

OFFICE OF
INSPECTOR GENERAL

Report of Audit

FCA's Student Loan
Repayment Program
A-13-02

Auditor in Charge
Tammy Rapp

Issued September 23, 2013



FARM CREDIT ADMINISTRATION



September 23, 2013

The Honorable Jill Long Thompson, Board Chair and Chief Executive Officer
The Honorable Kenneth A. Spearman, Board Member
The Honorable Leland A. Strom, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Board Chair Long Thompson and FCA Board Members Spearman and Strom:

The Office of Inspector General (OIG) completed an audit of the FCA's Student Loan Repayment Program. The objective of this audit was to determine the effectiveness of controls related to student loan repayment benefits.

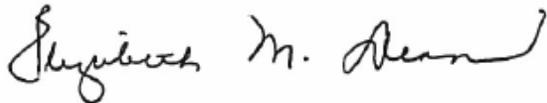
We determined the Agency's policy governing student loan repayment benefits is generally consistent with related laws and regulations; however varying levels of compliance with the policy and its controls have evolved over time.

We would like to highlight the cooperative actions of the Office of Management Services (OMS) to address issues identified during the audit. OMS quickly initiated changes and took the following actions prior to issuing this final report:

1. Senior management and the Chief Operating Officer (COO) evaluated the student loan repayment program and determined it was not consistently achieving its intended goal of recruiting highly skilled candidates;
2. Alternative tools were identified by OMS to assist with recruiting efforts and provide incentive to a larger pool of candidates.
3. As a result of the evaluation performed by OMS, the COO suspended the student loan repayment program; and
4. FCA agreed to improve internal controls and documentation for outstanding student loan repayment commitments.

We appreciate the courtesies and professionalism extended to OIG staff by OMS personnel. If you have any questions about this audit, I would be pleased to meet with you at your convenience.

Respectfully,

A handwritten signature in black ink that reads "Elizabeth M. Dean". The signature is written in a cursive style with a large initial "E" and a long, sweeping underline.

Elizabeth M. Dean
Inspector General

Enclosure

Audit of FCA's Student Loan Repayment Program



Report #A-13-02

Farm Credit Administration
Office of Inspector General

September 23, 2013

Table of Contents

Introduction and Background	3
Objectives, Scope, and Methodology	5
Overall Conclusion	7
Governing FCA Policy: PPM 852	8
Observations:	
1. Nomination forms	9
2. Maximum \$ benefit	11
3. Gross Benefit vs. Net Payment	12
4. Installment payments	13
5. Approvals	14
6. Independent verification of student loan documentation	16
7. Service requirement	17
8. Internal reporting	19
9. Agreed-upon actions	20

Introduction and Background

Related Laws & Regulations:

- ▶ Section 5379 of Title 5, United States Code
- ▶ Part 537 of Title 5, Code of Federal Regulations

“The Federal student loan repayment program permits agencies to repay Federally insured student loans as a recruitment or retention incentive for candidates or current employees of the agency. The program implements 5 U.S.C. 5379, which authorizes agencies to set up their own student loan repayment programs to attract or retain highly qualified employees.”¹

Part 537 of Title 5, Code of Federal Regulations, implements 5 U.S.C. § 5379 and contains the following provisions:

- ▶ *§ 537.103 describes the elements that must be included in a student loan repayment plan before providing these benefits.*
- ▶ *§ 537.104 and § 537.108 provides criteria for employee eligibility and ineligibility.*
- ▶ *§ 537.105 describes criteria before authorizing benefit payments.*
- ▶ *§ 537.106 provides conditions and procedures for providing student loan repayment benefits.*
- ▶ *§ 537.107 requires a service agreement and conditions to be included.*
- ▶ *§ 537.109 provides for reimbursement to the government if certain conditions are not met.*
- ▶ *§ 537.110 requires documentation to be maintained and reporting to Office of Personnel Management (OPM).*

¹ <http://www.opm.gov/policy-data-oversight/pay-leave/student-loan-repayment/>

Introduction and Background

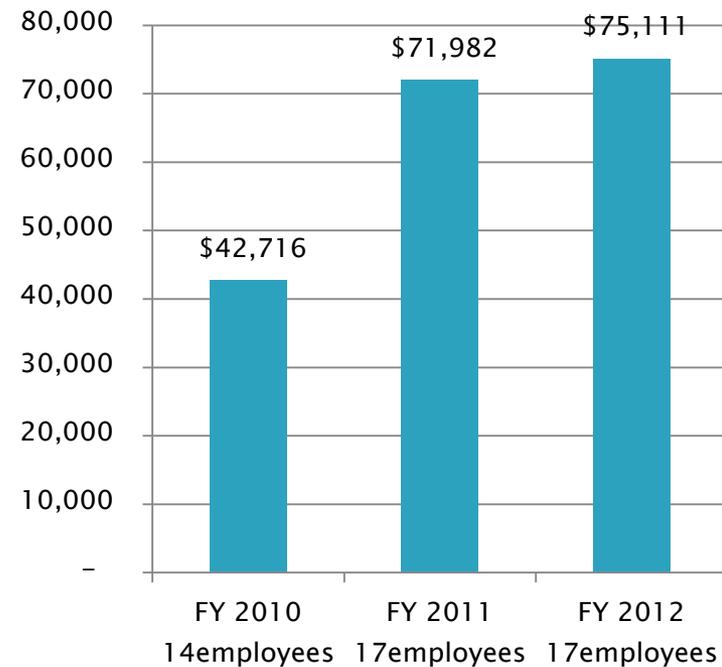
FCA Student Loan Repayment Benefits: Fiscal Year (FY) 2010 – FY 2012

- ▶ \$189,809
- ▶ 35 employees*

Positions:

- ▶ Examiners
- ▶ Information Technology Specialists
- ▶ Financial Analysts
- ▶ Client Services Specialists

Student Loan Repayment Benefits



*Some employees received installment payments.

Objectives, Scope, and Methodology

Objective:

- ▶ Determine the effectiveness of controls related to student loan repayments.

Scope and Methodology:

- ▶ Student loan repayment benefits
- ▶ FY 2010 – FY 2012
- ▶ Performed the following procedures:
 - Identified and reviewed related laws, regulations, and Agency policies and procedures
 - Identified payments made for student loan repayment benefits
 - Reconciled data provided by Finance Team and Human Resources (HR) Specialists
 - Conducted interviews with HR Specialists, Supervisory HR Specialist, Deputy Chief Financial Officer (CFO), former Chief Human Capital Officer (CHCO), current CHCO/CFO/Director Office of Management Services (OMS)
 - Examined related documentation for compliance with applicable policies and procedures
 - Identified significant internal control processes and determined if they were operating effectively
 - Reviewed Farm Credit Administration's annual reports provided to OPM

Objectives, Scope, and Methodology

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

Management is responsible for developing and maintaining effective internal controls. We reviewed internal controls identified as significant to the audit objectives. Internal control weaknesses identified and respective recommendations are presented in this report.

This audit was performed at the FCA Headquarters in McLean, Virginia, from February through July 2013. At the conclusion of this audit, we provided management with a draft report of our observations and held an exit conference on August 1, 2013.

Overall Conclusion

FCA PPM 852: Student Loan Program

- Issued September 2002
- Generally consistent with Part 537 of Title 5, Code of Federal Regulations
- Contains several controls
 - Nomination form required for approval
 - Maximum \$ benefit per employee and per year
 - Various approvals required
 - Independent verification with lender of student loan balances
 - Requirement for FCA service commitment following FCA loan repayment
 - Internal reporting with findings and recommendations for the program

In practice, varying levels of compliance with controls evolved over time.

FCA took the following actions to address issues identified during the audit:

- Senior management and the Chief Operating Officer (COO) evaluated the student loan repayment program and determined it was not consistently achieving its intended goal of recruiting highly skilled candidates.
- Alternative tools were identified by OMS to assist with recruiting efforts and provide incentive to a larger pool of candidates.
- In a September 12, 2013 memorandum, the COO suspended the student loan repayment benefit program.
- OMS agreed to improve internal controls and documentation for outstanding student loan repayment commitments.

Governing FCA Policy: PPM 852

Authority based on 5 U.S.C. § 5379 and 5 C.F.R. Part 537

- ▶ Generally consistent with authorities cited
- ▶ According to the former CHCO, PPM 852 refers to “incorrect” authorities due to FCA’s statutory exemption from Subchapter III of Chapter 53, Title 5, United States Code

Changes in practices deviated from PPM 852

- ▶ Alternative practices were not approved by Chairman and Chief Executive Officer (CEO)

Differences identified between PPM and authorities cited

- ▶ Federal transfers
 - *§ 537.105 prohibits student loan repayment benefits to recruit a current Federal employee*
 - PPM 852 does not address Federal transfers
 - FCA recruited an employee who transferred from another Federal agency. This employee received student loan repayment benefits they were not entitled to under § 537.105.
 - In the future, FCA will not authorize student loan benefits for current Federal employees recruited
- ▶ Record retention
 - *§ 537.110 requires records to be maintained a minimum of three years from the end of the service period*
 - PPM 852 requires records to be maintained for a period of three years
 - The record retention period in the PPM is three years shorter than required by *§ 537.110*.

Nomination Form

Part 537, Title 5, CFR

“The written determination must show the employee (or job candidate) meets the criteria specified in §537.105.”

FCA Policy: PPM 852

“...must be made in writing and must include the basis for the recommendations and the proposed amount to be paid.”

FCA uses a nomination form which includes the following attributes:

- ▶ Employee Name, Position, and Grade
- ▶ Required period of service
- ▶ Name and address of loan holder and loan repayment amount
- ▶ Terms of repayment and proposed payment
- ▶ Initial request or renewal
- ▶ Management certification and justification for benefit
 - Retention of current employee
 - i.e. “high or unique qualifications of the employee”
 - Recruitment of new employee
 - i.e. “difficulty in filling the position with a highly qualified candidate”
- ▶ Approvals

Nomination Form

Observations:

- ▶ All student loan repayment benefits were supported by a completed nomination form.
- ▶ No annual extensions or renewals were prepared.
 - PPM 852: “A determination to extend the benefit for retention purposes must be submitted annually.”
 - For remaining student loan repayment commitments, OMS will make one payment in lieu of multiple eliminating need for annual renewal
- ▶ Most justifications for the benefit were weak and did not describe how the nominee was highly qualified.
 - PPM 852: Approval based on either filling a position with a highly qualified candidate or retaining an employee with high or unique qualifications
 - Examples of justification on FCA nomination forms:
 - “authorized in vacancy announcement”
 - “Included as a recruitment benefit on the FCA website”

Maximum \$ benefit

Part 537, Title 5, CFR	FCA Policy: PPM 852
\$10,000/employee/year \$60,000/employee	\$10,000/employee/year \$60,000/employee

Observations in practice at FCA:

Maximum student loan repayment benefit paid per fiscal year

- \$9,000

Maximum student loan repayment benefit in total paid per FCA employee

- \$9,000

Student Loan Repayment Benefit

“The dollar value of this benefit is the gross amount credited to the employee at the time of a loan payment to the holder of the student loan before deducting any employee tax withholdings from that gross amount...” §537.102

<i>Tax withholdings required by §537.106 reduce student loan repayment benefit</i>	
Maximum Student Loan Repayment Benefit (gross)	\$9,000
Less Tax Withholdings	<u>-3,000</u>
Loan Payment to Lender (net)	\$6,000

Gross Benefit vs. Net Payment

Observations:

Gross student loan repayment benefit more than approved loan repayment benefit

- 3 cases where gross student loan benefit exceeded approved benefit
- Approved loan repayment benefit close to student loan balance (less than \$9,000)
- Net loan payment close to approved loan repayment benefit (difference likely due to interest)
- Gross student loan repayment benefit included withholdings

Inconsistent treatment when student loan balance was less than \$9,000

- Some gross benefits included withholdings (i.e., “gross up”)
- For remaining commitments, OMS will not “gross up” student loan repayment benefits

Examples for illustrative purposes	\$9,000 benefit	Balance less than \$9,000 (with gross up)	Balance less than \$9,000 (without gross up)
Student Loan Balance	>\$9,000	\$6,000	\$8,000
Approved Loan Repayment Benefit	\$9,000	\$6,000	\$8,000
Gross-Student Loan Repayment Benefit	\$9,000	\$9,000	\$8,000
Withholdings	<u>-3,000</u>	<u>-3,000</u>	<u>-3,000</u>
Net-Loan Payment to Lender	\$6,000	\$6,000	\$5,000

**Gross up - increasing the student loan benefit by required tax withholding to increase the net amount paid to the lender*

Installment Payments

Student loan benefit payments made direct to lender
Installment payments not addressed in PPM 852

Generally, paid in 3 installments to lender (prior to April 2012)

1. Security clearance granted
2. 1st year anniversary
3. 2nd year anniversary

Observations:

Inconsistent application of installment payments with the maximum benefit

- Office of Examination (OE)
 - 3 installments (FY 2010, 2011, 2012)
 - 2 installments (FY 2012)
- OMS
 - 3 installments (FY 2011)
 - 2 installments (FY 2010, 2012)
- Office of Regulatory Policy (ORP)
 - 1 installment (FY 2011)

For remaining student loan repayment commitments, OMS will make 1 payment (after security clearance obtained) in lieu of multiple installments over 2–3 years

Approvals

Part 537, Title 5, CFR	FCA Policy: PPM 852
“An authorized agency official must review and approve each written determination.”	Office Director Chief Operating Officer Director, OMS/CFO Office of General Counsel

Supporting forms inconsistent with PPM 852:

Nomination Forms:		
PPM 852 requires:	PPM 852 Attachment 1	SharePoint Form 488
Recommendation by Office Director	Certification by Office Director	Signature for Office Director
Approval by COO		Signature for Chief of Staff
Approval by Director, OMS		
Written concurrence of Office of General Counsel (OGC) and CFO		Space for review and concurrence of recommendations
	Chief Human Capital Officer	Chief Human Capital Officer

Approvals

Observations from nomination forms and service agreements:

▶ Approvals present:

- Office Director or OE Director, Staff Development Division
 - Delegation to OE Director, Staff Development Division, made by former CHCO
 - No written delegation from Chief Examiner to OE Director, Staff Development Division
- Former CHCO
 - Not required by the PPM

▶ Approvals/concurrences absent:

- COO
- OGC
- Director, OMS/CFO approval limited to OMS employees
- 4 service agreements without CHCO signature
- 1 service agreement without employee signature
- 1 of 35 service agreements missing

Independent Verification of Student Loan Balances

Part 537, Title 5, CFR

“...agency must verify with the holder of the loan...outstanding student loan that qualifies...verify remaining balances...”

FCA Policy: PPM 852

“OMS staff will verify outstanding student loan balances with the holder of the loan...outstanding student loan that qualifies...remaining balances...”

Observations:

- ▶ Verification was limited to review of documents provided by the employee
 - Documentation from various loan sources

Service Requirement

Length of service required on supporting form inconsistent with PPM 852:

- ▶ PPM 852 Attachment 2 – FCA Student Loan Repayment Service Agreement

§ 5379	§537.107	PPM 852 requires:	PPM 852 Attachment 2	SharePoint Form 489
“...remain in the service of the agency for a period specified in the agreement (not less than 3 years)...”	“The minimum period of service to be established under a service agreement is 3 years ...”	“...a written agreement to remain an employee with FCA for at least three years from the effective date of the first loan repayment.”	“...agree to remain an employee of the FCA for a period of two years from the date the first payment is made...”	“...agree to remain an employee of the FCA for a period of three years from the date the first payment is made...”

Observations:

- ▶ All FCA service agreements required a 2-year commitment
- ▶ Length of service requirement did not comply with PPM or related laws and regulations
- ▶ OMS revised PPM 852 Attachment 2 to reflect a 3-year commitment
- ▶ Change in length of service commitment not documented or approved by CEO
- ▶ Starting July 1, 2013, FCA required a 3-year commitment

Service Requirement

§537.109 and PPM 852 provide for waiver if service requirement not met

- ▶ “The COO, with the concurrence of the Office of the General Counsel and Director, OMS, may waive FCA’s right to recover a debt under this policy in whole or in part, if he or she determines that recovery would be against equity and good conscience or against the public interest.”

Observations:

- ▶ Waiver granted:
 - COO approval based on inaccurate information
 - No written concurrence by OGC or Director, OMS

Internal Reporting

PPM 852 states:

- ▶ Office of the Director, OMS
 - “Review use of the student loan repayment authority annually and report findings and recommendations to the Chairman and Chief Executive Officer and senior management”

Observations:

- ▶ No internal reports prepared for Chairman and CEO and senior management

Agreed-Upon Actions

1. OMS should update policies and procedures governing the student loan repayment benefit program.
 - In lieu of updating policies and procedures, FCA suspended the student loan repayment program.
2. OMS should identify and strengthen controls over the student loan repayment benefit program to ensure benefits are paid in accordance with agency policies and procedures.
 - Before issuance of this final report, OMS agreed to ensure all proper documentation has been completed and appropriate approvals are obtained for current student loan obligations. Additionally, OMS will independently verify student loan balances and discontinue the practice of “grossing up” student loan repayment benefits.
3. OMS should evaluate the student loan repayment benefit program to determine whether the program is meeting its intended objectives or needs modification.
 - OMS evaluated the existing student loan repayment benefit program and determined it was not consistently achieving its intended goal of recruiting highly skilled candidates.
 - Alternative tools were identified by OMS to assist with recruiting efforts and provide incentive to a larger pool of candidates.
 - In a September 12, 2013 memorandum, the COO suspended the student loan repayment benefit program.