely. (See Table 2 for the actions by School Division.)

[31] G5 is a Department system used by schools to draw down Title IV funds and return excess cash electronically. The site provides continuous reporting of a school's funding by program and year.

Table 2. Number of Schools for Which Actions Were Not Performed and Not Performed Timely by School Division

Actions Not Taken or Not Performed Timely	New York/ Boston	San Francisco/ Seattle	Atlanta	Chicago/ Denver	Dallas	Total
Not Cited	1	3	0	2	0	6
Not Cited Timely	6	0	0	0	0	6
Cite Letter Waiver Approved Late	0	0	0	0	2	2
Provisionally Certified and Placed on HCM Late	0	0	2	0	0	2
Placed on HCM Late	0	0	1	0	0	1
Cited Late, Past Performance Letter Sent Late, and Placed on HCM Late	0	1	0	0	0	1
Cited Late, Past Performance Letter Sent Late, Provisionally Certified and Placed on HCM Late	0	1	0	0	0	1
Cited Late, Past Performance Letter Not Sent, and Not Provisionally Certified and Placed on HCM	0	1	0	0	0	1
Total	**7**	**6**	**3**	**2**	**2**	**20**

The following are examples of instances where School Divisions did not consistently perform appropriate actions or perform the actions timely as a result of the internal control weaknesses we identified.

New York/Boston School Division

The New York/Boston School Division had oversight responsibility for 7 of the 20 schools with a late financial statement submission for which FSA did not perform appropriate actions or did not perform the actions timely. We found that the New York/Boston School Division did not cite one school and did not timely cite six schools. In addition, three of the seven schools failed to submit their financial statements timely for two consecutive fiscal years and were not cited for either year.

We found that not all schools with a late financial statement submission were included on the "Cite Letter Report." For example, two of the schools with two consecutive late financial statement submissions (due in June 2015 and June 2016) were not included on the "Cite Letter Report" for financial statements due in June 2015. According to information provided by the compliance manager and a financial analyst for the New York/Boston School Division, as a result of our audit, in 2018 the division cited six of the seven schools for the late financial statement submissions; the seventh school closed so no action could be performed.

We also found that the New York/Boston School Division did not document whether an action was performed or a reason for not performing an action for all eight of its schools listed on the "Cite Letter Report" for financial statements due in June 2016.[32] The New York/Boston School Division director stated that human error is most likely the cause for a school that requires heightened cash monitoring placement not to be placed on heightened cash monitoring.

San Francisco/Seattle School Division

The San Francisco/Seattle School Division had oversight responsibility for 6 of the 20 schools with a late financial statement submission for which FSA did not perform appropriate actions or did not perform the actions timely. The San Francisco/Seattle School Division did not cite three of the six schools that submitted late financial statements. The School Division did not cite, send the past performance letter, and place one of the six schools on heightened cash monitoring timely. The School Division also did not timely cite and did not send the past performance letter for another one of the six schools; this school was also not provisionally certified and placed on heightened

[32] The eight schools on the "Cite Letter Report" included three of the seven schools we identified as having a late financial statement submission.

cash monitoring. For another one of the six schools, the School Division did not timely: cite, send the past performance letter, or provisionally certify and place the school on heightened cash monitoring. For this school with financial statements due in June 2015, the San Francisco/Seattle School Division placed the school on heightened cash monitoring in October 2016, over a year after the financial statements were due. PEPS records show the school was placed on provisional certification in January 2018, over 2 years after the financial statements were due. A San Francisco/Seattle School Division supervisory case management specialist informed us that the delays were the result of human error on the part of the School Division.

Atlanta School Division

The Atlanta School Division had oversight responsibility for 3 of the 20 schools with a late financial statement submission for which FSA did not perform appropriate actions or perform the appropriate actions timely. The Atlanta School Division did not place two schools on provisional certification and heightened cash monitoring in a timely manner and did not place one school on heightened cash monitoring in a timely manner.

For example, for one school, the Atlanta School Division director stated that the late financial statement (due in March 2016) was identified in February 2017 during the Atlanta School Division's review of the school's application to participate in the Title IV programs. Consequently, the Atlanta School Division placed the school on provisional certification and heightened cash monitoring in February 2017, almost 1 year after the financial statement was due.

The Atlanta School Division director stated these schools were not placed on heightened cash monitoring in a timely manner, in part, because financial analysts sent referrals to the compliance manager to have an action performed but did not follow up to make sure the action was completed. The division director also stated that the schools may not have been placed on heightened cash monitoring because the Atlanta compliance manager had been on extended leave.

Chicago/Denver School Division

The Chicago/Denver School Division had oversight responsibility for 2 of the 20 schools with a late financial statement submission for which FSA did not perform the appropriate actions or perform the appropriate actions timely. The Chicago/Denver School Division did not cite the two schools (a public school and a private, nonprofit school) for the late financial statement submissions (both due in March 2016). According to information provided by a Chicago/Denver School Division financial analyst, before the due date for submitting the financial statements to FSA, both schools submitted a request for, and were granted, a below-threshold exemption for their

annual A-133 audits. A below-threshold exemption is an exemption from the annual A-133 compliance audit requirements based on a school spending less than $500,000 of Federal funds during its fiscal year. According to information provided by the same Chicago/Denver School Division financial analyst, because the below threshold exemptions were received timely the School Division did not cite the schools for the late financial statements. However, under Federal requirements, both schools were still required to timely submit their financial statements.

According to OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," public and nonprofit schools that spend less than $500,000 of Federal funds during a fiscal year are exempt from submitting an annual A-133 audit.[33] However, a school that spends less than $500,000 in all Federal funds is still required to submit financial statements to the Department within 6 months after the close of its fiscal year. In addition, FSA's "Financial Analysis Procedures" state that schools exempt from the A-133 audit requirements must still submit annual financial statements for Department review.

Dallas School Division

The Dallas School Division had oversight responsibility for 2 of the 20 schools with a late financial statement submission for which FSA did not perform appropriate actions or perform the appropriate actions timely.

The Dallas compliance manager stated that two schools (with financial statements due in June 2016) did not appear on a "Cite Letter Report" so the School Division did not know the financial statements were late until our audit identified the late submissions.

In February 2018, over a year and a half after the financial statements were due, the School Division, with approval from the School Group director, decided not to cite the schools for the late financial statements because the schools did not appear on a "Cite Letter Report" and the schools had made timely attempts to submit their financial

[33] On December 26, 2013, OMB Circular A-133 was superseded by the issuance of 2 C.F.R. Part 200, Subpart F. Among other things, those changes increased the audit threshold to $750,000 for non-Federal entity (including public and nonprofit schools) fiscal years beginning on or after December 26, 2014. Generally, public and nonprofit schools that spend $750,000 or more during the fiscal year in Federal awards must have a single audit conducted in accordance with 2 C.F.R. Section 200.514. A public and nonprofit school that spends less than $750,000 of Federal funds during a fiscal year is exempt from submitting an annual single audit but is still required to submit an annual financial statement.

statements; the financial statements were rejected mostly because of formatting and data entry errors.

The "Cite Letter Report" is intended to inform the School Divisions of the schools that may require a cite letter because a school's required financial statement submission is over 30 days late. When a school that has not submitted a financial statement within 30 days of the due date is not included on the "Cite Letter Report," School Divisions may not, as necessary, cite the school, send the past performance letter, place the school on provisional certification and heightened cash monitoring or require a letter of credit. Also, a Performance Group management and program analyst stated that in some instances the Performance Group may complete its review of the School Divisions' responses for the schools listed on the "Cite Letter Report" whether or not a response is documented for all of the schools. As a result, appropriate actions may not be performed or may not be performed timely.

In June 2019, an FSA Performance Improvement and Procedures Service Group program manager stated that FSA was updating its procedures to ensure School Divisions provide a response for every school on the "Cite Letter Report." Also, a Technical and Business Support Service Group data management analyst stated that to help ensure all schools with a late financial statement submission were included on the "Cite Letter Report," FSA began including schools with late financial statement submissions that were "pending acceptance" on the "Cite Letter Report" for financial statements due in April 2019.[34]

According to the Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government," September 2014,[35] management should use quality information to achieve the entity's objectives. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Also, management should design control activities to achieve objectives, including compliance with laws and regulations, and to respond to risks.

FSA's "Financial Analysis Procedures" state, "A missing annual [financial statement] submission is an indicator of increased risk to Title IV programs and should be treated as a high priority item for resolution." When FSA fails to cite schools for late financial

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[34] A financial statement submission that has been received but has not been reviewed is given a "pending acceptance" status.

[35] All references to GAO's "Standards for Internal Control in the Federal Government" are to the September 2014 version.

statements and send past performance letters or these actions are not performed timely, schools' placement on provisional certification, heightened cash monitoring, and posting of letters of credit may not occur or be delayed. Without controls that provide reasonable assurance that School Divisions take timely action in response to events that should cause a school to be placed on heightened cash monitoring, schools that may pose a risk to Title IV funds may continue to draw down the funds under the advance payment method (funds are drawn down before they are disbursed to eligible students and parents) without any additional oversight of their cash management capabilities. As a result, taxpayer funds may be at a greater risk of loss and students at a greater risk of harm.

Schools with Nonpassing Composite Scores Were Not Placed on Heightened Cash Monitoring or Required to Submit a Letter of Credit

FSA did not have control activities to track a school's method of payment status from a School Division's recommendation for heightened cash monitoring placement until the change in the school's method of payment status was made. We reviewed schools with composite scores that fell below the minimum (1.5) considered to be financially responsible to determine whether FSA performed the actions required for schools with nonpassing composite scores. We reviewed the universe of 659 schools[36] for which FSA calculated nonpassing composite scores during the audit period to determine whether FSA required the schools to participate under alternative standards and requirements. Schools with composite scores between 1.0 and 1.4 may participate in the Title IV programs under the zone alternative, set forth in 34 C.F.R. Section 668.175(d), which requires heightened cash monitoring and other requirements.[37] Alternatively, a school can be considered financially responsible regardless of composite score by participating under the letter of credit alternative, which requires the submission of a letter of credit of at least 50 percent of its Title IV program funds (34 C.F.R. Section 668.175(c)).

We determined that 99 percent of the schools (653 of 659) either were properly (1) placed on stop payment or (2) required by FSA to participate under alternative standards and requirements. However, we found that one School Division was not properly implementing heightened cash monitoring policies for schools with nonpassing scores. The New York/Boston School Division did not perform the required actions for 6 (about 5 percent) of the 113 schools in the region that did not have passing composite

[36] The New York/Boston School Division oversaw 113 of the 659 schools during the audit period.

[37] The other requirements include the timely submission of information about certain events, such as adverse actions taken by an accrediting agency or financial issues that affect the viability of the school.

scores. Specifically, the School Division did not (1) place the school on heightened cash monitoring or (2) obtain a letter of credit from the school. As a result, these six schools, which were awarded about $11 million annually in Title IV funds, continued to participate in the Title IV programs without restrictions.

The New York/Boston School Division's financial analysts did not follow FSA's policies for placing schools on heightened cash monitoring or, as applicable, collecting a letter of credit for the six schools that received composite scores between 1.0 and 1.4. The financial analysts recommended the schools for heightened cash monitoring 1. However, the financial analysts did not prepare and send the "Change in Method of Payment Form" to the payment analyst to change the school's payment status.

Because FSA did not have control activities to track a school's method of payment status from the School Division's recommendation for heightened cash monitoring placement until the change in the school's method of payment status was made, schools that may pose a risk to Title IV program funds were able to draw down funds in advance without monitoring and participate in the Title IV programs without restrictions intended to protect students from harm and taxpayers from loss.

GAO's "Standards for Internal Control in the Federal Government" state that management should design control activities to achieve objectives, including compliance with laws and regulations, and to respond to risks. Additionally, when management conducts reviews at the functional or activity level, management should compare actual performance to planned or expected results and analyze significant differences.

Recommendations

We recommend that the Chief Operating Officer for FSA–

1.1 Develop and implement controls to reasonably ensure that FSA:

a. Identifies all schools on its "Cite Letter Report" that fail to submit financial statements when due and, tracks School Divisions' disposition of all the schools identified on the "Cite Letter Report" to ensure that, as applicable, cite letters are issued in a timely manner.

b. When warranted places schools that have not submitted a required financial statement when due on provisional certification and heightened cash monitoring in a timely manner.

c. Tracks a school's method of payment status from the School Division's recommendation for heightened cash monitoring placement until the change in the school's method of payment status is implemented.

1.2 Instruct School Division staff that a school that receives a single audit exemption for its compliance audit is still required to submit its financial statements within 6 months after the close of the school's fiscal year.

FSA Comments

FSA did not explicitly agree or disagree with Finding 1. FSA concurred that, for the 20 schools with late annual financial statement submissions, it did not take timely and appropriate action. However, FSA disagreed with how we presented the issue concerning the placement of schools on heightened cash monitoring due to late annual financial statement submissions. FSA requested that the report language and error rate calculation be revised to reflect all 303 schools with late annual financial statement submissions. FSA stated that the OIG should reference all 303 schools in the universe tested by the OIG and acknowledge that FSA was required to make a determination to cite or not to cite each of the 303 schools, not just the 177, for a late annual financial statement submission during the audit period. FSA stated that using the 177 schools instead of the 303 schools provides a distorted perspective on the magnitude of errors given the work performed by FSA on the 303 schools.

FSA requested that based on documentation it provided with its response concerning actions taken for the schools identified in the finding with late annual financial statement submissions, the recommendation to take appropriate actions for these schools be eliminated from the final report.

FSA partially agreed with the recommendation to develop and implement controls to ensure that FSA timely places schools that have not submitted a financial statement when due on provisional certification and heightened cash monitoring. FSA requested that the recommendation be modified to reflect that not "all schools" submitting late financial statements must be placed on provisional certification and heightened cash monitoring.

FSA agreed with the other recommendations.

OIG Response

We do not agree that the denominator for the error rate calculation should be 303 schools. For 177 of the 303 schools, FSA should have timely cited and, as warranted, placed these schools on heightened cash monitoring and provisional certification. FSA did so for 157 of the 177 schools. FSA acknowledged that for 20 schools it did not take timely and appropriate action. To place the errors into context, we continue to report that for 20 (11 percent) of the 177 schools FSA either did not (1)cite the school for being

late, or (2) place the school on provisional certification and heightened cash monitoring, or (3) perform the applicable actions timely.

Our report clearly states that FSA took an appropriate action for the 126 schools where no additional action (such as a cite letter or placement on a heightened cash monitoring payment method and provisional certification) was warranted. However, we added a statement to the finding to clarify that FSA took appropriate action for 283 of the 303 schools.

We initially recommended that FSA's School Divisions perform appropriate actions for the schools identified in the finding that submitted late annual financial statements and were either not cited or not placed on provisional certification and heightened cash monitoring. With its response FSA provided documentation for these schools including: (1) an email from the Program Compliance office's Deputy Chief Compliance Officer approving a School Division's cite letter waiver requests; (2) the School Group director's approval of School Divisions requests for exceptions to the past performance requirements; and (3) PEPS reports showing schools were placed on provisional certification and heightened cash monitoring. Based on our review of the documentation provided we concluded that the corrective actions taken by FSA in 2018 and 2019 addressed the initial recommendation. As a result, we removed the recommendation.

We also revised Recommendation 1.1 b. to reflect that, when warranted, schools that submit late financial statements must be placed on heightened cash monitoring and provisional certification.

Finding 2. FSA Did Not Retain All Required Heightened Cash Monitoring Documentation

FSA did not retain complete documentation for some schools placed on and some schools removed from a heightened cash monitoring payment method during our audit period. Specifically, FSA did not retain complete documentation for 9 (21 percent) of the 43 schools we reviewed that were on a heightened cash monitoring payment method during our audit period. We reviewed a sample of 18 of the 662 schools[38] that FSA placed on heightened cash monitoring 1 and a sample of 25 of the 147 schools that FSA placed on heightened cash monitoring 2.[39] Six of the 25 schools that FSA placed on heightened cash monitoring 2 were also placed on heightened cash monitoring 1; we reviewed both placements for these schools. We found that FSA did not retain 3 of the 4 required documents for 1 of the 24 schools[40] that FSA placed on heightened cash monitoring 1. We found that FSA did not retain at least one of the required documents for 8 of the 25 schools that FSA placed on heightened cash monitoring 2. In addition, multiple documents, such as the "Checklist for Placing an Institution on a Restrictive Method of Payment (Reimbursement/HCM2)" or the "Internal Monitoring Plan,"[41] were missing for 4 of the 8 schools.

We also found that FSA did not retain at least one required document for 12 (48 percent) of the 25 schools we reviewed that FSA removed from heightened cash monitoring 1 or heightened cash monitoring 2 and returned to the advance payment method during the audit period. We reviewed a sample of 10 of the 263 schools removed from heightened cash monitoring 1 and all 15 schools removed from

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[38] One of the schools had two instances of heightened cash monitoring 1 placement. We reviewed both instances.

[39] We used a stratified random sampling approach to ensure we selected schools from each of the top five reasons that schools were placed on heightened cash monitoring. Our results cannot be projected to the universe of schools on heightened cash monitoring during our audit period as we did not weight results by each school's probability of selection.

[40] The 24 schools include the sample of 18 schools placed on heightened cash monitoring 1 and 6 of the 25 schools that were placed on heightened cash monitoring 1 and heightened cash monitoring 2.

[41] The Internal Monitoring Plan details and tracks the progress on resolving the issues that resulted in the heightened cash monitoring placement.

heightened cash monitoring 2 and returned to the advance payment method.[42] We found that FSA did not retain at least one of the required documents for 4 of the 10 schools that FSA removed from heightened cash monitoring 1. FSA also did not retain at least one of the required documents for 8 of the 15 schools removed from heightened cash monitoring 2. Examples of these missing documents included the "Change in Method of Payment Form" and the "Checklist for Removing an Institution from HCM1," which are key documents in the administration of the heightened cash monitoring payment method.

We found an internal control deficiency in FSA's payment procedures over document retention. Specifically, FSA did not have a control to provide reasonable assurance that it retained all required documentation used in the process for administering a heightened cash monitoring payment method according to its policies and procedures. GAO's "Standards for Internal Control in the Federal Government" state that documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system. Management should clearly document internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.

FSA's "Method of Payment Procedures" includes a record retention step to scan the required documents into the Electronic Records Management system at the end of multiple sections. In addition, Section 13 - Records Management, provides general standards for record retention and states that all payment request documentation and change in the method of payment documentation must be scanned into the Electronic Records Management system. However, FSA's "Method of Payment Procedures" does not include a step, at the supervisory level, to confirm that all required documents have been retained. The scanning of required documentation occurs after the documents are reviewed and approved by the division director. According to the GAO's Internal Control Management and Evaluation Tool (2001), management should consider whether control activities identified as necessary are in place and being applied. Accordingly, control activities described in policy and procedures manuals should be reviewed to ensure they are applied properly.

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[42] We used a stratified random sampling approach to ensure we selected schools from each of the top five reasons that schools were placed on heightened cash monitoring during our audit period. Our results cannot be projected to the universe of schools on heightened cash monitoring and returned to the advance payment method during our audit period as we did not weight results by each school's probability of selection.

The documentation provides evidence of FSA's administration of the heightened cash monitoring payment method and is part of the internal control process to help reasonably ensure compliance with the payment procedures. Without complete and accurate documentation of the heightened cash monitoring process, FSA did not have adequate evidence that the process was administered according to its policies and procedures.

Recommendation

We recommend that the Chief Operating Officer for FSA–

2.1 Improve its internal controls over document retention by having management confirm that staff have scanned and retained all heightened cash monitoring documentation in accordance with policies and procedures.

FSA Comments

FSA did not explicitly agree or disagree with Finding 2. However, FSA requested that Finding 2 include the limitations of the sampling methodology used as identified in the "Scope and Methodology" section of the draft report. FSA agreed with the recommendation.

OIG Response

We added footnotes to Finding 2 to include the limitations of the sampling methodology for the samples used in the finding.

Finding 3. FSA's Use of Heightened Cash Monitoring Was an Effective Oversight Tool

FSA's process for removing schools from a heightened cash monitoring payment method provided reasonable assurance that these schools implemented the required corrective actions before FSA returned the schools to the advance payment method. For schools placed on heightened cash monitoring 2, FSA's process provided reasonable assurance that these schools submitted to FSA the required student payment documentation before the Department reimbursed the schools.

Review of Schools Removed from the Heightened Cash Monitoring Process and Returned to the Advance Payment Method

FSA provided a reasonable assurance that schools that were already placed on a heightened cash monitoring payment method implemented required corrective actions before returning these schools to the advance payment method. We reviewed FSA's "Method of Payment Procedures" to determine whether it included adequate processes and controls to reasonably ensure that FSA removed schools from heightened cash monitoring placement only after schools implemented corrective actions FSA required. We also reviewed the files for 25 schools that FSA placed on heightened cash monitoring for one of the top five reasons and returned to the advance payment method during our audit period to determine whether FSA staff followed its policies and procedures and ensured that the schools took the required corrective actions before being returned to the advance payment method.[43]

FSA designed and implemented policies and procedures that provided reasonable assurance that schools FSA placed on heightened cash monitoring took the corrective action FSA required before FSA removed them from heightened cash monitoring. According to FSA's "Method of Payment Procedures," when making the determination to remove a school from heightened cash monitoring, staff must determine whether the school (1) corrected the issue that caused its placement on heightened cash monitoring and (2) met all of the necessary requirements for removal from heightened cash monitoring. Staff must document the reasons for removal, present the recommendation

[43] We used a stratified random sampling approach to ensure we selected schools from each of the top five reasons that schools were placed on heightened cash monitoring during our audit period. Our results cannot be projected to the universe of schools on heightened cash monitoring and returned to the advance payment method during our audit period as we did not weight results by each school's probability of selection.

for removal to the team for agreement, complete the required forms, and obtain the required approvals. Based on our review of the 25 schools that FSA removed from heightened cash monitoring and returned to the advance payment method, we found that FSA required all of the schools to correct the issues that caused placement on heightened cash monitoring before FSA changed the payment method.

Review of Payment Requests Made by Schools on Heightened Cash Monitoring 2

FSA provided reasonable assurance that schools submitted the required documentation supporting payment requests before the Department reimbursed them. We reviewed FSA's "Method of Payment Procedures" to determine whether it included adequate processes and controls to reasonably ensure schools submitted the required documentation supporting payment requests to FSA before the Department reimbursed them. We also reviewed the documentation supporting the largest payment requests made during the audit period for five schools from our sample of 25 schools on the heightened cash monitoring 2 payment method to determine whether FSA followed its "Method of Payment Procedures" for processing payment requests and maintaining payment request documentation.

FSA designed and implemented procedures that provided reasonable assurance that the students at schools FSA placed on heightened cash monitoring 2 were eligible for the Title IV funding requested before the Department reimbursed them. According to FSA's "Method of Payment Procedures,"

> In its request the [school] must submit all requested documentation to the Department showing that each student was eligible for, and received those funds. The payment analyst reviews the documentation for a sample of students in the request;[44] determines, for the sample, student eligibility for the type and amount of the Title IV funds requested; and uses the results of the analysis of the sample to determine whether or not to pay requests for students in the remainder of the submission.

Based on our review of the largest payment requests made during the audit period for five schools on the heightened cash monitoring 2 payment method, we found that FSA (1) followed its procedures for processing payment requests to verify that the students

[44] When the payment request has 100 or fewer students, the school submits documentation for all of the students.

in each school's request for funds were eligible for, and received those funds and (2) maintained the documentation supporting the payment requests.

FSA Comments

FSA agreed with Finding 3.

OIG Response

We added a footnote to Finding 3 to include the limitations of the sampling methodology for a sample used in the finding.

Appendix A. Scope and Methodology

Our audit covered FSA's oversight of the heightened cash monitoring payment methods from July 1, 2014, through June 30, 2016. We conducted follow up audit work from April through June 2019 to confirm that FSA had not made significant changes to its heightened cash monitoring oversight procedures subsequent to our initial exit conference.

To achieve our first audit objective, we performed the following procedures.

1. We gained an understanding of FSA's processes for placing schools on heightened cash monitoring, handling payment requests, and returning schools to a less restrictive form of payment. To do this, we
   - interviewed officials in FSA's Program Compliance Office, Technical and Business Support Service Group, Performance Group, and School Group; and in FSA's Enforcement Office's Administrative Action and Appeals Service Group, and
   - reviewed FSA's "Financial Analysis Procedures" (November 14, 2012, version) and "Method of Payment Procedures" (October 31, 2012, version, updated through December 19, 2014).
2. We reviewed relevant laws and regulations including section 487(c) of the Higher Education Act of 1965, and 34 C.F.R. Part 668 Subpart B (Standards for Participation in Title IV, HEA Programs) and Subpart L (Financial Responsibility).
3. We reviewed a prior OIG audit report, "Federal Student Aid's Processes for Identifying At-Risk Title IV Schools and Mitigating Potential Harm to Students and Taxpayers," A09Q0001, February 2017.
4. We performed a query of the OIG Data Analytics System[45] and FSA's PEPS to determine whether FSA placed schools on provisional certification and heightened cash monitoring for failing to timely submit financial statements that were due during our audit period. We held discussions with FSA Program Compliance officials and obtained and reviewed additional documentation for

[45] The OIG Data Analytics System is a data warehouse system that contains data from Departmental systems.

the 146 schools[46] identified by the query that had not been placed on heightened cash monitoring (48 of the schools were also not provisionally certified).[47] We discuss the results from our review of the 146 schools in Finding 1 under the section, "FSA Did Not Ensure Timely and Appropriate Action For Schools That Submitted Late Annual Financial Statements."

5. We performed a query of the OIG Data Analytics System and FSA's PEPS to determine whether FSA placed schools that had nonpassing composite scores based on financial statements with fiscal years ending during our audit period on heightened cash monitoring or obtained letters of credit. We held discussions with FSA School Division officials and obtained and reviewed additional documentation for the schools, identified by the query, that were not placed on heightened cash monitoring and had not submitted a letter of credit. The results of our review of instances where a School Division did not either place a school on heightened cash monitoring or obtain a letter of credit from the school are discussed in Finding 1 under the section, "Schools With Nonpassing Composite Scores Were Not Placed on Heightened Cash Monitoring or Required to Submit a Letter of Credit."

6. We reviewed 18 schools placed on heightened cash monitoring 1 and 25 schools placed on heightened cash monitoring 2 to determine whether

   - FSA maintained the documents required for the heightened cash monitoring placements according to its policies and procedures; and
   - the documentation supported the level of heightened cash monitoring and the reason for the placement.

   We discuss the results from our review in Finding 1 under the section, "FSA Consistently Administered its Heightened Cash Monitoring Payment Methods for Schools Placed on Heightened Cash Monitoring for the Top Five Reasons,"

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[46] The 146 schools include the 126 schools that FSA appropriately did not cite or place on provisional certification and a heightened cash monitoring payment method and the 20 schools for which FSA did not perform the appropriate actions or did not perform the actions timely.

[47] We identified 157 schools that submitted late financial statements that were due during our audit period and were placed on heightened cash monitoring or stop payment. We did not review the timeliness of the placements.

and Finding 2, "FSA Did Not Retain All Required Heightened Cash Monitoring Documentation."

To achieve our second objective, we performed the following procedures.

1. We reviewed 10 schools removed from heightened cash monitoring 1 and placed on the advance payment method, and 15 schools removed from heightened cash monitoring 2 and placed on the advance payment method to determine whether

    - FSA maintained the documents required for removing the schools from a heightened cash monitoring payment method and placing the schools on the advance payment method according to its policies and procedures; and
    - the documentation supported the school having met the criteria for returning to the advance payment method.

    We discuss the results from our review in Finding 2, "FSA Did Not Retain All Required Heightened Cash Monitoring Documentation," and Finding 3, "FSA's Use of Heightened Cash Monitoring Was an Effective Oversight Tool."

2. We reviewed the largest payment request made during the audit period for a sample of five schools on the heightened cash monitoring 2 payment method to determine whether FSA followed its policies and procedures for processing payment requests and maintaining payment request documentation. We discuss the results from our review in Finding 3, "FSA's Use of Heightened Cash Monitoring Was an Effective Oversight Tool."
3. We also used the results of our work for our first objective to inform our conclusion on our second objective.

We performed audit work at FSA's offices in Washington, D.C, and at our regional office in Philadelphia, Pennsylvania, from July 2016 through July 2018. We placed the audit on hold on November 7, 2016, and resumed our work on January 30, 2017. We held an exit conference with FSA officials on September 24, 2018. On April 11, 2019, we requested FSA notify us of any significant changes to its (1) late annual report citation process, (2) heightened cash monitoring placement process, and (3) heightened cash monitoring document retention procedures. FSA informed us that improvements were being made to its late annual report citation process. We held follow-up discussions with FSA staff on May 30, 2019, and June 18, 2019. We conducted a second exit conference with FSA officials on October 17, 2019.

Internal Controls

We gained an understanding of the internal controls significant to our audit objectives: FSA's processes for placing schools on the heightened cash monitoring payment method, handling payment requests, and moving schools to a less restrictive method of payment. We reviewed FSA's policies and procedures concerning heightened cash monitoring placements, nonpassing composite scores, and document retention. In addition, we reviewed source documents to corroborate the testimonial evidence that we obtained from FSA officials about FSA's processes. We used GAO's "Standards for Internal Control in the Federal Government," September 2014, as criteria for evaluating FSA's heightened cash monitoring processes.

As part of our review, we performed work to determine whether FSA followed Federal regulations and its policies and procedures for schools with late financial statement submissions and for schools that had nonpassing composite scores. We concluded that FSA's processes did not have adequate controls to reasonably assure that School Divisions were consistently placing schools on the heightened cash monitoring payment method, as described in Finding 1.

In addition, we performed testing to determine whether FSA maintained all of the required documentation according to its policies and procedures for the heightened cash monitoring placements and heightened cash monitoring removals. Based on our testing, we concluded that there was an internal control deficiency in FSA's processes, as described in Finding 2.

Sampling Methodology

Review of Schools Placed on Heightened Cash Monitoring

We selected 43 of 809 schools placed on heightened cash monitoring 1 (18 schools) and heightened cash monitoring 2 (25 schools) to assess whether (1) FSA maintained the documents required for placing a school on a heightened cash monitoring payment method and (2) the documentation supported the level of heightened cash monitoring and the reason for the placement, as follows.

1. We determined that the top five reasons schools were on heightened cash monitoring at some point in time during our audit period were as follows:
    - financial responsibility;
    - audit late or missing;
    - accreditation;
    - administrative capability; and
    - program review severe findings.

2. We stratified schools with at least one instance of heightened cash monitoring for one of the five reasons listed above into one of nine strata.[48] Schools with multiple heightened cash monitoring instances were placed in one of the nine strata by heightened cash monitoring severity level (heightened cash monitoring 2 first), and then by the date of the most recent heightened cash monitoring action. (See Table 3 for the counts and sample sizes of schools according to the top five reasons.)

Table 3. Counts and Sample Sizes of Schools on Heightened Cash Monitoring Stratified by Heightened Cash Monitoring Reason and Level

Reason for Heightened Cash Monitoring Placement	Sample Size of Heightened Cash Monitoring 1 Schools	Count of Heightened Cash Monitoring 1 Schools	Sample Size of Heightened Cash Monitoring 2 Schools	Count of Heightened Cash Monitoring 2 Schools	Total Schools on Heightened Cash Monitoring 1 and 2
Financial Responsibility	5	542	5	24	566
Audit Late or Missing	5	94	5	13	107
Accreditation	3	3	5	48	51
Administrative Capability	5	23	5	26	49
Program Review-Severe Findings	0	0	5	36	36
Total	**18**	**662**	**25**	**147**	**809**

We used a stratified random sampling approach to ensure we selected schools from each of the top five reasons schools were on heightened cash monitoring. Our results cannot be projected to the universe of schools on heightened cash monitoring during our audit period as we did not weight results by each school's probability of selection.

3. We randomly selected 25 out of 147 schools placed on heightened cash monitoring 2 by randomly selecting five schools from each of the heightened

[48] There were no schools that met the condition of placement on heightened cash monitoring 1 because of severe findings identified during a program review.

cash monitoring 2 stratum for the top five reasons for placement on heightened cash monitoring. Our selection of 25 schools placed on heightened cash monitoring 2 included five schools that were also placed on heightened cash monitoring 1 once and one school with two additional placements on heightened cash monitoring 1. We included the seven placements of the six schools in our review of schools placed on heightened cash monitoring 1.

4. We selected 18 out of 662 schools placed on heightened cash monitoring 1 as follows:
    - 5 schools were randomly selected from each heightened cash monitoring 1 stratum for administrative capability, audit late or missing, and financial responsibility (15 schools); and
    - 3 schools (all of the schools placed on heightened cash monitoring 1 for an accreditation reason).

Review of Schools Returned to the Advance Payment Method

We selected 25 of 278 schools removed from heightened cash monitoring and returned to the advance payment method during our audit period to assess whether (1) FSA maintained the documents required for removing the schools from a heightened cash monitoring payment method and placing the schools on the advance payment method according to its policies and procedures and (2) the documentation supported the school having met the criteria for returning to the advance payment method as follows.

1. We stratified schools with at least one instance of being removed from heightened cash monitoring 1 or heightened cash monitoring 2 and placed on the advance payment method into one of eight strata[49] for the top five reasons for heightened cash monitoring 1 and 2 placement. (See Table 4 for the counts and sample sizes of schools returned to the advance payment method according to the heightened cash monitoring reason and level.)

[49] No school met the condition of being returned to the advance payment method after placement on (1) heightened cash monitoring 1 because of severe findings identified during a program review or (2) heightened cash monitoring 2 because of financial responsibility issues.

Table 4. Counts and Sample Sizes of Schools on Heightened Cash Monitoring Returned to the Advance Payment Method Stratified by Heightened Cash Monitoring Reason and Level

Reason on HCM*	Sample Size of HCM 1 Schools	Count of HCM 1 Schools Returned to the Advance Payment Method	Sample Size of HCM 2 Schools	Count of HCM 2 Schools Returned to the Advance Payment Method	Total Schools on HCM Returned to the Advanced Payment Method
Financial Responsibility	7	253	0	0	253
Audit Late or Missing	1	6	2	2	8
Accreditation	1	2	6	6	8
Administrative Capability	1	2	1	1	3
Program Review - Severe Findings	0	0	6	6	6
Total	**10**	**263**	**15**	**15**	**278**

*HCM is heightened cash monitoring.

We used a stratified random sampling approach to ensure we selected schools from each of the top five reasons schools were on heightened cash monitoring during our audit period. Our results cannot be projected to the universe of schools on heightened cash monitoring and returned to the advance payment method during our audit period as we did not weight results by each school's probability of selection.

2. We randomly selected 10 of 263 schools placed on heightened cash monitoring 1 and returned to the advance payment method by selecting one school each from the stratum of schools on heightened cash monitoring 1 for accreditation, administrative capability and audit late or missing (3 schools); and 7 schools from the stratum of schools on heightened cash monitoring 1 for financial responsibility.

3. We selected all 15 schools placed on heightened cash monitoring 2 and returned to the advance payment method: 6 schools each for accreditation and program review severe findings (12 schools), 2 schools for audit late or missing, and 1 school for administrative capability.

Review of Payment Requests Made by Schools on Heightened Cash Monitoring 2

We judgmentally selected the largest payment request made during the audit period for a sample of 5 schools from our random sample of 25 schools placed on the heightened cash monitoring 2 payment method to determine whether FSA followed its policies and procedures for processing payment requests and maintaining payment request documentation. We judgmentally selected the schools based on the reason the school was placed on heightened cash monitoring 2 (one school from each of the top five reasons for heightened cash monitoring placement). Because we judgmentally selected the schools the results discussed in the report pertain to the selected schools and cannot be projected to the universe of schools on the heightened cash monitoring 2 payment method during our audit period.

Use of Computer-Processed Data

We assessed the reliability of the various data sources described in this report including the PEPS, eZ-Audit, and the G5 system, by (1) performing electronic testing and analysis of important data elements, such as school identifier data, Title IV payment data, financial statement report status, heightened cash monitoring status, composite score, and processes related to the audit objectives; (2) reviewing existing information about the data and the system that produced them; and (3) interviewing FSA officials knowledgeable about the data. In addition, we traced important data for several randomly selected samples to the source files. We determined that the data were sufficiently reliable for the purposes of this report.

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 findings and conclusions based on our audit objectives.

Appendix B. Acronyms and Abbreviations

case system	Case Management Information System
C.F.R.	Code of Federal Regulations
cite letter	"Annual Submission Citation Letter"
Department	U.S. Department of Education
FSA	Federal Student Aid
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
past performance letter	"Letter of Credit Request – First Year Past Performance Certification"
PEPS	Postsecondary Education Participants System
Performance Group	Performance Improvement and Procedures Service Group
School Division	School Participation Division
School Group	School Eligibility Service Group
Title IV	Title IV of the Higher Education Act of 1965, as amended

FSA Comments

January 13, 2020

TO: Michele Weaver-Dugan
Regional Inspector General for Audit
Jeffrey Nekrasz
Director, Student Financial Assistance Advisory and Assistance Team

FROM: Mark A. Brown /s/
Chief Operating Officer
Federal Student Aid

SUBJECT: Draft Audit Report, "Federal Student Aid's Oversight of the Heightened Cash Monitoring Payment Methods," Control Number: ED-OIG/A03Q0006

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) Draft Audit Report "Federal Student Aid: Heightened Cash Monitoring," dated December 5, 2019. The audit objectives were to determine whether 1) Federal Student Aid (FSA) consistently administered its heightened cash monitoring payment methods, and 2) if FSA's use of heightened cash monitoring is an effective oversight tool. The audit covered a two-year period from July 1, 2014 through June 30, 2016.

OIG presented three findings in the draft report. Two of the findings had recommendations. OIG's third finding was that heightened cash monitoring, as implemented by FSA, is an effective oversight tool, and, accordingly, no recommendations were made.

FSA's response to OIG's findings and recommendations are presented below. FSA disagrees with how the administration of heightened cash payment methods was presented in Finding 1 and requests that the OIG clarify the limitations of its sampling methodology and the inferences that can be legitimately drawn from the testing performed on the samples used in Finding 2. The reasons for our disagreement and information supporting our positions are detailed below.

Finding 1: FSA Needs to Improve its Administration of Heightened Cash Monitoring Payment Methods

The audit focused on the top five reasons FSA placed a school on heightened cash monitoring: (1) negative accreditation actions, (2) late or missing annual financial statements, (3) failure to meet one or more standards of administrative capability, (4) a failing composite score, and (5) severe findings found during a FSA program review. Under this finding, OIG reported that FSA consistently administered its heightened cash monitoring payment methods for schools that were placed on heightened cash monitoring for the top five reasons, and documentation generally supported FSA's placement of the schools on heightened cash monitoring.

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OIG also determined that FSA did not have adequate internal controls to reasonably assure it consistently placed schools on heightened cash monitoring when they submitted late annual financial statements or had composite scores that fell below the minimum for financial responsibility (non-passing composite scores).

FSA's Response: FSA disagrees with the presentation of the issue concerning the placement of schools on heightened cash monitoring due to late annual financial statement submissions in the draft report. The OIG presented this issue as follows –

We found that 303 schools submitted late (more than 30 days after the due date) annual financial statements that were due during the audit period. For 177 of the 303 schools, FSA should have timely cited and, as warranted, placed these schools on provisional certification and a heightened cash monitoring payment method. Specifically, we found that FSA appropriately placed 157 of the 177 schools on a heightened cash monitoring payment method or on stop payment. However, for 20 of the 177 schools (11 percent) FSA either did not: (1) cite the school for being late, or (2) place the school on provisional certification and heightened cash monitoring, or (3) perform the applicable actions timely. For the remaining 126 of the 303 schools, FSA appropriately did not cite these schools or place them on provisional certification and a heightened cash monitoring payment method.
[*footnote numbers omitted*]

OIG tested 100 percent of the 303 schools that submitted late annual financial statements during the two-year audit period. One of the questions being answered in this finding is whether FSA took appropriate action on the 303 schools with late annual financial statement submissions and either cited or did not cite the schools. FSA took appropriate action for 283 schools (93 percent) (157 appropriately cited and 126 appropriately not cited) of the 303 schools. For 20 (7 percent) of the 303 schools that submitted late annual financial statements during the two-year audit period, FSA concurs that the agency did not take timely and appropriate action with these schools.

Using the smaller subset of 177 schools in describing the finding and calculating the error rate will provide readers of the report with a distorted perspective on the magnitude of errors given the entire body of work performed by FSA on the 303 schools with late annual financial statement submissions. FSA requests that OIG modify the report language and error rate calculations to put the issue into perspective. OIG should reference all 303 schools in the universe tested by the OIG and acknowledge that FSA was required to make a determination to cite or not to cite each of the 303 schools, not just the 177, for a late annual financial statement submission during the two-year audit period.

Recommendation 1.1: Require FSA's School Divisions to perform appropriate action for the schools identified in the finding that submitted late financial statements and were either not cited, or not placed on provisional certification and heightened cash monitoring.

FSA's Response: FSA has taken action, where appropriate, for all schools identified in the finding. FSA has attached documentation with this response to support that it took action when appropriate or to justify not taking action when appropriate. As there are no further actions for FSA to complete to implement Recommendation 1.1, FSA respectfully requests that this recommendation be eliminated from the final report.

Recommendation 1.2: Develop and implement controls to reasonably assure that FSA:

a. **Identifies all schools on its "Cite Letter Report" that fail to submit financial statements when due and, tracks School Divisions' disposition of all the schools identified on the "Cite Letter Report" to ensure that, as applicable, cite letters are issued in a timely manner.**

FSA's Response: FSA agrees with this recommendation. FSA is in the process of implementing a revised "Cite Letter Report".

b. **Places all schools that have not submitted a required financial statement when due on provisional certification and heightened cash monitoring in a timely manner.**

FSA's Response: FSA partially agrees with this recommendation. FSA's concern is that the recommendation would require FSA to put "all schools" that submit late financial statements on provisional certification and heightened cash monitoring. FSA requests that OIG modify this recommendation to reflect that not "all schools" submitting late financial statements must be placed on provisional certification and heightened cash monitoring. FSA will include evaluation of the actions taken by the School Participation Divisions for schools submitting late financial statements in its quarterly Quality Control evaluations to ensure schools are cited as appropriate.

c. **Tracks a school's method of payment status from the School Division's recommendation for heightened cash monitoring placement until the change in the school's method of payment status is implemented.**

FSA's Response: FSA agrees with this recommendation. FSA will include evaluating changes in method of payment for heightened cash monitoring in its quarterly Quality Control evaluations.

Recommendation 1.3: Instruct School Division staff that a school that receives a single audit exemption for its compliance audit is still required to submit its financial statements within six months after the close of the school's fiscal year.

FSA's Response: FSA agrees with this recommendation. FSA will work with the Office of the General Counsel on whether the regulations can be interpreted as allowing schools that would be audited under the Single Audit Act and Uniform Guidance requirements to submit up to nine months after the end of their fiscal year. FSA will evaluate its policies and procedures for audit exemptions to determine whether they need to be strengthened. FSA will ensure that staff are aware that schools exempt from the compliance audit requirement under the Single Audit Act and Uniform Guidance must submit their financial statements no later than six months after their fiscal year end. FSA will develop and post an Electronic Announcement reminding schools that they must request and have an audit exemption approved prior to submitting their financial statements within six months of their fiscal year end date. FSA will also develop an automated notification to schools based on their fiscal year end to inform schools that should they fall under the Single Audit threshold, they must request an exemption, have the exemption approved, and submit their financial statements within six months.

Finding 2: FSA Did Not Retain All Required Heightened Cash Monitoring Documentation

Under this finding, OIG determined that FSA did not retain complete documentation for some schools placed on and some schools removed from a heightened cash monitoring payment method during OIG's audit period.

OIG also found an internal control deficiency in FSA's procedures over document retention. OIG noted that, according to FSA's policies and procedures, FSA did not have a control to provide reasonable assurance that it retained all required documentation used in the process for administering a heightened cash monitoring payment method.

FSA's Response: In Finding 2, FSA requests that OIG clarify the limitations of its sampling methodology and the inferences that can be legitimately drawn from the testing performed on the samples used in this finding to reflect the limitations identified in the "Scope and Methodology" section of the draft report. Specifically, OIG should clarify that the results of the testing only apply to the heightened cash monitoring cases tested and that no inference to items not tested should be made by users of the report. FSA is concerned that users of the report may draw inappropriate conclusions unless the sampling limitations are clearly identified.

Recommendation 2.1: Improve its internal controls over document retention by having management confirm that staff have scanned and retained all heightened cash monitoring documentation in accordance with policies and procedures.

FSA's Response: FSA agrees with this recommendation. FSA will develop training for staff to ensure that staff understands both the importance of retaining required documentation and the related document retention policies and procedures. FSA is implementing an electronic documents management system and will develop policies and procedures around the new system's capabilities to ensure that all heightened cash monitoring documentation is appropriately retained.

Finding 3: FSA's Use of Heightened Case Monitoring Was an Effective Oversight Tool

FSA's Response: FSA agrees with this finding with no further action required.

Again, thank you for the opportunity to review and comment on this draft report.

Attachment: Support for Elimination of Recommendation 1.1