



U.S. Department of Education  
Office of Inspector General

# Federal Student Aid's Total and Permanent Disability Discharge Process

June 18, 2020  
ED-OIG/A02Q0006

## NOTICE

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**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL**

Audit Services

June 18, 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 Total and Permanent Disability Discharge Process," Control Number ED-OIG/A02Q0006

Attached is the subject final audit report that consolidates the results of our review of Federal Student Aid's total and permanent disability discharge process. We have provided an electronic copy to your audit liaison officer. We received your comments on 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 Alyce Frazier at (646) 428-3871 or [Alyce.Frazier@ed.gov](mailto:Alyce.Frazier@ed.gov).

Attachment

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## Results in Brief

### What We Did

The objective of our audit was to determine whether Federal Student Aid (FSA) ensured that (1) its total and permanent disability (TPD) discharge process operated in accordance with Federal program requirements and (2) accurate information on student loan discharges was entered into FSA's system of records.<sup>1</sup> Our audit covered TPD accounts that had processing activity from July 1, 2013, through March 3, 2017. We held follow-up discussions with and received additional documentation from FSA through December 2019.

The TPD discharge process relieves borrowers who are totally and permanently disabled according to Federal program requirements of having to repay Federal student loans or completing their grant service obligations. To answer the objective, we gained an understanding of FSA's TPD discharge process and its control activities over the TPD discharge process.

We sampled TPD accounts to determine whether FSA's control activities ensured TPD discharge applications recommended for discharge by Nelnet Servicing, LLC (Nelnet) were approved or rejected in accordance with Federal program requirements. Further, we determined whether FSA's control activities ensured Nelnet administered the TPD discharge process in accordance with Federal program requirements. We also determined whether FSA ensured accurate information on student loan discharges was entered into the TPD databases.

We held an initial exit conference on February 15, 2019, during which FSA management responded to the issues in Finding 4 and had not provided any documentation of changes to its monitoring practices since the end of the audit period. We held an additional exit conference on December 13, 2019, to update management on our revised findings. FSA informed us it had made some changes based on the initial exit conference but had not significantly changed its TPD discharge process and monitoring practices, as noted in our findings, since the initial exit conference.

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<sup>1</sup> "FSA's system of records" refers to the Common Services for Borrowers (CSB) system of records. CSB covers records in all systems the Department uses to make, service, collect, or resolve obligations for Title IV loans and grants, including the TPD databases used in the TPD discharge process which, in part, store the student loan discharge information we used and examined in this audit.

## **What We Found**

We found, based on our review of samples of approved and rejected TPD discharge applications, that FSA appropriately approved and rejected the applications. We determined that FSA applied appropriate criteria to approve and reject individual TPD discharge applications in accordance with Federal program requirements. We also found that Nelnet generally serviced those TPD accounts throughout the TPD discharge process in accordance with Federal program requirements.<sup>2</sup> In addition, based on our review of FSA's processes and samples of TPD discharge applications, we determined that FSA ensured that accurate information on student loan discharges was entered into the TPD databases. (See Finding 1.)

Although we found that FSA appropriately approved or rejected applications, we identified design weaknesses in FSA's control activities for the TPD discharge application review process that may negatively affect the operating efficiency and effectiveness of the process and increase the risk that FSA approves applications that are inaccurate or incomplete. Specifically, FSA did not use appropriate sampling parameters for its review of batches of TPD discharge applications, and these parameters (10-percent sample size and 10-percent error rate thresholds) were not sufficient to provide a consistent level of assurance that TPD discharge applications that FSA approved, but did not review, were accurate and complete according to Federal program requirements. (See Finding 2.)

In addition, we found weaknesses in FSA's documented procedures and its quality control review for its TPD discharge application review process. Specifically, FSA's documented procedures were outdated, and FSA did not segregate the responsibilities of its lead analysts during quality control reviews of TPD discharge applications. (See Finding 3.)

We also found weaknesses in FSA's monitoring of the TPD discharge process. Specifically, FSA's TPD Group did not select its random samples from a complete universe of accounts, did not always adhere to its own monitoring procedures, did not always sample the required number of TPD accounts from the specified categories, and did not perform the reviews during the required timeframes. (See Finding 4.)

## **What We Recommend**

We recommend that FSA establish specific and measurable objectives for an effective and efficient TPD discharge application review process and determine and implement appropriate parameters for an error rate and confidence level that align with such

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<sup>2</sup> We concluded that the error rate did not exceed 5 percent with a 95-percent confidence for approved TPD discharge applications and with a 90-percent confidence for rejected TPD discharge applications.

objectives. We also recommend that FSA develop and implement ongoing monitoring or separate evaluations of the design and operating effectiveness of FSA's TPD discharge application review process. Additionally, we recommend that FSA update and maintain current documentation of control activities for the TPD discharge application review process and the quality control review process. We also recommend that FSA segregate key duties and responsibilities of the quality control review process among different people, or develop alternative procedures, to reduce the risk of error, misuse, or fraud. Finally, we recommend that FSA revise the TPD monitoring procedures' sampling methodology and ensure that FSA performs monitoring in accordance with the frequency, scope, and methodologies established in its monitoring procedures.

### **FSA Comments**

In response to the draft report, FSA appreciated the OIG's positive acknowledgement in Finding 1. FSA stated that Findings 2 through 4 did not directly involve the audit objectives. FSA did not explicitly agree or disagree with Findings 2 and 3 and disagreed with Finding 4 that FSA needs to improve its monitoring of the TPD Discharge Process.

FSA disagreed with the Finding 2 recommendation to determine sample sizes based on an appropriate error rate and confidence level for FSA's review to ensure that the TPD discharge process operated accordingly. Specifically, FSA stated that it disagrees that its current percentage-based methodology has consistently led to an oversampling of TPD accounts for review. Further, FSA stated that it increased the review percentage for smaller batches of TPD applications to avoid over rejection of TPD applications and increase the confidence level.

FSA did not explicitly agree or disagree with the remaining Finding 2 recommendations, but FSA noted actions to address each recommendation. FSA stated that it (1) developed a sampling methodology that is consistent with GAO guidance on internal control and statistical sampling, (2) determined parameters for the error rate and a confidence level, and (3) established an additional quality assurance check conducted by staff independent from the TPD work unit.

FSA stated that it formally implemented its current Standard Operating Procedures on January 2, 2020, and intends to update the procedures periodically as needed. It requested that the Finding 3 recommendation to update and maintain current documentation of control activities for the TPD discharge application review process be eliminated from the final report. FSA agreed with the Finding 3 recommendation to segregate key duties and responsibilities of the quality control review process. FSA stated that it developed and implemented a process to ensure the segregation of duties.

FSA disagreed with Finding 4 that FSA needs to improve its monitoring of the TPD discharge process, but it did not explicitly agree or disagree with the Finding 4



recommendations. FSA acknowledged that its TPD monitoring procedures provided conflicting information on the TPD discharge process and its monitoring team may not have followed the procedures, at times, to focus its monitoring efforts on the riskiest TPD accounts. FSA stated that it updated and merged the conflicting TPD monitoring procedures and refocused its monitoring efforts on all groups of TPD accounts.

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

## **OIG Response**

We do not agree that Findings 2 through 4 did not directly involve the audit objectives, which clearly cover FSA's TPD discharge process. As described in the Scope and Methodology section of this report, internal controls were significant to our audit objective. As such, generally accepted government auditing standards specify that we assess the design, implementation, and operating effectiveness of such internal controls to the extent necessary to address the audit objectives.

The actions FSA noted in response to the several recommendations in Finding 2 appear to be responsive to the recommendations, if implemented as described. However, regarding the Finding 2 recommendation to determine sample sizes based on an appropriate error rate and confidence level, although FSA stated it has increased the percentage review of smaller batches of discharge applications, this action alone does not satisfy the recommendation. It does not address the issue of sampling more discharge applications than needed to achieve its target error rate and confidence level, which could result in using more staff resources than necessary. We maintain that FSA should also address sample sizes for larger batches of discharge applications.

The actions FSA proposed for updating its policies on segregation of duties appear to be responsive to the Finding 3 recommendation, if implemented as described. However, we did not delete or revise the recommendation to update and maintain current documentation of control activities for the TPD discharge application review process. As stated in the finding, the draft procedures, dated December 13, 2019, did not include a segregation of duties to prevent analysts from reviewing their own work. Additionally, FSA did not describe how it would periodically update the procedures. FSA's stated implementation date of the procedures was outside the period of our audit, so we have not reviewed the final procedures nor confirmed implementation.

FSA's proposed actions for the recommendations in Finding 4 appear to be responsive to the recommendations, if implemented as described.



## Introduction

Title IV of the Higher Education Act of 1965, as amended (Title IV), authorizes the Federal student financial assistance programs, which include the William D. Ford Federal Direct Loan (Direct Loan), the Federal Family Education Loan,<sup>3</sup> the Federal Perkins Loan, and the Teacher Education Assistance for College and Higher Education (TEACH) grant programs. Borrowers<sup>4</sup> may be relieved of having to repay these Federal student loans or of completing their TEACH grant service obligations if they are totally and permanently disabled and qualify for a total and permanent disability discharge.

## Total and Permanent Disability Discharge

Federal program requirements<sup>5</sup> define a totally and permanently disabled person as someone who cannot engage in any substantial gainful activity because of a physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for at least 60 continuous months. Substantial gainful activity is work performed for pay or profit that involves significant physical or mental activities or both. Additionally, a person whom the Secretary of Veterans Affairs determines is unemployable because of a service-connected disability is considered to be totally and permanently disabled.

Before a borrower's Federal student loans or TEACH grant service obligation can be discharged, the borrower must provide a complete TPD discharge application and eligibility documentation to the U.S. Department of Education (Department) supporting that he or she is totally and permanently disabled. Once the TPD discharge application is complete, the Department (in conjunction with Nelnet, a contractor for FSA) reviews the documentation and determines whether it supports the conclusion that the borrower is totally and permanently disabled.

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<sup>3</sup> The SAFRA Act, included in the Health Care and Education Reconciliation Act (Public Law 111-152), mandated that no new Federal student loans be made or insured under the Federal Family Education Loan Program after June 30, 2010.

<sup>4</sup> The term "borrower" in this report refers to both borrowers of Federal student loans and recipients of the TEACH grant.

<sup>5</sup> See Appendix B for a list of significant Federal program requirements for TPD discharge.

## Types of TPD Determination

Federal program requirements state that borrowers can support that they are totally and permanently disabled in one of the following three ways.

- Physician Certification—The borrower can submit a physician certification supporting the borrower’s disabling condition.
- Social Security Administration (SSA)—If the borrower is receiving Social Security Disability Insurance or Supplemental Security Income benefits, the borrower can submit an SSA notice of award for Social Security Disability Insurance or Supplemental Security Income benefits.<sup>6</sup>
- U.S. Department of Veterans Affairs (VA)—If the borrower is a veteran, the borrower can submit documentation from the VA showing that the VA has determined that the borrower is unemployable due to a service-connected disability.<sup>7</sup>

## Borrower Total Discharge Fiscal Years 2014–2018

From fiscal years 2014 through 2018, more than 715,000 borrowers had \$17.7 billion in loan principal and \$1.8 billion in interest discharged. Table 1 shows the breakdown by type of TPD determination.

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<sup>6</sup> In November 2015, the Department and SSA began matching data to identify borrowers receiving SSA benefits who qualify for a discharge. As of April 18, 2016, these borrowers do not need to provide any additional documentation of their eligibility for TPD discharge with their discharge applications.

<sup>7</sup> In April 2018, the Department and the VA began matching data to identify veterans who qualify for a discharge. These veterans did not need to provide any additional documentation of their eligibility for TPD discharge with their discharge applications. On August 21, 2019, the President issued a memorandum that directed the Department and the VA to develop a process to facilitate the swift and effective discharge of the Federal student loan debt of totally and permanently disabled veterans. The Department announced that such veterans will have their student loan debt automatically discharged unless the veterans elect to decline the loan discharge. On November 26, 2019, the Department issued interim final regulations to amend and update the TPD discharge process for veterans.

**Table 1. Borrower Count and Amount Discharged by Discharge Type from Fiscal Years 2014–2018**

Discharge Type	Borrower Count	Principal Discharged	Interest Discharged
Physician Certification	459,412	\$11,450,731,440	\$1,153,636,227
SSA	246,020	\$6,005,614,212	\$643,245,026
VA	10,326	\$297,553,471	\$28,519,879
<b>Total</b>	<b>715,758</b>	<b>\$17,753,899,123</b>	<b>\$1,825,401,132</b>

### **The TPD Discharge Process**

Federal TPD discharge regulations, effective July 1, 2013, allowed FSA to implement a process that featured a standardized approach for all borrowers throughout the lifecycle of a TPD discharge application.<sup>8</sup> Starting October 1, 2010, FSA entered into a contract with Nelnet as its Federal loan servicer<sup>9</sup> responsible for administering the TPD discharge process; this contract period ends on December 15, 2020.

Specifically, Nelnet creates TPD accounts, performs National Student Loan Data System (NSLDS) checks,<sup>10</sup> records and stores borrower information, receives and scans discharge applications, reviews discharge applications to recommend for TPD discharge, discharges Federal student loans and TEACH grant service obligations associated with TPD discharge applications approved by FSA, performs post-discharge monitoring for 3 years, performs reinstatements, and notifies borrowers as well as loan servicers and holders of a TPD discharge application's status throughout the process.

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<sup>8</sup> Before July 1, 2013, borrowers with Federal Family Education Loans and Federal Perkins Loans had to submit separate TPD discharge applications to each loan holder. A loan holder is an entity that holds the loan promissory note and has the right to collect from the borrower.

<sup>9</sup> A loan servicer is a company that handles the collection of, and other services related to, a Federal student loan.

<sup>10</sup> NSLDS checks are performed through each stage of the TPD discharge process. These checks determine the borrower's loan holders, outstanding Federal student loan balances, and whether the borrower's information is correct. They also ensure that the borrower has not received any new Federal student loans or disbursements.

Nelnet administers the TPD discharge process through two TPD databases. Nelnet creates TPD accounts within one TPD database to collect and store borrower information and student loan discharges. Nelnet connects each TPD account within this TPD database to an additional TPD repository database that permanently retains digital copies of a borrower's TPD discharge applications, supporting documentation, and correspondence.

### **FSA's Control Activities for its TPD Discharge Process**

FSA manages Nelnet's Federal loan servicing contract, which includes the TPD discharge process, and monitors the effectiveness and efficiency of the contractor. FSA designed and implemented control activities aimed at ensuring the TPD discharge process operates in accordance with Federal program requirements. Specifically, as part of the overall TPD discharge process, FSA performs a TPD discharge application review that is intended to ensure that the Nelnet-recommended discharge applications are accurate and complete before FSA approves them. Also, FSA performs periodic monitoring reviews of Nelnet's loan servicing that are intended to ensure Nelnet is properly servicing TPD accounts within the databases.

### **FSA's TPD Discharge Application Review Process**

From July 1, 2013, through March 3, 2017, FSA's TPD Review Team<sup>11</sup> reviewed Nelnet-recommended TPD discharge applications to determine whether the applications were accurate and complete as defined by Federal program requirements. Specifically, FSA's TPD Review Team performed two levels of review on a sample of 10 percent of the applications randomly selected from each weekly batch<sup>12</sup> of applications that Nelnet recommended for a discharge. FSA's TPD Review Team established and used a 10-percent error rate threshold for the randomly selected samples to determine whether the TPD discharge applications not included in the sample were to be approved or rejected without being reviewed. If the FSA Review Team found errors in 10 percent or more of the sample, it rejected the entire batch. If the error rate in the sample was less than 10 percent, the FSA Review Team approved the entire batch except for those sampled applications in which FSA found any of the errors listed below.

In the first level of review, FSA remotely accessed the TPD database each week to review a randomly selected sample of 10 percent of the applications from a batch of

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<sup>11</sup> The TPD Review Team consists of five analysts; two of the five analysts are lead analysts who manage the process.

<sup>12</sup> Batches are groups of borrowers' TPD discharge applications that (1) were reviewed by Nelnet for discharge eligibility and (2) were ready for FSA's TPD discharge review determination.

applications that Nelnet recommended for discharge. An FSA analyst could reject a TPD discharge application for one of the following eight errors: (1) the disability date was incorrect; (2) the physician's signature was missing; (3) the physician's license number was missing; (4) the physician's license number did not match the physician's license credentials on the State database; (5) the physician's determination box was not checked; (6) the analyst was unable to locate the documentation (for example, the TPD discharge application and eligibility documentation); (7) the wrong document files were attached; and (8) "other" errors (for example, inaccurate SSA or VA eligibility documentation) identified by the FSA analyst.

In the second level of review (a quality control review), FSA's lead analysts performed an additional review of the same TPD discharge applications. Specifically, FSA's lead analysts reviewed all TPD discharge applications rejected by the analysts and a 10-percent, randomly selected sample of the reviewed and approved discharge applications. If FSA's TPD Review Team rejected the randomly selected sample of applications, the entire batch was returned to Nelnet's TPD Operations Team, which reviewed the batch again. FSA sent all rejected applications back to Nelnet for the errors to be corrected. Once corrected, Nelnet's TPD Operations Team resubmitted the applications to FSA in a subsequent weekly batch.

### **FSA's Monitoring of the TPD Discharge Process**

FSA's TPD Group was created to ensure TPD accounts on the TPD databases were being properly serviced in accordance with Federal program requirements. To accomplish this, FSA's TPD Group performed periodic reviews of the applicable documents and data for selected TPD accounts to determine whether:

1. Nelnet sent the borrower and the loan holder timely notifications as the TPD discharge application progressed through the TPD discharge process, including the 3-year post-discharge monitoring.
2. Nelnet requested a borrower's proof of income and verified that their earnings did not exceed the U.S. Department of Health and Human Services' poverty guidelines for a family of two.
3. Nelnet performed the NSLDS checks every 3 months.
4. Nelnet initiated reinstatement of discharged Federal student loans or TEACH grants when (1) the borrower received a new Federal student loan or TEACH grant disbursement on or after the date of discharge, (2) the borrower did not return the full amount of any disbursement of Federal student loan or TEACH grant received before the discharge date within 120 days of disbursement, (3) the borrower's earned income from work exceeded the poverty guidelines or no documentation of earnings was submitted by the borrower, and (4) an

SSA notice of award status indicated the borrower was no longer disabled or that the borrower's continuing disability review was no longer 5 to 7 years.

In addition, FSA's TPD Group used reports Nelnet prepared on TPD discharge application processing statistics to monitor the TPD discharge process. The reports and issues identified during the periodic monitoring reviews were discussed every 2 weeks during meetings between FSA and Nelnet to properly address operational issues the periodic reviews identified.

## **Finding 1. FSA Appropriately Approved and Rejected TPD Discharge Applications and Ensured Accurate Student Loan Discharge Information Was Entered into the TPD Databases**

We found, based on our review of samples of approved and rejected TPD discharge applications, that FSA appropriately approved and rejected the applications. For our random samples of TPD accounts, from July 1, 2013, through March 3, 2017, Nelnet generally serviced the sampled TPD accounts in accordance with Federal program requirements. However, as described in Finding 2, we identified design weaknesses in FSA's control activities for the TPD discharge application review process.

For the random sample of TPD accounts we reviewed, FSA appropriately approved or rejected the TPD discharge applications. Specifically, we assessed a random sample of 65 TPD accounts from the universe of 412,618 approved TPD discharge applications and a random sample of 37 TPD accounts from the universe of 78 rejected discharge applications and found no errors. An error would be an inaccurate or incomplete TPD discharge application approved by FSA or if Nelnet failed to perform a timely service activity (for example, an NSLDS check). Based on the sampling results, we can conclude that the error rates for both universes did not exceed 5 percent.<sup>13</sup>

For our random samples of TPD accounts, we reviewed digital copies of the approved and the rejected TPD discharge applications and borrower and lender correspondence in the TPD repository database. We also reviewed each account's borrower information and servicing history in the TPD database. We determined that Nelnet's servicing of the sampled TPD accounts was in accordance with Federal program requirements. We also determined that FSA's Review Team used appropriate criteria to review and then approve or reject individual TPD discharge applications in accordance with Federal program requirements.

Further, we determined that for our random samples of TPD accounts, FSA ensured accurate information on student loan discharges was entered into the TPD databases. FSA's Review Team performed periodic reviews of individual TPD discharge applications and compared the borrower's information shown in the TPD databases to digital copies

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<sup>13</sup> We concluded that the error rate did not exceed 5 percent with 95-percent confidence for approved TPD discharge applications and with 90-percent confidence for rejected TPD discharge applications.



to ensure that Nelnet entered accurate student loan information into the TPD databases.

### **FSA Comments**

FSA stated that it appreciated the acknowledgement that it administers the TPD discharge process appropriately and maintains accurate records of the loan discharge process.

## Finding 2. FSA Needs to Correct Weaknesses in the Design of Control Activities for its TPD Discharge Application Review Process

We identified design weaknesses in FSA's control activities for the TPD discharge application review process. Specifically, FSA's sampling parameters (10-percent sample size and 10-percent error rate threshold) were not sufficient to ensure that TPD discharge applications that FSA approved but did not review were accurate and complete according to Federal program requirements. According to the U.S. Government Accountability Office (GAO) "Standards for Internal Control in the Federal Government," a control cannot be effectively operating if it was not effectively designed and implemented. These design weaknesses may negatively affect the operating efficiency and effectiveness of the TPD discharge application review process and increase the risk that FSA approves applications that are inaccurate or incomplete.

These design weaknesses occurred because FSA's management did not establish objectives for the TPD discharge application review process in specific and measurable terms. Instead, FSA's management arbitrarily established its sampling parameters without a specified level of assurance (that is, confidence level)<sup>14</sup> as to the risk of inaccurate and incomplete discharge applications being approved. Further, FSA did not perform any separate evaluations of the design and operating effectiveness of its TPD discharge application review process.

The GAO "Standards for Internal Control in the Federal Government" defines an internal control as a process that provides reasonable assurance that the objectives of an entity will be achieved. Management should define objectives clearly to enable the identification of risks and define risk tolerances. As part of its internal control, management should design control activities to achieve objectives, including efficiency and effectiveness of operations and compliance with applicable laws and regulations, as well as to respond to risks. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. Management should also periodically review

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<sup>14</sup>According to GAO's "Using Statistical Sampling," a confidence level is set by management based on the risk they are willing to take that the sample estimate and its precision will not contain the true but unknown population value. For example, if management is willing to take a 5-percent risk that the conclusion reached using a sample is not correct, then the confidence level associated with the sample should be set at 95 percent.

policies, procedures, and related control activities for continued relevance and effectiveness in achieving objectives and addressing risks.

### **FSA Needs to Correct Weaknesses in its Sample Size**

FSA's methodology for reviewing samples from weekly batches of TPD discharge applications did not provide a consistent level of assurance that applications not included in the sample were accurate and complete. FSA's Review Team randomly selected a 10-percent sample of TPD discharge applications regardless of the size of the batch. Then, if the FSA Review Team found errors in 10 percent or more of the sample, it rejected the entire batch. If the error rate in the sample was less than 10 percent, the FSA Review Team approved the entire batch except for those sampled applications in which FSA found errors.

Because each batch of discharge applications varied in size, the 10-percent sample size provided varied levels of assurance as to the accuracy and completeness of TPD discharge applications within each batch. During the period covered by our review, FSA approved 609 batches of TPD discharge applications that varied in size, ranging from a batch as small as 1 application to a batch as large as 7,777 applications.<sup>15</sup> We calculated the level of confidence that the error rate for each approved batch did not exceed 10 percent. We found the confidence level that the error rate did not exceed 10 percent ranged from 50 percent for a batch of 58 TPD discharge applications to more than 99.99 percent for a batch of 7,777 applications. For about 40 percent of the approved batches, the sample results provided less than a 90-percent confidence level that the error rate for the batch did not exceed 10 percent. The samples from smaller batches tended to have lower confidence levels. Conversely, samples from larger batches generally had higher confidence levels. More than 200 batches had more than a 99-percent confidence level that the error rate did not exceed 10 percent; these batches had an average size of more than 1,400 applications.

According to GAO's guide "Using Statistical Sampling," revised May 1992, a sampling plan (or design) should include objectives and a required confidence level, and the confidence level should be determined by the importance of the sample result to the overall objectives. In addition, GAO states that statistical sampling usually results in a smaller sample, with resultant savings in time and money, than that found in using judgmental sampling. Using a fixed percentage (for example, 5 percent or 10 percent) of a universe for a sample can result in sampling more items than necessary. For example, if the universe were 130,000 and the percentage chosen was 5 percent, then the sample

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<sup>15</sup> Each batch was composed of a single type of TPD determination (that is, physician certification, SSA, or VA).

size would be 6,500, which is larger than necessary for probability sampling. However, if the universe were small, selecting a sample size that is equal to a fixed percentage of the universe could yield a sample too small to produce sample results that measures the risk of being wrong that are acceptable for the particular objectives. For example, if the universe consisted of 200 items and a 10-percent sample was drawn, the sample size would be only 20 items, which may not be large enough to draw a conclusion regarding the 200 items. Sampling plans (or designs) that are dependent on sample size do not afford the same protection (or confidence) between large samples and small samples and are therefore not using rationally determined criteria.<sup>16</sup>

By using a fixed 10-percent sample size, FSA did not efficiently and effectively review and approve TPD discharge applications. If FSA sampled more discharge applications than necessary, it risked using more staff resources than required in its review of larger batches of discharge applications. If FSA sampled fewer discharge applications than necessary, it faced an increased risk of approving smaller batches with actual error rates that exceed the 10-percent error rate threshold.

### **FSA Needs to Correct Weaknesses in the Error Rate Threshold**

FSA did not consider the actual error rate for batches it sampled and approved for TPD discharge. FSA established and used a 10-percent error rate threshold to approve or reject an entire batch of discharge applications. We found FSA used a 10-percent error rate threshold that was not established based on management's objectives or analysis of actual error rates. From our own analysis of the sample error rate for 652 batches, we concluded that, 93 percent of the time, the error rate was less than 10 percent. More than 60 percent of the time, the error rate was less than 3 percent. Specifically, we found the following:

- 43 batches had an error rate of 10 percent or greater,
- 78 batches had error rates of 6 to 9.9 percent,
- 133 batches had error rates of 3 to 5.9 percent, and
- 398 batches had error rates of less than 3 percent.

In addition, based on the results of our samples of 65 TPD accounts with approved TPD discharge applications and 37 TPD accounts with rejected TPD discharge applications,

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<sup>16</sup> *Acceptance Sampling in Quality Control*, by Edward G. Schilling, Marcel Dekker, Inc., 1982.

we concluded that the error rates for the universe of 412,618 approved applications and universe of 78 rejected applications did not exceed 5 percent.<sup>17</sup>

When choosing an acceptable error rate, FSA should have considered previous error rates. FSA should have also considered (1) the importance of the errors related to the \$19.6 billion in loan principal and interest discharged from fiscal years 2014 through 2018, (2) the operating characteristics of its sampling plan,<sup>18</sup> (3) the consequence of a selected sample size and FSA's ability to review those samples each week, (4) the ability of Nelnet to meet the established error rate threshold, and (5) FSA's responsibility to ensure that the TPD discharge process operates in accordance with Federal program requirements.<sup>19</sup>

By not considering these factors when establishing an error rate threshold, FSA's 10-percent error rate threshold may not be an effective control. Specifically, the level of accuracy and completeness for an entire batch of discharge applications received from Nelnet could have declined without alerting FSA of the decline. As an example, FSA could approve batches of discharge applications with a potential error rate of 9.9 percent, which could be more than three times greater than the actual error rate of less than 3 percent we found in 398 of the 652 batches.

FSA used a 10-percent sample size and a 10-percent error rate threshold because FSA's management did not establish objectives for the TPD discharge application review process in specific and measurable terms. Instead, FSA's management arbitrarily established its risk tolerances without monitoring or evaluating the design of its TPD discharge application review process for continued relevance and effectiveness. Specifically, FSA's former Processing Division senior manager, who was the manager for FSA's Review Team, stated that he and the former FSA Processing Division director designed the control activities when FSA entered into a contract with Nelnet as the TPD servicer on October 1, 2010. The former FSA Processing Division director stated they decided to use the specified sampling parameters because they historically did not see many errors with TPD discharge applications, the weekly batches were increasing in size, and the Review Team had limited staff resources to review applications. Further, the

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<sup>17</sup> We concluded that the error rate did not exceed 5 percent with 95-percent confidence for approved TPD discharge applications and with 90-percent confidence for rejected TPD discharge applications.

<sup>18</sup> Operating characteristics refers to the possibility of rejecting a batch of complete and accurate TPD discharge applications or approving a batch of incomplete and inaccurate applications.

<sup>19</sup> *Acceptance Sampling in Quality Control, Third Edition*, by Edward G. Schilling and Dean V. Neubauer. CRC Press Taylor & Francis Group, 2017.

former FSA Processing Division senior manager stated that there had not been any evaluation of FSA's TPD discharge application review process. The FSA Program Operations Specialist, who is the manager of FSA's TPD Group, also stated that the monitoring activities did not cover the design of FSA's TPD discharge application review process.

On December 19, 2019, FSA provided us with a draft of its TPD Discharge Application Approval Review Standard Operating Procedures dated December 13, 2019. Although the Standard Operating Procedures were updated, they did not include any changes to the sampling parameters and the updated Standard Operating Procedures had yet to be implemented.

The GAO "Standards for Internal Control in the Federal Government" states that management defines objectives and risk tolerances in specific and measurable terms to enable the design of internal controls for related risks. Management considers requirements (such as laws and regulations) and expectations when defining objectives. Management defines the risk tolerances (the acceptable level of variation in performance relative to the achievement of objectives) by ensuring that the set levels of variation for performance measures are appropriate for the design of an internal control. Management also evaluates whether risk tolerances enable the appropriate design of internal controls by considering whether they are consistent with requirements and expectations for the defined objectives. If the risk tolerances for defined objectives are not consistent with requirements and expectations, management revises the risk tolerances to achieve consistency.

## **Recommendations**

We recommend that the Chief Operating Officer for FSA—

- 2.1 Establish objectives in specific and measurable terms for an effective and efficient TPD discharge application review process as well as compliance with Federal program requirements.
- 2.2 Determine the appropriate parameters for an error rate as a threshold and a confidence level that aligns with management's objectives.
- 2.3 Implement the parameters established in Recommendation 2.2 to determine the appropriate sample sizes for FSA to review to ensure its TPD discharge process operates in accordance with Federal program requirements.
- 2.4 Develop and implement ongoing monitoring or separate evaluations of the design and operating effectiveness of FSA's review process for TPD discharge applications.

## **FSA Comments**

In its response to the draft report, FSA did not explicitly agree or disagree with Finding 2 and the recommendations. However, FSA identified actions it has taken or intends to take to address the recommendations. In response to Recommendation 2.1, FSA stated that it developed a sampling methodology that is consistent with GAO guidance on internal control and statistical sampling and was currently analyzing the impact of the change in methodology on the review process. In response to Recommendation 2.2, FSA stated it determined parameters for the error rate and a confidence level.

In response to Recommendation 2.3, FSA disagreed that its current percentage-based methodology has consistently led to an oversampling of accounts for review. Because the review process ensures that TPD loan discharges are appropriately approved, FSA did not consider reviewing a higher number of accounts than may be statistically necessary to be detrimental. However, FSA indicated that it has made improvements to its process by increasing the percentage review of smaller batches to avoid the over rejection of batch approvals and to increase the confidence level that the sample is representative of the entire population.

In response to Recommendation 2.4, FSA stated that it established an additional quality assurance check that is conducted by staff independent of the TPD work unit and scheduled regular meetings with the TPD servicer to review the overall process and address any ongoing issues.

## **OIG Response**

In its comments, FSA noted actions for Recommendations 2.1, 2.2, and 2.4 that, if implemented, appear to be responsive to the recommendations. Developing a sampling methodology that is consistent with GAO guidance on internal controls and statistical sampling should help improve operating efficiency and effectiveness of the TPD discharge application review process and decrease the risk that FSA approves applications that are inaccurate or incomplete.

Regarding FSA's response to Recommendation 2.3, we did not state that FSA's percentage-based methodology had consistently led to an oversampling of accounts for review. Rather, we stated that by using a fixed 10-percent sample size, FSA did not efficiently and effectively review and approve TPD discharge applications. If FSA sampled more discharge applications than needed to achieve its target error rate and confidence threshold, it risked using more staff resources than necessary. If FSA sampled fewer discharge applications than necessary, it faced an increased risk of approving smaller batches with actual error rates that exceed the 10 percent error rate threshold. Although FSA stated it has increased the percentage review of smaller batches of discharge applications, this action alone does not satisfy the



recommendation. It does not address the issue of sampling more discharge applications than needed to achieve its target error rate and confidence level, which could result in using more staff resources than necessary. We maintain that FSA should also address sample sizes for larger batches of discharge applications.

### **Finding 3. FSA Needs to Correct Weaknesses in its Documented Procedures and Quality Control Review for its TPD Discharge Application Review Process**

We found additional weaknesses in FSA's TPD discharge application review process that could affect whether the process operates in accordance with Federal program requirements. Specifically, FSA did not update its documented procedures for its TPD discharge application review process to reflect its actual process. Also, FSA did not segregate the quality control responsibilities of its lead analysts within the TPD discharge application review process. FSA's failure to maintain updated documented procedures and to segregate quality control review responsibilities can negatively affect the design, implementation, and operating effectiveness of FSA's TPD discharge application review process as well as FSA management's ability to effectively monitor the TPD discharge process. According to GAO "Standards for Internal Control in the Federal Government," a control cannot be effectively operating if it was not effectively designed and implemented.

#### **FSA Needs to Correct Weaknesses in its Documented Procedures**

FSA's "TPD Workflow Database Procedures" (Database Procedures) were not updated to reflect the actual TPD discharge application review process. The Database Procedures we received in January 2017 were dated September 23, 2010. FSA's Processing Division had not updated its Database Procedures because its former senior manager believed that the documented procedures were still applicable to FSA's TPD discharge application review process. The Database Procedures contained high-level information applicable to the TPD discharge application review process; however, the Database Procedures did not reflect the following:

- FSA's use of a 10-percent error rate threshold per batch, nor a 10-percent sample size per batch;
- the current TPD databases implemented in July 2013;
- the Federal TPD discharge regulations that became effective July 1, 2013;
- the TPD servicer requirements effective May 2013 that were associated with the July 2013 regulations governing TPD discharges; and
- how a quality control review process would be performed, although the procedures did refer to one.

After our second exit conference in December 2019, FSA provided TPD Review Procedures dated May 2018 as its current procedures being used. However, these procedures still did not reflect the actual TPD discharge review process described above.

For example, the TPD Review Procedures do not reflect FSA's sampling parameters nor the quality control review process. In addition, FSA provided a draft of its TPD Discharge Application Approval Review Standard Operating Procedures dated December 13, 2019. Although the Standard Operating Procedures reflect the above process, it was in draft and had not yet been implemented.

The GAO "Standards for Internal Control in the Federal Government" states that management should clearly document internal control. The documentation may appear in management directives, administrative policies, or operating manuals and should be properly managed and maintained. Each unit should also document policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management should communicate to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities. Also, management should periodically review policies and procedures for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately.

Because FSA did not document the process identified above, it did not have a means to clearly communicate the TPD discharge application review process and changes in the review process to analysts. These weaknesses could affect FSA's ability to communicate and retain organizational knowledge. Further, these weaknesses may negatively affect the ability of FSA management to effectively monitor and evaluate the TPD discharge application review process.

### **FSA Needs to Correct Weaknesses in its Quality Control Review**

FSA's TPD Review Team did not segregate the responsibilities of its lead analysts during its quality control review of TPD discharge applications. Specifically, FSA's two lead analysts were given both supervisory and managerial access to the TPD databases, which allowed them to perform quality control reviews of their own work. FSA's Processing Division senior manager stated that the lead analysts rarely performed quality control reviews of their own work. However, we found that FSA's lead analysts performed 2,932 quality control reviews of their own work, which accounted for about 26 percent of the 11,427 total quality control reviews performed between July 1, 2013, and March 3, 2017.

Lead analysts performed FSA's quality control reviews to assess whether analysts reached appropriate determinations to approve or deny a TPD discharge application. The TPD databases randomly selected a 10 percent sample of the approved TPD discharge applications and all rejected TPD discharge applications initially reviewed by the five FSA analysts from each weekly batch. The two FSA lead analysts performed

quality control reviews of the TPD discharge applications selected by the TPD databases for a quality control review, including their own approvals and rejections. The two lead analysts performed the quality control reviews on the three analysts' initial reviews as well as one another's initial reviews. However, when a lead analyst was unavailable, the remaining lead analyst performed the quality control review of the TPD discharge applications, including their own approvals and rejections, to ensure timely completion of work for the weekly batches.

The GAO "Standards for Internal Control in the Federal Government" states that management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions and reviewing the transactions. Also, it states that if segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

FSA's lead analysts performed quality control reviews of their own work to comply with FSA management's weekly production schedule. FSA's Processing Division senior manager stated his expectation was that there would be no inventory of TPD discharge applications to review carried over into a subsequent week. Further, he stated that he was aware of this weakness and did not object to the lead analysts performing quality control reviews of their own work. By not segregating the lead analysts' quality control responsibilities or ensuring alternative procedures were in place, FSA increased the risk of error, misuse, and fraud.

FSA provided a draft of its Standard Operating Procedures, dated December 13, 2019, which included a revised quality control review process to address the above weakness. Specifically, the revised process requires the FSA manager in charge of the TPD application review process to assign staff to review TPD applications and perform quality control reviews each week. Further, the adherence to the procedures are checked by the same FSA manager to prevent an analyst from reviewing their own work. However, the Standard Operating Procedures state that the TPD databases do not prevent an analyst from reviewing their own work.

## **Recommendations**

We recommend that the Chief Operating Officer for FSA—

- 3.1 Update and maintain current documentation of control activities, such as the Database Procedures, for the TPD discharge application review process and the quality control review process.
- 3.2 Segregate key duties and responsibilities, or develop alternative procedures, for the quality control review process.

### **FSA Comments**

In its response to the draft report, FSA did not explicitly agree or disagree with Finding 3 and Recommendation 3.1 but agreed with Recommendation 3.2. In response to Recommendation 3.1, FSA stated that the outdated Database Procedures referenced by OIG did not reflect the procedures FSA used during the audit period. Further, FSA stated that it formally implemented its current Standard Operating Procedures on January 2, 2020 and intends to update the procedures periodically as needed. Because of the actions taken, FSA requested that we eliminate this recommendation, as FSA has provided this information and there are no further actions to implement.

FSA agreed with Recommendation 3.2 and stated that it had already developed and implemented a process to ensure the segregation of duties in the batch approval process. Additionally, a report has been created that assists the manager of the review group in tracking and overseeing the quality control review process.

### **OIG Response**

We used the Database Procedures, dated September 23, 2010, that were provided to us by FSA, and were represented to be in effect during our audit period of July 1, 2013, through March 3, 2017. As described in the finding, the Standard Operating Procedures dated December 13, 2019, were draft procedures and did not include a segregation of duties to prevent analysts from reviewing their own work. Additionally, FSA did not describe how it would periodically update the procedures. FSA's stated implementation date of the procedures was outside the period of our audit, so we have not reviewed the final procedures nor confirmed implementation. Therefore, we did not delete or revise Recommendation 3.1.

FSA's actions regarding Recommendation 3.2 appear to be responsive to the recommendation, if implemented as described.

## **Finding 4. FSA Needs to Improve its Monitoring of the TPD Discharge Process**

We found weaknesses in FSA's monitoring of the TPD discharge process. FSA's TPD Group did not consider the quality of information when conducting its monitoring reviews. Specifically, FSA's TPD Group did not select its random samples from a complete universe of Nelnet-provided accounts. Instead, FSA's TPD Group randomly selected samples from a subset of the universe of accounts. Further, FSA's TPD Group did not always adhere to its own monitoring procedures: it did not always sample the required number of TPD accounts from the specified categories and did not perform the reviews for the required quarterly timeframes. FSA's TPD monitoring reviews were intended to assess Nelnet's adherence to Federal program requirements. Because FSA's TPD Group did not consider the completeness of the universe of TPD accounts and did not adhere to its own procedures, FSA's TPD Group may have drawn incorrect conclusions about Nelnet's adherence to Federal program requirements.

According to the GAO "Standards for Internal Control in the Federal Government," a control cannot be effectively operating if it was not effectively designed and implemented. Management should use quality information that is appropriate, current, complete, accurate, accessible, and timely. Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks.

### **FSA Did Not Sample from a Complete Universe of TPD Accounts**

FSA's TPD Monitoring Procedures did not require FSA's TPD Group to select a random sample of TPD accounts from the complete universe of TPD accounts. Instead, FSA's procedures specified that Nelnet extract "no more than 15,000 TPD accounts" from its TPD databases and that the FSA TPD Group randomly select at least 100 accounts from the extract. FSA's selection of accounts from the extract means that the accounts not in the extract would not have any chance of selection, which results in FSA's selection not being a random sample of the entire universe. According to GAO's "Using Statistical Sampling," revised May 1992, random selection is the selection of a sample by some random method to obtain information or draw conclusions about the universe of interest. The key elements of random selection are (1) each element in the universe has a known (nonzero) probability of being selected and (2) the actual selection technique truly executes the random method.

We found that the monitoring reviews and monitoring procedures did not include any information pertaining to the basis for sampling from a subset of a universe of TPD accounts. Nelnet's TPD functional director stated that FSA requested only a specific number of TPD accounts without further inquiring into the actual number of TPD

accounts processed by Nelnet during the specified timeframe. Also, a Program Operations Specialist from FSA's TPD Group stated that they did not consider sampling from a complete universe of accounts because the monitoring procedures did not require them to do so. As a result, FSA's TPD Group sampled and tested TPD accounts from a subset of the universe of TPD accounts that may not have been representative of the universe it intended to review. FSA's TPD Group may have drawn incorrect conclusions about Nelnet's adherence to Federal program requirements.

After our second exit conference, FSA provided a TPD Oversight Plan dated December 17, 2019, and a monitoring review report dated May 22, 2019. Both documents show changes to the sampling methodology being used by FSA's TPD Group. The TPD Oversight Plan states that FSA will request all TPD accounts for the specified timeframe within each category to sample from a complete universe of accounts. Also, the monitoring review report states that FSA requested all TPD accounts for the specified timeframe within each category and then sampled the required number of accounts. Although changes were made to the TPD Oversight Plan and the report methodology, FSA did not provide updated TPD Monitoring Procedures depicting these changes.

### **FSA Did Not Adhere to its TPD Monitoring Procedures**

We found that FSA's TPD Group did not always adhere to its monitoring procedures based on our review of all four monitoring reviews performed during our audit period of July 1, 2013, through March 3, 2017. FSA's TPD Monitoring Procedures, dated September 4, 2015, require its TPD Group to randomly select at least 100 TPD accounts from the "data extract" each fiscal quarter, with at least 25 accounts from each of the following categories: (1) incomplete/pending applications, (2) approved applications, (3) rejected applications or reinstatement, and (4) 3-year monitoring period. FSA's TPD Monitoring Procedures specified that monitoring is to be performed on a quarterly basis. However, after the issuance of the procedures in September 2015, FSA's TPD Group did not perform monitoring in each quarter. Also, FSA's TPD Group adhered to the sampling methodology in its monitoring procedures for only one of the four monitoring reviews performed. The four monitoring reviews included the following sampling methodologies.



1. For the September 28, 2015, review, FSA's TPD Group requested 5,000 TPD accounts and randomly sampled only 37 TPD accounts from the reinstatement and 3-year monitoring categories from July 1, 2014, through July 31, 2015.
2. For the February 3, 2016, review, FSA's TPD Group requested "no more than 15,000" TPD accounts and sampled 100 TPD accounts from each of the four specified categories from July 1, 2015, through September 30, 2015.
3. For the September 6, 2016, review, FSA's TPD Group did not specify the number of TPD accounts requested and sampled only 45 TPD accounts from the 3-year monitoring and reinstatement categories from January 1, 2016, through March 31, 2016.
4. For the November 1, 2016, review, FSA's TPD Group requested 20,000 TPD accounts and sampled only 67 TPD accounts from three categories: 3-year monitoring, rejected status, and rejected then placed in 3-year monitoring and then rejected again without a specified timeframe.

According to the GAO "Internal Control Management and Evaluation Tool" (2001), control activities described in policies should be properly applied. According to the GAO "Standards for Internal Control in the Federal Government," control activities include reviews by management at the functional or activity level, such as the periodic monitoring performed by FSA's TPD Group, where management should compare actual performance to planned or expected results and analyze significant differences.

FSA did not adhere to its TPD Monitoring Procedures because FSA management did not focus on the sampling methodology, but instead focused on issues identified by the TPD Group in prior monitoring reports and operational meetings. FSA's TPD Group did not update the procedures to reflect the modifications to the sampling methodology. Further, FSA's Program Operation Specialist did not enforce the selection of the appropriate number of TPD accounts because of limited resources during the monitoring reviews.

By FSA not adhering to its TPD Monitoring Procedures, FSA's TPD Group was performing its monitoring reviews sporadically with an inconsistent methodology. Therefore, FSA's TPD Group may have drawn incorrect conclusions about Nelnet's adherence to Federal program requirements.

## **Recommendations**

We recommend that the Chief Operating Officer for FSA—

- 4.1 Revise the TPD Monitoring Procedures to align with the TPD Oversight Plan.

- 4.2 Ensure that the TPD Group performs monitoring in accordance with the frequency, scope, and methodologies established in FSA's TPD Monitoring Procedures.

### **FSA Comments**

FSA disagreed that it needs to improve its monitoring of the TPD Discharge Process and did not explicitly agree or disagree with either recommendation. FSA stated that while its two documents seemingly provided conflicting information on the same process, that was immaterial as the team responsible for monitoring the process operated under the appropriate procedures in the TPD Oversight Plan. FSA stated that this conflict in documents is not an issue of compliance with TPD program requirements. FSA stated that, at times, the monitoring team may not have followed the procedures in the TPD Oversight Plan but instead focused its monitoring on the group of riskiest accounts.

In response to Recommendation 4.1, FSA stated that it has merged the TPD Monitoring Procedures into the TPD Oversight Plan. Further, the Oversight Plan has been updated multiple times, most recently in December 2019, to ensure that the process is more thorough and that it includes monitoring of the universe of accounts.

For Recommendation 4.2, FSA stated that it refocused the monitoring on all groups of accounts, including the suggested topics provided in the TPD Oversight Plan. However, when the review is of a specific topic, FSA will clearly present the scope in the methodology.

### **OIG Response**

FSA's response did not provide adequate support for its disagreement with this finding. FSA acknowledges that its TPD Monitoring Procedures and TPD Oversight Plan contained conflicting information and that its monitoring team did not always follow procedures. We reviewed all four monitoring reviews performed during our audit period and found that FSA's TPD Group did not adhere to its procedures and its monitoring reviews were performed sporadically and with an inconsistent methodology. As a result, FSA's TPD Group may have drawn incorrect conclusions about Nelnet's adherence to Federal program requirements. The control activities described in the policies should be properly applied and management should ensure those policies are being carried out as designed by comparing actual performance to expected results and analyzing significant differences.

FSA's proposed actions for Recommendations 4.1 and 4.2 appear to be responsive to the recommendations, if implemented as described. FSA's actions should improve its monitoring of the TPD discharge process and ensure it consistently adheres to its monitoring procedures.

## Appendix A. Scope and Methodology

Our audit focused on FSA's and Nelnet's processes for discharging borrower's Federal student loans and TEACH grant service obligations through total and permanent disability from July 1, 2013, through March 3, 2017. To address our objective, we reviewed the processes FSA used to ensure the Federal TPD process operated in accordance with Federal requirements and ensured student loan discharge information was accurately reported in the TPD databases.

To accomplish our objective, we did the following.

- We reviewed the Federal TPD discharge regulations and Federal TPD servicer requirements (see Appendix B), and other guidance applicable to FSA's TPD discharge process, which included:
  - Federal Perkins Loan Program, Federal Family Education Loan Program, TEACH Grant Program and Direct Loan Program, Final Rule, 77 Federal Register 66088 (November 1, 2012);
  - FSA's contract with Nelnet, Modification 57 (May 22, 2013), including Appendix C: TPD Discharge Protocol;
  - FSA Electronic Announcement, August 13, 2010, "Transition to New Servicer Planned for October 1, 2010;"
  - FSA Electronic Announcement, May 17, 2013, "Changes to Total and Permanent Disability Discharge Regulations Effective July 1, 2013;"
  - FSA Electronic Announcement, April 12, 2016, "Total and Permanent Disability Match Process with Social Security Administration Begins;"
  - FSA Electronic Announcement, April 17, 2018, "Total and Permanent Disability Match Process with Department of Veterans Affairs Begins;" and
  - Nelnet's operational procedures for the TPD discharge process.
- To gain an understanding of FSA's monitoring of the TPD discharge process, we reviewed a Departmental Directive, "Contract Monitoring for Program Officials," dated April 23, 2013; FSA's "Contract Monitoring Plan" for Nelnet, dated September 28, 2016; and FSA's "Total and Permanent Disability Monitoring Procedures," dated September 4, 2015.

To identify any relevant findings or recommendations included in prior audits or reviews, we reviewed:

- FSA TPD Group’s “Nelnet Total and Permanent Disability Reviews” dated September 28, 2015; February 3, 2016; September 6, 2016; and November 1, 2016.
- KPMG LLP’s report on “Nelnet Diversified Solutions, LLC’s Description of the Nelnet Direct Loan Servicing System and the Suitability of the Design and Operating Effectiveness of its Controls,” covering July 1, 2015, through December 31, 2015.
- The Office of Inspector General report, “Death and Total and Permanent Disability Discharges of Federal Family Education Loan and William D. Ford Federal Direct Loan Programs Loans” (A04E0006), November 14, 2005.
- The Monthly Management Report on Application Process Statistics, TPD Inventory Report, and the Income Request Response Rate prepared by Nelnet for FSA from August 2016 through December 2016.
- The A-123 FSA fiscal year 2017 Materiality Analysis for Nelnet TPD, which identified TPD discharge process risk factors, assessed them, and categorized their impact and likelihood.
- Liaison Report—Issues Affecting Organization (Issue Log), with all statuses updated as of September 20, 2016, which recorded and tracked the status of issues identified by FSA during the quarterly monitoring reviews.
- FSA’s Financial Institution Oversight Service Division’s “Program Review Summary” for its review to determine whether Nelnet’s loan servicing complied with applicable Federal program requirements.

We interviewed FSA managers and employees from the Financial Institution Oversight Service, Operation Services’ Processing Division, Acquisitions, Ombudsman Group, and Program Management Services’ Internal Control Division responsible for the oversight of Federal loan servicing. We also interviewed Nelnet’s directors, managers, and employees from the following Nelnet departments to gain an understanding of the TPD discharge process and the TPD databases: Loan Services Processing, TPD, Document Services, FSA Accounts, Nelnet Diversified Solutions, and Nelnet Diversified Solutions Product Owner.

We conducted our audit at FSA in Washington, D.C., and at Nelnet in Lincoln, Nebraska, from January 2017 through March 2017. We gained remote electronic access to the TPD database as well as the TPD repository database enabling us to perform testing at our offices through August 2018. We conducted follow-up interviews with and received additional documentation from FSA and Nelnet through December 2019 and determined that FSA’s and Nelnet’s processes had not changed significantly after our

audit period. We held an initial exit conference on February 15, 2019, and a second exit conference on December 13, 2019.

## **Understanding FSA's System of Internal Controls**

The GAO "Standards for Internal Control in the Federal Government" is organized into five components (control environment, risk assessment, control activities, information and communication, and monitoring). The five components apply to employees at all organizational levels (entity, division, operating unit, and function) and to all categories of objectives (operations, reporting, and compliance). To gain an understanding of the five components of FSA's system of internal control over Nelnet as FSA's Federal loan servicer, we interviewed FSA managers and employees from Financial Institution Oversight Service, Operation Services' Processing Division, Acquisitions, Ombudsman Group, and Program Management Services' Internal Control Division who were responsible for the oversight of Federal loan servicing. We also reviewed policies and procedures for FSA's oversight of its TPD discharge process to evaluate whether it was appropriately designed. We participated in a walkthrough of FSA's TPD Review Team to evaluate whether the policies and procedures were implemented and operating as intended. We reviewed FSA's TPD Group's monitoring reviews and the reports Nelnet prepared on TPD discharge application processing statistics.

After gaining an understanding of the five components of FSA's system of internal controls over the TPD discharge process, we concluded that control activities and monitoring were the components most significant to our audit objective. We describe weaknesses in the design and implementation of control activities for FSA's TPD discharge application review process and its monitoring in Findings 2 through 4 of this report.

## **Sampling Methodology**

We used data in the TPD databases (as of March 3, 2017) to identify 833,493 total TPD accounts with servicing activity occurring after June 30, 2013. We eliminated 285,483 TPD accounts from the previous TPD databases that were not subject to the TPD discharge practices and the TPD servicer requirements effective July 1, 2013. We focused on TPD accounts with TPD discharge applications that Nelnet recommended to FSA's Review Team and were either approved or rejected for discharge. We eliminated 135,314 TPD accounts that Nelnet had not recommended to FSA for review as of March 3, 2017. We ultimately identified two universes: 412,618 TPD accounts approved for discharge and 78 TPD accounts with rejected applications.

From the universe of 412,618 TPD accounts with approved TPD discharge applications, we selected a stratified random sample of 65. We stratified the TPD accounts by type determination (physician certification, SSA, and VA). We selected a sample size for each

stratum proportionate to its universe size but required a selection of at least 10 TPD accounts from each stratum.

From the universe of 78 TPD accounts that had a rejected TPD discharge application, we selected a stratified random sample of 37. We stratified the TPD accounts by type and selected applications from each stratum proportionate to its universe size but required at least 3 accounts from each stratum. Table 2 presents a summary of the universes and sample sizes.

**Table 2. Approved and Rejected TPD Accounts Universes and Sample Sizes**

Application Type	Universe of Approved Accounts	Random Sample of Approved Accounts	Universe of Rejected Accounts	Random Sample of Rejected Accounts
Physician Certification	216,626	31	51	23
SSA	167,122	24	24	11
VA	28,870	10	3	3
Total	412,618	65	78	37

To accomplish our objective, we assessed FSA’s control activities over the TPD discharge process that were intended to ensure that the process operated in accordance with Federal program requirements. For the TPD accounts we sampled, we assessed the following.

- We considered a TPD discharge application to be complete if it contained the borrower’s name, date of birth, Social Security number, address, telephone number, and a disability determination certified by a physician, the SSA, or the VA.
- We considered FSA’s discharge determination for an application to be sufficient if the application was complete and met Federal program requirements and there were digital copies of documentation supporting the application.
- We considered the TPD databases to be accurate if the application’s information in the TPD databases matched digital copies of the application and documentation supporting the application.

Further, we reviewed the accounts in our sample to assess whether the TPD accounts were being properly serviced by Nelnet from July 1, 2013, through March 3, 2017. We

assessed whether Nelnet's servicing activities for the random sample of TPD accounts were performed in accordance with the Federal program requirements. This included reviewing digital copies of borrower and lender correspondence in TPD repository databases for appropriate content and timeliness and the TPD account's service history in the TPD databases for appropriate actions (for example, NSLDS checks). We considered an account to be properly serviced if Nelnet performed the following actions within the required timeframes to meet Federal programs requirements: created TPD accounts, performed NSLDS checks, recorded and stored borrower information, received and scanned discharge applications, reviewed discharge applications to recommend for TPD discharge, discharged Federal student loans and TEACH grant service obligations associated with TPD discharge applications approved by FSA, performed post-discharge monitoring for 3 years, performed reinstatements, and notified borrowers as well as loan servicers and holders of a TPD discharge application's status throughout the process.

We established the sample size for the universe of TPD accounts with approved TPD discharge applications and rejected TPD discharge applications so that, based on sampling results, we could support a probability statement regarding each universe. If no exceptions were found for the sample of TPD accounts with approved TPD discharge applications, we could conclude with 95-percent confidence that the error rate does not exceed 5 percent. If no exceptions were found for the sample of TPD accounts with rejected TPD discharge applications, we could conclude with 90-percent confidence that the error rate does not exceed 5 percent. Based on the results of our sample of 65 TPD accounts with approved TPD discharge applications, we concluded with 95-percent confidence that the error rate did not exceed 5 percent. Further, based on the results of our sample of 37 TPD accounts with rejected TPD discharge applications, we concluded with 90-percent confidence that the error rate did not exceed 5 percent.

### **Use of Computer-Processed Data**

We determined that computer-processed data was the best available source of data for our audit objective. Based on our communication with FSA and Nelnet, we learned that the TPD databases was the primary information system for the TPD discharge process. Therefore, we used the data from the TPD databases to identify the universe of TPD accounts and select the samples. To determine whether the data were sufficiently reliable to meet our audit objective, we matched the borrower information within the universe of TPD accounts with the borrower information within the universe of TPD discharge applications. We determined that the universe of TPD accounts and the TPD account information being used within the databases was sufficiently accurate and complete. We confirmed the borrower's TPD account information with the digital copies of the borrower's TPD discharge applications. When we performed the testing of TPD accounts, we reviewed the TPD databases information that was necessary for a



borrower's TPD discharge application to progress through the TPD discharge process. The information we reviewed in the TPD databases included, but was not limited to, intent date, disability date, discharge date, physician signature date, correspondence dates, TPD account status, NSLDS checks, and income verification during the post-discharge monitoring period. Based on our testing, we concluded that the computer-processed data were sufficiently reliable for the purpose of our audit.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

## Appendix B. Federal TPD Program Requirements

The following table shows Federal TPD discharge regulations according to the July 1, 2013, edition of Title 34 of the Code of Federal Regulations (34 C.F.R.) and the TPD Servicer requirements according to the May 22, 2013, contract modification 57. These Federal TPD program requirements were effective throughout the audit period.

**Table 3. Federal Program Requirements**

Subject	Summary of TPD Relevant Provision	Source
Definition of Total and Permanent Disability	The condition of an individual who (1) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that (i) can be expected to result in death; (ii) has lasted for a continuous period of not less than 60 months; or (iii) can be expected to last for a continuous period of not less than 60 months; or (2) has been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected disability.	34 C.F.R. §§ 674.51(aa), 682.200(b), and 685.102(b)
Definition of substantial gainful activity	A level of work performed for pay or profit that involves doing significant physical or mental activities, or a combination of both.	34 C.F.R. §§ 674.51(x), 682.200(b), and 685.102(b)
TPD Servicer administering the TPD discharge process	The administration of the TPD Discharge process shall be in accordance with the following regulations 34 CFR §§ 674.61, 682.402, 685.213, and 686.42; Section 437 of the Higher Education Act, as amended; and other applicable legal requirements.	Requirement 1.1
Total and permanent disability discharges	A borrower's loan and/or grant recipient's agreement to serve is discharged if the borrower becomes totally and permanently disabled, as defined above, and satisfies the eligibility requirements specified in the regulations.	34 C.F.R. §§ 674.61(b)(1)(i), 674.61(c)(1), 682.402(c)(1), 685.213(a)(1), and 686.42(b)(1)
TPD discharge effective date	The TPD Servicer determines the borrower's discharge effective date based on when (1) the physician certifies the TPD discharge application; (2) the TPD Servicer receives the SSA notice of award for Social Security Disability Insurance or Supplemental Security Income benefits; or (3) the determination by the VA that the borrower is disabled.	34 C.F.R. §§ 674.61(b)(3)(i)(A)-(B), 674.61(c)(3)(i), 682.402(c)(3)(i)(A)-(B), 682.402(c)(9)(x), 685.213(b)(4)(A)-(B), and 685.213(c)(2)(i) Requirement 1.10
Discharge application submission for borrowers who have a total and permanent disability	Generally, a borrower claiming to be totally and permanently disabled must notify the TPD Servicer that the borrower intends to apply for a TPD discharge. The TPD Servicer provides the borrower with information needed to apply for a total and permanent disability discharge. The TPD Servicer identifies all the borrower's Title IV loan holder(s) or servicer(s) and directs all to suspend collection	34 C.F.R. §§ 674.61(b)(2)(i)-(iii), 682.402(c)(2)(i)-(ii), 685.213(b)(1)(i)-(iii), and 685.213(c)(1)(i)-(iv)

Subject	Summary of TPD Relevant Provision	Source
	<p>activity on any of the borrower's Title IV loans for a period not to exceed 120 days. The TPD servicer requirements state that this is performed through NSLDS.</p> <p>The TPD Servicer informs the borrower that the suspension of collection activity will end after 120 days and collection will resume on the loans if the borrower does not submit a discharge application to the TPD Servicer within that time.</p>	Requirement 2.1–2.2
Receipt of discharge application	If the borrower submits a “materially complete” discharge application, collection activity is suspended for the duration of the TPD Servicer’s review of the application. An application is “materially complete” if it contains (1) a physician certification, (2) an SSA notice of award of for Social Security Disability Insurance or Supplemental Security Income benefits, or (3) VA determination of disability document.	Requirement 2.3
Receipt of discharge application	<p>Generally, an application must contain a certification by a physician, who is a doctor of medicine or osteopathy legally authorized to practice in a State, that the borrower is totally and permanently disabled. Further, for this type of determination, the borrower must submit the application to the TPD Servicer within 90 days of the date the physician certifies the application.</p> <p>For an SSA determination, a notice of award for Social Security Disability Insurance or Supplemental Security Income benefits indicating that the borrower's next scheduled disability review will be within 5 to 7 years must accompany the discharge application.</p> <p>For a veteran, documentation from the VA showing that the VA has determined the applying veteran is unemployable due to a service-connected disability must accompany the discharge application. No additional documentation related to the veteran's disability is required.</p>	<p>34 C.F.R. §§ 674.61(b)(2)(iv)-(v), 674.61(c)(2)(iv), 682.402(c)(2)(iv)-(v), 682.402(c)(9)(v), 685.213(b)(2), and 685.213(c)(1)</p> <p>Requirement 3.3–3.5</p>
Notification to Lenders	Once the TPD Servicer has received a complete application, it notifies the lender(s) or servicer(s) that it has received a discharge application and directs them to suspend collection activity or maintain the suspension of collection activity on the borrower's Title IV loans.	<p>34 C.F.R. §§ 674.61(b)(2)(vi)&amp; (viii), 674.61(c)(2)(vi)&amp;(viii), 682.402(c)(2)(vi)&amp;(viii), 682.402(c)(9)(vi)&amp;(viii), 685.213(b)(3)(i), and 685.213(c)(1)(i)</p> <p>Requirement 2.3.2-2.3.4</p>

Subject	Summary of TPD Relevant Provision	Source
Receipt of incomplete application and borrower notification	<p>Generally, if the application is incomplete, the TPD Servicer notifies the borrower and/or other appropriate party and requests the missing information. The Department does not decide on the borrower's eligibility for discharge until the application is complete. The TPD Servicer also notifies the borrower that no payments are due on the loan while the borrower's eligibility for a discharge is being determined and explains the process for the review of the borrower's TPD discharge application.</p> <p>The TPD Servicer may require the borrower to submit additional medical evidence if the Department determines the borrower's application does not conclusively prove that the borrower is totally and permanently disabled. The Department may require and arrange for an additional review of the borrower's condition by an independent physician at no expense to the borrower.</p> <p>The TPD Servicer will notify the borrower that the documentation from SSA is insufficient if it does not indicate that the borrower's continuing medical review period is between 5 and 7 years.</p> <p>The TPD Servicer does not require a physician certification for TPD based on VA determination of disability.</p>	<p>34 C.F.R. §§ 674.61(b)(2)(vii)&amp;(ix), 674.61(c)(2)(vii)&amp;(ix), 674.61(b)(3)(ii) 682.402(c)(2)(vii)&amp;(ix), 682.402(c)(3)(ii) 682.402(c)(9)(vii)&amp;(ix) 685.213(b)(3)(ii)-(iv), 685.213(b)(4)(ii), and 685.213(c)(1)(ii)-(iv)</p> <p>Requirement 3.7, 3.4.2, and 3.5.1</p>
Determination of eligibility	<p>The Department reviews the borrower's completed application and determines whether the application supports the conclusion that the borrower is totally and permanently disabled. If the borrower is considered totally and permanently disabled, the TPD Servicer then discharges the borrower's obligation to make any further payments on the loan, notifies the borrower that the loan has been discharged, and then returns payments made on the loan after the effective date of the discharge.</p>	<p>34 C.F.R. §§ 674.61(b)(3), 682.402(c)(3), and 685.213(b)(4)</p> <p>Requirement 3.3, 3.4, 3.5, and 3.8</p>

Subject	Summary of TPD Relevant Provision	Source
Post-Discharge Monitoring Period	<p>The TPD Servicer shall subject a borrower, whose TPD discharge application was approved based on a physician certification or SSA documentation, to a 3-year post-discharge monitoring period which begins on the effective date of the discharge. The borrower is not subject to a 3-year post-discharge monitoring period when determined by the VA to be unemployable due to a service-connected disability.</p> <p>Annually, the TPD Servicer monitors the borrower's earned income. The TPD Servicer sends a post-discharge monitoring form for the borrower to complete. The borrower submits documentation<sup>20</sup> of the borrower's earned income from employment with the form. Two reminder notices are sent to the borrowers who do not submit completed monitoring forms.</p> <p>Each quarter and at the conclusion of the monitoring period, the TPD Servicer queries NSLDS to verify that the borrower has not received disbursements of new Title IV loans or TEACH grants, except for consolidations loans that repaid loans that were not discharged.</p>	Requirement 5.1–5.4
Post-Discharge Monitoring Period	A borrower is responsible for notifying the TPD Servicer of address or phone number changes, annual earnings exceeding 100 percent of the poverty guideline for a family of two, annual earnings from employment upon request, and receipt of a notice from the SSA indicating that they are no longer disabled or that the borrower's continuing disability review will no longer be 5 to 7 years.	34 C.F.R. §§ 674.61(b)(7), 682.402(c)(7), and 685.213(b)(8)
Conditions for reinstatement	The Department reinstates a borrower's obligation to repay a loan that was discharged if, within 3 years after the date the Department granted the discharge, the borrower (A) has annual earnings from employment that exceed 100 percent of the poverty guideline for a family of two, as published annually by the United States Department of Health and Human Services; (B) receives a new TEACH grant or a new loan under the Perkins or Direct Loan programs, except for a Direct Consolidation Loan that includes loans that were not discharged; (C) fails to ensure that the full amount of any disbursement of a Title IV loan or TEACH grant received prior to the discharge date that is made is returned to the Department within 120 days of the disbursement date; or (D) receives a notice from the SSA indicating that the borrower is no longer disabled or that the borrower's continuing disability review will no longer be the 5 to 7 year period indicated in the SSA notice of award for Social Security Disability Insurance or Supplemental Security Income benefits.	34 C.F.R. §§ 674.61(b)(6), 682.402(c)(6), and 685.213(b)(7) Requirement 6.1, 6.5, and 6.6

<sup>20</sup> Acceptable documentation of the borrower's earned income from employment includes (1) Federal or State income tax returns; (2) W-2s; (3) Federal income tax return transcripts; (4) earnings statements from SSA; (5) earnings statement from a State or local agency; (6) pay stubs; or (7) a signed statement from the borrower explaining the borrower's source and amount of earned income, if any.

Subject	Summary of TPD Relevant Provision	Source
	If the borrower's obligation to repay the loan is reinstated, among other actions, the Department (A) notifies the borrower that the borrower's obligation to repay the loan has been reinstated and (B) returns the loan to the status that would have existed if the total and permanent disability discharge application had not been received.	

## Appendix C. Acronyms and Abbreviations

34 C.F.R.	Title 34 Code of Federal Regulations
Department	U.S. Department of Education
Database Procedures	TPD Workflow Database Procedures
Direct Loan	William D. Ford Federal Direct Loan
FSA	Federal Student Aid
GAO	U.S. Government Accountability Office
Nelnet	Nelnet Servicing, LLC
NSLDS	National Student Loan Data System
SSA	Social Security Administration
TEACH	Teacher Education Assistance for College and Higher Education
Title IV	Title IV of the Higher Education Act of 1965, as amended
TPD	Total and Permanent Disability
VA	U.S. Department of Veterans Affairs

# FSA Comments



April 6, 2020

TO: Alyce Frazier  
Regional Inspector General for Audit  
Jeffrey Nekrasz  
Director, Student Financial Assistance Advisory and Assistance Team

FROM: Mark A. Brown *Mark Anthony Brown*  
Chief Operating Officer  
Federal Student Aid

SUBJECT: Draft Audit Report  
"Federal Student Aid's Total and Permanent Disability Discharge Process"  
Control Number ED-OIG/A02Q0006

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) Draft Audit Report, "Federal Student Aid's Total and Permanent Disability Discharge Process," dated February 13, 2020. The audit objectives were to determine whether

1. Federal Student Aid (FSA) ensures that its total and permanent disability (TPD) discharge process operates in accordance with Federal program requirements; and
2. Accurate information on student loan discharges is entered into FSA's system(s) of record.

Addressing those overall audit objectives, OIG found that FSA is administering the TPD discharge process appropriately and maintaining accurate records of the loan discharge process as noted in Finding 1. Although Findings 2 through 4 did not directly involve the stated initial audit objectives, OIG suggested several operational improvements to FSA's oversight of the process in the last three findings. FSA addresses the findings and recommendations below.

**Finding 1: FSA Appropriately Approved and Rejected TPD Discharge Applications and Ensured Accurate Student Loan Discharge Information Was Entered into the TPD Databases**

**FSA Response:** FSA appreciates OIG acknowledging that it administers the TPD discharge process appropriately and maintains accurate records of the loan discharge process.

**Federal Student Aid**  
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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**Finding 2: FSA Needs to Correct Weaknesses in the Design of Control Activities for its TPD Discharge Application Review Process**

**Recommendation 2.1: Establish objectives in specific and measurable terms for an effective and efficient TPD discharge application review process as well as compliance with Federal program requirements.**

**FSA's Response:** FSA has developed a sampling methodology that is consistent with the recommended GAO Guidance ("Standards for Internal Control in the Federal Government" and "Using Statistical Sampling," revised May 1992). FSA is currently analyzing the impact of that change in methodology on the review process.

**Recommendation 2.2: Determine the appropriate parameters for an error rate as a threshold and a confidence level that aligns with management's objectives.**

**FSA's Response:** Using the GAO Guidance referenced in our response to 2.1, FSA has determined the parameters for an error rate and a confidence level.

**Recommendation 2.3: Implement the parameters established in Recommendation 2.2 to determine the appropriate sample sizes for FSA to review to ensure its TPD discharge process operates in accordance with Federal program requirements.**

**FSA's Response:** FSA disagrees that our current percentage-based methodology has consistently led to an over sampling of accounts for review. Because the review process ensures that TPD loan discharges are appropriately approved, reviewing a higher number of accounts than may be statistically necessary is not detrimental. However, FSA continues to evaluate the design of the review process to identify process improvement opportunities. For example, FSA has increased the percentage review of smaller batches to avoid the over rejection of batch approvals and to increase the confidence level that the sample is representative of the entire population.

**Recommendation 2.4: Develop and implement ongoing monitoring or separate evaluations of the design and operating effectiveness of FSA's review process for TPD discharge applications.**

**FSA's Response:** FSA has established an additional quality assurance check that is conducted by staff independent from the TPD work unit. Regular meetings with the TPD servicer have also been scheduled to review the overall process and to address any ongoing issues.

**Finding 3: FSA Needs to Correct Weaknesses in its Documented Procedures and Quality Control Review for its TPD Discharge Application Review Process**

**Recommendation 3.1: Update and maintain current documentation of control activities, such as the Database Procedures, for the TPD discharge application review process and the quality control review process.**

**FSA's Response:** OIG obtained and references an outdated document "TPD Workflow Database Procedures," which had not been updated since 2013 and did not reflect the procedures being used by FSA during the audit

period. However, as the OIG noted, FSA has further updated its procedures more recently, TPD Discharge Application Approval Review Standard Operating Procedures dated December 13, 2019. FSA formally implemented the current procedures on January 2, 2020 and will update the procedures periodically as needed. FSA respectfully requests OIG eliminate Recommendation 3 from the final report, as FSA has provided this information to the OIG and there are no further actions for FSA to implement.

**Recommendation 3.2: Segregate key duties and responsibilities, or develop alternative procedures, for the quality control review process.**

**FSA's Response:** FSA agrees with this recommendation, as FSA has already developed and implemented a process to ensure the separation of duties in the batch approval process. Additionally, a report has been created that assists the manager of the review group in tracking and overseeing the quality control review process.

**Finding 4: FSA Needs to Improve its Monitoring of the TPD Discharge Process**

**Recommendation 4.1: Revise the TPD Monitoring Procedures to align with the TPD Oversight Plan.**

**FSA's Response:** FSA disagrees with the OIG's finding that FSA needs to improve its monitoring of the TPD Discharge Process. While FSA acknowledges two documents seemingly provided conflicting information on the same process, it was immaterial as the team responsible for monitoring the process operated under the appropriate procedures in the TPD Oversight Plan. FSA appreciates the OIG's recommendation for operational improvement, but this conflict in documents is not an issue of compliance with TPD program requirements. However, FSA has merged the TPD Monitoring Procedures into the TPD Oversight Plan. Further, the Oversight Plan has been updated multiple times, most recently in December 2019, to ensure that the process is more thorough and that it includes monitoring of the greater universe of accounts.

**Recommendation 4.2: Ensure that the TPD Group performs monitoring in accordance with the frequency, scope, and methodologies established in FSA's TPD Monitoring Procedures.**

**FSA's Response:** FSA acknowledges that, at times, the monitoring team may not have followed the procedures in the TPD Oversight Plan, but instead focused its monitoring efforts on the group of riskiest accounts. It has refocused its efforts on monitoring all groups of accounts. However, given the nature of the TPD portfolio, the scope of important review topics may change from review to review. In the instances when the review is of a specific topic, the scope of that review is now clearly presented in the methodology. Otherwise, the review covers the suggested topics provided in the overall Oversight Plan – for pending, approved, denied accounts, etc.

Thank you for the opportunity to review and comment on this draft report.