



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

FEB 27 2007

MEMORANDUM

TO: M/DGHR – Mr. Teddy B. Taylor

FROM: OIG/AUD – Mark W. Duda *Mark W. Duda*

SUBJECT: Opportunities To Improve the Department of State Student Loan Repayment Program (AUD/IP-07-19)

The attached report presents the results of the Office of Inspector General's (OIG) review of the Department of State's Student Loan Repayment Program (SLRP). Based on its review, OIG determined that SLRP could be improved, and Bureau of Human Resources (HR) officials said that they would benefit from having improved management controls and that having identifiable performance measures would help document the impact of SLRP on workforce recruitment and retention.

The review was conducted at the Department's headquarters in Washington, DC, from July to November 2005 by OIG's Office of Audits, International Programs Division. Because of the limited nature of OIG's work, the review did not constitute an audit in conformance with generally accepted government auditing standards.

OIG appreciates the assistance provided by the Department during the course of the review. If you have any questions, please call me at (202) 663-0372 or have your staff call Forrest Peters, Director, International Programs Division, at (703) 284-2690.

Attachment: As stated

Opportunities To Improve the Department of State Student Loan Repayment Program

(AUD/IP-07-19)

Summary

The Office of Inspector General (OIG) reviewed the Department of State's Student Loan Repayment Program (SLRP). OIG originally intended to determine whether only eligible employees received student loan reimbursements, loan reimbursements exceeded established limits, lenders properly credited funds to the approved student loan, and the Department was reimbursed from participants who had violated their service agreements. However, the OIG audit team found that the Bureau of Human Resources, Office of Employee Relations, Employee Programs Division (HR/ER/EP), did not have an automated system in place for processing applications and collecting financial and performance data, and it did not manually maintain some of the records OIG needed to conduct its analysis. Without this information, the audit team did not have sufficient information to address the original objective. Therefore, OIG changed its focus, and this report presents the results of the deficiencies found.

OIG determined that the Bureau of Human Resources (HR) needs to review management controls and develop performance measures to ensure more effective operation of the SLRP. HR officials said they would benefit from having improved management controls and that having identifiable performance measures would help document the impact of SLRP on workforce recruitment and retention.

OIG conducted its work at the Department's headquarters in Washington, DC, from July to November 2005. OIG discussed its findings with HR/ER/EP officials in November 2005 and again after additional analyses in May 2006.

Background

The U.S. Code (5 U.S.C. 5379) authorized agencies to establish the Student Loan Repayment Program "under which [agencies] may repay certain types of Federally made, insured, or guaranteed student loans" as a "recruitment or retention incentive" for qualified employees. Agencies may pay a loanholder up to \$10,000 annually for an employee, not to exceed \$60,000, and the employee has to agree to remain with the agency for at least three years or must reimburse the agency for all benefits paid. To be eligible for repayments, the employee has to have qualifying federally insured loans made by educational institutions or banks and other private lenders and hold a qualifying position.

Within the Department, SLRP was established in July 2002 as a two-year pilot program for the Department's Civil Service and Foreign Service employees. Employees eligible for SLRP were to hold Foreign Service assignments that were among the most difficult to fill overseas—those at posts where danger pay or a hardship differential of at least 15 percent is necessary to attract employees—or Civil Service positions that have a high turnover; a shortage of qualified candidates; or other factors leading to recruitment or retention difficulties, including

foreign language specialists, interpreters/translators, auditors, accountants, secretaries, and human resources personnel. Presidential Management Fellows also qualify for SLRP.

At the Department, approximately 1,400 employees participated in SLRP between FYs 2002 and 2005, at a cost of about \$12.7 million, or an average annual payment of about \$4,800 for each participant. SLRP is administered by a contractor working for HR/ER/EP. Strategic management of human capital is part of the President's Management Agenda, and HR officials have described SLRP as a "human capital success."

The Department, which has vigorously promoted SLRP as a recruitment and retention tool since its implementation, has led all of 30 federal agencies in the total number of staff recruited and funds expended. The Office of Personnel Management's SLRP report for FY 2005 says that the Department was "one of the largest providers of student loan repayment benefits . . . making more than \$3.8 million in student loan repayments on behalf of 809 employees."

Along with the increasing number of participants, Department costs for SLRP have increased, from \$2 million in FY 2002 to \$3.86 million in FY 2005. HR/ER/EP administers the program with assistance from other HR divisions and the Bureau of Resource Management (RM), Office of Budget Policy, which analyzes the budget requirements and expenditures for SLRP.

Results

OIG determined that HR needs to review management controls and develop performance measures to ensure more effective operation of the Department's SLRP.

Management Controls

HR did not have all of the necessary management controls for SLRP. Specifically, the SLRP manager could not automatically identify the SLRP participants who had not complied with their service agreements and could not automatically determine whether the Department had received the correct amount of reimbursements it was owed for individuals who had not complied with their service agreements. Also, HR could not independently verify whether lenders properly credited funds to the approved student loans. The Foreign Affairs Manual (2 FAM 020, "Systems of Management Controls") requires new programs to "incorporate effective systems of management controls" and managers to "evaluate such systems on an ongoing basis." However, HR officials said that they had not conducted a review of their management controls because of the program's pilot status and because they were developing an automated system. Now that the program has become permanent and a new automated system began operating after OIG had completed its survey, HR officials said that it would be beneficial to review their management controls.

Recommendation 1: OIG recommends that the Bureau of Human Resources review the management controls for the Student Loan Repayment Program and report its findings to OIG within 60 days of report issuance.

Performance Measures

HR did not have performance measures needed to demonstrate SLRP's impact on recruitment and retention. The Government Performance and Results Act of 1993 (GPRA), (2(b)(2), states that program performance reform is to be initiated "with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress." Also, the Government Accountability Office (GAO) recommended, in its July 2005 report on SLRP, that the Department develop such measures by "determining now what indicators [it] will use to track program success, what baseline [it] will use to measure resulting program changes over time, what data [it] needs to begin to collect, and whether [it] could use periodic surveys to track employee attitudes about the program as additional indicators of success."¹

Also, the Department's July 2005 Results Report cited improvements in recruitment and retention and the popularity of SLRP,² and HR officials cited the program as a "human capital success." HR's Performance Plan for FY 2008 states that SLRP provides a "key incentive for service in differential and danger pay posts overseas as well as historically hard to fill civil service positions."³ However, HR did not have the data to demonstrate the extent to which SLRP was an incentive to fill these positions. HR/ER/EP officials said that performance measures had not been developed because OPM had not established a reporting requirement for this information and had not provided specific guidance for assessing SLRP performance measurement. The officials further said that they were unable to use OPM's human capital framework⁴ to help develop the necessary measures because they believed that the questions included in the document to measure human capital management did not apply to Foreign Service officers.

OPM, in its annual report for FY 2004,⁵ said that several federal Departments and agencies were developing measures to assess their SLRP, such as GAO, which surveys its eligible employees annually to ascertain the SLRP's importance and relevance and compares attrition rates for eligible employees who receive the student loan benefits with those who are eligible but do not. Also, the Department of Housing and Urban Development was identifying baseline retention measures for its SLRP, including "employee satisfaction, participant versus non-participant retention rates, and service agreement statistics."

HR/ER/EP officials told OIG that they had received comments from employees about SLRP and agreed that it would be useful to include specific measures of SLRP's impact on recruitment and retention. Finally, they said that they would seek additional guidance from OPM on the formulation of performance measures.

¹ *Federal Student Loan Repayment Program: OPM Could Build its Efforts to Help Agencies Administer the Program and Measure Results* (GAO-05-762, July 2005).

² *2005 Department of State Report to Employees* (Office of Management and Policy, July 21, 2005).

³ Bureau of Human Resources Performance Plan for FY 2008.

⁴ OPM, "Human Capital Assessment and Accountability Framework (HCAAF) http://www.opm.gov/hcaaf_resource_center/, accessed on January 23, 2007.

⁵ *Federal Student Loan Repayment Program for Fiscal Year 2004, Report to the Congress* (OPM, April 2005).

Recommendation 2: OIG recommends that the Bureau of Human Resources develop, within 60 days of report issuance, performance measures to quantify the Student Loan Repayment Program's impact on recruitment and retention.