



*Office of Inspector General*

# Student Loan Program

*March 27, 2008*

*Report No. 439*




OFFICE OF  
INSPECTOR GENERAL

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

To: Diego T. Ruiz, Executive Director

Jeff Risinger, Associate Executive Director, Office of Human Resources

Kristine Chadwick, Associate Executive Director, Office of Financial  
Management

From: H. David Kotz, Inspector General 

Date: March 27, 2008

Re: Office of Inspector General - Audit of Student Loan Program (No. 439)

Attached is our final audit report on the Audit of Student Loan Program. Your comments to the draft report have been incorporated as appropriate.

Commission management agreed with all 19 of the recommendations. We appreciate the courtesy and cooperation extended to our staff during this audit.

Attachment

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Zayra Okrak  
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# STUDENT LOAN PROGRAM

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## EXECUTIVE SUMMARY

*The Office of Inspector General of the Securities and Exchange Commission (Commission)<sup>1</sup> conducts regular audits and inspections of Agency operations to promote the effectiveness, integrity, and efficiency of the Commission. In July 2007, we received an anonymous complaint about the Commission's Student Loan Repayment Program (SLP), which stated that the Commission is improperly reimbursing staff for loans to pay for their children's education; that the Commission has not been sufficiently reviewing supporting documentation when processing awards; and employees who do not intend to leave the Commission are improperly receiving awards. In light of this complaint, and in view of the significant dollar amounts associated with SLP, we conducted an audit of the program. Our audit objectives included issues that went beyond the allegations outlined in the complaint.*

*As a whole, we found that several aspects of the SLP needed significant improvement. We identified weaknesses in the SLP's internal controls relating to approvals, the lack of documentation regarding parts of the process (e.g., repayments by employees who do not complete a three-year employment service agreement), deficiencies in the areas of independent verification, management records, safeguarding personal information, and the separation of duties. In addition, we found serious concerns with the Commission's process to identify and collect debts from employees who leave the Commission without completing their employment service agreement. We identified 12 employees that left the Commission who must repay \$129,336 in total to the SLP, because the terms of the service agreement obligation was not met. As a result of our audit, collection efforts were initiated to obtain the funds.*

*We further found that the SLP's justification memorandum process needs improvement to ensure criteria established by the Office of Personnel Management (OPM) and the Collective Bargaining Agreement (CBA) is meaningful. Finally, we identified a compliance issue that the Commission needs to address in order to ensure funds for SLP are used in an appropriate manner.*

*This report consists of 19 recommendations that include SLP officials strengthening internal controls, identifying and collecting former employee debts, improving the justification memorandum process, planning for compliance issues, and improving vacancy announcements. (See Appendix B) Implementing these recommendations*

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<sup>1</sup> See abbreviations used in Appendix A.

*should strengthen the program's internal controls and correct the deficiencies detailed in this report. Commission management concurred with all of our recommendations. Their formal written response is included as Appendix C.*

## OBJECTIVES, SCOPE, AND METHODOLOGY

We performed the audit in response to an anonymous complaint that alleged:

- The Securities and Exchange Commission (Commission) is reimbursing staff for loans to pay for their children's education (*i.e.*, "Plus" loans<sup>2</sup>);
- The Office of Human Resources (OHR) does not generally review supporting documentation when processing the award (*i.e.*, student loan reimbursements); and
- Employees with 20 to 25 years of Commission service are receiving the award, but they do not intend to leave the Commission.

The audit objectives included issues beyond those mentioned in the complaint. Our objectives were to:

### Objectives

Our audit objectives were to:

- Review the Student Loan Repayment Program's (SLP) compliance with:
  - The authorizing statute, 5 U.S.C. 5379;
  - Office of Personnel Management's (OPM) implementation regulations, 5 CFR 537;
  - The Collective Bargaining Agreement (CBA), Chapter 25, between the Commission and the National Treasury Employees Union; and
- Identify improvements, if any, in the SLP.

### Scope

The scope of our review generally included applications from FY2006; except for example with respect to our work on identifying and collecting debts former employee debts. Additional information on our scope is provided in Appendix D.

We did not evaluate whether SLP is effective (*e.g.*, helps to retain employees). Instead, we reviewed OHR's implementation of Government Accountability Office (GAO)<sup>3</sup> recommendation that the Commission should build upon its efforts to measure SLP's impact. We also reviewed the SLP's justification memorandum process used to approve awards.

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<sup>2</sup> Parents can obtain this loan either from a private lender or through the federal government (*i.e.*, eligible for the SLP) to pay for their child's education. The parents are financially responsible for the loan.

<sup>3</sup> Federal Student Loan Program (GAO-05-762) dated July 2005.

We did not review certain CBA requirements because they were either not applicable or, not able to be performed. For example, the Commission is required to award at least 20 percent of the SLP funds to non-professional employees. The Commission has not complied with the requirement and we informed both management and the union of this matter. Based on our review, generally all applicants receive the \$10,000 maximum award. Hence, the number of employee applications to SLP appears to be the determining factor as to whether the Commission awards 20 percent of the funds to non-professional employees.

Lastly, the Commission makes SLP award payments through the payroll process and uses the Department of Interior's (DOI) payroll system. We did not review whether DOI withholds the proper amount of required taxes on the awards.

### **Methodology**

We performed our audit from October 2007 to February 2008. Our methodology included conducting interviews with Commission personnel, testing internal controls,<sup>4</sup> reviewing management reports, reviewing vacancy announcements, the authorizing statute (5 U.S.C. 5379) and OPM regulations, reviewing best practices, and survey award recipients. In addition, we performed a survey of 36 SLP award recipients between November 2007 and December 2007. Eleven recipients responded to our survey.

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.

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

OHR uses Excel to record information involving SLP awards and former employees. We determined that the information in the Excel spreadsheets was generally reliable, except involving former employees, as discussed later in the report. We assessed the reliability of the data by verifying source documents (e.g., Commission Form 2497, the service agreements, etc.).

### **Prior Audit Coverage**

In July 2005, GAO performed a government wide audit on the Federal Student Loan Program (GAO-05-762) dated July 2005. GAO was asked to identify:

- Why agencies use or are not using the program;
- How agencies are implement the program; and
- What results and suggestions agency officials could provide about the program and how the view OPM's role in facilitating its use.

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<sup>4</sup> See Appendix D for the sampling and testing methodologies.

GAO recommended that the Commission should build upon current efforts to measure the SLP's impact. OHR indicated they developed a plan in consultation with the statistical and metrics experts at OPM's Interagency Working Group to determine the usefulness and validity of measures for evaluating the SLP. The planned measures include calculating and assessing:

- The number of employees who seek additional awards, which requires extending the service time;
- The attrition rate of employees, particularly those in mission critical positions who completed the initial three-year service agreement; and
- The number of employees who leave the Commission before completing the service agreement(s).

### Internal Controls

We found weaknesses in the SLP's internal controls.<sup>5</sup> We also identified significant amounts of former employee debt that the Commission did not collect, as a direct consequence of the internal control weaknesses.<sup>6</sup> However, we have not identified any other specific errors or irregularities in processing SLP awards that were directly caused by these deficiencies.<sup>7</sup> The maximum annual and lifetime awards do somewhat mitigate at present some of the internal control weaknesses. According to OHR, the lack of adequate staffing and/or storage space caused many of the weaknesses.

## **BACKGROUND**

### General Information

The government-wide SLP was established in accordance with 5 U.S.C. 5379. Federal agencies use SLP as an incentive to recruit and/or retain highly qualified employees by paying their outstanding loan balances for federally insured or guaranteed student loans. Federal agencies are required to develop the SLP in accordance with the statute (5 U.S.C. 5379) and OPM regulations governing the SLP. After negotiations with the Union, in fiscal year (FY) 2003, the Commission established its SLP. According to OPM, as of FY 2006, 34 agencies have established a SLP.

Pursuant to the statute (5 U.S.C. 5379), agencies can award employees up to \$10,000 annually and a maximum of \$60,000 for SLP award. DOI remits a payment directly to the lender for approved SLP awards, minus deductions for income, social security, and Medicare taxes.

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<sup>5</sup> Internal controls are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. {GAO Auditing Standard 1.30}

<sup>6</sup> This issue is discussed in the *Identifying and Collecting Former Employee Debt* finding.

<sup>7</sup> See Appendix D, Sections I & II for the sampling and testing methodologies used.

Employees that receive an SLP award must sign a three-year service agreement. The Commission requires employees to commit to another year of service for each award approved thereafter. Pursuant to the statute, the employee must repay the entire award if they voluntarily leave the federal government for the private sector, or are dismissed for poor performance, unless repayment is deemed to be "against equity and good conscience or against the public interest".<sup>8</sup> However, employees do not have to repay the SLP award if they transfer to another federal agency.

In FY 2007, according to OHR the Commission paid approximately \$3.4 million in SLP awards<sup>9</sup> for 369 employees consisting of approximately 78 percent attorneys, accountants, and compliance examiners. Federal agencies are required annually to provide OPM with:

- Number of employees participating;
- Job series; and
- Total agency cost.

According to OPM, in FY 2006, the Commission awarded more funds than any other agency in the federal government, except for the Department of Justice, Department of Defense, and U.S. Department of State. In addition, the Commission paid more money per recipient than any other federal agency that had a significant number of recipients.

### **Applying and Receiving Student Loan Reimbursements**

OHR accepts SLP applications towards the end of each fiscal year. To be eligible to apply for SLP, the Commission requires employees to work at the agency one year. Either the supervisor can nominate an employee for the SLP or employees can nominate themselves for an SLP award. The supervisor completes Commission Form 2497, Recommendation and Approval, and prepares a justification memorandum to OHR.

The Associate Executive Director of OHR and the Commission's Executive Director may also review/approve SLP request and determine award amounts. Subsequently, if approved, OHR provides the employee with Commission Form 2499, Loan Data Verification, for information about the loan. The employee must complete the form; provide SLP officials with a current *Federal Aid Review* page<sup>10</sup> and copies of the loan account statements.

After OHR reviews the *Federal Aid Review* page and determines that the loan exists and it is not delinquent, they send the employee a service agreement. OHR then

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<sup>8</sup> 5 U.S.C. 5379 (c)(3)

<sup>9</sup> This data does not include Plus loan applications that the Commission retroactively paid in 2007 because the Commission initially denied them in FY 2005-2006, as discussed later. According to OHR records, the Commission paid approximately \$643,000 on 53 Plus loan applications that were submitted in FY 2005-2006.

<sup>10</sup> This document provides information on the loan history, payments, and status. It is available from the Department of Education's website.



instructs DOI to make the payment, minus the required taxes. The employee then must provide OHR with documentation indicating that the lender received and properly applied the payment.

## AUDIT RESULTS

We performed the audit in response to an anonymous complaint that alleged. With respect to the particular issues specified in the anonymous complaint, we found the following:

- The Commission is reimbursing staff for loans to pay for their children's education (*i.e.*, "Plus" loans) (Allegation 1);

Since FY 2003, the Commission had been reimbursing employees for loans to pay for their children's education (*i.e.*, Plus loans), when the employee met certain requirements such as being the primary holder of the loan. From 2005 to 2006, the Commission disallowed applications for Plus loans. However, in 2007, the applications were retroactively paid because the Commission had not negotiated the policy change with the Union;

- The Office of Human Resources does not generally review supporting documentation when processing the award (*i.e.*, student loan reimbursements) (Allegation 2); and

OHR reviews SLP supporting documentation, but the review process needs significant improvements, as discussed in the report; and

- Employees with 20 to 25 years of Commission service are receiving the award, but they do not intend to leave the Commission (Allegation 3).

We confirmed that employees with many years of service received SLP awards. Thus, it is likely that employees received awards, even though they did not intend to leave the Commission. Specifically, we found that 14 percent (59 of 411) employees received an SLP award in FY 2006 or submitted a Plus loan application had been with the Commission for at least 10 years as of September 30, 2006. We also found that 4 percent (18 of 411) employees were employed at the Commission for at least 20 years.

In response to the GAO audit recommendation issued in Federal Student Loan Program (GAO-05-762) dated July 2005, OHR indicated they developed a plan in consultation with the statistical and metrics experts at OPM's Interagency Working Group to determine the usefulness and validity of measures for evaluating the SLP. The planned measures include calculating and assessing:

- The number of employees who seek additional awards, which requires extending the service time;
- The attrition rate of employees, particularly those in mission critical positions who completed the initial three-year service agreement; and
- The number of employees who leave the Commission before completing the service agreement(s).

We are pleased that OHR intends to evaluate the usefulness of the SLP program, and concur that such an assessment is critical to any decision on the future of the SLP. When conducting the evaluation OHR needs to improve the justification memorandum process because the memoranda supervisors submits routinely lacks the substance needed to demonstrate fulfilling the required criteria such as the employee is likely leave the federal government.

The SLP appears to be materially compliant with the statute (5 U.S.C. 5379), OPM regulations, and the CBA. However, as discussed throughout the remainder of this report, the SLP process needs significant improvement.

## **STRENGTHENING INTERNAL CONTROLS**

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We found weaknesses in the SLP's internal controls. We also identified significant amounts of former employee debt that the Commission did not collect, as a direct consequence of the internal control weaknesses. However, we have not identified any other specific errors or irregularities in processing SLP awards that were directly caused by these deficiencies. The maximum annual and lifetime awards do somewhat mitigate at present some of the internal control weaknesses. According to OHR, the lack of adequate staffing and/or storage space caused many of the weaknesses. The weaknesses and/or deficiencies that we have identified are as follows:

### **Approvals**

- The Associate Executive Director of OHR approves waivers if an employee does not complete the service agreement(s). This authority has not been delegated in writing;
  - The Recommendation and Approval, Commission Form 2497 should require the employee's supervisor printed name. This will help OHR verify that supervisors are recommending and reviewing officials and signatures;
  - The Associate Executive Director of OHR does not approve the award as required by Commission Form 2497. According to OHR, the form is not accurate and the Associate Executive Director is only required to approve the award in certain instances. However, no guidance has been issued regarding the circumstances when approval is required. Thus, OHR does not comply with the language on the form; and
  - According to Commission Form 2497, the Executive Director must approve the award, if required. We are unaware of any instances where the Executive Director approved an award. In addition, no guidance has been issued regarding the circumstances when the approval is required. According to OPM regulations<sup>11</sup> SLP awards should be approved by officials who approve other recruitment and relocation incentives. OHR stated that the Executive Director approves the other incentives. Therefore, it appears that the Executive Director should be approving the SLP awards in every circumstance.
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<sup>11</sup> 5 CFR 537.103(a)(1)

### Documentation

- The SLP files generally lack documentation regarding repayments by employees who do not complete the service agreement(s); and
- An administrative assistant acts as either the preparer or reviewer for each DOI payment request. However, the documentation does not always correctly indicate who prepared or reviewed the payment.

### Independent Verification

- The employee submits a printout of the *Federal Aid Review* page and loan account statements, but the documents can be falsified, for example to indicate that the loan is not delinquent. OHR could mitigate this weakness by, for instance, confirming the loan information with the lender. However, OHR has stated that it no longer typically performs this step because they began to receive a significant volume of applications and did not receive timely responses from the lenders. Accordingly, OHR modified this process after consulting with OPM and the Department of Education; and
- The employee provides OHR with documentation (e.g., the *Federal Aid Review* page) that the lender received and properly applied the award payment. However, the employee could falsify the documentation.

### Management Records - Excel Spreadsheets

- The data on former employees is not reliable. For example, there is a lack of timely and complete information. OHR believes that the problem is mainly attributable to when the SLP began. However, even if this assertion explains some of the problems, we found that OHR has not been sufficiently diligent in maintaining these records and improvement is needed in this area.

### Safeguarding Information

- The SLP files contain sensitive personal information (e.g., social security numbers), but the files are not adequately safeguarded. According to OHR, all its data needs improved safeguarding.

### Separation of Duties

The SLP process generally lacks adequate separation of duties. Separation of duties is critical to reducing the risk of error, waste, and fraud. For instance, a sole SLP employee:

- Determines the adequacy of the justification memorandum;
- Reviews the *Federal Aid Review* page;
- Approves the Commission Form 2497;
- Generally records and maintains the SLP management records; and
- Prepares/reviews and authorizes DOI to issue payments.

**Recommendation A**

OHR should undertake the following actions regarding approvals throughout the SLP process. See Recommendations B and I:

- Officially delegate in writing the authority for the Associate Executive Director of OHR to approve waivers if an employee does not complete their Service Agreement, if the Associate Executive Director retains this authority;
- Amend Commission Form 2497 to require that the employee's supervisor print their name; and
- Issue guidance and/or amend Commission Form 2497 to delineate in what circumstances the Associate Executive Director is required to approve the SLP award.

**Recommendation B**

The Office of the Executive Director should review OPM regulation (5 CFR 537.103(a)(1)) and ensure that the proper individual approves the SLP awards, as required.

**Recommendation C**

OHR should ensure that SLP files contain all appropriate documentation regarding repayments by employees who do not complete their Service Agreements.

**Recommendation D**

OHR should ensure that the documentation surrounding the payment instructions to DOI correctly indicates who prepared and reviewed the payments.

**Recommendation E**

OHR should implement methods to mitigate the risk that fraudulent documentation is submitted by employees and not detected in a timely manner.

**Recommendation F**

OHR and with the Office of Financial Management (OFM) should (to ensure the reliability of management records regarding former employees), require that:

- All former employees are identified in the records;
- The records clearly indicate the amounts awarded, amounts repaid, amounts waived, and balance due for each former employee;
- Relevant programmatic information is promptly recorded (*e.g.*, separation date, status of collection efforts, etc.); and

- An adequate audit trail (*e.g.*, provide a check number for amounts repaid) is provided.

### **Recommendation G**

OHR should review the reliability of the management records involving former employees. If OHR finds errors in their records, they should correct the records and collect the funds from the former employee, where appropriate. See Recommendation J.

### **Recommendation H**

OHR should take the necessary steps to adequately safeguard the SLP files since they contain sensitive personal information.

### **Recommendation I**

OHR should implement a separation of duties in the review, processing, and approval of SLP awards.

## **IDENTIFYING AND COLLECTING FORMER EMPLOYEE DEBTS**

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Employees who do not complete the service agreement(s) must repay the SLP award, unless they receive a waiver. We found two significant issues involving the Commission's failure to identify and collect debts of former employees who have not completed the service agreement(s).

### **Identifying Former Employee Debts**

We conducted a review of all employees who received awards since FY 2003 and determined whether they were still working at the Commission. We identified 12 employees that left the Commission without the knowledge of the SLP staff and had not completed the service agreement(s).<sup>12</sup> As a result, the employees are required to reimburse the Commission for the SLP awards. We determined that the employees owe the Commission \$129,336. During the audit, we informed management of this issue. OHR confirmed our results and DOI is now initiating debt collections.

SLP officials were unaware that the employees no longer worked at the Commission, due to problems with the employee clearance process.<sup>13</sup> We have stated in prior OIG reports that this process needs improvement, and have specifically recommended that the Commission ensure that departing employees complete their service agreement(s).<sup>14</sup> OHR recently received responsibility for the employee clearance process because of a Commission reorganization. OHR acknowledged the problems with the employee clearance process but, as of yet, has not remedied them.

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<sup>12</sup> See Appendix D, Section II for sampling and testing methodology.

<sup>13</sup> The Employee Clearance process is a set of steps that departing employees are required to perform before leaving the Commission; including eliminating computer access, returning government passports, ensuring compliance with Service Agreements, etc.

<sup>14</sup> For instance, see Audit Report No. 323 dated September 29, 2000, and Investigative Memorandum OIG-432 dated February 16, 2006.

### ***Recommendation J***

OHR; in consultation OFM and DOI, should ensure that the \$129,336 that the Commission is owed is collected, properly documented (see Recommendation C) and recorded (see Recommendation F) in a timely manner.

### ***Recommendation K***

OHR should conduct a thorough review of the Employee Clearance process to initiate improvements. At a minimum, the review must consider the different processing issues for headquarters versus regional office staff, and the issues identified in all prior OIG reports and memoranda.

## **Collecting Former Employee Debts**

OHR has acknowledged that it has difficulty in general collecting employee debts. According to OHR, former employees owed approximately \$262,000 as of November 2007 with respect to the SLP. While this only represents approximately two percent of the total amount awarded since the inception of the SLP through FY 2006, given the unreliability of management records involving former employees, as discussed previously on page nine and Recommendation F, this amount could be higher or lower.

Recently, OFM hired a contractor to review OFM's debt collection policies and procedures including those involving employee debts. The contractor might make recommendations to increase the likelihood that employee debts are collected.

OFM also stated that an improved employee clearance process should increase the likelihood that former employees pay the debts because OFM often only learns of the debt after the employee has left the Commission. For instance, if known earlier the Commission could withhold money from the employee's last paycheck.

### ***Recommendation L***

OHR and OFM should implement promptly any recommendations of the contractor retained by OFM to increase the likelihood that employee debts relating to the SLP are collected. If implementing the contractor recommendation(s) is not feasible, OHR and OFM should prepare a report (e.g., describing the recommendation, reason, etc.) for the OIG explaining why the recommendations were not implemented.

## **IMPROVING THE JUSTIFICATION MEMORANDUM PROCESS**

To be eligible to receive an award employees must meet the following performance based criteria established by OPM and the CBA:

- Perform at an acceptable level or fully successful;
- Have high/unique qualifications or meet a special need within the Commission and retaining the employee is essential;
- Is likely to leave the federal government;

- Departure from the agency would affect the Commission's ability to carryout an activity or perform a function that is essential to the mission; and
- The employee that belongs to Section 2 or 4 of the CBA must either contribute to the Commission's mission, customer service, leadership, or teamwork.

The justification should also describe:

- The special qualifications or education required for the job position;
- The cost of training already provided to the employee; and
- The practicality of using other retention allowances.

The employee's supervisor is required to make the determination as to whether the employee meets the criteria by preparing a justification memorandum. However, we found that there are significant issues involving the memoranda that the Commission needs to address.

### **Justification Memorandum – Lack Substantial Information**

While there are specific criteria that employees must meet to qualify for an award, the criteria have been rendered to be less than meaningful because supervisors routinely simply state that the employee meets the required language. While the correct language is used, the justification memorandum routinely lacks substantiation or a basis for the determination that the employee met the criteria. Moreover, OHR does not question the justification memorandum provided the supervisor uses the correct and required language. OHR has stated that they do not believe their role is to second-guess the supervisor's determination.

According to the statute, agencies "...may, in order to recruit or retain highly qualified personnel, establish a program [to reimburse student loans for employees] ...". (5 U.S.C. 5379(b)(1)) One of the avowed bases for the Commission's implementation of the SLP is for retention purposes and "likely to leave the federal government" is one of the criteria that employees are required to meet to qualify for the SLP.

As previously discussed, we have confirmed that employees with many years of service received awards, and thus, it is likely that some employees that received awards do not intend to leave the Commission.

We also have found that according to OHR's records, in FY 2006, supervisors only denied one employee an award based upon performance reasons.<sup>15</sup> While we do not have per se objective evidence that a significant number of Commission employees who are not likely to leave the federal government are receiving SLP benefits and it is possible that employees who are not meeting the criteria, are choosing not to

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<sup>15</sup> In FY 2006, the Commission denied five employees an award, but in four of five cases, the employees were denied for administrative eligibility reasons. This one employee denied for performance reasons appealed and subsequently received their award.

apply for the SLP, in our view, a meaningful review of the listed criteria through the improvement of the quality of the justification memoranda will substantially improve the efficiency of the process.

### ***Recommendation M***

OHR; in consultation with the Union, should provide supervisors with guidance on preparing substantial justification memoranda, including requiring some appropriate substantiation of the listed criteria (see Recommendation O).

### ***Recommendation N***

OHR should return justification memoranda to supervisors that lack substantiation of the criteria.

## **Justification Memorandum- Initially Lacking Required Information**

We found OHR returned 18 of 25 justification memorandums to the supervisor because the memoranda did not contain the required language.<sup>16</sup> The instructions for Commission Form 2497 provide information about the requirements. We believe that the efficiency of the SLP process could be improved if supervisors were provided with a plain English (*e.g.*, use of bullets) document outlining the requirements.

### ***Recommendation O***

OHR should prepare a plain English document regarding the required criteria for justification memoranda for the 2008 Open Season (see Recommendation M).

## **PLANNING FOR COMPLIANCE ISSUES**

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As discussed below, we found several areas where OHR has not implemented critical compliance procedures.

### **Maximum Lifetime Award**

OHR does not have an automated process to ensure that employees do not exceed the maximum lifetime award. Accordingly, at present, there is no mechanism in place to ensure or even track that an employee does not receive the maximum lifetime individual award amount for the SLP. This has not created a real-life concern as of yet because the SLP has only existed since 2003 and the maximum annual award amount is \$10,000, no employee, by definition, could have reached the \$60,000 maximum. However, procedures should be developed to ensure that this does not become a concern in the future.

### ***Recommendation P***

OHR should implement an automated process for monitoring lifetime awards before the 2009 "Open Season".

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<sup>16</sup> See Appendix D, Section I for the methodology.



## Collective Bargaining Agreement

The CBA contains various requirements regarding the number and status of the employees chosen for a SLP award. However, some of the requirements, as discussed below, have not been performed because the Commission has generally granted all applicants the maximum annual award. Thus, the Commission has not been in a situation where it had to choose one applicant over another. OHR should implement the required procedures if employees do not receive the maximum annual awards when:

- The justification memorandum process is improved, thus appropriately weeding out applicants who do not meet the identified criteria; or
- The SLP funding is not sufficient.

The requirements are as follows:

- At least 20 percent of the SLP funds must be awarded to non-professional employees;
- In deciding who receives an award, the Commission needs to maintain a balanced workforce in which women and members of racial and ethnic minority groups are appropriately represented;<sup>17</sup>
- Amounts returned to the Commission, because an employee did not complete their service agreement, etc., should be allocated to employees who did not receive the maximum annual award. The CBA does not contain a detailed distribution plan (*e.g.*, should every current employee since 2003 who did not receive the maximum award amount be eligible for a payment) or establish a minimum amount (*i.e.*, materiality) for redistribution; and
- The Commission needs to notify the Union if it intends to use the SLP to target a particular job series or Division/Office.

### **Recommendation Q**

OHR should develop a plan to obtain the necessary data (some of which is already collected), and a methodology to analyze (*e.g.*, determine the amount of awards given to particular groups) and record the data to comply with the CBA requirements, as necessary.

### **Recommendation R**

OHR; in consultation with the Union, should develop a detailed distribution plan (*e.g.*, identify time periods) and determine whether to establish a minimum amount for redistributions.

## **IMPROVING VACANCY ANNOUNCEMENTS**

We found that 10 of 15 vacancy announcements did not mention the SLP.<sup>18</sup> OHR acknowledged that vacancy announcements lacked consistency in various areas,

<sup>17</sup> The statute, 5 U.S.C. 5379(e) also requires this objective.

<sup>18</sup> See Appendix D, Section III for the methodology used.

including relating to the SLP. OHR stated that they intend to improve the consistency of vacancy announcements. It is imperative that all vacancy announcements include language on the SLP since the benefit is supposed to be assist in recruitment efforts.

***Recommendation S***

OHR should ensure that all newly issued vacancy announcements include language regarding the SLP.

**DISCUSSION OF MANAGEMENT COMMENTS**

Commission management concurred with all of our recommendations. Their formal written response is included as Appendix C.

## APPENDIX A

### ABBREVIATIONS

|                                    |            |
|------------------------------------|------------|
| Collective Bargaining Agreement    | CBA        |
| Department of Interior             | DOI        |
| Government Accountability Office   | GAO        |
| Fiscal Year                        | FY         |
| Office of Financial Management     | OFM        |
| Office of Human Resources          | OHR        |
| Office of Personnel Management     | OPM        |
| Securities and Exchange Commission | Commission |
| Student Loan Repayment Program     | SLP        |

## APPENDIX B

### LIST OF RECOMMENDATIONS

#### ***Recommendation A***

OHR should undertake the following actions regarding approvals throughout the SLP process (See Recommendations B & D):

- Officially delegate in writing the authority for the Associate Executive Director of OHR to approve waivers if an employee does not complete their Service Agreement, if the Associate Executive Director retains this authority;
- Amend Form 2497 to require that the employee's supervisor print their name; and
- Issue guidance and/or amend Form 2497 to delineate in what circumstances the Associate Executive Director is required to approve the SLP award.

#### ***Recommendation B***

The Office of the Executive Director should review OPM regulation (5 CFR 537.103(a)(1)) and ensure that the proper individual approves the SLP awards, as required.

#### ***Recommendation C***

OHR should ensure that SLP files contain all appropriate documentation regarding repayments by employees who do not complete their Service Agreements.

#### ***Recommendation D***

OHR should ensure that the documentation in the SLP files correctly indicates who prepared and reviewed the payments.

#### ***Recommendation E***

OHR should implement methods to mitigate the risk that fraudulent documentation is submitted by employees and not detected in a timely manner.

#### ***Recommendation F***

OHR and with the Office of Financial Management (OFM) should (to ensure the reliability of management records regarding former employees), require that:

- All former employees are identified in the records;
- The records clearly indicate the amounts awarded, amounts repaid, amounts waived, and balance due for each former employee;
- Relevant programmatic information is promptly recorded (*e.g.*, separation date, status of collection efforts, etc.); and

- An adequate audit trail (e.g., provide a check number for amounts repaid) is provided.

### **Recommendation G**

OHR should review the reliability of the management records involving former employees. If OHR finds errors in their records, they should correct the records and collect the funds from the former employee, where appropriate (See Recommendation J).

### **Recommendation H**

OHR should take the necessary steps to adequately safeguard the SLP files since they contain sensitive personal information.

### **Recommendation I**

OHR should implement a separation of duties in the review, processing, and approval of SLP awards.

### **Recommendation J**

OHR, in consultation with OFM and DOI, should ensure that the \$129,336 that the Commission is owed is collected, properly documented (See Recommendation C) and recorded (See Recommendation F) in a timely manner.

### **Recommendation K**

OHR should conduct a thorough review of the Employee Clearance process to initiate improvements. At a minimum, the review must consider the different processing issues for headquarters versus regional office staff, and the issues identified in all prior OIG reports and memoranda.

### **Recommendation L**

OHR and OFM should implement promptly any recommendations of the contractor retained by OFM to increase the likelihood that employee debts relating to the SLP are collected. If implementing the contractor recommendation(s) is not feasible, OHR and OFM should prepare a report (e.g., describing the recommendation, reason, etc.) for the OIG explaining why the recommendations were not implemented.

### **Recommendation M**

OHR, in consultation with the Union, should provide supervisors with guidance on preparing substantial justification memoranda, including requiring some appropriate substantiation of the listed criteria (See Recommendation O).

### **Recommendation N**

OHR should return justification memoranda to supervisors that lack substantiation of the criteria.

**Recommendation O**

OHR should prepare a plain English document regarding the required criteria for justification memoranda for the 2008 Open Season (See Recommendation M).

**Recommendation P**

OHR should implement an automated process for monitoring lifetime awards before the 2009 "Open Season".

**Recommendation Q**

OHR should develop a plan to obtain the necessary data (some of which is already collected), and a methodology to analyze (*e.g.*, determine the amount of awards given to particular groups) and record the data to comply with the CBA requirements, as necessary.

**Recommendation R**

OHR; in consultation with the Union, should develop a detailed distribution plan (*e.g.*, identify time periods) and determine whether to establish a minimum amount for redistributions.

**Recommendation S**

OHR should ensure that all vacancy announcements issued heretofore include language regarding the SLP.

## APPENDIX C

# MANAGEMENT'S COMMENTS



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

MAR 25 2008

H. David Kotz  
Inspector General  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

Mr. Kotz,

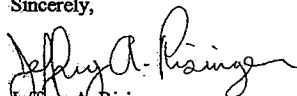
I have reviewed Inspector General Report # 439, "Office of Inspector General Audit of Student Loan Program." The report makes recommendations related to program policy and administration, records management, and internal controls and separation of duties. Specifically, the report recommends improving the guidance and forms, program execution, and recordkeeping and reporting. Some of the recommendations will require collaboration with the Office of Financial Management and the Office of the Executive Director. OHR may also need to notify the union of certain recommendations and may be required to negotiate proposed changes to the student loan program based on this audit report. I concur with the audit findings and the recommendations contained in the report.

OHR staff and leaders will incorporate all recommendations related to the program administration and internal controls, including appropriate delegations, prior to the announcement of the FY 2008 student loan program. The staff has already started revising its operating procedures and the forms related to the program. We will establish more stringent loan verification procedures directly with lenders. We will determine how to revise the award review and approval process in accordance to the recommendations contained in the report and applicable regulations, including the Collective Bargaining Unit. Where necessary, we will notify NTEU of any changes to the program.

OHR will also work collaboratively with OFM to establish procedures to collect funds from employees who leave prior to completing their service agreements under the SLRP. We are currently working with OFM and DOI to collect the debts owed by the former employees identified in this report. OHR will implement agreed upon recommendations made by the OFM contractor to ensure that debts incurred from the SLRP are collected timely.

Thank you for the audit report and the professional manner in which it was conducted.

Sincerely,

  
Jeffrey A. Risinger  
Associate Executive Director, OHR

## APPENDIX D

### SAMPLING AND TESTING METHODOLOGIES

#### I. INTERNAL CONTROL TESTING

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Our internal control testing, unless otherwise stated below, involved a judgmental sample of 25 of 365 employees received an award in FY 2006. We selected the employees from OHR's Excel spreadsheets. We chose FY 2006 because it was the most recently completed fiscal year when we performed our audit fieldwork. When selecting the judgmental sample, we attempted to choose a sample that was representative of the universe. For instance, we chose a specific number of professionals, regional office staff, and other employees. While we believe the sample is representative, our results should not be projected upon the universe.

We modified our methodology for the following situations:

- We reviewed the five employees who were denied awards in FY 2006 to understand the circumstances. We identified the employees from OHR's Excel spreadsheets;
- We reviewed the employee who received a repayment waiver. We identified the employee from OHR's Excel spreadsheets;<sup>19</sup>
- We selected 15 employees from the payment documentation submitted to DOI in FY 2006 to ensure that the employees were actual applicants; and
- We selected 15 employees who received multiple awards from OHR's Excel Spreadsheets to review OHR's monitoring of service agreements.

#### II. IDENTIFYING AND COLLECTING EMPLOYEE DEBT

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We identified all employees who received at least one award since FY 2003 by reviewing OHR's Excel spreadsheets. We then determined whether the employee was still at the Commission by reviewing DOI. If they left the Commission (and did not transfer to another federal agency or receive a waiver), we determined whether the SLP staff were aware that they left by reviewing OHR's Excel spreadsheets. For those employees who left without the staff's knowledge, we reviewed the Excel spreadsheets to determine whether the employee completed their service agreement(s).

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<sup>19</sup> During our testing on former employees, we identified two other instances. However, OHR did not record these instances. See the finding on *Strengthening Internal Controls*.



### **III. VACANCY ANNOUNCEMENTS**

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We selected all vacancy announcements posted on the Commission's website on the date that we performed our audit fieldwork. We excluded a vacancy announcement because it was for a term position that was ineligible for SLP. We believe the vacancy announcements are representative and the results can be projected on the universe such as vacancy announcements posted on other dates. The number of vacancy announcements varied daily depending on employee turnover, funding, etc.