

STATE OF FLORIDA
OFFICE OF THE AUDITOR GENERAL



***** PERFORMANCE AUDIT *****
OF THE ADMINISTRATION OF
STUDENT FINANCIAL AID PROGRAMS
BY
THE FLORIDA STUDENT
FINANCIAL ASSISTANCE COMMISSION

November 22, 1982



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Program Auditor



STATE OF FLORIDA
OFFICE OF THE AUDITOR GENERAL
TALLAHASSEE

ERNEST ELLISON, C. P. A.
AUDITOR GENERAL

November 22, 1982

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

I have directed that a performance audit be made of the administration of student financial aid programs by the Florida Student Financial Assistance Commission. The results of the audit are presented to you in this report. The audit was made as part of an ongoing program of performance auditing by the Office of the Auditor General as mandated by Section 11.45(3)(a), Florida Statutes, and in response to a proviso contained in the 1982 General Appropriations Act, Chapter 82-215, Laws of Florida.

Respectfully yours,

Ernest Ellison
Auditor General

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DEFINITIONS OF TERMS AS USED IN THIS REPORT:

Administrative Cost Allowance. Payments made by the U.S. Commissioner of Education to guarantee agencies for the purpose of meeting the administrative costs of guaranteed student loan program operations.

Claim. A lender's request for insurance repayment of a loss caused by the death, default, disability, or bankruptcy of a student borrower.

Delinquency. The failure of a borrower to make an installment payment when due. Under the FGSL Program a delinquent borrower may be declared to be in default if the delinquency persists after 60 days.

Deferment. An approved period in which the borrower is not required to make interest or principal payments on a loan. Deferments in the Guaranteed Student Loan program may be granted if the borrower meets one of a number of special conditions, including continued schooling, enlistment in the armed forces, Peace Corps, or Vista, or prolonged unemployment.

Direct Loan Program. A student assistance program in which a government agency issues loans directly to students.

DOE. The Florida Department of Education.

FGSL Program. The Florida Guaranteed Student Loan Program.

FSEAC. The Florida Student Financial Assistance Commission.

Forbearance. A benefit granted to a borrower in which payments are reduced, extended, or delayed when the payout schedule presents an undue burden to the borrower which, without relief, would result in default.

Guarantee Agency. A state or private nonprofit agency which administers a student loan insurance program.

Guarantee Loan Program. A student assistance program in which private lenders issue student loans which are guaranteed and subsidized by a governmental agency.

Insurance Premium. A fee paid by the student borrower on the disbursed amount of the loan to indemnify the Commission against losses caused by borrower default.

Loan Disbursement. The transfer of funds by a lender to a student borrower.

Preclaims (collection) Assistance. A service whereby the Commission, upon request, aids lenders in locating, contacting, and obtaining repayment from a borrower.

Skip-Tracing. Activities undertaken to locate a borrower who no longer has a valid address on file with the lender.

Work-Study. A program in which employment, usually part-time, is arranged for a student to provide work experience and defray the costs of education.

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I DESCRIPTION AND BACKGROUND

Program

The primary goal of Florida's comprehensive student financial aid program, as stated in Section 240.437(2), Florida Statutes, is to supplement the national student financial assistance program to provide "equal access to post high school education to Florida citizens who have the ability and motivation to benefit from a post high school education".

Student financial assistance programs have traditionally offered three types of aid: loans, which require repayment after exit from school; grants and scholarships, which do not require repayment; and work-study, under which part-time employment for students is arranged. Loan programs may be broken down into two categories: direct loan programs, in which the State or Federal government issues student loans, and guarantee loan programs, in which private lenders issue loans that are guaranteed and subsidized by a governmental agency.

Prior to 1972, the State operated a variety of direct loan programs which were usually funded through General Revenue appropriations and generally restricted to students entering specific professional areas such as teaching or nursing. A few State-funded scholarship and grant programs were also available. Most student

financial aid was offered by private financial institutions participating in the Federal Guaranteed Student Loan Program.

A significant expansion of the State's student financial assistance effort occurred in 1972 when a Constitutional amendment allowing the sale of revenue bonds for the purpose of providing student loans was approved. After approval of this Constitutional amendment, the State of Florida participated as a lender in the Federal Guaranteed Student Loan Program from 1972 to 1977. During this period, the State directly issued over \$77 million in loans to Florida citizens attending postsecondary institutions. The Federal government charged an insurance premium against each loan, provided collection services to supplement the State's efforts, and reimbursed the State for all losses caused by borrower death, default, disability, or bankruptcy.

A major shift in Florida's role in the operation of the student loan program occurred in 1977. A year earlier, Congress amended Federal law to induce states to assume greater administrative responsibility for the Federal Guaranteed Student Loan Program. The 1977 Florida Legislature reacted to these changes by ending the State's direct loan operations and authorizing the creation of the Florida Guaranteed Student Loan Program. Section 240.423(1), Florida Statutes, established the Florida Student Financial Assistance Commission to administer the new program, as well as, "the comprehensive programs of student grants, scholarships, loans and loan guarantees authorized by law for citizens declared eligible under applicable provisions of the law". Under this authorization, the

Commission administers all student financial aid programs assigned by statute to it or to the Department of Education. The current programs include:

- o College Career Work Experience Program. Under this program, established by the 1982 Legislature, educationally relevant part-time employment is arranged for postsecondary students.
- o Confederate Memorial Scholarships. Grants are awarded from a private endowment to lineal decedents of Confederate soldiers and sailors.
- o Exceptional Child Teachers Scholarships. Grants are awarded to teachers who are under contract to teach in exceptional child programs in the State and who seek special training in this area.
- o Florida Academic Scholars Fund. Under this program, scholarships are awarded to outstanding resident students who are first time college students. Eligibility is based on high school grades and standardized national test scores.
- o The Florida Guaranteed Student Loan (FGSL) Program. Under the FGSL program, private lenders (banks, savings and loan associations, credit unions, insurance companies, and schools) issue low interest, long-term loans to Florida residents attending postsecondary institutions. The loans are subsidized by Federal interest rate allowances paid to lenders. The State assesses an insurance premium against each loan and insures lenders for losses due to borrower death, disability, bankruptcy, or default. The Federal government reimburses the State for these losses.^{1/} The Federal government also provides an administrative cost allowance of up to 1% of the guaranteed loan volume to defray program operating costs. Through June 30, 1982, the State insured 148,336 guaranteed student loans totaling \$382,690,012.

^{1/}Section 177.406, Federal Register 44 (September 17, 1979). FGSL default payments are 100% reimbursed by the Federal government if the default rate, calculated quarterly, is 5% or less than the amount of loans in repayment status at the end of the preceding fiscal year. Federal reinsurance drops to 90% if the rate exceeds 5% and is reduced to 80% if the default rate exceeds 9%. Death, disability, and bankruptcy claims are 100% reimbursed by the Federal government regardless of the default rate.

- o Florida Student Assistance Grant. Grants are awarded to full-time undergraduate Florida students showing financial need and attending either public or private postsecondary institutions.
- o Florida Tuition Voucher. Under this program, tuition grants are awarded to full-time Florida students attending eligible private postsecondary institutions.
- o Scholarships for Children of Deceased and Disabled Veterans. Scholarships are awarded to Florida students who are dependent children of deceased or disabled veterans and servicemen who have been classified as prisoners of war or missing in action.
- o Scholars for Florida's Future Scholarship Program. This program was established in 1982 by a grant from a private corporation. Scholarships are awarded to students attending Florida's postsecondary institutions and showing high academic achievement in the areas of high technology and economic development.
- o Seminole and Miccosukee Indian Scholarships. Under this program, scholarships are awarded to members of the Seminole and Miccosukee Indian tribes attending postsecondary institutions.

Funding for the administration of these programs is derived primarily from two sources: the repayment of direct loans previously made by the State and the administrative cost allowance provided by the Federal government for the FGSL program. During the last two fiscal years, an increasing amount of General Revenue has been used to fund the administration of grant and scholarship programs. Increased General Revenue funding will be needed in future years as the number of direct loans to be repaid diminishes.

The following Tables I-1, I-2, and I-3 show financial activity of the Commission for the four fiscal years 1978-79 through 1981-82.

TABLE I-1

EXPENDITURES FOR THE PROGRAMS ADMINISTERED BY
THE FLORIDA STUDENT FINANCIAL ASSISTANCE COMMISSION
From July 1, 1978, Through June 30, 1982

	1978-79		1979-80		1980-81		1981-82	
	Trust	General Revenue	Trust	General Revenue	Trust	General Revenue	Trust	General Revenue
Administration								
Salaries and Benefits	\$ 438,097.68	\$	\$ 475,024.05	\$	\$ 537,444.50	\$	\$ 597,887.58	\$ 7,100.20
Other Personal Services	9,289.27		14,246.50		29,048.43	432.15	34,458.49	
Expenses	435,403.61		884,317.89		746,531.79		885,237.59	445.00
Operating Capital Outlay	29,316.71		3,709.69		5,478.09		46,927.14	382.60
Total	<u>912,107.27</u>		<u>1,377,298.13</u>		<u>1,318,502.81</u>	<u>432.15</u>	<u>1,564,510.80</u>	<u>7,927.80</u>
Financial Assistance								
Seminole Indian Scholarships		1,500.00		1,150.00		17,640.87		22,556.00
Exceptional Child Scholarships		109,822.75		57,507.00		68,914.50		74,365.25
Children of Deceased and Disabled Veteran's Scholarships		31,903.50		33,240.75		35,702.54		38,496.67
Florida Student Assistance Grants	1,944,156.00	7,209,835.26	2,366,398.00	7,578,161.42	2,611,464.00	11,476,282.51	2,441,807.00	9,312,551.71
Confederate Memorial Scholarships	825.00		600.00		1,200.00		3,050.00	
Florida Tuition Voucher Fund				2,394,329.25		5,088,017.60		7,298,467.75
Academics Scholars								799,629.00
Florida Student Loans	3,070.35							
Student Assistance Training	9,766.28		12,942.48		16,089.77			
Total	<u>1,957,817.63</u>	<u>7,353,061.51</u>	<u>2,379,940.48</u>	<u>10,064,388.42</u>	<u>2,628,753.77</u>	<u>16,686,558.02</u>	<u>2,444,857.00</u>	<u>17,546,066.38</u>
Grand Total	<u>\$2,869,924.90</u>	<u>\$7,353,061.51</u>	<u>\$3,757,238.61</u>	<u>\$10,064,388.42</u>	<u>\$3,947,256.58</u>	<u>\$16,686,990.17</u>	<u>\$4,009,367.80</u>	<u>\$17,553,994.18</u>

Source: DOE Budget Status Reports

Note: Excludes Florida Guaranteed Student Loans and Insurance Claims paid on those loans. See Tables I-2 and I-3.

TABLE I-2

INSURANCE COMMITMENTS ISSUED FOR
FLORIDA GUARANTEED STUDENT LOANS

<u>Fiscal Year</u>	<u>Amount</u>
1978-79	\$ 12,569,269
1979-80	81,486,962
1980-81	132,044,054
1981-82	156,589,627

Source: FGSL Monthly Volume Report (Summarized).

TABLE I-3

INSURANCE CLAIMS PAID BY
THE FLORIDA STUDENT FINANCIAL ASSISTANCE COMMISSION
ON GUARANTEED STUDENT LOANS

<u>Fiscal Year</u>	<u>Default</u>		<u>Bankruptcy</u>		<u>Death and Disability</u>		<u>Total</u>	
	<u>No.</u>	<u>Volume</u>	<u>No.</u>	<u>Volume</u>	<u>No.</u>	<u>Volume</u>	<u>No.</u>	<u>Volume</u>
1978-79	0	\$ - -	0	\$ - -	0	\$ - -	0	\$ - -
1979-80	1	1,294	6	11,670	6	11,450	13	24,414
1980-81	31	63,932	17	31,296	15	29,100	63	124,328
1981-82	465	992,360	29	89,637	45	144,801	539	1,226,798

Source: FSFAC Guarantee Agency Quarterly Reports.

Organization

The Florida Student Financial Assistance Commission (FSFAC) was established in 1977 under Section 240.423, Florida Statutes, and administratively assigned to the Department of Education (DOE). The Commission began operating in January 1978. It is assisted in its activities by the advice of the Florida Student Financial Aid Advisory Council.

Section 240.425, Florida Statutes, provides that FSFAC shall:

- (a) Hold such meetings as are necessary efficiently to administer the provisions of this act [Chapter 77-338, Laws of Florida].
- (b) Adopt and use an official seal in the authentication of its acts.
- (c) Adopt rules for its own government.
- (d) Recommend rules to the State Board of Education.
- (e) Administer this act and the rules adopted by the State Board of Education.
- (f) Appoint, on the recommendation of its chairman, executives, deputies, clerks, and employees of the Commission.
- (g) Maintain a record of its proceedings.
- (h) Cooperate with state and federal agencies in administering the provisions of this act.
- (i) Prepare an annual budget.

In addition, FSFAC may:

- (a) Sue or be sued.
- (b) Enter into contracts for services or contracts to provide services with the federal government, state departments and agencies, or individuals.

- (c) Receive bequests and gifts.
- (d) Appoint committees to assist in carrying out applicable provisions of the law.

The Commission is composed of nine members appointed by the Governor and confirmed by the Senate for staggered terms of three years. Three members of the Commission represent the commercial financial community, three members represent the postsecondary education community, two members represent lay citizens, and one member represents post high school students. The Commission is currently chaired by Dr. William Butler, Vice-President for Student Affairs, University of Miami. Dr. Butler has served as a member of the Commission since 1978 and as chairperson since 1980. Other members of the Commission are listed in Exhibit 1. Commission members do not receive a salary, but are paid travel and per diem expenses while performing their duties.

The headquarters for FSFAC is located in Tallahassee, Florida. FSFAC does not have field offices, although a member of the staff travels throughout the State as its liaison to financial institutions participating in the FGSL program.

FSFAC staff is organized along functional lines (see page 11, Chart I-1). The current staff consists of an executive director and 47 career service employees (see page 12, Table I-4). The current executive director is Mr. Ernest Smith, who was appointed by the Commission in March 1978. FSFAC staff are separated into four sections:

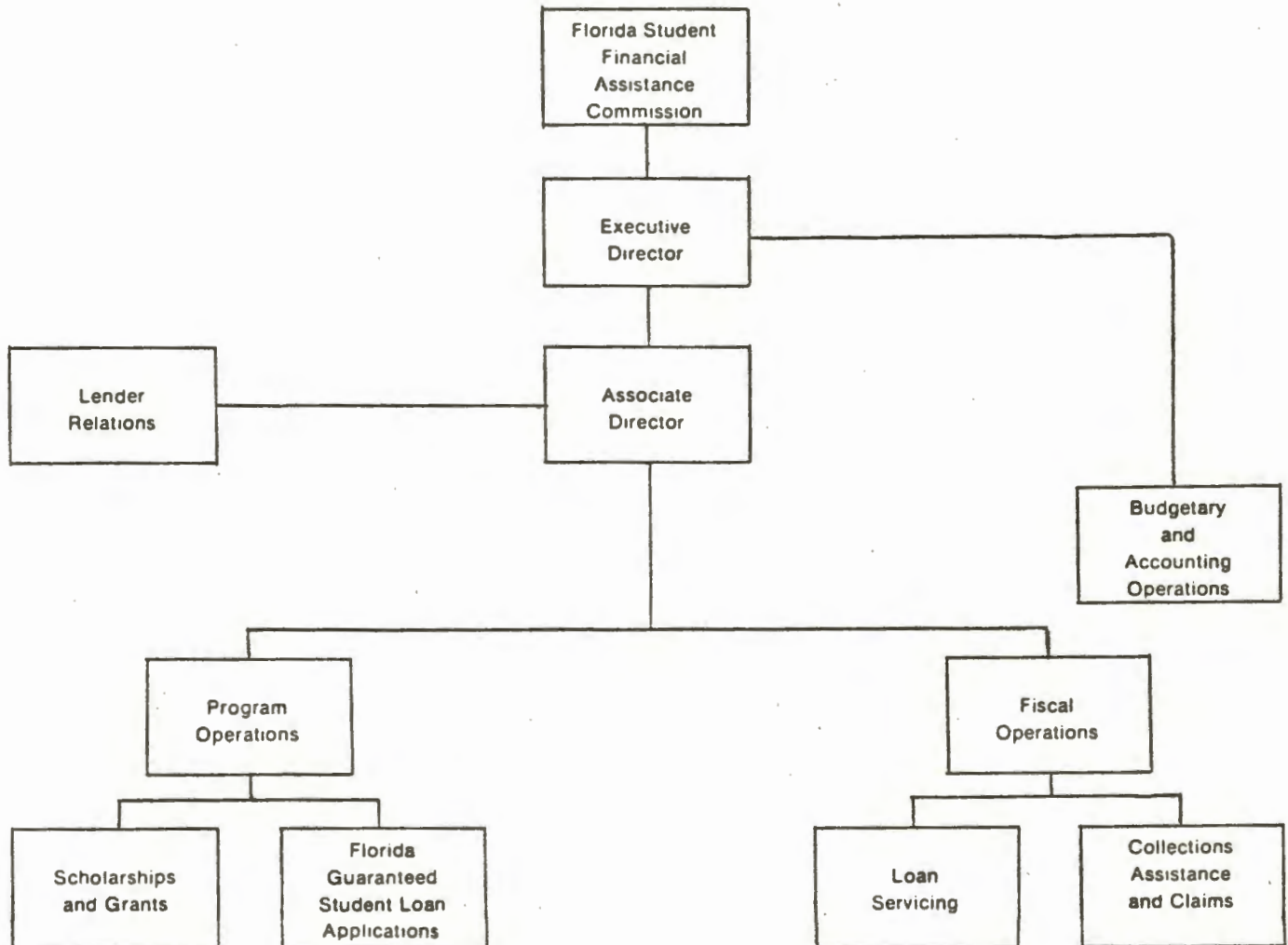
- o Administration Section. This section provides general program guidance and interfaces with DOE and the Federal government. Staff are also responsible for assisting financial institutions who serve as lenders for the FGSL program on matters pertaining to program implementation, Federal regulations, and Commission procedures. In addition, this section coordinates training sessions for lenders.
- o Program Operation Section. This section processes loan applications for the FGSL program, issues loan insurance commitments, and prepares loan packets for use by lending institutions. During the fiscal year ended June 1982, FSFAC processed 59,802 applications. In addition to guaranteed loan applications, this section also processes applications and makes awards for the various State scholarship and grant programs.
- o Fiscal Operation Section. This section services all guaranteed loans, provides preclaims and loan collection assistance to lenders encountering difficulty in collecting guaranteed loans, and services accounts from the direct loan programs previously administered by the State. Servicing of accounts includes tracking loan disbursements; verifying student enrollment; updating address, name, and graduation date changes; and calculating repayment schedules. Approval of insurance claims resulting from borrower default, death, disability, or bankruptcy also is handled by this section.
- o Budgetary and Accounting Operations Section. This section is responsible for billing and accounting for insurance premiums received under the FGSL program, transferring funds to the State Treasurer, receiving payments for discontinued State loan programs, and developing an annual budget. This section also repays lenders for losses due to borrower default, death, disability, or bankruptcy.

The Florida Student Financial Aid Advisory Council was created in 1975. Under Section 240.421, Florida Statutes, the Council is charged with advising the Commissioner of Education on all matters relating to student financial aid. The Council is composed of ten members appointed by the Commissioner of Education for staggered four-year terms. Three members represent accredited private postsecondary institutions, two members represent public postsecondary institutions, two members represent public community colleges, two members represent

the Florida Association of Student Financial Aid Administrators, and one member represents post high school students. The Council meets at the call of its chairperson, at the request of a majority of its membership, and at other times as prescribed by its rules. Council members do not receive a salary, but are paid travel and per diem expenses while performing their duties. Members of the Council are listed in Exhibit 2.

CHART I-1

ORGANIZATION STRUCTURE
FLORIDA STUDENT FINANCIAL ASSISTANCE COMMISSION



Source: FSFAC Organization Chart, 1982.

TABLE I-4

AUTHORIZED POSITIONS
OF THE
FLORIDA STUDENT FINANCIAL ASSISTANCE COMMISSION
June 30, 1982

Organization Area	Authorized Positions
Administration	7
Program Operations	18
Fiscal Operations	15
Budgetary/Accounting Operations	<u>8</u>
Total Positions	<u><u>48</u></u>

Source: FSFAC Organization Chart, 1982.

II AUDIT PLAN

Scope and Objectives

The primary objective of this audit was to review the internal operations and management practices of the Florida Student Financial Assistance Commission in order to determine the efficiency and effectiveness of its administration of student financial aid programs. We also reviewed the organizational relationships between the Commission, the Florida Student Financial Aid Advisory Council, and the Department of Education and the effect of this relationship on the management of student financial aid programs. We did not examine student financial aid administrative operations at postsecondary education institutions, or at the lending financial institutions.

The status of the Commission's financial operations and its degree of compliance with State laws, rules, and regulations relative to financial operations are included in the scope of our annual postaudits of the Department of Education.

Methodology

Various performance auditing and program evaluation methods were used. Selected members of the Commission, FSFAC staff, the Advisory Council, DOE staff, and Legislative staff were interviewed. As necessary, we reviewed the laws and regulations pertaining to the management of student financial aid programs; records and publications of FSFAC and DOE; and agendas, supporting documents, and minutes of meetings for the Commission and the Council.

At our request, FSEAC prepared a loan aging report by lender and academic institution in order to project the number of loans maturing over the next three years. Based on that report, we developed a projection of loans requiring claims assistance.

A mail survey of lenders for the FGSL program was conducted to confirm the types and the usefulness of the services FSEAC provides to lenders.

III GENERAL AUDIT CONCLUSIONS

The Florida Student Financial Assistance Commission's status as a commission is not necessary. The role of the Commission itself in administering student financial aid programs largely has been that of an advisory body, a function also performed by the Florida Student Financial Aid Advisory Council. FSFAC is administratively attached to the Department of Education; as a consequence, both agencies are responsible for the administration of student financial aid programs. Hence, neither FSFAC nor DOE can be held fully accountable for program results.

FSFAC has not developed the management processes needed to ensure that its operations are efficient or that its activities fully contribute to program objectives. As a result, the Commission operates in an inefficient and casual manner. The Commission has not:

- o adequately planned for its increased workload under the Florida Guaranteed Student Loan Program,
- o developed adequate written procedures and controls for its internal operations, or
- o periodically evaluated the effectiveness and efficiency of the activities and methods it uses to administer student financial assistance programs.

These management deficiencies are discussed in detail in the body of this report. While the Commission's failure to develop adequate management processes may not yet have seriously impaired program effectiveness, the lack of adequate management processes has contributed to inefficient program performance. Absent swift remedial action, further deterioration in program performance can be expected.

IV FINDINGS AND RECOMMENDATIONS

Section I: Organizational Structure

The Overlap in Role and Function of the Florida Student Financial Assistance Commission, the Florida Student Financial Aid Advisory Council, and the Department of Education Has Resulted in a Duplication of Effort and Lack of Accountability for Program Management.

Three separate organizations participate in the administration of student financial aid programs: the Florida Student Financial Assistance Commission, which is responsible for administering the programs; the Department of Education, to which the Commission is administratively assigned; and the Florida Student Financial Aid Advisory Council, which is responsible for advising the Commissioner of Education on student financial aid.

The rationale for the creation of FSFAC in its present format is not clear. According to Section 20.03(10), Florida Statutes, a commission is "a body established within a department and exercising limited quasi-legislative or quasi-judicial powers or both independently of the head of the department". However, a review of the specific powers granted to the Commission shows that it is not authorized to make policy concerning student financial aid: FSFAC's duties are limited to administering student financial aid programs and advising the Board of Education on student financial aid matters. The Commission is not empowered to adopt its own Administrative Procedure Act rules, a quasi-legislative power granted to most administrative agencies. Instead, it must recommend rules to the Board of Education for adoption (Section 240.425, Florida Statutes).

FSFAC Commissioners and staff stated that the organization's status as a State-chartered, non-profit corporation headed by a commission was designed to free it from the administrative constraints placed on most governmental agencies. According to these individuals, commission status was intended to provide flexibility in the administration of financial aid programs and to enable the Commission to use its financial and personnel resources as it deemed necessary. In particular, FSFAC staff stated that the Commission should be able to offer the salaries and positions necessary to attract the professional staff it needs to adequately perform its functions, particularly in the area of loan collections assistance.

Section 240.423(1), Florida Statutes, assigns the Commission to the Department of Education, thereby limiting its flexibility in administering student financial aid programs. Under DOE's organizational structure, the Commission is assigned to the Deputy Commissioner for Special Programs (see Exhibit 3), and its executive director is required to report to the Deputy Commissioner for supervision. FSFAC must follow DOE budgetary procedures and submit its legislative budget requests through DOE. The Deputy Commissioner reviews FSFAC's budget requests along with requests submitted by the other boards and offices he supervises. These separate requests are combined into a single budget entity. DOE staff are responsible for deciding whether a funding issue requested by FSFAC will be forwarded to the Legislature for consideration. The Commission must also comply with DOE personnel procedures and adhere to DOE personnel classifications.

As a result, neither DOE nor FSFAC has the power to independently administer student financial aid programs or can be held fully accountable for program results. For example, FSFAC staff believe the Commission cannot adequately perform some of its functions because it must comply with DOE personnel classifications, which they contend impedes its ability to attract skilled employees. FSFAC has made numerous requests to reclassify many of its positions. However, DOE staff stated that they have been unable to make the "desk audits" necessary to document the need for reclassification because FSFAC has not properly completed its requests.

It appears that neither the Legislature nor the Governor's Office supports the position that FSFAC's status as a commission was intended to free it from the administrative constraints normally placed on State agencies. FSFAC occasionally has attempted to exercise administrative flexibility by disregarding normal State budgetary procedures or by submitting budget requests independently of DOE. On those occasions, both the Legislature and the Governor's Office have directed FSFAC to comply with normal procedures and to submit requests through DOE. For example, in fiscal year 1980-81, the Commission contracted for the services of an attorney without verifying its authorization to spend funds for that purpose. After the service was performed, FSFAC discovered that it did not have budget authority to pay the attorney and submitted a request for a budget amendment directly to the Governor's Office. The Governor's Office informed FSFAC that it would have to submit the request through DOE. This incident came to the attention of the Legislature, which stated in a proviso of the 1982 General Appropriations Act (Chapter 82-215, Laws of Florida): "The Florida Student Financial Assistance

Commission shall maintain the same standard of fiscal responsibility as that expected of all other State agencies". The Legislature also directed FSFAC to develop, "with the active cooperation of the Commissioner [of Education]", an operating budget for fiscal year 1982-83 and to make monthly reports to the Governor's Office and Legislature concerning its expenditures in each object category.

The final rationale presented for FSFAC's status as a commission is that the FSFAC Commissioners, who represent financial and postsecondary education institutions as well as the general public, provide useful advice on the operation of student financial aid programs and foster lender participation in the FGSL program. Evidence suggests that the Commission has been a useful sounding board on financial aid issues and played an important role in gaining support for the FGSL program. However, its function as an advisory group is duplicated by the Florida Student Financial Aid Advisory Council, which also provides useful advice on student financial aid programs. The Council does not include representatives from financial institutions. However, it does contain representatives from professional student financial aid administrators who make suggestions concerning program operations at postsecondary institutions.

The operation of two advisory bodies for the same program is inefficient, particularly if the representatives on those bodies recommend different solutions to the same administrative problem because they do not readily have the opportunity to discuss alternatives and reach a consensus. Furthermore, the State must bear the costs for the meetings of both groups. In fiscal year 1981-82, approximately \$3,882 was expended for travel associated with the

Commission's meetings, while approximately \$2,940 was expended for travel associated with the Council's meetings.

Because FSFAC does not have the authority either to make policy or to independently administer the programs assigned to it, its status as a commission serves no useful purpose. Therefore, we recommend that the Legislature abolish the Florida Student Financial Assistance Commission and assign its administrative duties to the Department of Education. This will remove questions concerning the role, scope, and authority of the Commission and place full accountability for the administration of student financial aid programs with a single organization. Administration of student financial aid programs should remain coordinated in a single organizational unit within DOE.

We further recommend that the Legislature abolish the present Student Financial Aid Advisory Council and create a new advisory body composed of representatives from private and public postsecondary educational institutions, professional student financial aid administrators, students, financial institutions, and the general public. This will enable members of these constituencies to continue providing advice on the policy and administration of student financial aid programs and encouraging support for these programs.

Section II: Management

No matter which organization is responsible for administering the State's student financial aid programs, the programs must be effectively managed. Therefore, the practices used to manage student financial aid programs were also a subject of our audit.

In order for an organization to efficiently accomplish its objectives, certain ongoing management processes, including planning, organizing and controlling, and evaluating, must be performed. In small organizations these processes may be performed informally; however, as organizations grow these processes must be formalized to be effective. As a growing organization, FSFAC must develop formalized management processes. In addition, it must carry out these processes within the context of State regulations. Our audit of FSFAC has revealed that central management is not adequately performing the management activities necessary to direct and control its operations, as discussed below.

The Commission Has Not Adequately Planned for the Maturation of the Florida Guaranteed Student Loan Program.

Long-term planning is of central importance in the successful administration of a loan guarantee program. Because of the duration of student loans, the guarantee agency must be able to predict future loan maturity volumes and project workloads to ensure that it will have sufficient resources to service accounts. Our review of the administration of the FGSL program shows that FSFAC has not adequately planned for its increased workload in servicing accounts.

One of the more important services FSFAC provides is collection assistance for delinquent loans. Under the FGSL program, a lender may request collection assistance if it is unable to contact the borrower when a loan is due or if it has not received payment 60 days following the due date. FSFAC then assists the lender in making collection attempts. After 120 days have elapsed from the loan due date, the lender may submit a claim for reimbursement under the guarantee agreement. FSFAC reviews the claim and verifies that the lender has exercised due diligence in its collection efforts. If the claim is in order, FSFAC repays the lender and applies to the Federal government for reimbursement. Failure by FSFAC to provide adequate collection assistance will raise Federal government costs for the FGSL program. These costs are ultimately paid by all taxpayers. Furthermore, because the Federal government will not 100% reinsure loans if FSFAC's default loan rate exceeds 5% of the amount of loans in repayment status at the end of the preceding fiscal year, the Commission's failure to provide adequate collection assistance service could jeopardize the amount of Federal support received by the State for the FGSL program.

During the early years of the FGSL program, collection assistance service did not consume a significant portion of FSFAC's workload due to the small number of matured loans. In the FGSL program, a borrower is not required to begin repayment until after graduation or other exit from school. A grace period (6 to 12 months in length, depending on the interest rate of the loan) is then extended to allow the individual to gain employment before starting repayment. Repayment may be further deferred if the student re-enters school, is unemployed, joins the armed forces, or meets other special

criteria. Additionally, the lender may grant forbearance if the borrower becomes temporarily unable to make payments. The total time period between the disbursement of a guaranteed loan and the maturity and commencement of repayment of the loan generally ranges from 1-1/2 to 4-1/2 years. As a greater number of loans mature, a greater number require collection assistance. During the past two years, the percentage of matured guaranteed loans requiring FSFAC's preclaims assistance has varied from 10 to 30%, with assistance requests received for approximately 17% of matured loans in fiscal year 1981-82.

If FSFAC had engaged in long-term planning, it could have projected that the number of preclaims collection assistance requests would rise significantly in 1982, four years following the inception of FGSL program. FSFAC could have used information concerning projected claims assistance requests to support its requests for additional resources. However, FSFAC had not attempted to project future workload requirements by analyzing the aging of loans prior to this audit. The only workload projection made for the FGSL program was done in 1977 prior to the creation of FSFAC.^{1/} At that time, the annual predicted loan volume for the FGSL program was \$40 million. FSFAC issued guaranteed loan commitments for more than \$156 million in fiscal year 1981-82, nearly four times the original predicted annual loan volume.

^{1/}The Governor's Office of the Inspector General made preliminary estimates of FSFAC workload volume statistics for fiscal year 1980-81 in its Management Review Report of the Florida Student Financial Aid Commission, October 1980, but stated that the Commission should apply its "own expertise and judgment to determine final data to be utilized". (page 53).

As a result of inadequate planning for increased workload, FSFAC has not been able to maintain the quality of its claims preventative services or even to keep up with the growing requests for claims assistance. At the beginning of the FGSL program, FSFAC attempted to locate borrowers through skip-tracing activities; negotiating repayment through phone calls, letters, and mailgrams; and, if the above failed, sending official notices demanding final settlement. However, as the amount of loans maturing increased, FSFAC became unable to provide claims preventative services in an effective and timely manner. Citing caseload pressures, FSFAC staff did not diligently pursue delinquent borrowers. FSFAC did not notify lenders if borrowers were located or responded to its collection efforts; rather, it filed the information and allowed the accounts to default. By June 1982, a backlog of 1,188 assistance requests developed, which amounted to over 48% of all the requests received up to that date.

In June 1982, the Commission revised its collection assistance policy, discontinuing all activities except for a single mailgram to the borrower, a demand letter, and inquiries to other governmental agencies for address location. Interviews with FSFAC staff have indicated that these revised procedures will be minimally effective in preventing guaranteed student loan defaults. An internal memorandum stated that these changes:

will institutionalize [FSFAC's] inability to perform effective claims prevention activities. Due to the shortage of personnel, the high personnel turnover rate, the above procedures, and the volume of collection assistance requests and claims being submitted, it is inevitable that the Commission's claim rate will exceed Federal limits... and our reinsurance rate will be reduced from 100% to 90% or possibly 80%.^{1/}

^{1/}Memorandum from Jensen H. Audioun to Ernest E. Smith, April 21, 1982, p. 2.

Furthermore, FSFAC will soon face a significant increase in the number of matured guaranteed student loans. To predict future loan maturity volumes, we examined the number of guaranteed loans scheduled to enter repayment over the next three years. These data are presented in Exhibit 4 (Figure 4-1). As can be seen, while the number of loans issued has greatly increased over the past four years, relatively few accounts have yet entered repayment (approximately 16,000 of 148,000, as of June 30, 1982). The number of loans entering repayment will rise rapidly over the next fiscal year, with over 52,000 guaranteed student loans scheduled to mature by June 30, 1983.

This will produce a significant increase in FSFAC's preclaims assistance workload. Exhibit 4 (Figure 4-2) contains a projection of the number of preclaims assistance requests to be received over the next three years. Assuming that the current request rate will continue, over 6,000 collections assistance requests will be received in fiscal year 1982-83, tripling the fiscal year 1981-82 level of 2,122 requests.

Given the lack of planning in the preclaims assistance area, we question whether FSFAC can provide effective claim prevention services to this volume of accounts. FSFAC's failure to provide effective preclaims assistance may result in inadequate collection of guaranteed student loans, a rising default rate, and diminished Federal reinsurance of claims losses.

We recommend that FSFAC develop long-range plans for the FGSL program in order to estimate the resources it will need to manage workload increases and to ensure that the State's loan default rate remains within Federal limits. FSFAC should at least annually examine

the number of preclaims assistance requests received, review staff workload and staffing standards, and make appropriate budget requests for adequate resources as needed.

The Commission Has Not Developed Adequate Formal Procedures for the Internal Administration of Student Financial Aid Programs.

As an enterprise grows, formal organization becomes necessary. Various tasks must be assigned to different people, and their efforts must be coordinated. FSFAC has developed procedures for some of its activities; however, many of these procedures are not fully documented, are inadequate, or are not followed. In other areas, FSFAC has failed to develop procedures. As a result, the Commission's internal operations are performed in an inefficient and casual manner. Little attention is given to detail; deadlines are often not met. Examples of these operating deficiencies are discussed below.

Although FSFAC has procedures to guide the day-to-day processing activities for its student financial aid programs, it has not adequately formalized or documented these procedures. No procedure manuals or other documentation exist for some of the scholarship programs administered by the Commission. Manuals that have been developed for other student financial aid programs tend to be limited to a description of computer programs and do not cover the procedures that need to be performed by staff. FSFAC's failure to adequately document the procedures used to accomplish its work has led to an undesirable over-reliance on individual staff members and hampers the training of new personnel.

For example, FSFAC has not fully documented the procedures used to administer the Florida Student Assistance Grant Program. No documentation exists for several critical Florida Student Assistance Grant Program operations, including the manual correction and update of student income data on the master computer file or the calculation and award of summer term grants. Only one staff member has been trained to perform these operations; hence, Florida Student Assistance Grant awards cannot be made in the absence of this staff member. According to staff of the Program Operation Section, awards were not made for a three-month period in 1980 when this individual was on sick leave. Interviews with FSFAC staff also have indicated that, given the lack of a complete procedure manual for the Florida Student Assistance Grant Program, a significant time period would be needed for a new employee to gain the expertise necessary for adequate program operation.

An area in which FSFAC has failed to develop adequate procedures is the storage and protection of program records. Important and irreplaceable program records and documents are inadequately stored and safeguarded throughout the organization. Although FSFAC has set up a vault room for important program files and records, this vault is not fireproof and generally is not kept locked. Of the records stored in the vault, only the loan notes from the State's direct loan programs are kept in locked, fireproof cabinets. Original loan notes from the FGSL program are maintained in unlocked, non-fireproof file cabinets. These notes are legal documents FSFAC obtains from lenders when students default on repayment obligations. Their loss through fire or theft could jeopardize FSFAC's ability to pursue legal action against the borrowers. Furthermore, the loan

notes are required documentation for Federal program reviews. Consequently, FSFAC's ability to secure Federal repayment of claim losses could be affected if the notes were lost or destroyed.

Program records for several scholarship programs are filed in unlocked, non-fireproof cabinets outside of the vault due to a shortage of space in the vault room. These records have not been duplicated or microfiched. Loss of these records would adversely affect the Commission's ability to administer the programs in accordance with statutory requirements.

The Commission's failure to develop adequate procedures to safeguard program records not only jeopardizes its ability to properly administer student aid programs, but also does not comply with Chapter 119, Florida Statutes. This statute requires State agencies to preserve all documents made or received in connection with the transaction of official business. It further specifies that these documents, insofar as practicable, shall be maintained in fireproof and waterproof safes, vaults, or rooms.

In those cases where FSFAC has developed adequate procedures to guide program activities, it has sometimes failed to develop controls to ensure that its procedures are followed. For example, in January 1982, FSFAC adopted a monthly billing procedure for the insurance premiums it collects on each guaranteed student loan. However, the Commission staff has not adhered to this monthly billing cycle and is billing lending institutions for the premiums on approximately a 45-day cycle. Furthermore, no penalties have been established for lenders that fail to remit the premiums in a timely

manner. Continued failure to adhere to the monthly billing cycle will result in loss of interest earnings on investment of insurance premium funds.

Finally, FSFAC has failed to develop procedures for some of its activities. For example, FSFAC assigns defaulted guaranteed student loans to private collection agencies. If these agencies are able to collect on a defaulted loan, 70% of the net collections are returned to the Federal government and 30% are retained by FSFAC for the payment of claims on other guaranteed student loans. However, FSFAC has not developed procedures to determine when a defaulted loan should be assigned to a collection agency. Due to other staff priorities, no guaranteed student loans were assigned to private collection agencies before May 1982, even though some of the loans had been in default since 1980. The untimely assignment of defaulted loans to collection agencies probably reduces their ability to locate borrowers and collect monies due to the Federal government and to the State.

Not only must FSFAC develop adequate procedures for organizing and controlling the internal administration of the various financial aid programs it operates, but it must make publicly available those procedures that affect the citizens of the State.

In January 1982, after four years of operations, FSFAC requested and obtained the opinion of the State Attorney General concerning the need to publish rules for student financial aid programs. The Attorney General, in Opinion No. 082-3, stated that FSFAC is a State agency within the purview of the Administrative Procedure Act; therefore, rules and regulations must be published for

the programs it administers. A 1980 management review conducted by the Governor's Office of the Inspector General also recommended that FSFAC have its rules and procedures published.^{1/} At the time of this audit, FSFAC had not proposed action to DOE to comply with these recommendations.

We recommend that FSFAC develop formal written procedures and controls for its internal administration of student financial aid programs. Specific attention should be directed to the development of:

- o adequate procedure manuals for all of the financial aid programs FSFAC administers,
- o adequate procedures to safeguard program records and documents,
- o adequate controls to ensure the timely billing and remittance of insurance premiums, and
- o adequate procedures to ensure the timely assignment of defaulted loans to collection agencies.

In addition, FSFAC should take the necessary steps to make available information concerning the student financial aid procedures affecting the public as required under the Administrative Procedures Act.

The Commission Has Not Periodically Evaluated Its Programs and Activities to Determine That They Are Efficient and Effective.

An important management function is the periodic evaluation of the organization's programs and activities. Without this type of assessment, management cannot measure the organization's progress in

^{1/}Management Review Report, Florida Student Financial Assistance Commission, Governor's Office of the Inspector General, October 1980, p. 26.

achieving its objectives. Program evaluations provide information management can use to project future program costs, to plan for future operations, and to improve the efficiency and effectiveness of current operations.

One of the major objectives of FSFAC is to encourage financial institutions to make student loans. To accomplish this objective, FSFAC has provided a variety of services and other incentives to lenders participating in the FGSL program. FSFAC has not, however, evaluated these services to determine if they are cost-effective or needed.

For example, until recently FSFAC deposited the loan insurance premiums students pay when they receive guaranteed student loans with the financial institutions making the loans. FSFAC staff stated that this practice of depositing premiums with lenders was initiated to encourage the institutions' participation in the FGSL program. FSFAC staff feared that many financial institutions would cease making student loans if insurance premiums were not deposited with their institutions.

Certain costs were incurred by the practice of depositing insurance premiums with lenders. Although FSFAC tried to invest the insurance premiums in high-interest certificates of deposit, approximately \$1.5 million of the \$3.3 million it deposited with lenders was kept in passbook savings, checking, or other low-interest accounts. Furthermore, we could not determine the amount of interest lost because FSFAC had difficulty reconciling its accounting records for insurance premiums with the records of the financial institutions with which it had deposited the premiums.

If FSFAC had critically evaluated its practice of depositing insurance premiums with lenders, it would have discovered that the practice did not provide a strong incentive for lenders to participate in the FGSL program and was not cost effective. In a survey of lender institutions (Exhibit 5), we asked lenders whether they would continue to participate in the FGSL program if insurance premiums were not deposited in their institutions. Only 9% of the lenders stated that they would withdraw from the program (Exhibit 6).

This survey response may have been influenced by a proviso to the 1982 General Appropriations Act, which required FSFAC to transfer to the State Treasury the funds accumulated from insurance premiums as of June 30, 1982, and to deposit future collections there. As implemented, however, funds invested in certificates of deposit will remain on account with financial institutions until the certificates mature. These are shown in Exhibit 7.

The survey of lenders also indicated that some of the other services FSFAC provides to lenders may be inefficient or unnecessary. FSFAC currently calculates repayment schedules for all loans issued under the FGSL program. However, only 43% of the lenders responding to the survey said that they used the repayment schedules calculated by FSFAC. Since the inception of the FGSL program, many financial institutions have started using computer programs to calculate loan repayment schedules. These financial institutions may no longer need FSFAC's repayment calculation services. FSFAC could reduce its workload by specifically identifying and assisting only those institutions that request and will use its repayment calculations. FSFAC staff stated that the repayment calculation service also serves

to control lender errors. However, in our opinion, FSFAC could more efficiently prevent lender errors by improving program procedure manuals and training sessions. FSFAC could also sample the calculations performed by lenders to determine error rates and give special attention to those lenders with unacceptable error rates.

Because FSFAC does not periodically evaluate its services and activities, it cannot ensure that it is operating efficiently or effectively. We recommend that the Florida Student Financial Assistance Commission periodically evaluate its activities to determine if they are efficient and contribute to program goals. In making its evaluations, FSFAC should determine whether it can improve its effectiveness by reallocating resources among its activities.

The Commission's Purchase of Word Processing Equipment--An Example of the Effects of the Lack of Adequate Management Processes.

FSFAC's recent purchase of word processing equipment illustrates the problems caused by lack of adequate management processes. From November 1981 through January 1982, FSFAC acquired word processing equipment consisting of a central processing unit and enough CRT's, printers, and other peripheral equipment for three workstations. The total cost of the word processing equipment was \$45,035. FSFAC's failure to adequately plan for the acquisition, evaluate the equipment, and establish organizing and controlling systems for its installation caused the Commission to fall behind in its workload, making it unable to close its books for the 1981-82 fiscal year in a timely manner.

According to Commission staff, the original purpose of the acquisition was to provide FSFAC with word processing capabilities to support its loan servicing activities. However, as Commission staff began to examine alternative word processing systems, they discovered that some word processors performed simple mathematical and bookkeeping functions. At the time, the Commission leased bookkeeping equipment, which it used to account for payments on loans issued under the discontinued direct loan program. Commission staff stated that the bookkeeping equipment had been giving them maintenance problems and needed replacement. Therefore, staff decided to acquire a word processor to replace the bookkeeping equipment and to use the funds budgeted for renewing the lease to acquire some of the peripheral word processing equipment.

The Commission appears not to have adequately planned for the acquisition of the word processor. Commission staff state they spent many hours discussing the functions to be performed on the new equipment with the vendor. However, they have not provided us any documentation indicating that they furnished the vendor adequate performance specifications for the bookkeeping functions the word processor was to serve. Furthermore, it appears that the Commission did not adequately evaluate the equipment's ability to perform the needed bookkeeping functions. Interviews with Commission staff indicate that they did not see the word processor demonstrate the bookkeeping functions prior to its purchase.

Once FSFAC acquired the new equipment, it did not establish sufficient operating and controlling procedures to ensure its ability to perform bookkeeping functions until the new equipment became

operational. The lease on the old bookkeeping equipment expired June 30, 1982. Since the Commission did not intend to renew the lease, it was essential that the word processor be able to perform the bookkeeping functions by that date. Nevertheless, programming the word processor for the bookkeeping function was not started until late Spring 1982. Because of problems related to programming, equipment failures, and the time needed to transfer the data base to the word processor, the bookkeeping functions could not be performed on the word processor until September 13, 1982. By that time the lease on the old bookkeeping equipment had expired. As a consequence, FSFAC was unable to process the loan payments received in June through October 1982 and could not close its books for fiscal year 1981-82 in a timely manner.

By the time the word processor was programmed to perform the bookkeeping functions, the Commission was in a crisis situation, and had to take quick action to clear its backlog. However, the Commission found that the word processor did not perform the bookkeeping function efficiently. Because the word processor was not designed as a data processor, it required lengthy commands to update accounting records, and these commands had to be altered for each loan payment processed. Some of the figures used by the Commission exceeded the capacity of the word processor; these figures were truncated improperly. Additionally, some Commission staff members feared that using the word processor for accounting records posed a risk to the security of those records. Because passwords were not required to access accounting files, the disks containing those files would have to be placed in a secure place when the operator was not present. In short, FSFAC found that the word processor was not

capable of performing bookkeeping functions in the manner required by the Commission. As a result, FSFAC is taking steps to acquire new bookkeeping equipment. Because it has already spent the funds budgeted for the lease of the bookkeeping equipment for the word processor, it must find another source of funds to acquire new bookkeeping equipment.

These problems could have been avoided if the Commission had adequately planned, evaluated, and established organizing and controlling procedures for the acquisition and operation of the new equipment. We recommend that the Commission adopt the management processes previously recommended in this report and use these processes for every phase of its operations.

V EXHIBITS

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Exhibit 1: Past and Current Members of the Florida Student Financial Assistance Commission

Clanzell Brown
829 Pearl Street
Jacksonville, Florida
Originally Appointed: 1-25-78
Term Expired: 6-30-78

*William R. Butler
Vice-President for Student Affairs
University of Miami
Coral Gables, Florida
Originally Appointed: 1-20-78
Term Expires: 6-30-85

*John L. Cody
Vice-President
First Federal Savings and Loan
Association of Broward
North Palm Beach, Florida
Originally Appointed: 1-6-78
Term Expires: 6-30-85

*William E. Elmore
Vice-President for Administrative
Affairs
University of Florida
Gainesville, Florida
Originally Appointed: 12-30-77
Term Expires: 6-30-83

Bob Fingar
Student
Florida State University
Tallahassee, Florida
Originally Appointed: 12-21-82
Term Expires: 6-30-85

Robert Johnson
Post Office Box 27
Sarasota, Florida
Originally Appointed: 1-24-78
Term Expired: 6-30-79

*Stephen J. Korchek
President
Manatee Junior College
Bradenton, Florida
Originally Appointed: 10-16-80
Term Expires: 6-30-83

Carl M. Kuttler
President
St. Petersburg Junior College
St. Petersburg, Florida
Originally Appointed: 1-13-78
Resigned: 4-21-80

Mark Levine
Suite C
1801 North Meridian Road
Tallahassee, Florida
Originally Appointed: 8-3-79
Resigned: 6-27-80

*Robert L. McCloud
President
Ellis National Bank
Tallahassee, Florida
Originally Appointed: 7-1-81
Term Expires: 6-30-84

Thomas D. McLaughlin
Vice-President and Treasurer
Sunshine State Federal Savings
and Loan Association
Plant City, Florida
Originally Appointed: 1-31-78
Term Expired: 6-30-80

Paul C. Perkins
Secretary
Washington Shores Savings and
Loan Association
Orlando, Florida
Originally Appointed: 1-24-78
Term Expired: 6-30-81

*Maria Plasencia
Student
Florida International University
Miami, Florida
Originally Appointed: 1-7-80
Term Expired: 6-30-82

*Celestine Washington
647 West 17th Street
Jacksonville, Florida
Originally Appointed: 8-20-81
Term Expires: 6-30-84

*Douglas Stowell
Post Office Box 1019
Tallahassee, Florida
Originally Appointed: 12-11-80
Term Expired: 6-30-82

*Robert Willett
Executive Vice-President
First National Bank of
Brevard-Merritt Island
Merritt Island, Florida
Originally Appointed: 12-17-80
Term Expires: 6-30-83

Stella Ward
719 Stafford Street
Tallahassee, Florida
Originally Appointed: 8-31-79
Term Expired: 6-30-81

Carolyn Williams
Student
University of West Florida
Pensacola, Florida
Originally Appointed: 1-24-78
Resigned: 4-16-79

*Commission members during fiscal year 1981-82 and during the audit.

Exhibit 2: Florida Student Financial Aid Advisory Council Membership
During Fiscal Year 1981-82

Evelyn Sebree (Chair)
Director of Financial Aid
Lake-Sumter Community College
Leesburg, Florida

Larry Arnold
Coordinator of Financial Aid
University of Central Florida
Orlando, Florida

Joseph L. Coleman
Director of Financial Aid
Bethune-Cookman College
Daytona Beach, Florida

Helen K. Fraed
Director of Financial Aid
Jacksonville University
Jacksonville, Florida

William E. Gentry
Director of Admissions and
Financial Aid
Daytona Beach Community College
Daytona Beach, Florida

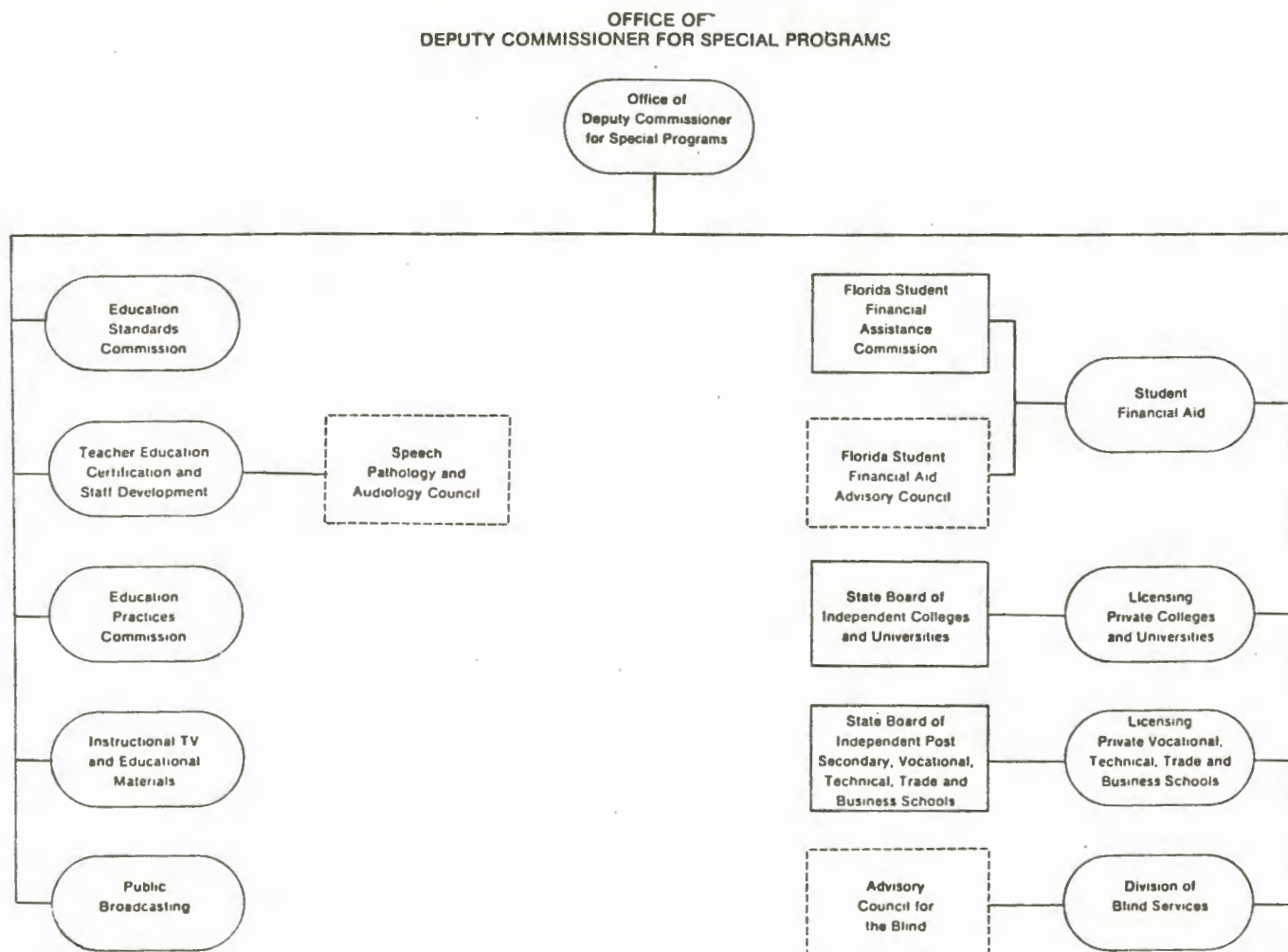
Jack Hughes
Director of Financial Aid
Florida Institute of Technology
Melbourne, Florida

Ed Marsh
Director of Student Financial Aid
Florida State University
Tallahassee, Florida

Preston D. Rosser
Director of Student Financial Aid
Valencia Community College
Orlando, Florida

Margie Adams
Student
University of South Florida
Tampa, Florida

Exhibit 3: Organization Chart of the Office of the Deputy Commissioner for Special Programs, Department of Education.



Source: DOE Organization Chart, 1982.

Exhibit 4: Methodology Used to Project Guaranteed Student Loan
Maturity and Preclaims Assistance Volumes.

As a part of our investigation of the Commission's long-range planning, we examined data on the number of insured and matured Florida guaranteed student loans. These data were obtained from the Guarantee Agency Quarterly Reports submitted by FSFAC to the Federal government.

A projection of future loan maturity volumes was developed through the use of a computer program which analyzed the scheduled maturity dates of all outstanding guaranteed student loans. This program listed the number of loans scheduled to enter repayment each quarter over the next three fiscal years.

A mathematical projection of future preclaims assistance requests was developed by examining the percentage of matured loans requiring FSFAC collection assistance in the past. During the 1981-82 fiscal year, lenders asked for help in collecting 16.98% of their matured student loans. This figure was applied to the loan maturity projection to predict the number of preclaims assistance requests to be received by the Commission during the next three fiscal years.

Figure 4-1

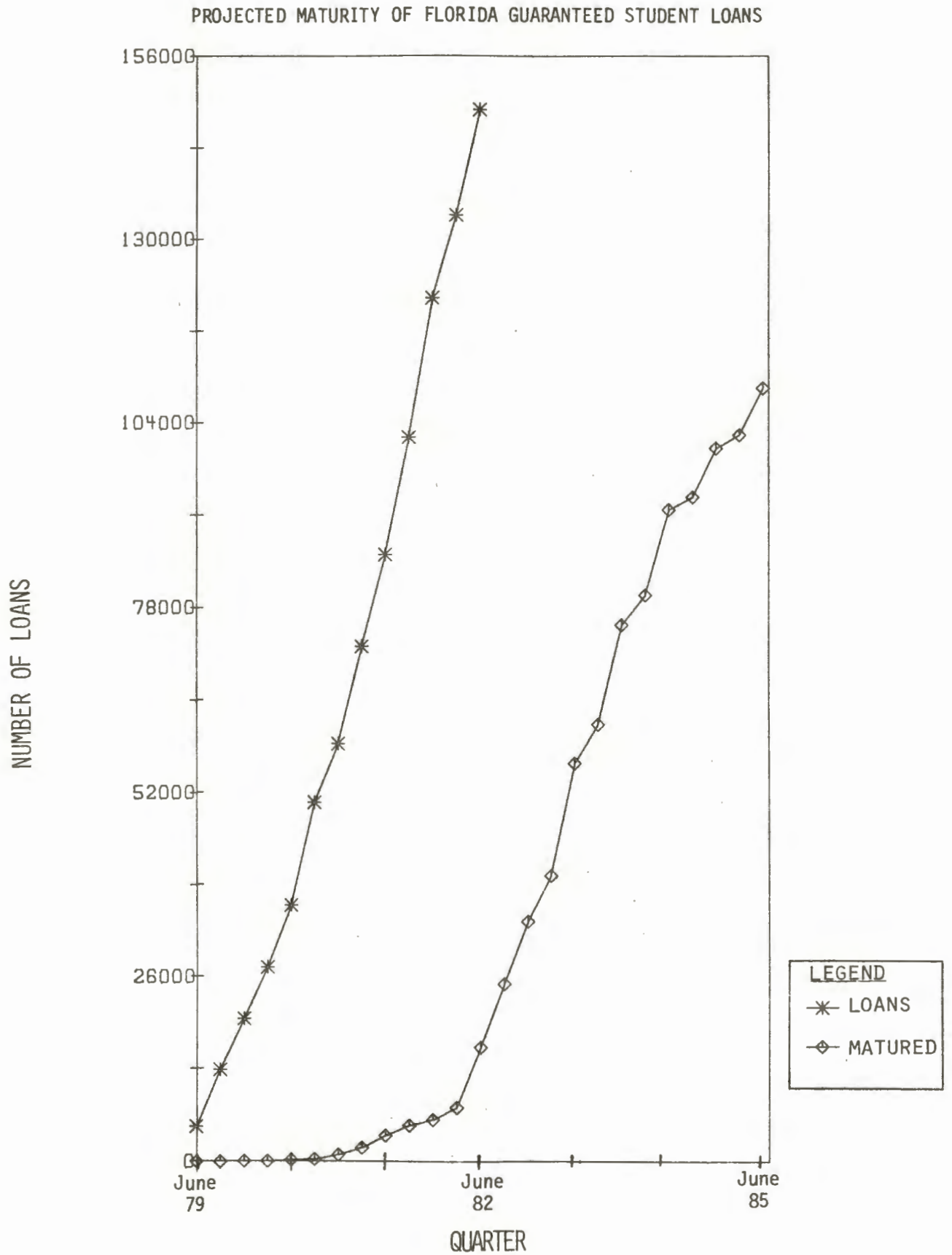


Figure 4-2

PROJECTED PRECLAIMS ASSISTANCE REQUESTS FOR FLORIDA GUARANTEED STUDENT LOANS

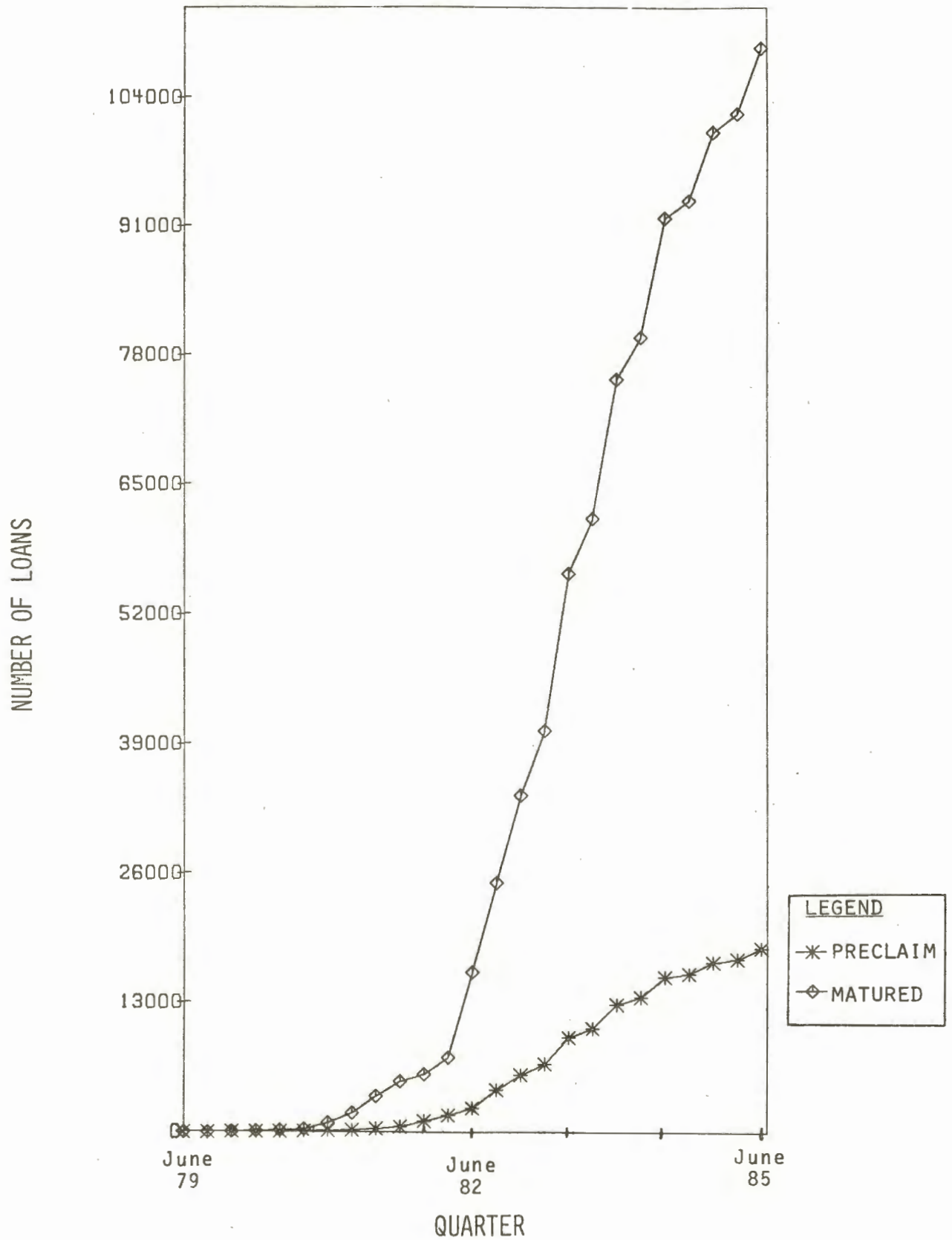


Exhibit 5: Survey of Lenders for the Florida Guaranteed Student Loan Program.

June 30, 1982

In accordance with the provisions of Sections 11.45 and 240.435, Florida Statutes, we are now engaged in a performance audit of the Florida Student Financial Assistance Commission.

In connection with this audit, you are respectfully requested to furnish the following information regarding the relationship of your institution, as a lender for the Florida Guaranteed Student Loan Program, and the Commission.

1. What services do you receive from the Florida Student Financial Assistance Commission with respect to the Florida Guaranteed Student Loan Program? (check all that apply)

☐ Loan processing ☐ Skip tracing ☐ Loan servicing
☐ Collections ☐ Repayment calculation ☐ Printing of promissory notes
☐ Other (please specify) _____

2. How useful to your institution are the services provided by the Florida Student Financial Assistance Commission with respect to the Guaranteed Student Loan Program? (please rate each service utilized by your institution)

	<u>Very Useful</u>	<u>Useful</u>	<u>Not Useful</u>
Loan processing	_____	_____	_____
Collections	_____	_____	_____
Skip tracing	_____	_____	_____
Repayment calculation	_____	_____	_____
Loan servicing	_____	_____	_____
Printing of promissory notes	_____	_____	_____
Other (please specify)	_____	_____	_____

3. How do you learn of changes in Federal regulations pertaining to the Florida Guaranteed Student Loan Program? (check all that apply)

☐ Commission staff ☐ Commission workshops
☐ Commission newsletters ☐ Direct mailing from Federal Government
☐ Other (please specify) _____

4. How frequently is your institution visited by a member of the Commission staff?
_____ Number of visits this past fiscal year (July, 1981-June, 1982)
5. What was the amount on deposit at your institution by the Florida Student Financial Assistance Commission on June 30, 1982?
\$_____ Certificate of Deposit
\$_____ Other Accounts
(specify type of account) _____
_____ No funds on deposit
6. As of June 30, 1982, what was your institution's total dollar amount of loans outstanding to borrowers under the Florida Guaranteed Student Loan Program?
\$_____
7. As of June 30, 1982, what was your institution's total dollar amount of loans outstanding to all borrowers for all purposes?
\$_____
8. Will your institution continue to participate in the Florida Guaranteed Student Loan Program if the insurance premiums are not maintained on deposit in your institution?
_____ Yes _____ No
9. Additional Comments: _____

Your assistance in this matter is appreciated. Please return this letter by July 19, 1982, in the enclosed postage-paid, addressed envelope.

Sincerely,

Hubert E. Helton
Assistant Auditor General

Completed by: _____
Name Title Date

Exhibit 6: Summary of Responses to the Survey of Lenders for the
Florida Guaranteed Student Loan Program.

Questionnaires were sent to each of the 141 lenders participating in the Florida Guaranteed Student Loan Program. A total of 135 replies were received, a response rate of 96%. A total of 131 of the replies were usable. The results of the survey are as follows:

1. What services do you receive from the Florida Student Financial Assistance Commission with respect to the Florida Guaranteed Student Loan Program? (check all that apply)

	<u>No.</u>	<u>%</u>
Loan processing	112	87
Collections	44	34
Skip tracing	41	32
Repayment calculation	55	43
Loan servicing	48	37
Printing of promissory notes	111	86
Other	12	9

"Other" included:

- . Arranging for sales of loans to secondary markets
- . Student status verification
- . Folders and forms for each loan
- . Answers to questions
- . Claims payment

2. How useful to your institution are the services provided by the Florida Student Financial Assistance Commission with respect to the Guaranteed Student Loan Program? (please rate each service utilized by your institution)

	<u>Very Useful</u>		<u>Useful</u>		<u>Not Useful</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
Loan processing	96	84	16	14	2	2
Collections	24	55	15	34	5	11
Skip tracing	29	66	11	25	4	9
Repayment calculation	48	73	11	17	7	11
Loan servicing	41	72	12	21	4	7
Printing of promissory notes	96	87	12	11	2	2
Other	7	88	1	13		

- . Collection assistance
- . Answers to questions
- . Claims payment

3. How do you learn of changes in Federal regulations pertaining to the Florida Guaranteed Student Loan Program? (check all that apply)

	<u>No.</u>	<u>%</u>
Commission staff	54	41
Commission newsletter	122	93
Commission workshops	58	44
Direct mailing from Federal government	100	76
Other	11	8
. Phone calls		
. Other lenders		
. Other newsletters, media		
. Workshop excerpts		

4. How frequently is your institution visited by a member of the Commission staff? (Number of visits July 1981-June 1982)

<u>No. of Visits</u>	<u>No. of Lenders</u>
0	29
1	55
2	30
3	5
4	5
5	2
6	2
7	1

Responses to the survey indicate that approximately 179 visits were made between July 1981 and June 1982, an average of 1.39 per lender institution.

5. What was the amount on deposit at your institution by the Florida Student Financial Assistance Commission on June 30, 1982?

The responses to this question were not analyzed due to large number of unusable responses received.

6. As of June 30, 1982, what was your institution's total dollar amount of loans outstanding to borrowers under the Florida Guaranteed Student Loan Program? (see note under question 7)

7. As of June 30, 1982, what was your institution's total dollar amount of loans outstanding to all borrowers for all purposes?

Questions 6 and 7 were not analyzed due to the large percentage of non-usable responses received. A large number of lenders evidently considered question 7 to address only student loans of all types. Many lenders reported only estimated figures.

8. Will your institution continue to participate in the Florida Guaranteed Student Loan Program if the insurance premiums are not maintained on deposit in your institution?

	<u>No.</u>	<u>%</u>
Yes	100	76
No	12	9
No Longer in Program	5	4
No Answer/Don't Know	14	11

Notes:

Percentages in summary of question No. 1 are based on 129 usable responses to that question.

The number of respondents rating specific services in question No. 2 does not always equal the number receiving that service as recorded in question No. 1. In several cases, respondents did not rate services which they indicated that they had received. In other cases, respondents rated the usefulness of services which they had not yet utilized.

Percentages in summary of question No. 2 do not equal 100% because of rounding.

Exhibit 7: Florida Student Financial Assistance Commission's
Certificates of Deposit As of June 30, 1982.

Term (Months)	Financial Institution	Interest Rate (%)	Principal Amount	Maturity Date
6	Southeast FNB	13.78	\$ 35,000	8-02-82
6	Florida Federal S & L - Broward	13.226	35,000	9-07-82
6	Landmark FNB - Ft. Lauderdale	13.154	24,000	10-13-82
6	Florida Federal S & L - Broward	13.165	45,000	10-19-82
			<u>\$ 139,000</u>	
18	Eastern Airlines Employees	12.14	\$ 8,000	4-03-83
30	Landmark FNB - Ft. Lauderdale	11.75	10,000	8-11-83
30	Sun Bank Non-Affiliated - Orlando	12.65	35,000	8-12-83
30	First Mutual Savings Assoc. - Pensacola	12.00	35,000	8-13-83
30	Florida Federal S & L - Broward	12.00	55,000	8-20-83
30	Florida Federal S & L - Delray	12.00	10,000	9-03-83
30	Florida Federal S & L - Lake Worth	12.00	45,000	9-05-83
30	Southeast FNB	11.75	50,000	9-05-83
30	Florida Federal S & L - St. Pete	10.50	300,000	9-10-83
30	Dade S & L - Miami	12.00	290,000	10-15-83
30	Florida Federal S & L - St. Pete	10.50	25,000	12-10-83
			<u>\$ 863,000</u>	
30	Florida Federal S & L - St. Pete	13.50	\$ 50,000	3-11-84
30	Southern Bank - Tallahassee	15.95	2,000	4-08-84
30	First Federal S & L - Hendry County	16.20	2,000	4-09-84
30	Florida Federal S & L - Lake Worth	16.20	28,000	4-09-84
30	Flagship Peoples Bank - Tallahassee	15.95	6,000	4-09-84
30	Sun Bank of Ocala	14.50	5,000	4-09-84
30	Brandon State Bank	14.00	2,000	4-12-84
30	Home Federal S & L - St. Pete	15.65	4,000	4-12-84
30	Dade S & L - Miami	15.65	85,000	4-13-84
30	Ellis FNB - Bradenton	15.40	2,000	4-13-84
30	First Federal S & L - Delray	15.65	27,000	4-13-84
30	Tallahassee Federal S & L	15.55	17,000	4-13-84
30	FNB of Florida - Tampa	14.00	1,000	4-13-84
30	Florida State Bank	15.40	1,000	4-13-84
30	Sun Bank Non-Affiliated - Orlando	14.50	33,000	4-13-84
30	Atlantic FNB - Gainesville	15.00	10,000	4-14-84
30	Ellis National Bank - Tampa	15.00	1,000	4-14-84
30	First National Bank - Brevard	15.40	25,000	4-14-84
30	First Federal S & L - Broward	14.045	23,000	4-15-84
30	Tallahassee Federal S & L	15.65	6,000	4-16-84
30	FNB of Greater Miami	15.40	2,000	4-16-84
30	Eagle National Bank - Miami	6.50	4,000	4-19-84
30	Tallahassee Federal S & L	15.65	7,000	4-22-84
30	Tallahassee Federal S & L	15.65	17,300	4-29-84

Term (Months)	Financial Institution	Interest Rate (%)	Principal Amount	Maturity Date
30	Florida Federal S & L - Panama City	16.20	15,000	4-30-84
30	First Federal S & L - Lakeland	16.20	6,000	4-30-84
30	Tallahassee Federal S & L	15.55	31,000	4-30-84
30	Tallahassee Federal S & L	15.55	6,000	5-06-84
30	Tallahassee Federal S & L	12.55	50,000	5-24-84
30	Tallahassee Federal S & L	12.55	27,000	5-25-84
30	Florida Federal S & L - St. Pete	11.05	75,000	6-07-84
30	Citizens State Bank - Marianna	11.50	3,000	6-08-84
30	Florida Federal S & L - St. Pete	12.00	130,000	9-09-84
30	Sun Bank Non-Affiliated - Orlando	13.25	<u>60,000</u>	10-5-84
			<u>\$ 763,300</u>	
Average Interest Rate and Grand Total		12.50	<u><u>\$1,765,300</u></u>	

Source: FSFAC Maturity Date Log, Restricted Investment.

VI RESPONSE FROM THE FLORIDA STUDENT FINANCIAL ASSISTANCE COMMISSION



FLORIDA STUDENT FINANCIAL ASSISTANCE COMMISSION

KNOTT BUILDING
TALLAHASSEE, FLORIDA 32301

November 18, 1982

Mr. Ernest Ellison, C.P.A.
Auditor General
Office of the Auditor General
Post Office Box 1735
Tallahassee, Florida 32301

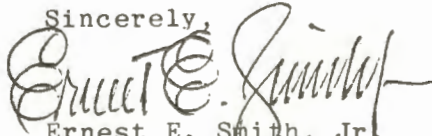
Dear General Ellison:

This will acknowledge receipt of an official copy of the Preliminary and Tentative Findings that may be included in a report of your Performance Audit of the Administration of Student Financial Aid Programs by the Florida Student Financial Assistance Commission.

Your letter of transmittal requires that a written statement of explanation of all findings and actual or proposed corrective actions be provided. The Commission, the Commissioner of Education and the Student Financial Aid Advisory Council are pleased to offer the attached response and statement. The material can be considered to reflect the mutually agreed upon response of all parties covered by the Performance Review.

The Commission wishes to express its appreciation to the members of the staff of the Auditor General for the courteous and professional approach taken in the process of conducting the Audit.

Sincerely,


Ernest E. Smith, Jr.
Executive Director

EES:ld

cc: The Honorable Ralph D. Turlington
Commissioner of Education
Dr. William R. Butler, Chairman
Florida Student Financial Assistance Commission
Dr. Evelyn A. Sebree, Chairman
Student Financial Aid Advisory Council

E. E. SMITH, JR.
EXECUTIVE DIRECTOR

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AFFIRMATIVE ACTION/EQUAL OPPORTUNITY EMPLOYER

STATEMENT IN RESPONSE

The following is for the purpose of providing a written statement in response to the findings of the Performance Audit of the administration of student financial aid programs by the Florida Student Financial Assistance Commission. The referenced findings are found in the Preliminary and Tentative Findings document delivered to the Commission by the Audit Staff on Friday, October 29, 1982.

Since the document refers to three parties involved in the administration of student financial aid programs, this response reflects the mutual comments of the Commission, the Department of Education and the Student Financial Aid Advisory Council. The three parties have chosen to respond collectively rather than individually.

Generally, the Commission, the Department of Education, and the Student Financial Aid Advisory Council wish to express acceptance and agreement, in principle, with each of the findings of the audit.

In Section I, Organizational Structure, the three parties respectfully point out that the issues raised by the audit staff are essentially those same issues which have been discussed by the Commission since it became operational in Spring, 1978. The Commission, the Department and the Council accept the recommendations of the Auditor General for addressing the problems and conditions associated with the present organizational structure and pledge to work with the Florida Legislature and the Governor in making statutory changes to implement the recommendations. Specific proposals in response to this finding are presented on pages 8 and 9.

The three parties strongly agree with the importance of establishing not only clear and certain accountability standards for the administration and management of the programs and services, but also clear and certain paths for receiving the advice of constituencies served by student financial aid programs.

The parties note with interest the absence of more specific statements which might have been made concerning the activities and accomplishments of the Commission since its establishment. The report might have recognized the Commission membership and staff as they relate to the implementation of the Florida Guaranteed Student Loan Program and the maintenance of other student financial aid programs. The report also might have addressed the very strong philosophical alliance which the Commission and Council have demonstrated with the Department of Education and its leadership in working toward higher levels of excellence in the Florida educational system. Moreover, the significant and valuable roles which have been played by the membership of the Student Financial Aid Advisory Council, as well as its partnership with the Commission, might have been noted. While there may have been administrative and operational issues which have resulted from the absence of clearly defined accountability and advisory paths, the higher level goals and purposes of effectively delivering financial assistance and services to students in both the public and private sectors of postsecondary education have been served with positive results. The responding parties are pleased to note in the finding that the absence of an optimum organizational structure and more formal management processes have not seriously impaired program

effectiveness. At the same time, the parties also strongly agree that the implementation of the management processes described in the report should result in improved program efficiency.

In addition to the activities cited above, the Commission, the Department, and the Council, in their efforts to achieve optimum financial assistance services to students, educational institutions, financial institutions and the general public, have:

- held public hearings;
- created viable FGSL secondary market conditions for financial institutions;
- served as a forum for the continuing dialogue concerning the public policy regarding sensitive issues of financial assistance distribution;
- actively sought increased levels of federal and state financial assistance for students;
- successfully recommended that the Florida Legislature authorize and appropriate funds for the comprehensive Florida Student Financial Aid Study;
- developed and proposed program rules for consideration by the State Board of Education;
- implemented communications and information channels between the responding parties, secondary and postsecondary institutions, financial institutions, the professional associations, and the general public.

In Section II, Management, the report sets forth certain ongoing management processes which should be followed by a growing organization. The three processes specifically stated are planning, organizing and controlling, and evaluating. The report correctly notes that as a growing organization, the Commission, or its successor organizational entity, must develop formal management processes in order to maintain effective performance. The three parties accept and agree with the need for development of such formalized management processes. The Commission staff has begun a long range planning program to support requests for additional staff. The staff is in the process of more

specifically organizing administrative activities which will provide a higher level of efficiency through documentation of individual program activities and control procedures. To insure compliance with procedures and activities involving the internal, daily administration, written manuals for evaluating the importance and effectiveness of each activity will be established. The Commission staff has established March 1, 1983, as the target date for completion of the final documents in the form of written manuals.

The parties acknowledge that more planning for the maturation of the Florida Guaranteed Student Loan Program could have taken place. If such were not the case, then the potential problems which face the Commission would likely not have been considered an audit issue. In past years, the Commission staff has documented the need for additional personnel, operating budget, and data processing support through working papers and specific exhibits which have been included in previous Legislative Budget Requests. The report appears to assume that more extensive long range planning would have resulted in legislative support of requests for adequate staffing, budgetary, and data processing support.

The respondents most assuredly agree with the need to maintain student loan performance well within, if not below, minimum Federal standards and are pleased to note that the findings and recommendations call for the planning needed to manage workload increases in order for the default rate to remain within acceptable limits. Therefore, more specific long range planning will be used to support Legislative Budget Requests beginning with the 1983-85 Biennium. Moreover, the Commissioner of Education agrees to consider needed adjustments in staff,

budget, and data processing during the 1982-83 fiscal year.

In discussing the absence of formal procedures for the internal administration of programs, the report finds that the Commission has an undesirable level of over-reliance on individual staff members. The respondents agree that in an organizational sense, it is inefficient to be dependent upon the knowledge and expertise of an individual. However, while at the same time expressing agreement with the general finding, the respondents must also note that the accomplishments of the Commission, its staff; the Department of Education, its staff; and the Advisory Council, and its membership, would have been far less extensive and effective had Florida not benefitted from the commitment and efforts of dedicated individuals. As stated earlier, however, the Commission staff has begun the process of developing office manuals for all programs. It should be noted that staffing patterns are directly related to budgetary support.

The Commission staff wishes to take exception to the finding concerning problems resulting from an individual on an extended sick leave. The report contains statements that imply that the staff member's absence caused a major program to cease operation. Such was not the case. Awards were calculated and announcements were made using the services of other professional staff members. In the future, however, the potential for delay should be avoided by the presence of office manuals and adequate budget support.

The report notes the absence of adequate procedures to safeguard important and irreplaceable records throughout the organization. With one notable exception, the Commission staff has made every reasonable effort to provide safekeeping of all

documents within the constraints of the physical facilities in which the offices are housed. Prior to relocation of the offices to Park Twenty West, privately owned rental property, the Commission was housed in the Knott Building, which is state property. The space in which the office was located included a true vault. Present facilities include locked fireproof file cabinets within a locked room. While such cannot be defined as a true vault, it is not considered to be totally inadequate. Staff has initiated contact with the property management to determine the feasibility and cost of providing a true vault within existing space. Documentation and cost information will be submitted in the 1983-85 Legislative Budget Request. The notable exception, as found in the report, was the practice of not securing defaulted student loan promissory notes against fire, theft, or other loss. Immediately upon discovery of this problem, the referenced documents were placed in fireproof filing cabinets within the locked room. The Commission will also request an appropriation in the 1983-85 request to provide for the creation of micro-records of all program documents. The presence of a second copy in reproducible form should remove the inadequate conditions noted in the report.

The Commission staff already has developed and implemented monitoring procedures which insure the timely billing of insurance premiums, the timely deposits of such funds with the State Treasurer, and the timely placement of defaulted loans with contract collection agencies. The above procedures will be included in a procedures manual.

The Commission staff, with the cooperation of the Office of General Counsel, will determine the extent of any non-compliance

with the provisions of the Administrative Procedures Act and will submit rules for consideration by the State Board of Education.

The Commission staff will continue its ongoing informal review activities during the course of compiling office manuals for internal administration. Activities and services which are found to serve no significant and essential purpose shall be discontinued as recommended in the report. The Commission staff, however, does not have the implied administrative flexibility needed to reallocate resources among its several activities.

The final finding in Section II, Management, concerns the purchase of word processing equipment for use in the Commission offices. The equipment was purchased for three specific purposes: to replace the existing electronic accounting machine; to process student loan collection assistance and default records; and, for traditional applications including text production, forms design, standard cumulative reports, and the like. The report correctly notes that the equipment has not adequately served its primary purpose. The report does not, however, indicate that the equipment is adequately serving the two secondary purposes. The Commission staff acknowledges that more adequate organization and control of the acquisition and installation process might have caused different results. At the same time, the assertions of the vendor and the acceptance of the staff were considered to have been offered and accepted in good faith. While all formal procedures of the Department of Education, as well as those of the Division of Purchasing, Department of General Services, were followed by the Commission, more specific equipment acquisition and installation procedures will be established internally. The problems causing a delay in closing the books on June 30, 1982,

have been addressed by using demonstrator equipment provided by NCR. The books have now been closed. The Department of Education has requested budgetary authority to purchase an electronic accounting machine for \$13,000. The purchase price is a single one time payment, rather than annual, as noted in the report.

The final portion of this response relates to the findings and recommendations of Section I, Organizational Structure. The Commission, the Department of Education, and the Advisory Council strongly and mutually support the creation of an active and effective Advisory Body to be appointed by the Commissioner of Education. The Advisory Body, as delineated in the report, shall be composed of representatives from private and public postsecondary educational institutions, professional student financial aid administrators, students, financial institutions, and the general public. The active role of this body will enable members of these constituencies to continue providing advice on the policy and administration of student financial aid programs and encouraging support for these programs.

Finally, the respondents strongly and mutually support the assignment of the student financial aid administrative unit at a level within the Department of Education which provides for optimum external visibility and timely access to the Commissioner of Education. The respondents feel that the level of assignment will be particularly critical in relationships with private financial institutions participating in the Florida Guaranteed Student Loan Program, as well as public and private educational institutions, the Legislature, and the general public. Traditional organizational structures within departments in the Executive Branch of Florida government would lead to the

recommendation that placement of the functions now performed by the Commission be at an Office or Division level. A Section within a Bureau, within a Division, would lead to a much slower than desirable response resulting in inefficiencies to needed decisions affecting financial assistance programs. The respondents further propose that the chief operating officer have direct access to the Commissioner of Education. The respondents suggest that the Commissioner of Education be empowered to issue final rules for the student financial aid programs of Florida as administered by the successor organizational entity to the Commission.

For the Florida Student Financial Assistance Commission:



William R. Butler, Chairman

For the Department of Education:



Ralph D. Turlington, Commissioner

For the Student Financial Aid Advisory Council



Evelyn A. Sebree, Chairman

