U.S. Department of Education
Office of Inspector General

U.S. Department of Education’s Assessment and Recoupment of Liabilities from Closed Institutions of Higher Education

January 28, 2025
ED-OIG/I24GA0163

Inspection Report

NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. The appropriate Department of Education officials will determine what corrective actions should be taken.

In accordance with Freedom of Information Act (Title 5, United States Code, Section 552), reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

January 28, 2025

TO: Dense Carter
Acting Chief Operating Officer
Federal Student Aid

FROM: Sean Dawson /s/
Assistant Inspector General for Audit

SUBJECT: Final Inspection Report, "U.S. Department of Education's Assessment and Recoupment of Liabilities from Closed Institutions of Higher Education," Control Number ED-OIG/I24GA0163

Attached is the subject final inspection report that consolidates the results of our review of U.S. Department of Education's Assessment and Recoupment of Liabilities from Closed Institutions of Higher Education. We have provided an electronic copy to your audit liaison officer. We received your comments in response to our draft report.

U.S. Department of Education policy requires that you submit a 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 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 recommendations that have not been completed after 6 months from the date of issuance.

We appreciate your cooperation during this inspection. If you have any questions, please contact Selina Boyd at 404-974-9424 or Selina.Boyd@ed.gov.

Attachment

U.S. Department of Education, Office of Inspector General

Results in Brief

U.S. Department of Education's Assessment and Recoupment of Liabilities from Closed Institutions of Higher Education

Why the OIG Performed this Inspection?

The U.S. Department of Education (Department) is responsible for minimizing the risk that Federal funds will be lost when an Institution of Higher Education (IHE) stops participating in the programs authorized by Title IV of the Higher Education Act of 1965, as amended. When an IHE stops participating in Title IV programs, either voluntarily or involuntarily (due to closure or other circumstances), the closeout procedures it is required to perform and the liability assessment processes Federal Student Aid (FSA) performs, identify any program funds the IHE is required to return to the Department. If the required closeout procedures are not completed, an alternative assessment is performed by FSA to determine whether the IHE must return program funds to the Department. The Department's Office of Finance and Operations is responsible for recouping these funds from the IHEs.

According to the Department, from 2013 to 2022, FSA assessed $1.6 billion in liabilities against closed IHEs but recouped only $344 million in liabilities from closed IHEs.

We performed our inspection to determine the results of the Department's processes for assessing and recouping liabilities from IHEs that closed from October 1, 2020, through September 30, 2023.

What did the OIG Find?

The Department has processes in place for assessing and recouping liabilities from IHEs that close. Based on these processes FSA's School Participation Divisions (SPD) determined that as of March 2024, 47 of the 161 IHEs that closed between October 1, 2020, and September 30, 2023, should repay the Department a total of $34,593,135 in Title IV program funds. These processes also led to FSA's SPDs assessing liabilities totaling $30,507,138 during the period we reviewed for 13 of the 19 closed IHEs we selected for review. The Department's Office of Finance and Operations recouped a total of $812,998 of those liabilities from 8 of the 13 IHEs. However, despite these efforts, we found that five of the seven sampled SPDs that oversee IHEs and that we included in our review did not always follow the established processes to timely determine whether liabilities should be assessed against IHEs that closed. These processes are necessary to timely determine closed schools' liabilities and to make those determinations in a manner consistent with established guidance.

We also found that four of the seven SPDs did not always comply with procedures requiring staff to send notices to FSA stakeholders regarding an IHE's closure or pending closure. Further, the seven SPDs included in our review did not always comply with procedures requiring staff to send a Close-Out Audit Reminder letter to closed IHEs within 10 business days after closure.

We did not identify any issues with the Department's actions to recoup liabilities from the IHEs we sampled in our review.

What Is the Impact?

The untimely assessments of liabilities for IHEs that close increase the risk that the Department will not be able to recoup the debt. When IHE debts are not recouped, taxpayers are adversely affected because their tax dollars are not recovered and used appropriately.

If the SPDs fail to send the required notices to FSA officials regarding an IHE's closure or pending closure, those officials may not take the actions needed to mitigate the risk that Federal funds will be lost. Also, if the SPDs do not timely send the Close-Out Reminder Letter to IHEs, IHEs may submit required close-out audits late or not at all. Without a close-out audit, the liability assessment process is delayed, increasing the risk of Federal funds not being recovered and used appropriately.

What Are the Next Steps?

We made six recommendations to strengthen the policies, procedures, and processes that the Department has in place for assessing liabilities against IHEs that closed and to ensure required notifications are sent to appropriate stakeholders and IHEs about closure and the pending closure of IHEs.

We provided a draft of this report to FSA for comment. We summarize FSA's comments and provide OIG's responses at the end of each finding and provide the full text of FSA's comments at the end of the report (see FSA Comments).

Table of Contents

Introduction

Institutions of higher education (IHE) that are eligible to participate in Title IV programs do so under the Higher Education Act of 1965, as amended (HEA). When an IHE stops participating in Title IV programs, closes or otherwise ceases to participate either voluntarily or involuntarily, they must have a close-out audit performed on their unaudited Title IV program funds and submit the audit report to Federal Student Aid (FSA). If the close-out audit is not submitted, an alternative assessment is performed by FSA to determine whether the IHE must repay any Title IV program funds to the U.S. Department of Education (Department). We performed this inspection to determine the results of the Department's processes for assessing and recouping liabilities from IHEs that closed for the period October 1, 2020, through September 30, 2023.

Title IV Eligibility

The HEA gives the Department the discretion to determine an IHE's eligibility to participate in Title IV programs. Eligibility is based, in part, on an IHE's financial health and responsibility (financial responsibility). Demonstrating financial responsibility is based, in part, on an IHE's ability to provide the services described in its official publications and statements, provide the administrative resources necessary to comply with the Title IV program requirements, and meet all its financial obligations. IHEs participating in Title IV programs must submit compliance audits and audited financial statements[1] to FSA following the close of each fiscal year. An IHE's failure to submit an acceptable annual compliance audit and audited financial statement timely is a past performance violation. As a result of this violation, FSA cites the IHE and may, among other things, provisionally certify the IHE rather than granting it full approval to participate in Title IV programs,[2] require the IHE to post an irrevocable letter of credit[3]

[1] Audited financial statements are submitted through the eZ-Audit system, which is a web application that provides IHEs with a paperless single point of submission for financial statements and compliance audits.

[2] The Department may grant an IHE conditional approval (referred to as provisional certification) to participate in the Title IV programs for up to 3 years.

[3] An LOC is a financial instrument issued by a financial institution (most commonly a bank) on behalf of an IHE, which is usually secured by collateral (generally cash reserves) and held by the bank.

(LOC) and place the IHE on a heightened cash monitoring (HCM) payment method to provide additional oversight of the IHE's cash management.[4]

FSA's School Eligibility and Oversight Service Group (SEOSG) is responsible for overseeing IHEs[5] participating in Title IV programs. The SEOSG is divided into eight School Participation Divisions (SPD) located across the nation, with seven that focus on domestic IHEs and one that focuses on both domestic and foreign IHEs. These SPDs are responsible for monitoring each IHE's program participation in their respective area to determine compliance with Title IV program requirements, including determining liabilities owed by the IHE, if any, when the IHE stops participating in Title IV programs.

[4] There are two levels of HCM: For HCM1, an IHE must make disbursements to eligible students from its own funds and then submit the payment records to the Department's Common Origination and Disbursement System before the IHE can draw down its Title IV program funds to cover the disbursements. For HCM2, the IHE must make payments to students from its own funds and then submit a payment request with supporting documentation to FSA to be reimbursed for the payments.

[5] In this document, we use the term IHE to refer to both an institution and a school.

Finding 1. The Department's Processes for Assessing and Recouping Liabilities from IHEs that Close

We found that the Department has processes for assessing and recouping liabilities from IHEs that close.[6] Based on these processes, FSA's SPDs determined that as of March 2024, 47 of the 161 IHEs that closed between October 1, 2020, and September 30, 2023, should repay the Department a total of $34,593,135 in Title IV program funds.

From the 161 IHEs that closed, we selected 19 IHEs to review.[7] Of the 19 IHEs, FSA's liability assessment processes determined that 13 of the IHEs should repay $30,507,138 in Title IV program funds (88 percent of the total liabilities assessed against IHEs for the scope period). As of April 30, 2024, the Department's Office of Finance and Operations (OFO) was able to recoup $812,998[8] of the liabilities from 8 of the 13 IHEs, representing about 3 percent of the total liabilities assessed against the 13 IHEs.

Description of the Department's Processes for Assessing and Recouping Liabilities from IHEs that Close

Under 34 Code of Federal Regulations (C.F.R.) section 668.26, when an IHE closes, whether planned or unplanned, within 45 days after the closure date, it is required to submit to the Department a letter of engagement for an independent audit (close-out audit) to be performed on its Title IV program funds.[9] The audit must cover the period starting after the IHE's previously completed annual compliance audit period through the date the IHE closed. The resulting audit report is to be submitted to FSA within 45 days after the date of the engagement letter. The audit report would identify questioned costs such as unused Title IV program funds for the audit period, incorrectly

[6] In this document, we use the term closed IHE to refer to an IHE (main campus only) that has ceased to participate in Title IV programs, no longer provides education programs, and has permanently closed.

[7] We judgmentally selected one IHE which had the largest reported assessed liability for our scope period. From the remaining 160 IHEs, we selected a total of 18 IHEs using a stratified, nonstatistical, random sampling design.

[8] This amount includes a partial recoupment from one IHE.

[9] According to the Program Review Procedures dated October 1, 2022, if the engagement letter is not submitted within 45 days, on day 50 the SPD prepares a draft Program Review Report and sends it to the branch chief for review. The report is sent to the IHE if the close-out audit is not received.

calculated Return of Title IV program funds, and excess cash balances the IHE owes to the Department.

According to FSA's Compliance Audit Procedures, dated September 30, 2021 (and updated October 1, 2022), FSA's SPDs perform audit resolution on the close-out audits of IHEs and prepare a draft Final Audit Determination letter within 6 months after receipt of the close-out audit. The Final Audit Determination letter contains any Title IV program fund liabilities the IHE is required to repay to the Department.[10]

During the reviewed period, FSA had two processes in place for IHEs that did not submit the required close-out audit report within 90 days after closure. Table 1 summarizes the Department's processes for IHEs that do not submit a close-out audit as required.

Table 1: FSA's Processes When Close-Out Audits are Not Received

Event	FSA's Process through 9/30/22	FSA's Process After 9/30/22
The IHE does not Submit a Closeout Audit within 90 Days After Closure	SPD issued a Preliminary Audit Determination letter to the IHE requesting that all Title IV program funds the IHE received during the unaudited period be returned to the Department if a close-out audit is not submitted within 30 days.	SPD issues a Missing Close-Out Audit Program Review Report (Missing Audit PRR) to the IHE informing the IHE that it will be required to repay the total amount of Title IV program funds received during the unaudited period to the Department if a close-out audit is not submitted within 30 days.
The IHE does not Submit a Closeout Audit Within 30 Days After the Notification	SPD issued a missing close-out audit Final Audit Determination letter to the IHE, specifying the total liabilities owed.	SPD issues a Final Program Review Determination Missing Close-Out Audit – Pay It All Back (Missing Audit FPRD) letter to the IHE specifying the total liabilities owed.

A Closed School Loan Discharge Program Review is another review FSA performs to determine liabilities that should be assessed against closed IHEs. When an IHE closes, there are circumstances under which students with Federal student loans who attended the IHE can get their loans discharged, meaning the student is relieved of the

[10] These same procedures were in effect during the beginning of our scope period, October 1, 2020.

responsibility to repay the loan. The Department has the authority to recover the discharged loan amounts from the IHE,[11] and does so using one of two processes:

- FSA's process through September 30, 2022, required the SPDs to assess closed school loan discharge liabilities as part of the close-out audit process or alternative liability assessment process. Twelve months after the IHE closed, SPDs were required to perform a program review to determine whether additional student loan discharges had occurred. If additional student loan discharges were $10,000 or more, the SPD was to issue a PRR to the IHE and within 30 calendar days of the review, issue an FPRD assessing closed school loan discharge liabilities.

- FSA's process after September 30, 2022, requires the SPDs to perform a Closed School Loan Discharge Program Review and issue the resulting PRR to the IHE 15 months after an IHE closes.

Whether liabilities for closed IHEs are assessed through a close-out audit or a program review, once the SPD sends a record of the liability to the Department's OFO, OFO establishes an accounts receivable for the debt. If the IHE does not appeal the liability amount and has not paid the debt in full within 45 days, upon instruction from the SPD, OFO will use the IHE's LOC or other financial protections, if any, to pay the debt.

After the IHE's 45-day appeals period, OFO submits any remaining debt to the U.S. Department of Treasury's (Treasury) Centralized Receivables Service[12] (CRS) for collection. CRS will continue its collection activities for 64 days, sending one to two past-due notices to the IHE and making multiple attempts to contact them. During the collection process, the IHE can enter into a payment agreement anytime. If the IHE has not responded to CRS within the 64-day period, the debt becomes delinquent and is automatically sent to Treasury Cross-Servicing for collection.

Treasury Cross-Servicing issues a demand letter to the IHE. At any time while the debt is at Treasury Cross-Servicing, the IHE can set up a payment plan. If multiple attempts to collect the debt are unsuccessful, Treasury Cross-Servicing will return it to the

---

[11] 34 C.F.R. sections 685.214, 685.300 (b)(12) (2022) and 34 C.F.R. sections 685.214, 685.300 (b)(13) (2023).

[12] The CRS program is managed by the U.S. Department of Treasury. CRS provides receivable management services in an automated environment to help Federal agencies manage their accounts receivable (money owed to the Federal agencies from individuals, businesses, and states). CRS focuses on collecting current debt before it becomes delinquent.

Department's OFO and label it as "Currently Not Collectible." OFO will then request approval from the Office of General Counsel (OGC), FSA, and Office of Financial Management to halt further collection actions. OFO maintains these approvals. Figure 1 summarizes the Department's current assessment and recoupment processes.

Figure 1. Department's Current Assessment and Recoupment of Liabilities Process for IHEs that Close

1 Close-Out Audit Requirement

UP TO 90 DAYS

1. The IHE is required to, within 45 days after the closure date, submit to the Department a letter of engagement for an independent audit (Close-Out Audit).
2. The resulting audit report is to be submitted to FSA within 45 days after the date of the engagement letter.

2 Assessment of Liabilities

CLOSE-OUT AUDIT PROVIDED WITHIN 90 DAYS	CLOSE-OUT AUDIT NOT PROVIDED WITHIN 90 DAYS	CLOSED SCHOOL LOAN DISCHARGE REVIEW
Final Audit Determination Letter issued with any liabilities owed by the IHE.	• Missing Audit PRR issued requesting closeout within 30 days. • Missing Audit FPRD letter issued if 30 day request is not met.	Fifteen months after IHE closure, PRR issued with any liabilities owed by the IHE due to student loan discharges.

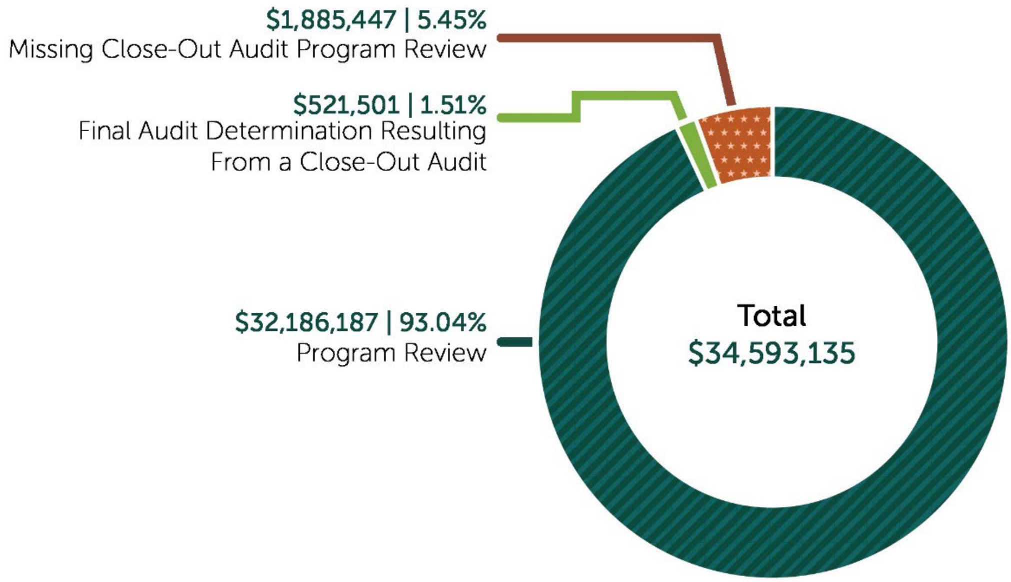
3 Recoupment of Liabilities

1. Accounts receivable established for IHE liability amount.
2. Debt held in OFO during 45-day appeal period for IHE. Available escrow funds or LOCs may be used to collect debt upon instruction from SPD.
3. All uncollected debt sent to CRS for collection on day 46.
4. Uncollected debt becomes delinquent on day 65 and is sent to Treasury Cross-Servicing for collection. If debt is unable to be collected, it is returned to the Department as "Currently not Collectible."

Liabilities Assessed and Recouped from IHEs that Closed

During the period of review, 161 IHEs closed; some closures were planned, others were not. Of the 161 closed IHEs, FSA assessed liabilities against 47 IHEs, totaling $34,593,135. See Figure 2 below for the types of assessments that identified the liabilities for the 47 IHEs. For the remaining 114 closed IHEs, either FSA's SPD determined that no liabilities were owed, or they are still in the process of determining whether liabilities are owed (as discussed in Finding 2).

Figure 2. Total Assessed Liabilities During the Scope Period by Assessment Type[13]



Our work related to the recovery of assessed liabilities focused on a sample of 19 closed IHEs. Of the 19 IHEs, 13 of them (68 percent) were assessed liabilities totaling $30,507,138. As of April 2024, the Department had recouped a total of $812,998 from 8 of the 13 closed IHEs (full recoupment from 7 of the IHEs, partial recoupment from 1 IHE), resulting in an outstanding balance of $29,694,140. Of the $812,998, the IHEs returned $222,242 to the Department prior to OFO establishing an accounts receivable. For the remaining balance of $590,756, OFO or Treasury recouped the debt using their established debt collection process. For the other 6 of 19 closed IHEs (32 percent) that we reviewed, as of June 2024, FSA had either completed the assessment processes and no liabilities were identified (2 IHEs) or was in the process of determining whether liabilities are owed (4 IHEs). See Table 2 for the types of assessments that identified the liabilities for the 13 IHEs and the recovery amounts.

[13] In the figure, Program Review includes both (1) a program review that was initiated by FSA prior to the IHE's closure and was still in process at the time of closure (this is separate from the close-out audit process) and (2) Closed School Loan Discharge Program Reviews.

Table 2. Total Assessed Liabilities for the 13 IHEs by Assessment Type

Assessment Type	Number of IHEs Assessed Liabilities	Amount Assessed	Amount Recovered
Program Review (Initiated prior to closure)	2	$5,642,666	$439,418
Final Audit Determination (Resulting from a Close-Out Audit)	5	$148,484	$120,883
Missing Close-Out Audit Program Review	1	$84,325	$27,240
Closed School Loan Discharge Program Review	2	$22,960,435	$100,830
Missing Close-Out Audit Program Review and Closed School Loan Discharge Program Review (2 different assessments performed)	2	$1,546,601	$0
Final Audit Determination Resulting from a Close-Out Audit and Closed School Loan Discharge Program Review (2 different assessments performed)	1	$124,627	$124,627
Total	**13**	**$30,507,138**	**$812,998**

Using LOCs to Recoup Liabilities from Closed IHEs

One way the Department is able to recoup liabilities from closed IHEs is by collecting on an LOC that was being held at the time of the IHE's closure. An LOC is a financial instrument issued by a financial institution (most commonly a bank) on behalf of an IHE, which is generally secured by collateral (generally cash reserves) and held by the financial institution. The LOC mitigates the monetary risk of IHEs that are not in compliance with various Title IV program regulatory standards yet allows the IHEs to continue participating in the Title IV programs while mitigating the issue(s) that required the LOC. Funds from an LOC may be drawn in part or whole by the Department.

The most common reason an IHE is required to remit an LOC to the Department is because it has a failing financial responsibility composite score[14] which indicates the IHE is not financially responsible. LOCs may also be required by IHEs that do not satisfy other portions of the financial responsibility standards under 34 CFR part 668 subpart L, including:

- failure to submit acceptable audits (668.174(a)(3));
- failure to maintain sufficient cash reserves (668.171(b)(2)); and
- failure to resolve satisfactorily any compliance problems identified in audit or program review reports (668.174(a)(4)).

The SPD will draw on an IHE's LOC for various reasons including the IHE's closure, loss of accreditation, and bankruptcy to pay liabilities owed to the Department. Drawing on the LOC helps the Department recoup some or all outstanding or potential liabilities.

Of the $812,998 in liabilities that the Department was able to recoup from 8 of the 13 closed IHEs that owed the Department, $27,240 was collected using an LOC that was previously obtained for one of the IHEs. As of April 2024, FSA had LOCs on file totaling $24,249,668 for 4 of the 19 IHEs in our sample (3 IHEs that have been assessed liabilities and 1 IHE for which FSA is still in the process of determining whether liabilities are owed).

Challenges in Recouping Liabilities from IHEs that Closed

Of the $29,694,140 in liabilities outstanding from 6 of the 13 IHEs that closed, FSA has not recouped the liabilities for several reasons:

- the IHE filed for bankruptcy,
- the IHE is going through the appeals process, or
- the IHE is currently subject to the recoupment process.

The Department's OFO accountant explained that recoupment of liabilities from closed IHEs is rare and challenging because when an IHE closes it can no longer be reached at the physical locations that closed. Therefore, it is difficult to locate contacts for the IHE. In addition, closed IHEs often have few assets available to pay liabilities.

[14] The composite score is based on financial ratios that the Department calculates using information from the school's audited financial statements.

On October 31, 2023, the Department issued regulations to strengthen and expand its authority to require financial protections when an IHE starts to exhibit problems.

According to the Department, these regulations increase the Department's ability to act more swiftly to obtain financial protection and ensure the Department has more funds in place to offset the cost to taxpayers of closed IHEs. The regulations[15] became effective on July 1, 2024, and in part, amended the financial responsibility regulations. According to the Department, the objective of the financial responsibility regulations is to ensure institutions meet minimum standards of financial responsibility on an ongoing basis while identifying changes in conditions that warrant safeguards such as increased financial protection. Doing so increases the Department's ability to identify high-risk events and require the financial protection the Department believes is needed to protect students and taxpayers.

FSA Comments

FSA agreed with our finding, however; it believed that additional information needed to be included in the finding to provide users of the final report with perspective on the magnitude of closed IHEs' liabilities in relation to the Title IV funds administered by the Department and FSA. Specifically, FSA noted that the $34,593,135 in closed IHE liabilities the OIG identified for the period covered by the inspection (October 1, 2020, through September 30, 2023) represented 0.01 percent of the $331 billion in Title IV funds the Department and FSA administered during award years 2020–2021 through 2022–2023.

OIG Response

We did not make any changes to the finding based on FSA's comments. While the $331 billion in Title IV funds that FSA stated it administered in conjunction with the Department for award years 2020–2021 through 2022–2023 generally align with the inspection period, we did not obtain or review data related to this amount. Our inspection focused on the Department's processes for assessing and recouping liabilities from IHEs that closed. As such, the Department's processes for assessing and recouping liabilities from IHEs that closed are not applicable to the population of IHEs that have not closed. FSA reports that more than 5,400 active IHEs participated in Federal student aid programs as of September 30, 2023.

[15] Financial Responsibility, Administrative Capability, Certification Procedures, Ability to Benefit, 88 Federal Register 74568, October 31, 2023.

Finding 2. FSA's SPDs Did Not Follow Established Processes to Assess Liabilities for IHEs that Closed

While FSA had processes for its eight SPDs to determine whether liabilities should be assessed against IHEs that closed, we found that they were not always followed. Specifically, five of seven sampled SPDs[16] did not always complete the processes to determine liabilities timely and performed some other assessment activities in a manner that was inconsistent with established guidance.

To assess FSA's processes, we reviewed 19 of the 161 IHEs that closed during the period of our review, October 1, 2020, through September 30, 2023.

- For the processes relating to close-out audits and alternative liability assessments, we found that for 3 of 19 closed IHEs (16 percent), the SPDs did not assess liabilities timely and for 5 of the 19 closed IHEs (26 percent), the assessment activities performed were inconsistent with established guidance. For the other 11 of 19 closed IHEs (58 percent), the SPDs followed the established liability assessment processes.
- For the processes related to FSA's Closed School Loan Discharge Program Reviews, we found that 7 of the 19 closed IHEs (37 percent) were not assessed closed school loan discharge liabilities timely. For the other 12 of 19 closed IHEs (63 percent), FSA determined that 7 did not require a Closed School Loan Discharge Program Review, 2 had a review completed timely, and the review was pending for 3 IHEs.
- We found the Department followed established processes when recouping liabilities from all eight closed IHEs for which liabilities were recouped (full recoupment from seven of the IHEs, partial recoupment from one IHE).

Untimely assessments of liabilities for IHEs that close increase the risk that the Department will be unable to recoup the debt. Inconsistent compliance with FSA's established guidance led to variations in the SPDs' liability assessment processes and processing time frames.

[16] The sample of closed IHEs we selected and reviewed did not include a closed IHE from one of the eight SPDs. As such, that one SPD was not included in our review.

FSA's Close-out Audit and Alternative Liability Assessment Processes Were Not Followed

Of the 19 closed IHEs we reviewed, 8 IHEs were subject to the audit resolution process for close-out audits and 8 IHEs were subject to an alternative liability assessment process since they did not submit a close-out audit.[17] We found that 3 of the 7 SPDs included in our review did not complete the close-out audit resolution and alternative liability assessments timely for 3 of the 19 IHEs (16 percent) we reviewed and did not follow the established processes for 5 of the 19 IHEs (26 percent).

- Two of the seven SPDs did not always perform required processes timely for three IHEs that closed. We found that one draft final audit determination letter was completed 15 months after the established time frame and two preliminary audit determinations letters associated with missing close out audits were completed more than 6 months after the established time frame. Liabilities of about $740,000 were ultimately assessed for these three IHEs.

- Three of seven SPDs did not always perform liability assessment activities in a manner that was consistent with FSA's established guidance for five IHEs that closed. The SPDs also did not always perform required processes for these closed IHEs timely. This included four instances where the SPDs used methods other than preparing a preliminary audit determination letter or Missing Audit PRR to notify IHEs that they had not submitted a required close-out audit timely. These alternate notification activities were performed by the SPDs between 6–37 months after the 91-day established time frame. We also found one instance where a close-out audit was mistakenly archived in an audit management system instead of being sent through the audit resolution process. As of June 2024, the SPD had not issued the draft final audit determination for the related close-out audit. This was 5 months after the established time frame for completion.

According to the Compliance Audit Procedures, dated September 30, 2021, and updated October 1, 2022, FSA SPDs are required to perform audit resolution on close-out audits

[17] The other 3 of the 19 IHEs we reviewed were either undergoing a program review or had just submitted its annual audit prior to closure and therefore did not require a separate close-out audit or alternative liability assessment.

for closed IHEs and prepare a draft final audit determination letter within 6 months after receipt of the close-out audit.[18]

For an IHE that did not submit a close-out audit within 90 days after its closure, FSA's procedure through September 30, 2022, was for the SPD to send the IHE a Preliminary Audit Determination letter requesting that all unaudited Title IV program funds be returned to the Department if a close-out audit was not submitted within 30 days after receipt of the letter.

FSA's procedure after September 30, 2022, states that if an IHE fails to submit a required close-out audit within 90 days after the date of closure, the SPD will issue the Missing Audit PRR 91 days after the IHE's closure. The report requests the close-out audit be submitted within 30 days of the report or the IHE will be required to repay to the Department the total amount of unaudited Title IV program funds the IHE received. If the IHE does not provide the close-out audit within the report's specified time frame, FSA issues a Missing Audit FPRD letter to the IHE.

FSA's Closed School Loan Discharge Program Review Liability Assessment Processes Were Not Followed

For FSA's Closed School Loan Discharge Program Reviews, which are used to determine liabilities that closed IHEs may owe due to student loan discharges, we found that 4 of the 7 SPDs did not perform required processes timely for 7 of the 19 closed IHEs (37 percent). The SPDs for 4 of the 7 IHEs issued the PRR to the IHEs 1 to 14 months after the required 13-month time frame. Student loan discharge liabilities in the amount of $23,756,656 were assessed for these 4 IHEs. As of June 2024, the Closed School Loan Discharge Program Reviews for the other three IHEs were in process. Therefore, as of June 2024, it has been 12 and 14 months past the required 13-month time frame for 2 of the 3 IHEs; and 3 months past the required 15-month time frame for the remaining IHE.[19]

FSA's procedures in place through September 30, 2022, instructed the SPD to assess student loan discharge liabilities as part of the close-out audit process or alternative liability assessment process.[20] Then, 12 months after the IHE closed, SPDs were required to perform a program review to determine whether additional student loan discharges

[18] These same procedures were in effect during the beginning of our scope period, October 1, 2020.

[19] The required time frames depend on when the IHE closed, either before or after September 30, 2022, due to a change in procedures that took place on October 1, 2022.

[20] FSA Program Review Procedures dated November 15, 2019, and updated January 31, 2021.

had occurred. If additional student loan discharges were $10,000 or more, the SPD was to issue a PRR to the IHE and within 30 calendar days of the review, issue an FPRD that contained the closed school loan discharge liabilities. [21]

The procedure FSA had in place after September 30, 2022, instructed the SPD to issue the PRR 15 months after the IHE closed.[22] Additionally, "OGC Guidance for Discharge Cases" states PRRs for closed school loan discharges are issued 15 months after an IHE closes.[23]

The U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (*September 2014)[24] section 12.05 states that management should periodically review policies, procedures, and related control activities 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. Additionally, section 10.03 states that management should design appropriate types of control activities for the entity's internal control system. Such control activities may include management reviews of actual performance, reviews by management at the functional or activity level, and the establishment and review of performance measures and indicators.

FSA officials explained why the actions SPDs took regarding liability assessments for the closed IHEs in our sample did not follow established processes. One explanation was that SEOSG has lost more than 150 staff over the last 5 to 7 years without replacement of those positions, while the work continues to increase. Another explanation was that SEOSG takes a risk-based approach to its work so that higher priorities are addressed first. They explained that given the lower risk that closed IHEs represent in SEOSG's work and higher competing priorities, assigning additional staff to Missing Audit PRRs and PRRs for closed school loan discharges would not reflect FSA's risk-based approach. Additionally, the SEOSG Director stated that the delay in issuing reports was due to staffing resources and a priority being placed on open IHEs to better assist students. She stated each SPD has approximately four people who conduct program reviews. She

[21] FSA Program Review Procedures dated November 15, 2019, and updated January 31, 2021.

[22] FSA Program Review Procedures dated October 1, 2022.

[23] The guidance does not have an effective date.

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

explained that four staff is insufficient to conduct the necessary program reviews and that this issue has been shared with senior leadership.

Additionally, when we asked FSA whether they had formal controls that require the branch chief or division chief to ensure SPD staff complete close-out audit resolution, Missing Close-Out Audit Program Reviews, and Closed School Loan Discharge Program Reviews timely and in accordance with procedures, the SEOSG director stated that there are no internal reports that are run by the SPDs to ensure the processes are completed in accordance with the time frames required under the procedures.

The untimely assessments of liabilities for IHEs that close increases the risk that the Department will not be able to recoup the debt. Department officials stated that once the IHE closes there are often few assets the IHE has available to pay the liabilities. Therefore, untimely assessments of the IHE's liabilities increase the risk that a closed IHE will run out of resources by the time the Department informs the IHE about its debt. When IHE debts are not recouped, taxpayers are adversely affected because their tax dollars are not recovered and used appropriately.

Also, not performing liability assessments in accordance with established processes results in SPDs conducting assessments inconsistently among IHEs that close and produces differing processing time frames, which could affect the timeliness of the Department's assessment and recoupment of the liabilities.

Recommendations

We recommend that the Acting Chief Operating Officer for FSA—

2.1 Develop and implement controls to ensure policies and procedures related to the time frames for draft final audit determination letters for close-out audits, Missing Audit PRRs, and PRRs for closed school loan discharges are followed and completed timely, including updating policies and procedures to reflect the risk-based approach FSA uses to prioritize its oversight of IHEs participating in Title IV programs.

2.2 Establish and review performance measures and indicators for the timely issuance of draft final audit determination letters for close-out audits of closed IHEs, Missing Audit PRRs, and PRRs for closed school loan discharges.

2.3 Evaluate whether the staffing level assigned to final audit determinations for close-out audits of closed IHEs, Missing Close-Out Audit Program Reviews, and Closed School Loan Discharge Program Reviews is sufficient to timely and effectively assess liabilities for IHEs that close, and if not, develop and implement a plan of action to address the issue.

FSA Comments

FSA did not state whether it agreed or disagreed with the finding. However, FSA agreed with Recommendations 2.1 and 2.2, and generally agreed with Recommendation 2.3.

FSA stated that while it appreciates OIG's inclusion of FSA challenges in the finding, it believes that additional information is needed to provide perspective on the magnitude of closed IHEs' liabilities in relation to the Title IV funds administered by FSA during award years 2020–2021 through 2022–2023. Specifically, FSA noted that the level of liabilities at closed IHEs represented approximately 0.01 percent of the over $331 billion in Title IV funds FSA administered during that period.

FSA agreed with Recommendation 2.1 and stated that it will evaluate its policies and procedures in line with the risks posed to FSA by closed IHEs versus other risks FSA faces.

FSA agreed with Recommendation 2.2 and stated that it will review its performance measures and indicators in line with the risks posed to the Department by closed IHEs.

FSA generally agreed with Recommendation 2.3 and stated that the evaluation of staffing levels and assignments will be based on FSA's risk approach to oversight, and what it determines in accomplishing its corrective actions for Recommendations 2.1 and 2.2.

OIG Response

We did not make any changes to the finding based on FSA's comments. While the $331 billion in Title IV funds that FSA stated it administered in conjunction with the Department for award years 2020–2021 through 2022–2023 generally align with the inspection period, we did not obtain or review data related to this amount. Our inspection focused on the Department's processes for assessing and recouping liabilities from IHEs that closed. As such, the Department's processes for assessing and recouping liabilities from IHEs that closed are not applicable to the population of IHEs that have not closed. FSA reports that more than 5,400 active IHEs participated in Federal student aid programs as of September 30, 2023. FSA's proposed actions, if planned and implemented appropriately, are responsive to our recommendations.

Finding 3. FSA Did Not Send Required Notifications on the Closure or Pending Closure of IHEs

We found that four of the seven sampled SPDs did not comply with FSA's closed school procedures (Standard Procedures) that require FSA stakeholders[25] to be notified of an IHE's closure or pending closure. We also found that all of the seven sampled SPDs did not comply with FSA's compliance audit procedures that required the SPD's Audit Resolution Specialist to, within 10 business days after an IHE's closure, send the IHE a reminder of the requirement to submit a letter of engagement for a close-out audit. Weaknesses in these communication processes increase the risk of loss of Federal funds.

Required Notices to Appropriate Stakeholders Regarding the Closure or Pending Closure of IHEs

From our review of 19 IHEs that closed, we found that the closures of 13 of the IHEs (68 percent) were planned closures in which the IHE notified the SPD, while the remaining 6 (32 percent) were not planned and the SPDs were not notified by the IHE. However, upon receipt of notices of the IHE's intent to close for 7 of the 13 (54 percent) planned IHE closures, closed school analysts at 4 of the 7 sampled SPDs did not send notice to the appropriate FSA stakeholders, which should have included a copy of the Acknowledgement of Intent to Close letter.[26] This letter includes a confirmation of the IHE's intended closure date, a request for additional information regarding the closure, required closure steps, and request for a close-out audit.

Additionally, we found that for 4 of the 19 (21 percent) IHEs we reviewed, closed school analysts at the same 4 SPDs did not, upon notice or knowledge of the IHE's closure, send a Closed School Email Alert to the appropriate FSA stakeholders. Some of the information included in the alert includes the IHE's owner information, the effective date of the IHE's closure, and the IHE's accrediting agency information.

---

[25] The appropriate stakeholders include: (a) the SEOSG and Program Compliance Management, (b) the SPDs, (c) the SPD's Administrative Actions and Appeals Service Group (AAASG), (d) the Funds Management Division, (e) the Campus-Based Program Staff, and (f) FSA's Communications and Outreach. In addition, a copy of this email or initial notification must also be sent to the State Authorizing Agency, Accrediting Agency, Guarantee Agency, Direct Loan Servicers, and Third-Party Servicers, as applicable.

[26] This letter is initially sent to the IHE when the Department is made aware of a closure.

Sending these two notices to appropriate FSA stakeholders is important because there are actions the stakeholders take when they receive them to mitigate the risk that Federal funds will be lost. Some of those actions may include:

- changing the IHE's method of payment to stop pay or route pay, to prevent the drawing of Title IV program funds,
- watching for the IHE's close-out audit to make sure it is received timely,
- identifying and resolving the IHE's existing issues with Title IV program loan funds before closure,
- assisting the IHE with final payment processing and reconciliation activities,
- resolving any audits or program reviews of the IHE that still have pending items to address,
- researching the IHE's Title IV program eligibility status, and
- determining whether the IHE has unresolved Title IV program fund balances.

According to section 7.1 of FSA's Standard Procedures, issued on August 6, 2014, and updated on August 14, 2020, for IHEs that notify the Department of their intention to close, the SPD closed school analyst will send the Acknowledgement of Intent to Close letter to the IHE with preparatory steps that need to be completed prior to the actual closure, to reduce the risk of loss of Federal funds. As part of this notification process, FSA's closed school procedures require SPD closed school analysts to create an email with subject line "Acknowledgement of Intent to Close," including the IHE name and Office of Postsecondary Education Identification Number (OPEID).[27] Upon being made aware of a planned or actual closure, an email must be sent, by the SPD closed school analyst, to the IHE's president, chancellor, owner, or chief executive officer and a copy to FSA closed school stakeholders to ensure that the notification of the IHE's intent to close has been made to all involved parties.

In addition, section 8.1.1.1 of FSA's Standard Procedures states that the SPD closed school analyst will send a "Closed School Email Alert," which is the initial notification to FSA stakeholders. The email serves to announce the closure, provide known details about the school, state that the closed school case review has started but is not complete, and request recipients to notify the SPD closed school analyst of any

---

[27] An OPEID is the identification number used by the Department's Office of Postsecondary Education to identify IHEs that have Program Participation Agreements so that students are eligible to participate in the FSA programs under Title IV regulations.

knowledge of substantiative issues at any other school with the same owner(s) or official(s).

Required Close-Out Audit Reminder Letter to IHEs That Closed

We found that for 10 of the 19 (53 percent) closed IHEs we reviewed, the 7 sampled SPDs did not send Close-Out Reminder letters to the IHEs timely. The Close-Out Reminder letters were sent 3-months, on average, past the required 10 business day timeframe. For the remaining nine IHEs, SPDs were either timely in submitting the Close-Out Reminder letter (eight IHEs) or a letter was not required (one IHE).

Sending the Close-Out Reminder letter to IHEs timely is important because the information that is included in the letter is time sensitive. Some of the information in the letter includes a reminder to submit a close-out audit within the required time frame, a request for additional information necessary for the Department to process the IHE's loss of Title IV program eligibility, guidance on returning unexpended funds, and information regarding the immediate HCM change applicable to the IHE.

According to FSA's compliance audit procedures,[28] the closed school analyst must send a Closed School Reminder letter to the IHE within 10 business days of notification of the closure. This letter advises the IHE of its responsibility to submit a letter of engagement for an independent audit to be performed on its Title IV program funds within 45 days after its Title IV program participation ends and a close-out audit within 45 days after the date of the letter of engagement.

GAO's *Standards for Internal Control in the Federal Government* section 12.05 states that management should periodically review policies, procedures, and related control activities 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. Additionally, section 10.03 states that management should design appropriate types of control activities for the entity's internal control system. Such control activities may include management reviews of actual performance, reviews by management at the functional or activity level, and the establishment and review of performance measures and indicators.

[28] FSA Compliance Audit Procedures dated November 15, 2019, and updated October 30, 2020, September 30, 2021, and October 1, 2022.

FSA officials stated that the Acknowledgement of Intent to Close notice and Closed School Email Alert not being sent in accordance with policies and procedures is the result of FSA's priorities and staffing shortages in SEOSG. According to FSA officials, priority is given to open institutions to better assist students.

Additionally, the SPD division chiefs and SPD closed school analysts provided other explanations for the Acknowledgement of Intent to Close notice and Closed School Email Alerts not being sent to the FSA stakeholders and IHEs. Some of the explanations included

- the notification was not applicable (but the SPD did not explain why),
- they cannot find any evidence that the notifications were sent,
- lack of staffing causes occasional errors,
- a notice is only sent after the IHE has closed, and
- the notification procedures may be modified depending on the type of closure and how the SPD becomes aware of the closure.

The Director of the SEOSG stated that the processes established in FSA's closed school procedures that require the SPD closed school analysts to send acknowledgement notifications to the IHE and informational notifications to FSA staff when they become aware of a closure does not happen the same way for each IHE. The Director explained that the process to be executed depends on the particular situation. However, this assertion is not consistent with FSA's policies and procedures. Additionally, the Director stated that SEOSG is severely understaffed, and it is impossible for SEOSG to keep up with the demands of every single situation and every process when each IHE closure is unique. For the Close-Out Reminder, the SEOSG Director restated that SEOSG is severely understaffed and that staff serve in multiple roles.

When SPD closed school analysts do not send the Acknowledgement of Intent to Close notice and Closed School Email Alert to FSA stakeholders, the risk of loss of Federal funds is increased. Without receipt of those notifications, stakeholders may not know to initiate or complete actions such as immediately changing an IHE's method of payment, identifying and resolving the IHE's existing issues with Title IV program funds, and resolving any audits or program reviews of the IHE that have pending items that need to be addressed.

Additionally, when SPDs do not send the Close-Out Reminder letter to IHEs timely, IHEs may be late in submitting or may fail to submit its close-out audit. Without the receipt of the close-out audit, the liability assessment process is delayed, increasing the risk of Federal funds not being recovered and used appropriately.

Recommendations

We recommend that the Acting Chief Operating Officer for FSA—

3.1 Develop and implement controls to ensure SPD closed school analysts provide FSA closed school stakeholders with required notifications, including the Acknowledgement of Intent to Close notice and the Closed School Email Alert; or specify in its policies and procedures situations that do not require the notifications.

3.2 Evaluate whether the staff assigned to issue the Acknowledgement of Intent to Close notice, Closed School Email Alert, and Close-Out Reminder letter is sufficient to timely and effectively notify FSA closed school stakeholders and closed IHEs, and if not, develop and implement a plan of action to address the issue, including updating the policies and procedures to align with FSA's priorities, available staffing levels, and prescribed time frames as necessary.

3.3 Establish and review performance measures and indicators for the timely issuance of the Acknowledgement of Intent to Close notice, Closed School Email Alert, and Close-Out Reminder letters.

FSA Comments

FSA did not state whether it agreed or disagreed with the finding. However, FSA agreed with Recommendations 3.1 and 3.3 and generally agreed with Recommendation 3.2.

FSA stated that while it appreciates OIG's inclusion of FSA challenges in the finding, it believes that additional information is needed to provide perspective on the magnitude of closed IHE liabilities in relation to the Title IV funds administered by FSA during award years 2020–2021 through 2022–2023. Specifically, FSA noted that the level of liabilities at closed IHEs represented approximately 0.01 percent of the over $331 billion in Title IV funds FSA administered during that period.

FSA agreed with Recommendation 3.1 and stated that it will review its policies and procedures for any needed improvements based on the risks posed to FSA by closed IHEs versus other risks FSA faces.

FSA generally agreed with Recommendation 3.2 and stated that the evaluation of staffing levels and assignments will be based on FSA's risk approach to oversight and what it determines in accomplishing its corrective actions for recommendations 3.1 and 3.3.

FSA agreed with Recommendation 3.3 and stated that it will review its performance measures and indicators in line with the risks posed to the Department by closed IHEs.

OIG Response

We did not make any changes to the finding based on FSA's comments. While the $331 billion in Title IV funds that FSA stated it administered in conjunction with the Department for award years 2020–2021 through 2022–2023 generally align with the inspection period, we did not obtain or review data related to this amount. Our inspection focused on the Department's processes for assessing and recouping liabilities from IHEs that closed. As such, the Department's processes for assessing and recouping liabilities from IHEs that closed are not applicable to the population of IHEs that have not closed. FSA reports that more than 5,400 active IHEs participated in Federal student aid programs as of September 30, 2023. FSA's proposed actions, if planned and implemented appropriately, are responsive to our recommendations.

Other Matter. Backlog of Flagged Financial Statement Audits of IHEs

In our review of 19 IHEs that closed during the period October 1, 2020, through September 30, 2023, we came across an IHE whose flagged financial statement audits were not reviewed timely by FSA's SPD. The SPD division chief informed us of FSA's backlog of financial statement audits that have been flagged by eZ-Audit[29] as requiring a financial analysis review by one of FSA's SPD financial analysts. According to FSA, as of March 2023, the backlog of unprocessed flagged financial statement audits was 1,043. The SPD division chief explained that there are not enough financial analysts or supervisors to do the financial analysis work and that the backlog is known at all levels of FSA. He explained that if they cannot review financial statement audits timely, IHEs that are at a higher risk of closure may not be reviewed for 6 to 9 months which creates missed opportunities to implement financial protections when necessary.

This was evident with 1 of the 19 IHEs we reviewed. For this IHE, FSA's SPD was not timely in completing the financial analysis process on the IHE's annual financial statement audits for two years, fiscal year (FY) 2021 and FY 2022. FSA's procedures require that financial analysts process flagged financial statement audits within 90 calendar days from the date the flagged audit is received from FSA's eZ-Audit contractor. According to a SPD division chief, the IHE's FY 2021 and FY 2022 financial statement audits were sent to the SPD's queue on September 19, 2022, and April 3, 2023, respectively. Both audits were flagged and put in the SPD's queue to go through the financial analysis process because the IHE had a failing composite score. Failing composite scores would trigger the SPD to obtain an LOC or other financial protection from the IHE for each year the score falls below the threshold. The SPD did not complete its review of either of the audits until November 2023 (7 to 14 months after receiving them in the queue), which was well beyond the 90-day required time frame. Because the IHE closed in August 2023 and the SPD had not completed its financial analysis review of the two audits by that time, the SPD may have missed the opportunity to request an additional LOC for each of those two years. The Closed School Loan Discharge Program Review for this closed IHE was not required to be performed as of June 2024 (the IHE closed less than 15 months ago) so it is not known whether the IHE will be assessed any student loan discharge liabilities. If FSA later determines that the IHE owes a significant amount in liabilities but does not have the means to pay, FSA

[29] The eZ-Audit system is a web application that provides schools with a paperless, single point of submission for financial statements and compliance audits.

will have missed an opportunity to collect the debt using an LOC that could have been put in place had the financial analysis been completed timely.[30]

FSA provided a plan to our team, dated March 2023, that is supposed to aid in reducing the backlog of unprocessed flagged financial statement audits. FSA plans to use a risk-based approach to identify and categorize the audits by risk level, with higher-risk audits receiving a normal review and lower-risk audits receiving a modified review.[31] FSA expects the plan to create some efficiencies of operations and better target resources toward riskier IHEs.

We suggest that the Acting Chief Operating Officer of FSA consider and implement alternative methods to reduce the number of flagged financial statement audit backlogs so that those IHEs receive appropriate oversight.

[30] There is an LOC that was obtained by the IHE in a previous year for approximately $1.8 million (due to failing composite scores, doubt about the IHE's ability to continue as a going concern, and failure to meet debt covenants), that could possibly be applied if necessary.

[31] Under a modified review, the analyst would perform some of the following actions: notify the IHE of issues regarding future submissions, update financial protections for issues other than failed composite scores, or release prior year conditions that have been resolved.

Appendix A. Scope and Methodology

To answer our objective, we reviewed relevant laws, regulations, and guidance related to the Department’s processes for assessing and recouping liabilities from IHEs that closed. Specifically, FSA’s compliance audit, program review, financial analysis, closed school, and appeals procedures; and OFO’s guidance on establishing and collecting IHE debt that were in effect for the period we reviewed, October 1, 2020, through September 30, 2023. Additionally, we reviewed documentation that identified the IHEs that closed during our review period and the amount of liabilities FSA assessed against those closed IHEs. We selected and reviewed a sample of closed IHEs to determine the oversight FSA provided prior to their closure, and whether FSA and the Department followed required processes to assess and recoup liabilities in accordance with policies and procedures and applicable requirements. We also held discussions with FSA and Department officials responsible for overseeing and monitoring IHEs, carrying out processes for assessing and recouping liabilities from IHEs that close, and handling the appeals process for closed IHEs that appeal their assessed liabilities.

We performed the work for this review from February 2024 through July 2024. We discussed the results of our review with FSA, OFO, OGC, and Office of Postsecondary Education officials on July 18, 2024.

Sampling Methodology

The universe of IHEs that closed during FYs 2021, 2022, and 2023 (covering the period October 1, 2020, through September 30, 2023) is 161 IHEs. From the 161 IHEs, we selected a sample of 19 IHEs for review (12 percent) using a combination of a judgmental selection and a stratified, nonstatistical, random sampling design.

From the 161 closed IHEs, we selected 1 IHE judgmentally, based on the IHE having the largest reported assessed liability (over $5 million). We selected the other 18 IHEs from the remaining 160 closed IHEs, using a stratified, nonstatistical, random sampling design. The strata consisted of the following three subpopulations:

1. Subpopulation 1: 41 IHEs with reported assessed liabilities less than $5 million. We selected a random sample of 10 IHEs.

2. Subpopulation 2: 54 IHEs with no reported assessed liabilities and with a closed date more than 15 months before September 30, 2023.[32] We selected a random sample of 5 IHEs.

3. Subpopulation 3: 65 IHEs with no reported assessed liabilities and with a closed date less than 15 months before September 30, 2023.[33] We selected a random sample of 3 IHEs.

The selected sample of 19 IHEs was not designed to enable a projection to the population of IHEs; therefore, the results are only limited to the sample.

Use of Computer-Processed Data

We assessed the reliability of the various data described in this report, including data from FSA's Postsecondary Education Participants System,[34] Partner Connect system,[35] eZ-Audit, and the Department's Financial Management Support Systems.[36] We (1) assessed reliability by performing data verification and comparison of important data, such as IHE identifier data (i.e., closure date, location, and OPEID number), IHE account receivables that OFO established, invoice transactions related to IHE assessed liabilities, LOC records, and program review data; (2) reviewed existing information about the data (i.e., LOC information, method of payment changes, and prior program reviews) and the system that produced them; and (3) interviewed FSA and OFO officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of our inspection.

---

[32] This stratum was developed based on FSA's Program Review Procedures dated October 1, 2022, that state SPDs will wait 15 months after an IHE closes to issue the PRRs for closed school loan discharges.

[33] This stratum contained all other IHEs that were not included in Subpopulation 1 and Subpopulation 2.

[34] The Postsecondary Education Participants System is FSA's management information system that maintains eligibility, certification, demographic, financial, review, audit, and default rate data about schools, lenders, and guarantors participating in Title IV programs.

[35] Partner Connect is a unified digital website for school partners, financial institution partners, FSA staff, and contractors involved in the administration of Title IV financial aid for postsecondary education.

[36] Financial Management Support System is the primary accounting system to monitor and process accounts receivable.

Compliance with Standards

We conducted our work in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) "Quality Standards for Inspection and Evaluation." Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to support our findings and provide a reasonable basis for our conclusions. We believe that the evidence obtained provides a reasonable basis for our conclusions.

Appendix B. Acronyms and Abbreviations

C.F.R.	Code of Federal Regulations
CRS	Centralized Receivables Service
Department	U.S. Department of Education
FPRD	Final Program Review Determination
FSA	Federal Student Aid
FY	fiscal year
HCM	Heightened Cash Monitoring
HEA	Higher Education Act of 1965, as amended
IHE	Institution of Higher Education
LOC	Letter of Credit
Missing Audit PRR	Missing Close-Out Audit Program Review Report
Missing Audit FPRD	Final Program Review Determination Missing Close-Out Audit—Pay It All Back
OFO	Office of Finance and Operations
OGC	Office of General Counsel
OPEID	Office of Postsecondary Education Identification Number
PRR	Program Review Report
SEOSG	School Eligibility and Oversight Service Group
SPD	School Participation Division
Treasury	U.S. Department of Treasury

FSA Comments

December 23, 2024

TO: Ms. Selina Boyd,
Director of the Elementary and Secondary Education Team
U.S. Department of Education Office of Inspector General

Mr. Jeffrey Nekrasz, Senior Advisor
Office of Inspector General
U.S. Department of Education

FROM: Margaret Glick
Acting Deputy Chief Operating Officer
Partner Participation and Oversight
Office of Federal Student Aid

SUBJECT: Draft Inspection Report, *U.S. Department of Education's Assessment and Recoupment of Liabilities from Closed Institutions of Higher Education*
Control Number ED-OIG/I24GA0163.

Dear Ms. Boyd and Mr. Nekrasz:

Thank you for the opportunity to review and comment on the Office of Inspector General ("OIG") Draft Inspection Report, *U.S. Department of Education's Assessment and Recoupment of Liabilities from Closed Institutions of Higher Education*, dated November 27, 2024 ("Draft Report").

OIG performed its inspection to determine the results of the Department's processes for assessing and recouping liabilities from IHEs that closed from October 1, 2020, through September 30, 2023. The draft report had three findings and an Other Matter. The first finding had no recommendations. Findings 2 and 3 each had three recommendations. The Other Matter had a suggestion for FSA to consider.

We appreciate the work performed on this inspection, and while we agree with the recommendations and the Other Matter, we believe that additional information needs to be included in a final report to provided users of the report with perspective on the magnitude of closed school liabilities in relation to the Title IV funds administered by the Department and FSA. For award years 2020-21 through 2022-23, the Department and FSA administered $331,137,135,264. While the award years run July 1, 2020,

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION
830 First Street, NE, Washington, DC 20202
StudentAid.gov

through June 30, 2023, and OIG's inspection period was October 1, 2020, through September 30, 2023, they are comparable to show the significance of closed school liabilities in relation to the Title IV programs the Department and FSA are responsible for overseeing. OIG identified $34,593,135 in closed school liabilities. This represents 0.01 percent of the Title IV funds administered by the Department and FSA.

In Appendix A. Scope and Methodology, OIG states that its samples were a combination of judgmental and nonstatistical random samples and that the results of its testing apply only to the samples selected and cannot be projected. We request that OIG clarify that testing results cannot and should not be projected to the populations from which samples were drawn within each finding where samples are discussed, as this will assist readers with understanding testing results. FSA also requests that OIG refrain from presenting percentages in the report, as these percentages imply that sample results and percentages can be projected to the population being discussed.

Please find our detailed response to the findings, recommendations, and Other Matter below.

Finding 1: Finding 1. The Department's Processes for Assessing and Recouping Liabilities from IHEs that Close

FSA Response: The Department agrees with this finding; however, we believe the first paragraph in the finding would be the appropriate place to add perspective on the magnitude of closed school liabilities as discussed above. This finding had no recommendations in the draft report.

Finding 2. FSA's SPDs Did Not Follow Established Processes to Assess Liabilities for IHEs that Closed.

FSA Response: We appreciate OIG including the challenges faced by FSA within this finding and believe perspective needs to be added that during award years 2020-21 through 2022-23 FSA administered over $331 billion in Title IV funds and the level of liabilities at closed schools represented approximately 0.01 percent of the Title IV funds administered by FSA during that period.

Recommendation 2.1: Develop and implement controls to ensure policies and procedures related to the time frames for draft final audit determination letters for close-out audits, Missing Audit PRRs, and PRRs for closed school loan discharges are followed and completed timely, including updating policies and procedures to reflect the risk- based approach FSA uses to prioritize its oversight of IHEs participating in Title IV programs.

FSA Response: FSA agrees with the OIG's recommendation and will evaluate its policies and procedures in line with the risks posed to FSA by closed schools versus other risks FSA faces.

Recommendation 2.2: Establish and review performance measures and indicators for the timely issuance of draft final audit determination letters for close-out audits of closed IHEs, Missing Audit PRRs, and PRRs for closed school loan discharges.

FSA Response: FSA agrees with the OIG's recommendation and will review its performance measures and indicators in line with the risks posed to the Department by closed schools.

Recommendation 2.3: Evaluate whether the staffing level assigned to final audit determinations for close-out audits of closed IHEs, Missing Close-Out Audit Program Reviews, and Closed School Loan Discharge Program Reviews is sufficient to timely and effectively assess liabilities for IHEs that close, and if not, develop and implement a plan of action to address the issue.

FSA Response: FSA generally agrees with this recommendation. The evaluation of staffing levels and assignments will be based on FSA's risk approach to oversight and what it determines in accomplishing its corrective actions for recommendations 2.1 and 2.2.

Finding 3: FSA Did Not Send Required Notifications on the Closure or Pending Closure of IHEs

FSA Response: We appreciate OIG including the challenges faced by FSA within this finding and believe perspective needs to be added that during award years 2020- 21 through 2022-23 FSA was responsible for administering over $331 Billion in Title IV funds and the level of liabilities at closed schools only represented approximately 0.01 percent of the Title IV funds administered by FSA during that period.

Recommendation 3.1: Develop and implement controls to ensure SPD closed school analysts provide FSA closed school stakeholders with required notifications, including the Acknowledgement of Intent to Close notice and the Closed School Email Alert; or specify in its policies and procedures situations that do not require the notifications.

FSA Response: FSA agrees with the OIG's recommendation and will review its policies and procedures for any needed improvements based on the risks posed to FSA by closed schools versus other risks FSA faces.

Recommendation 3.2: Evaluate whether the staff assigned to issue the Acknowledgement of Intent to Close notice, Closed School Email Alert, and Close-Out Reminder letter is sufficient to timely and effectively notify FSA closed school stakeholders and closed IHEs, and if not, develop and implement a plan of action to address the issue, including updating the policies and procedures to align with FSA's priorities, available staffing levels, and prescribed time frames as necessary.

FSA Response: FSA generally agrees with this recommendation. The evaluation of staffing levels and assignments will be based on FSA's risk approach to oversight and what it determines in accomplishing its corrective actions for recommendations 3.1 and 3.3

Recommendation 3.3: Establish and review performance measures and indicators for the timely issuance of the Acknowledgement of Intent to Close notice, Closed School Email Alert, and Close-Out Reminder letters.

FSA Response: FSA agrees with the OIG's recommendation and will review its performance measures and indicators in line with the risks posed to the Department by closed schools.

The OIG included an "Other Matter" in the draft report titled, *Other Matter. Backlog of Flagged Financial Statement Audits of IHEs.*

FSA Response: FSA agrees with the Other Matter. As OIG identified, FSA has a process for evaluating and assigning risk to flagged financial statements so that those flagged financial statements posing the greatest risk to the Department are prioritized. We acknowledge the significant staffing shortage within the Financial Analysis Division and the need for additional staff to address the backlog of flagged financial statements, as well as the ability to timely process flagged financial statements audits in the future. FSA will evaluate OIG's suggestion to consider alternative methods to reduce the number of flagged financial statements audits backlogged. There are many competing needs for resources within FSA, and we will assess risks and needs across the enterprise to determine optimal resource allocation.

Thank you for the opportunity to respond to the recommendations outlined in this OIG draft report. We appreciate the time and the effort inspecting this issue, as well as the opportunity to comment.

Sincerely,

[redacted]

Margaret Glick
Acting Deputy Chief Operating Officer
Partner Participation and Oversight
Office of Federal Student Aid