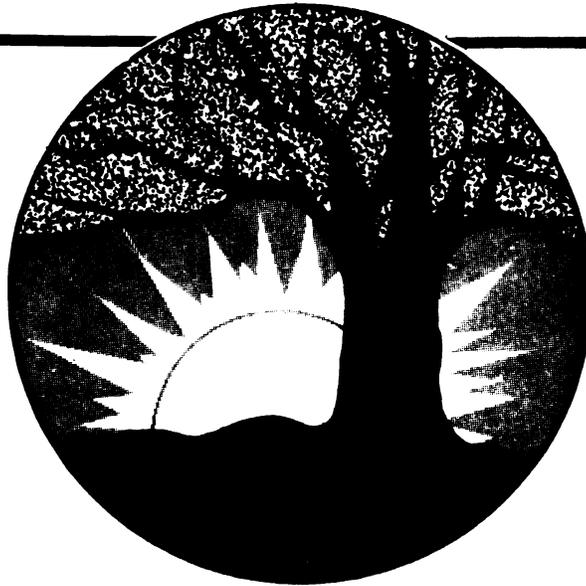


PERFORMANCE AUDIT

"Tennessee Student Assistance Corporation
'January 2014



Justin P. Wilson
Comptroller of the Treasury



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Comptroller of the Treasury
Department of Audit
Division of State Audit

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January 23, 2014

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Judd Matheny, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard Rhoda, Executive Director
Tennessee Student Assistance Corporation
404 James Robertson Parkway, Suite 1510
Nashville, TN 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Tennessee Student Assistance Corporation. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the corporation should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/dww
13017-TSAC

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Tennessee Student Assistance Corporation
January 2014

AUDIT OBJECTIVES

The objectives of the audit were to (1) review the effect of the Eligibility Verification for Entitlements Act on students who are dually enrolled in high school and college courses; (2) review the loan forgiveness process to determine the timeliness of the process when students do not fulfill their obligations, and determine any effect this has on revocation of professional licenses; (3) determine if either TSAC or the institutions verify grade point average (GPA) calculations for students qualifying for the lottery scholarships solely based upon their GPA in compliance with the State Board of Education's Uniform Grading Policy; (4) determine if institutions refund portions of lottery scholarships to students when a student drops the number of hours they are taking or drops out of school completely; (5) review the lottery scholarship appeals process to determine if policies and procedures are consistently applied; (6) review the contract with Student Loan Counseling Service, Inc., to determine if the contract includes appropriate liquidated damages, penalties, and clauses in the event that satisfactory services are not received; (7) review the application and verification process for the Foster Care Grant to determine the documentation required and the efficiency of the verification process with the Department of Children's Services, and, if possible, obtain information on recipient success; (8) provide information on the corporation's plans regarding the loan portfolio and the contract with Nelnet Guarantor Solutions since the Federal Family Education Loan Program has ended; (9) determine Tennessee public schools' and Tennessee Independent Colleges and Universities Association schools' three-year cohort default rates; (10) review default aversion process documentation and statistics to determine the efficiency and effectiveness of the default aversion program, and determine if any schools are in jeopardy of losing their federal Direct Loan and federal Pell Grant eligibility; (11) review the professional license revocation process to determine if the process is functioning efficiently, timely, and according to established rules and procedures, and review the license revocation database to ensure data are secured, complete, accurate, and reliable; (12) review TSAC's electronic grant and scholarship system (eGRandS) to determine whether eGRandS data is secured, complete, accurate, and reliable; (13) provide

information regarding the TSAC's Title VI reporting; and (14) provide information regarding the TSAC's performance measures.

FINDINGS

The state-funded scholarship loan forgiveness program participants were charged more interest than intended by state law

For three of the five loan forgiveness programs—Tennessee Teaching Scholars, Minority Teaching Fellows, and Graduate Nursing Loan Forgiveness—the Tennessee Assistance Corporation's (TSAC) rules regarding when interest accrual begins do not comply with state law, resulting in some recipients being overcharged interest. Also, the interest accrual calculation for the Graduate Nursing Loan Forgiveness Program does not match either the state law or the TSAC rule (page 14).

Tennessee Education Lottery Scholarships may not be fairly distributed because TSAC does not verify GPAs used in determining eligibility, and GPAs based on the State Board of Education's Uniform Grading Policy are inconsistently reported

Neither the Tennessee Student Assistance Corporation nor the state colleges and universities verify reported GPAs to ensure compliance with state law and the State Board of Education's Uniform Grading Policy. The State Board of Education's Uniform Grading Policy allows schools to determine their own grading policies for assigning class rank and does not require the uniform grading policy calculation to be reported on the student transcript. Board policy is also silent on several factors that could help determine a student's scholarship eligibility (page 17).

TSAC's rules regarding repayment or partial repayment of a scholarship or grant awarded to students who withdraw from courses or from postsecondary institutions may result in students receiving refunds of state dollars

The Tennessee Student Assistance Corporation created rule 1640-01-19-18 that states, "If a recipient of a TELS award or Dual Enrollment Grant fails to complete a semester for any reason, the eligible postsecondary institution shall apply its refund policy to determine whether a refund may be required and/or funds returned to the Corporation." Refund policies for most state institutions were silent regarding the treatment of state lottery and grant program funds but clearly stated the treatment and reconciliation of Title IV federal financial aid funds (page 23).

TSAC's poor recordkeeping of Tennessee Education Lottery Scholarship appeals resulted in missing records and some appeals not being considered, denied, or otherwise closed

The Tennessee Student Assistance Corporation's failure to maintain adequate records and documentation of submitted Tennessee Education Lottery Scholarship appeals resulted in missing records and some appeals not being considered, denied, or otherwise closed (page 25).

TSAC handles students inconsistently during the Tennessee Education Lottery Scholarship appeals process

For students who lose eligibility for the Tennessee Educational Lottery Scholarships, rules and other information readily available to the public fail to address when an appeal should go directly to the Tennessee Student Assistance Corporation, (TSAC) instead of to an Institutional Review Panel. TSAC's inconsistent application of its own rules regarding the timeliness of appeals submissions allowed two students to receive extensions for submitting appeals information and not others. Also, TSAC's calculation of timeliness for submissions does not comply with their own rules (page 28).

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: TSAC could improve the monitoring of its default aversion contractor Student Loan Counseling Service; most foster care youth fail to satisfy the academic requirements of the HOPE Foster Care Grant, and additional aid available through the state may not meet the financial need of this disadvantaged group; however, data about this group's academic capabilities and postsecondary financial needs in Tennessee are unavailable; the effect of the discontinuation of the Federal Family Education Loan Program on TSAC; federally mandated changes to the calculation of student loan cohort default rates may leave some Tennessee postsecondary institutions in jeopardy of losing their eligibility to participate in the Direct Loan and Federal Pell Grant programs; TSAC's process for reviewing defaulted borrowers for license revocation remains a mostly manual process, but TSAC works closely with the vendor NGS to continually improve the process (page 33).

ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider requiring a more specific grading policy that includes specifications on how the GPA is calculated and directions regarding rounding. The General Assembly may want to consider expanding the policy and calculation of the GPA for Tennessee Education Lottery Scholarship eligibility to private institutions in an effort to make the distribution of lottery funds as fair and equitable as possible.

Performance Audit

Tennessee Student Assistance Corporation

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose and Authority for the Audit	1
Objectives of the Audit	1
Scope and Methodology of the Audit	2
History and Statutory Responsibilities	3
Organization	4
Revenues and Expenditures	12
FINDINGS AND RECOMMENDATIONS	14
1. The state-funded scholarship loan forgiveness program participants were charged more interest than intended by state law	14
2. Tennessee Education Lottery Scholarships may not be fairly distributed because TSAC does not verify GPAs used in determining eligibility, and GPAs based on the State Board of Education's Uniform Grading Policy are inconsistently reported	17
3. TSAC's rules regarding repayment or partial repayment of a scholarship or grant awarded to students who withdraw from courses or from postsecondary institutions may result in students receiving refunds of state dollars	23
4. TSAC's poor recordkeeping of Tennessee Education Lottery Scholarship appeals resulted in missing records and some appeals not being considered, denied, or otherwise closed	25
5. TSAC handles students inconsistently during the Tennessee Education Lottery Scholarship appeal process	28
OBSERVATIONS AND COMMENTS	33
TSAC could improve the monitoring of its default aversion contractor Student Loan Counseling Service	33

TABLE OF CONTENTS (CONT.)

	<u>Page</u>
Most foster care youth fail to satisfy the academic requirements of the HOPE Foster Care Grant, and additional aid available through the state may not meet the financial need of this disadvantaged group; however, data about this group's academic capabilities and postsecondary financial needs in Tennessee are unavailable	36
The effect of the discontinuation of the Federal Family Education Loan Program on TSAC	38
Federally mandated changes to the calculation of student loan cohort default rates may leave some Tennessee postsecondary institutions in jeopardy of losing their eligibility to participate in the Direct Loan and Federal Pell Grant programs	39
TSAC's process for reviewing defaulted borrowers for license revocation remains a mostly manual process, but TSAC works closely with the vendor NGS to continually improve the process	41
RESULTS OF OTHER WORK PERFORMED	43
Timeliness of payments and recordkeeping in the scholarship loan forgiveness programs	43
Status of scholarship loan forgiveness program license revocation process	44
Status of electronic grant and scholarship system	44
RECOMMENDATIONS	45
Legislative	45
Administrative	45
APPENDICES	47
GPA Calculation Methods	47
Title VI and Other Information	51
Performance Measures Information	55

Performance Audit Tennessee Student Assistance Corporation

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Student Assistance Corporation (TSAC) was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-235, the corporation is scheduled to terminate June 30, 2014. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the corporation and to report to the Joint Government Operations Committee of the General Assembly. The audit is intended to aid the committee in determining whether TSAC should be continued, restructured, or terminated.

OBJECTIVES OF THE AUDIT

The objectives of the audit were to

1. Review the effect of the Eligibility Verification for Entitlements Act on students who are dually enrolled in high school and college courses.
2. Review the loan forgiveness process to determine the timeliness of the process when students do not fulfill their obligations, and determine any effect this has on revocation of professional licenses.
3. Determine if either TSAC or the institutions verify grade point average (GPA) calculations for students qualifying for the lottery scholarships solely based upon their GPA in compliance with the State Board of Education's Uniform Grading Policy.
4. Determine if institutions refund portions of lottery scholarships to students when a student drops the number of hours they are taking or drops out of school completely.
5. Review the lottery scholarship appeals process to determine if policies and procedures are consistently applied.
6. Review the contract with Student Loan Counseling Service, Inc., to determine if the contract includes appropriate liquidated damages, penalties, and clauses in the event that satisfactory services are not received.
7. Review the application and verification process for the Foster Care Grant to determine the documentation required and the efficiency of the verification process

with the Department of Children's Services, and, if possible, obtain information on recipient success.

8. Provide information on the corporation's plans regarding the loan portfolio and the contract with Nelnet Guarantor Solutions since the Federal Family Education Loan Program has ended.
9. Determine Tennessee public schools' and Tennessee Independent Colleges and Universities Association schools' three-year cohort default rates; review default aversion process documentation and statistics to determine the efficiency and effectiveness of the default aversion program; and determine if any schools are in jeopardy of losing their federal Direct Loan and federal Pell Grant eligibility.
10. Review the professional license revocation process to determine if the process is functioning efficiently, timely, and according to established rules and procedures, and review the license revocation database to ensure data are secured, complete, accurate, and reliable.
11. Review TSAC's electronic grant and scholarship system (eGRandS) to determine whether eGRandS data is secured, complete, accurate, and reliable.
12. Provide information regarding the TSAC's Title VI reporting.
13. Provide information regarding the TSAC's performance measures.

SCOPE AND METHODOLOGY OF THE AUDIT

The activities of the Tennessee Student Assistance Corporation (TSAC) were reviewed for fiscal year 2008 through fiscal year 2013. 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. Methods used included

1. review of applicable legislation and policies and procedures;
2. attendance or online viewing of relevant legislative and corporation meetings;
3. examination of the entity's records, reports, information summaries, and reports from the corporation's vendors; and
4. interviews with TSAC staff and staff of other state agencies that interact with TSAC.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient,

appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

The General Assembly has designated the Comptroller of the Treasury both to serve as a board member of the TSAC and to audit the corporation. We do not believe the Comptroller's service as a board member affected our ability to conduct an independent audit.

This audit also reviewed the operations of the Tennessee Higher Education Commission (THEC), which is managed by the same executive director as the Tennessee Student Assistance Corporation. Results related to THEC are in a separate report, issued January 2014.

HISTORY AND STATUTORY RESPONSIBILITIES

The Tennessee Student Assistance Corporation (TSAC) was created by the legislature in 1974 by Section 49-4-201, *Tennessee Code Annotated*, to administer student assistance programs as a public nonprofit corporation. Until recently the corporation has been Tennessee's designated federal guaranty agency responsible for the administration of postsecondary education loan programs, authorized by Title IV of the Higher Education Act of 1965 and further authorized by Section 49-4-401, *Tennessee Code Annotated*. In 2010, the Health Care and Reconciliation Act discontinued loans or consolidations under the Federal Family Education Loan Program, meaning all federally supported student loans now come directly from the U.S. Department of Education, and TSAC guaranteed no new loans after 2010. TSAC also administers other state and federal student assistance programs as authorized by the General Assembly.

In 2003, TSAC was given the responsibility of administering the Tennessee Education Lottery Scholarship Program, including determining eligibility of students and distributing scholarship funds.

While TSAC is responsible for administering the lottery scholarship program, the responsibility of research and analysis related to the program was given to THEC. THEC is required by statute to evaluate the program and provide an annual report to the General Assembly. The report provides the General Assembly with information pertaining to areas such as student success, scholarship retention, and demographics of scholarship recipients. The 2013 report covers recipient outcomes through fall 2012.

Section 49-4-202, *Tennessee Code Annotated*, defines the governing body for TSAC as an 18-member board of directors including

- the Governor,
- the Commissioner of Education,
- the State Treasurer,
- the Comptroller of the Treasury,

- the Commissioner of Finance and Administration,
- the Executive Director of the Tennessee Higher Education Commission,
- the President of the Tennessee Proprietary Business School Association,
- the President of the Tennessee Independent Colleges and Universities Association,
- the Chair of the Tennessee Independent Colleges and Universities Association,
- the President of the University of Tennessee,
- the Chancellor of the Tennessee Board of Regents,
- the President of the Tennessee Association of Student Financial Aid Administrators,
- one representative of a commercial lender,
- two students enrolled in an institution of higher education in Tennessee, and
- three private citizens involved in education but not employed by or professionally affiliated with any institution of higher education in the state.

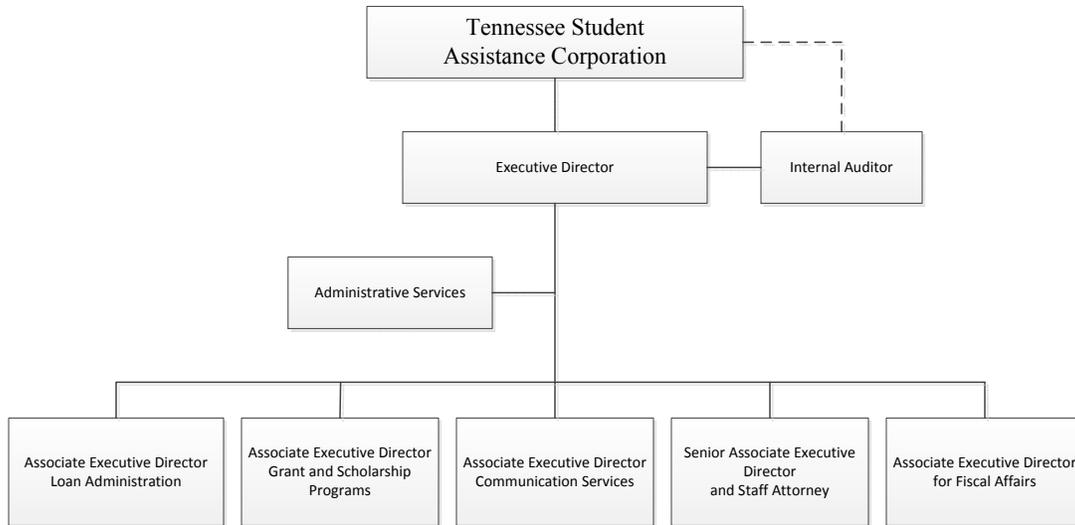
ORGANIZATION

The daily operation of the Tennessee Student Assistance Corporation (TSAC) is managed by an executive director who serves concurrently as the executive director of the Tennessee Higher Education Commission and is appointed by the Governor. TSAC is divided into five divisions: Loan Administration, Grant and Scholarship Programs, Communication Services, Compliance and Legal Affairs, and Fiscal Affairs. (See the organization chart on the following page.)

Loan Administration

The Loan Administration Division is responsible for oversight of all loans that were part of the Federal Family Education Loan Program (FFELP), authorized in Title IV of the Higher Education Act of 1965. Until 2010, FFELP loans were made through private lenders and guaranteed by TSAC, with reinsurance provided by the U.S. Department of Education. The Health Care and Reconciliation Act of 2010 called for the termination of any new loans or consolidations under FFELP after June 30, 2010. All Stafford, PLUS, and Consolidation Loans now come directly from the Department of Education under the Federal Direct Loan Program. Although FFELP loans are no longer issued to students, the agency maintains a portfolio of approximately 600,000 FFELP loans issued prior to June 30, 2010, worth \$3.5 billion.

**Tennessee Student Assistance Corporation
Organization Chart
September 2013**



According to TSAC, the FFELP portfolio continues to produce positive cash flow, and the corporation plans to sell the portfolio when it no longer produces a positive cash flow. To sell the portfolio, TSAC must obtain permission from the U.S. Department of Education, but it has contingency plans to fund the portfolio using reserve operating funds in the event the portfolio cannot be sold in a timely manner.

TSAC contracts with Nelnet Guarantor Solutions (NGS) to service the corporation’s remaining FFELP loan portfolio, Grant and Scholarship Programs, and the TSAC General Ledger System. The \$136,300,000 federally funded contract is scheduled to provide services to the corporation from 2012 to 2016. According to TSAC, the contract with NGS will be terminated when the portfolio is sold.

Grant and Scholarship Programs

The Grant and Scholarship Programs Division manages the Minority Teaching Fellows Program; the Tennessee Teaching Scholars Program; the Graduate Nursing Loan Forgiveness Program; the John R. Justice Student Loan Repayment Program; the Dependent Children Scholarship Program; the Robert C. Byrd Honors Scholarship Program; the Ned McWherter Scholarship Program; the Tennessee Student Assistance Award Program; and all scholarships, loan scholarships, and grants under the Tennessee Education Lottery Scholarship Program. Descriptions of these programs are included below.

Minority Teaching Fellows Program – This program provides forgivable loans to minority high school graduates who wish to pursue teaching careers. An eligible student must have at least a 2.75 high school GPA and have scored at least an 18 on the ACT (or 850 on the SAT). Recipients may be awarded up to \$5,000 per college academic year up to a maximum of \$20,000

over four years. To remain eligible for the program each year, the recipient must maintain at least a 2.5 cumulative GPA and attend college full time. Upon completion of an approved teaching program, loans are forgiven at the rate of one year's award for each year of teaching at the K-12 level in a Tennessee public school.

Tennessee Teaching Scholars Program – This program was enacted by the General Assembly in 1995 to replace both the Teacher Loan/Scholarship Program and the Teacher Loan Program for Disadvantaged Areas of Tennessee. The goal of this program is to encourage exemplary students to enter the teaching field. Participation in this forgivable loan program is limited to college juniors, seniors, and post-baccalaureate students formally admitted to a teacher education program in Tennessee. Recipients of the awards incur an obligation to teach one year in a Tennessee public school for each year the award is received. In March 2012, the TSAC board increased the award from \$4,500 to \$5,000 per year.

Graduate Nursing Loan Forgiveness Program – This program began in 2006 to increase the number of nursing teaching professionals and administrators in Tennessee. The program provides forgivable loans to registered nurses enrolled in a master's or post-master's degree program who plan to become teachers and administrators in Tennessee nursing education programs. Recipients are awarded up to \$7,000 per academic year for up to four academic years. Recipients who begin the program pursuing a master's degree are eligible to reapply for post-master's work. Loans are forgiven at the rate of one year's award for each year of serving as a teacher or administrator in a Tennessee nursing education program.

John R. Justice Student Loan Repayment Program – This program was enacted by Congress to encourage qualified attorneys to serve as prosecutors and public defenders. The program provides student loan repayment assistance for local, state, and federal public defenders and local and state prosecutors who commit to employment as public defenders and prosecutors for at least three years. Even though this is a federally funded program, TSAC is responsible for administering the program in Tennessee.

Dependent Children Scholarship Program – This program provides scholarships to undergraduate students who are dependent children of a law enforcement officer, a fireman, or an emergency medical service technician who has been killed or totally and permanently disabled while performing duties within the scope of such employment. The amount of the award can cover the costs of up to four academic years of full-time enrollment, including tuition, books, supplies, and room and board.

Robert C. Byrd Honors Scholarship Program – This program was eliminated from the federal budget starting with the 2011-2012 academic year.

Ned McWherter Scholars Program – This program encourages academically superior Tennessee high school graduates to attend college in Tennessee. Eligible students must have a minimum 3.5 high school GPA and a minimum composite score of 29 on the ACT or SAT equivalent. Students must also maintain a 3.2 GPA while in college to remain eligible. Awards are \$3,000 per academic year and must be matched by the college or university.

Tennessee Student Assistance Award Program – This program makes awards to financially needy undergraduate students. For 2014-2015, the award amount ranges for \$1,000 at a college of applied technology to \$4,000 at a two- or four-year private institution. The TSAC board determines maximum award amounts prior to the beginning of the fall term. Available funding is insufficient to reach all eligible applicants, so early filing of the Free Application for Federal Student Aid (FAFSA) is encouraged.

Tennessee Education Lottery Scholarship Program – This program began in the fall of 2004. The scholarships are available to Tennessee residents who enroll in one of Tennessee’s public or private colleges or universities and who meet the academic and/or financial requirements for eligibility. The program includes 11 different scholarship options for students: the Tennessee HOPE Scholarship, the ASPIRE Award, the Tennessee HOPE Access Grant, the General Assembly Merit Scholarship, the Wilder-Naifeh Technical Skills Grant, the Tennessee HOPE Scholarship for Non-traditional Students, the Tennessee HOPE Foster Child Tuition Grant, the Helping Heroes Grant, the Tennessee Rural Health Loan Forgiveness Program, the Tennessee Math and Science Teacher Loan Forgiveness Program, and Dual Enrollment Grant. As of August 2013, maximum award amounts and minimum qualifications for each award are as follows:

Tennessee Education Lottery Scholarship Programs and Eligibility		
Overall eligibility requirements:		
<ol style="list-style-type: none"> 1. Be a Tennessee resident for one year prior to the application deadline of September 1 for fall classes or February 1 for spring and summer classes; 2. Complete a Free Application for Federal Student Aid (FAFSA) by September 1 for fall classes or February 1 for spring and summer classes; 3. Enroll in an eligible postsecondary institution within 16 months of graduating from a Tennessee high school or completion of a Tennessee homeschool or GED program; and 4. Be enrolled at least 6 hours. 		
Program	Award Amount	Additional Eligibility Requirements
HOPE Scholarship	Up to \$2,000 per semester for four-year institutions and two-year institutions offering on-campus housing; Up to \$1,000 per semester for two-year institutions	<ul style="list-style-type: none"> • Minimum 21 ACT (composite)/980 SAT (Math + Critical Reading ONLY) • OR Final cumulative weighted 3.0 GPA (calculated per the uniform grading policy adopted by the State Board of Education) for entering freshmen graduating from eligible public or category 1, 2, or 3 private high schools. • GED students must have minimum ACT/SAT test scores stated above AND an average score of at least 525 on the GED test; • Tennessee home-school and non-category 1, 2, or 3 private high school graduates must have the ACT/SAT test scores stated above AND must have been enrolled in a home school program for one year immediately preceding graduation and be registered with a Tennessee local school district.
ASPIRE Award	Up to \$750 per semester supplement to HOPE scholarship	<ul style="list-style-type: none"> • Parents’ or independent student’s (and spouse’s) adjusted gross income must be \$36,000 or less on tax form. • Student may receive ASPIRE or GAMS, but not both.

Tennessee HOPE Access Grant	Up to \$1,375 per semester for four-year institutions; up to \$875 per semester for two-year institutions	<ul style="list-style-type: none"> • Entering freshmen graduating from eligible public or category 1, 2, or 3 private high schools must have at least a final cumulative weighted 2.75-2.99 GPA (calculated per the uniform grading policy adopted by the State Board of Education) AND 18, 19, or 20 ACT (composite)/860-970 SAT (Math + Critical Reading ONLY) AND • Parents' or independent student's (and spouse's) adjusted gross income must be \$36,000 or less on tax form. • Award is non-renewable after 24 attempted hours; however, students may become HOPE eligible.
General Assembly Merit Scholarship (GAMS)	Up to \$500 per semester supplement to HOPE Scholarship	<ul style="list-style-type: none"> • Entering freshmen graduating from eligible public or category 1, 2, or 3 private high schools must have at least a final cumulative weighted GPA of 3.75 (calculated per the uniform grading policy adopted by the State Board of Education) AND 29 ACT (Composite)/1280 SAT (Math + Critical Reading ONLY) on a national test date or state test date. • Home school and non-category 1, 2, or 3 private high school graduates must have the ACT/SAT test scores stated above AND enroll in four or more courses totaling at least 12 semester hours with a cumulative GPA of 3.0 at an eligible postsecondary institution while enrolled in a home-school program. • Students may receive ASPIRE or GAMS, but not both.
Wilder-Naifeh Technical Skills Grant	Up to \$2,000 per academic year	<ul style="list-style-type: none"> • Available to anyone who enrolls in a certificate or diploma program at a college of applied technology and meets residency requirements. • May be eligible for HOPE scholarship if student is initially HOPE eligible and enrolls at an eligible postsecondary institution within three years of completing a diploma program at a college of applied technology
Tennessee HOPE Scholarship for Non-traditional Students	Up to \$2,000 per semester for four-year institutions and two-year institutions offering on-campus housing; Up to \$1,000 per semester for two-year institutions (same as traditional HOPE)	<ul style="list-style-type: none"> • Be age 25 or older, as: <ul style="list-style-type: none"> • an entering freshman in an eligible postsecondary institution; or • have not been enrolled for at least two years after last attending any postsecondary institution and now enrolled at an eligible postsecondary institution. • Must have parents' or independent student's and spouse's adjusted gross income of \$36,000 or less on IRS tax form. • Be continuously enrolled at an eligible postsecondary institution in the fall and spring semesters and maintain satisfactory academic progress. • Have a cumulative GPA of 2.75 after 12 attempted semester hours or at subsequent benchmark. (Attempted hours and college grades prior to re-enrollment at an eligible postsecondary institution after at least a two-year break in enrollment is not considered.)
Foster Child Tuition Grant	All tuition and mandatory fees – less any gift aid – at an eligible postsecondary institution. The maximum award is limited to the statewide average of tuition and mandatory fees for a public four-year or two-year institution	<ul style="list-style-type: none"> • Custody requirements: <ul style="list-style-type: none"> • In custody of the Department of Children's Services (DCS) for at least one year <ul style="list-style-type: none"> • after turning 14 years old; • after turning 14 years old and placed for adoption by DCS or one of its adoption contract agencies and the adoption was finalized; or • after turning 14 years old was placed in permanent guardianship by DCS. • Eligibility requirements: <ul style="list-style-type: none"> • Tennessee resident; • Earn a high school diploma or equivalent; • Enroll in an eligible postsecondary institution and apply for the

		<p>grant no more than four years after the graduation from high school or equivalent;</p> <ul style="list-style-type: none"> • Present TSAC with official certification from the DCS that the student meets eligibility requirements for the grant; and • Meet academic requirement of a minimum GPA of 3.0 or 21 ACT score.
Helping Heroes Grant	<p>\$1,000 per semester for a student who successfully completes 12 or more semester hours with no failing grade as the final grade for the course. \$500 per semester for successfully completing 6 to 11 semester hours with no failing grade as a final grade for the course. No award if enrolled fewer than 6 semester hours.</p>	<ul style="list-style-type: none"> • Be an honorably discharged veteran who had formally served the armed forces of the United States or a former or current member of a reserve or Tennessee National Guard unit who was called into active military service of the United States. • Be awarded the following: <ul style="list-style-type: none"> • Iraq Campaign Medal • Afghanistan Campaign Medal or • Global War on Terrorism Expeditionary Medal, on or after September 11, 2011. • Enroll at an eligible two-year or four-year postsecondary institution • Have not earned a baccalaureate degree. • Not be in default on a federal Title IV educational loan or Tennessee educational loan. • Not owe a refund on a federal Title IV student financial aid program or a Tennessee student financial aid program. • Be in compliance with federal drug-free rules and laws for receiving financial assistance. • Not be incarcerated. • Meet each qualification relating to this grant and applicable to the student. • Not be required to meet any academic standard at the time of enrollment in order to be eligible for this grant. • Award of a Helping Heroes Grant shall be made after the completion of a semester, so long as the student successfully completes the course with a non-failing grade as the final grade for the course.

Source: www.tn.gov/collegepays.

Additional programs funded with lottery dollars:

Rural Health Scholarship Loan Forgiveness Program – The Tennessee Rural Health Act of 2008 established a five-year scholarship loan pilot program from net lottery proceeds. The Rural Health scholarship loans provided up to \$12,000 per academic year for medical or dental education. Once licensed, the health care providers and dentists agree to locate to Tennessee health resource shortage areas. These scholarship loans are forgiven on a year-for-year of service basis. As of September 2013, the pilot program has not been continued via legislation.

Tennessee Math and Science Teacher Loan Forgiveness Program – Also known as the HOPE Teacher’s Scholarship, this program began in the fall of 2006 and provides forgivable scholarship loans to Tennessee tenured public school teachers seeking an advanced degree in math or science, or a certification to teach in one of these subject areas. Recipients are awarded up to \$2,000 per academic year for no more than a total of \$10,000 for all years of the program of study. These awards are forgiven at the rate of teaching math or science in a Tennessee public school system two years for every one year the award was received. Once a recipient completes their program of study and satisfies the terms of the program through repayment or teaching, he

or she could receive the award again for certification or an advanced degree in a different area of math or science.

Dual Enrollment Grant and the Recently Implemented Eligibility Verification for Entitlements Act

On May 21, 2012, the Governor signed Senate Bill 1325, establishing the Eligibility Verification for Entitlements Act (EVEA). This law became effective on October 1, 2012, and requires state government entities to verify that individuals 18 years of age or older who are applying for federal, state, or local benefits are legal U.S. citizens or are lawfully present in the United States. State benefits subject to the law include grants, loans, or other postsecondary education benefits provided by an agency of the state or by appropriated funds of the state.

The Dual Enrollment Grant program is funded by the Tennessee lottery and provides opportunities for high school students to begin working toward a college degree at an eligible postsecondary institution while attending high school. The grant encourages post-secondary education and the acceleration of postsecondary education attainment. The grant provides students up to \$300 per semester for one course. Students who meet HOPE Scholarship academic requirements may receive an additional \$300 toward a second course attempted in the same semester. Funding is limited to \$1,200 per academic year. Once a student begins the Dual Enrollment Grant program, participation is limited to the remaining amount of time normally required to earn the high school diploma.

Because the Dual Enrollment Grant is a grant funded by the state, high school students 18 years old or older are subject to EVEA. Students apply for the grant through TSAC's Student Portal online and must attest online that they are U. S. citizens or lawfully present aliens in the U. S. before they are allowed to access the application. Documentation proving citizenship or lawful residence must be provided to the postsecondary institution by high school students who are 18 years old or older. TSAC management estimates that about 17,000 high school students are dual enrolled and that about 4,000 students are verified because they are 18 years old or older.

Grant and Scholarship Program Participants and Dollars Awarded						
Program	2009-2010		2010-2011		2011-2012	
	Participants	Dollars	Participants	Dollars	Participants	Dollars
Non-Lottery Programs						
Minority Teaching Fellows	116	\$543,010	116	\$533,953	115	\$542,547
Tennessee Teaching Scholars	147	\$571,125	152	\$607,874	161	\$647,279
Graduate Nursing Loan Forgiveness	73	\$327,250	62	\$262,500	62	\$272,594
John R. Justice Loan Repayment						
Dependent Children Scholarship	29	\$157,955	23	\$151,313	22	\$177,579
Robert C. Byrd Honors Scholarship	527	\$754,592	584	\$840,375	431	\$622,253
Ned McWherter Scholars	188	\$541,500	180	\$525,000	190	\$555,000
Tennessee Student Assistance Award	25,155	\$53,904,937	32,474	\$55,523,197	28,766	\$53,548,479
Tennessee Education Lottery Scholarship						
HOPE (Traditional)	43,056	\$147,670,530	43,282	\$148,489,737	43,814	\$152,922,552
HOPE (Non-traditional)	2,668	\$6,052,654	3,659	\$8,953,279	4,254	\$11,166,659
HOPE with GAMS	5,562	\$26,901,253	5,810	\$28,093,869	6,089	\$30,177,130
HOPE with ASPIRE	16,724	\$78,866,609	18,601	\$87,876,368	19,625	\$94,598,515
HOPE Access Grant	408	\$894,715	403	\$869,472	468	\$955,421
Wilder-Naifeh Technical Skills Grant	13,435	\$15,906,073	12,793	\$14,664,312	10,928	\$12,809,483
HOPE Foster Care Grant	30	\$126,360	51	\$251,584	64	\$354,155
Dual Enrollment Grant	14,697	\$6,369,217	16,404	\$7,194,005	16,995	\$8,743,539
Tennessee Math and Science Teacher (HOPE Teacher's Scholarship)	25	\$47,000	18	\$36,000	18	\$36,000
Helping Heroes Grant	367	\$513,242	503	\$680,000	510	\$805,730
Rural Health Scholarship Loan Forgiveness	50	\$517,912	45	\$481,049	38	\$423,730

Source: Tennessee Higher Education Fact Books 2009-2010, 2010-2011, and 2011-2012.

Communication Services

The Communication Services Division disseminates financial aid information to parents, students, colleges, and high schools. This division is responsible for all outreach functions, such as publications and presentations, including the monthly newsletter published on TSAC's website. The division is also responsible for the call center that is available to parents, students, colleges, and high school teachers and counselors who have questions about loans or scholarships. Since the beginning of the lottery scholarship, TSAC's extensive communication and outreach efforts have reached every high school in Tennessee. The division's goals include reaching middle schoolers to help them and their families begin early planning for college.

Compliance and Legal Affairs

The Compliance and Legal Affairs Division prepares and reviews legislation, contracts, and rules. The Associate Executive Director of Compliance and Legal Affairs serves as a liaison with the legislature and works with newly introduced legislation. The division is also responsible for preparing, reviewing, and maintaining the corporation's active contracts and for drafting new rules and making changes to existing rules based on legislative changes.

Fiscal Affairs

The Fiscal Affairs Division maintains the accounting for the state and federal financial aid programs and reports to state and federal officials. The division oversees all fiscal and budget activities, maintains the corporation's property inventory and general ledger postings, and approves all Edison transactions and purchases. The division includes personnel and data processing staff.

REVENUES AND EXPENDITURES

Revenues by Source For the Fiscal Year Ended June 30, 2012

<i>Source</i>	<i>Amount</i>	<i>% of Total</i>
State	1,197,700	4.3%
Federal	3,135,100	11.3%
Other	23,419,800	84.4%
Total Revenue	\$27,752,600	100.0%

Source: *The Budget 2013-2014*. TSAC's "Other" revenue comes from the collection of loan and interest payments.

Expenditures by Account For the Fiscal Year Ended June 30, 2012

<i>Account</i>	<i>Amount</i>	<i>% of Total</i>
Payroll	\$3,299,000	11.9%
Operational	24,453,600	88.1%
Total Expenses	\$27,752,600	100.0%

Source: *The Budget 2013-2014.*

**Budget and Anticipated Revenues
For the Fiscal Year Ended June 30, 2013**

<i>Source</i>	<i>Amount</i>	<i>% of Total</i>
State	\$1,251,900	4.9%
Federal	9,489,100	37.4%
Other	14,657,800	57.7%
Total Revenue	\$25,398,800	100.0%

Source: *The Budget 2013-2014.*

FINDINGS AND RECOMMENDATIONS

1. The state-funded scholarship loan forgiveness program participants were charged more interest than intended by state law

Finding

For three of the five loan forgiveness programs—Tennessee Teaching Scholars, Minority Teaching Fellows, and Graduate Nursing Loan Forgiveness—the Tennessee Assistance Corporation’s (TSAC) rules regarding when interest accrual begins do not comply with state law, resulting in some recipients being overcharged interest. Also, the interest accrual calculation for the Graduate Nursing Loan Forgiveness Program does not match either the state law or the TSAC rule.

The five state-funded scholarship loan forgiveness programs are geared toward specific participants who agree to fulfill service-based commitments in order to receive scholarship dollars. Scholarships become loans when participants fail to complete their service commitment or fail to complete the education program. The five scholarship loan forgiveness programs administered by TSAC are geared toward the following individuals:

- Tennessee Teaching Scholars – College juniors, seniors, and post-baccalaureate candidates admitted to a teacher education program in a Tennessee college or university who plan to teach PreK–12 in a Tennessee public school.
- Minority Teachers – Minority high school seniors or community college students who plan to teach PreK–12 in a Tennessee public school.
- Graduate Nurses – Registered nurses enrolled in a master’s degree or post-master’s degree program who plan to become teachers and administrators in Tennessee nursing education programs.
- Tennessee Math and Science Teachers – Tenured Tennessee public school teachers seeking an advanced degree in math or a science or a certification to teach math or science in a Tennessee public school.
- Rural Health – Individuals seeking licensure as health care providers and dentists who agree to practice in a Tennessee health resource shortage area as defined by the Department of Health, Office of Rural Health.

When participants complete the service requirements for their program, the loan plus any accrued interest is forgiven. When the participant fails to meet continuing eligibility or does not fulfill the service requirements, the scholarship becomes a loan that the participant must repay. For Tennessee Teaching Scholars, Minority Teaching Fellows, and Graduate Nursing Loan Forgiveness programs, state law requires the interest to begin accruing when the participant

completes the program, is no longer eligible for the program, or chooses not to fulfill the service portion of their obligation. However, TSAC’s rules for the Teaching Scholars and Minority Teaching Fellows programs state that interest accrual begins at the date of the first disbursement. As a result, participants who lose eligibility or do not complete service requirements could be repaying years of accrued interest that is not required by state law.

The table below provides the law and rule regarding interest for each of the five scholarship loan programs administered by TSAC.

Scholarship Loan Program Interest Accrual Law vs. Rule

<u>Program</u>	<u>Interest per state law</u>	<u>Interest per TSAC rule</u>
Tennessee Teaching Scholars	TCA 49-4-212(c)(2) – Interest shall accrue at 9% per year beginning September 1 after completion of the program, or immediately after termination of the scholarship loan, whichever is earlier.	1640-1-17-.05 – Interest accrues from the date of disbursement.
Minority Teaching Fellows	TCA 49-4-706(b)(2) – Interest accrues at the rate of 9% per year beginning September 1 after completion of the program, or immediately after termination of the scholarship loan, whichever is earlier.	1640-1-13-.05 – Interest shall accrue from the date of disbursement.
Graduate Nursing Loan Forgiveness	TCA 49-4-702(a)(3) – Interest accrues at the rate set by TSAC from the date of completion of the program.	1640-1-3-.06 – Interest shall accrue at the rate of 9% per year or such other rate established by TSAC, starting at the end of the grace period of three months after completion of the program or if the participant no longer meets eligibility. During the grace period, interest does not accrue and payment is not required. All interest shall be based upon the unpaid balance of the loan, and accrued interest may be capitalized.
HOPE Teachers Scholarship (Tennessee Math and Science Teacher Loan Forgiveness)	TCA 49-4-936 – No provision for interest.	1640-1-20-.06 – Interest shall not be charged for a Math and Science Teacher Loan.
Tennessee Rural Health Act Loan Forgiveness	TCA 49-4-939(d)(7) – Failure to complete program or service commitment results in repaying loan with interest (no indication of when accrual begins).	1640-01-21-.06 – To the extent that obligation is not met, the balance becomes a loan and must be repaid plus interest at 9% per annum from the date of disbursement.

Since interest accrual timeliness in TSAC’s rule for the Graduate Nursing Loan Forgiveness Program interest was different from the other programs, we reviewed the interest calculation for an individual who recently began repayment and found interest on this loan began accruing at the date of disbursement instead of at either timeframe established by state law and rule. Section 49-4-702(a)(3), *Tennessee Code Annotated*, states that interest accrues at the rate

set by TSAC from the date of program completion. TSAC rule 1640-1-3 states that interest accrues at the rate of 9% per year or such other rate established by TSAC, starting at the end of the grace period. The grace period is defined as three months after completion of the program or if the participant no longer meets eligibility. During the grace period, interest does not accrue and payment is not required. All interest should be based upon the unpaid balance of the loan, and accrued interest may be capitalized. We notified TSAC of this discrepancy and they identified approximately 50 individuals in repayment or who have paid their accounts in full that will be issued a refund by the end of calendar year 2013. As of September 2013, TSAC is working to adjust the accounts of the rest of the participants in this program to reflect the appropriate interest amount.

According to TSAC's Associate Executive Director for Grant and Scholarship Programs, the rules appear to have been created in conflict with statute. The September 2013 board meeting agenda includes proposed rule changes to correct the interest accrual discrepancies for the loan forgiveness programs. TSAC plans to adjust the accounts of current recipients and recipients in repayment and attempt contact with prior recipients who have paid their accounts in full to issue refunds. In the last five academic years alone, TSAC has awarded 1,719 students with \$7,484,568 in Minority Teaching Fellows, Tennessee Teaching Scholars, and Graduate Nursing Scholarship Loans.

Recommendation

The Tennessee Student Assistance Corporation should ensure that all rules for interest accrual in its loan forgiveness programs comply with state law and should make appropriate adjustments to all accounts affected by incorrect application of interest accrual.

Management's Comment

We concur. The rules for the Minority Teaching Fellows (MTFP), Tennessee Teaching Scholars (TTSP), and Graduate Nursing Loan Forgiveness programs were not aligned with the statutory requirements for interest accrual.

TSAC is identifying the affected recipients for each program and working with its contractor, Nelnet Guarantor Solutions (NGS), to identify the amount of the interest/refund owed to each student. TSAC will then issue a refund for those whose loans are paid in full. Refunds for the Graduate Nursing Loan Forgiveness Program will be issued before the end of the fiscal year to those recipients who are paid in full through monetary repayment. Additionally, TSAC expects to issue refunds to those students in the MTFP and TTSP programs prior to the end of the fiscal year.

Recipients who are still active in each program or are teaching out their requirement will have their interest reduced to the appropriate amount to compensate for the original interest calculation.

As recommended in the audit, TSAC has amended its rules to ensure the date the interest begins to accrue is consistent with statutory guidelines. Necessary rule changes to fully correct these issues in all three programs were approved by the TSAC Board of Directors at the September 2013 board meeting and have been filed with the Office of Secretary of State. TSAC is currently waiting for the amended rules to be heard by the Joint Government Operations Committee.

2. Tennessee Education Lottery Scholarships may not be fairly distributed because TSAC does not verify GPAs used in determining eligibility, and GPAs based on the State Board of Education’s Uniform Grading Policy are inconsistently reported

Finding

Some Tennessee Education Lottery Scholarships (TELS) may not be fairly awarded because they are based on GPAs that are inconsistently calculated and reported by public and private high schools. Neither the Tennessee Student Assistance Corporation (TSAC) nor the state colleges and universities verify reported GPAs to ensure compliance with state law and the State Board of Education’s Uniform Grading Policy. The State Board of Education’s Uniform Grading policy allows schools to determine their own grading policies for assigning class rank and does not require the uniform grading policy calculation to be reported on the student transcript. Board policy is also silent on several factors that could help determine a student’s scholarship eligibility.

TSAC’s Responsibilities

According to Section 49-4-903(a), *Tennessee Code Annotated*, TSAC is responsible for administering and determining student eligibility for the lottery scholarship and grant programs, based on GPA and, sometimes financial need. To be eligible for the most commonly issued scholarship, the Tennessee HOPE Scholarship, Section 49-4-907, *Tennessee Code Annotated*, requires a student either to have a final overall weighted high school GPA of at least 3.0, attain a composite ACT score of at least 21, or have a combined SAT score of at least 980. In the event that a student does not receive a 21 on their ACT or a 980 on the SAT, the student’s GPA is the sole factor in determining eligibility.

Section 49-4-902, *Tennessee Code Annotated*, defines weighted GPA as being calculated a 4.0 scale calculated with additional points awarded for advanced placement, honors, or other similar courses, according to the uniform system of weighted courses adopted by the State Board of Education.

State law defines the weighted GPA and requires TSAC to determine eligibility for lottery scholarship and grant programs. In addition to TSAC’s initial eligibility determination, colleges and universities certify student eligibility via the electronic grant and scholarship system (eGRandS).

The process for determining TELS eligibility begins with two activities: The student and his or her family complete a Free Application for Federal Student Aid (FAFSA) and the high school guidance counselor enters the student’s GPA into TSAC’s electronic grant and scholarship system (eGRandS). eGRandS is a portal for students, high school counselors, and colleges to track the student’s financial aid in one place. eGRandS interfaces with external sources to obtain student ACT and FAFSA data. Through the college application process, the students send their high school transcripts directly to the colleges and not TSAC. Since TSAC does not receive the student’s transcripts, we spoke to financial aid and admissions specialists at colleges and universities who, in general, told us they accept the GPA reported on the student’s transcript and do not verify compliance with the State Board of Education’s Uniform Grading Policy.

State Board of Education policy

Section 49-1-302(a)(17), *Tennessee Code Annotated*, required the State Board of Education to develop a uniform grading system and authorized the board to create rules for the administration of the uniform grading system. In response, the board developed policy 3.301, which allows for but does not require internal percentage point weighting in the calculation of GPAs using a 4.0 scale. The table below shows the Uniform Grading System.

<u>Internally Weighted</u> <u>Uniform Grading System</u>					
Percentage Range		Letter Grade	Weighting for Honors Courses and National Industry Certification	Weighting for Advanced Placement and International Baccalaureate Courses	Grade Points
93	100	A	<i>May</i> include the addition of 3 points to the grades used to calculate the semester average	<i>May</i> include the addition of 5 points to the grades used to calculate the semester average	4.0
85	92	B			3.0
75	84	C			2.0
70	74	D			1.0
0	69	F			0.0

In addition to policy 3.301, the State Board of Education created rule 0520-01-03-.05(3)(c), which prohibits assigning quality points above 4.0 for honors, advanced placement, international baccalaureate, and national industry certification courses for the purpose of determining lottery scholarship eligibility. While the rule prohibits the addition of extra points, State Board of Education policy leaves it to the local education agency to determine a class ranking system. Agencies sometimes accomplish a class ranking system by using a grading scale of more than 4.0 points. These externally weighted grading scales allow for honors and advanced placement classes to add external quality points, resulting in GPAs of more than 4.0 (see table below). Neither State Board of Education rules nor policy require schools using an

externally weighted scale for class ranking to report the uniform grading policy GPA on the student’s transcript. Some schools opt to report both the school’s class ranking GPA and the uniform GPA, but not all schools report both and those that do report both may not clearly define which GPA should be used for lottery applications. This leads to confusion for students, parents, and financial aid administrators on which GPA to use in their applications. Financial aid administrators and admissions specialists at colleges and universities told us that they accept the GPA reported on the student’s transcript unless they know that a particular local education agency or high school uses a GPA calculation outside of the Uniform Grading Policy (UGP).

Externally Weighted Grading Example						
Percentage Range		Letter Grade	Grade Points - Regular Classes	Grade Points - Honors Courses and National Industry Certification	Grade Points - Advanced Placement and International Baccalaureate Courses	
93	100	A	4.0	4.5	5.0	
85	92	B	3.0	3.5	4.0	
75	84	C	2.0	2.5	3.0	
70	74	D	1.0	1.0	1.0	
0	69	F	0.0	0.0	0.0	

If a school reports a student’s GPA using an externally weighted scale of more than 4.0 points, and TSAC inappropriately awards a scholarship based on this information, TSAC has not followed state law since the GPA used is not based on a 4.0 scale. Without clear policy requiring the identification of a lottery scholarship GPA on a student’s transcript and/or a process of verifying that the student’s reported GPA complies with UGP, there is risk of the lottery scholarship being unfairly awarded.

State Board of Education policy is also silent on several factors that could change a student’s GPA. These factors include:

- rounding;
- calculating GPA based on semester grade or final grade,
- calculating GPA based on the number of classes or credits, and
- calculating GPA based only on the average of the student’s grades (e.g., average grade of 95.11 = 4.0 GPA).

Testing

TSAC provided us with a list of 16,298 students who received the lottery scholarship in academic year 2012 with a reported high school GPA of 3.0 or higher and an ACT score of less than 21. We randomly selected 101 student transcripts to review. The UGP began in academic year 2007 and would be applicable to all four years of high school for students who began graduating in academic year 2010. Because some of the individuals in our sample of 101 graduated before 2010, we were only able to analyze 65 students who graduated in 2010 and 2011. Our sample was intended to be a judgmental sample, not a projection of the entire population, so due to time constraints, we chose not to replace those who graduated prior to 2010 and analyzed the 65 students who graduated in 2010 and 2011.

Of the transcripts reviewed, 14 of 65 students provided at least 2 GPAs. For 9 of the 14 (64%), none of the GPAs reported on the transcript matched our calculation based on the uniform grading policy.

- For three of the nine non-matches, we noted problems between student averages and letter grades that appear to be programming issues at the local level. For example, on one transcript, one class showed a numeric grade of 91 with an A letter grade while another class showed a 91 with a B letter grade.
- For one of the nine non-matches, the transcript had three GPAs – local education agency weighted, Tennessee weighted, and cumulative unweighted. In order to get our UGP GPA calculation to match the Tennessee weighted GPA shown on the transcript, we manually entered the additional points allowed for the State Board of Education UGP. While we were able to get this to match, there was nothing in the school's policy to indicate this was how the GPA is calculated and, this GPA was not reported to TSAC. The GPAs reported to TSAC are the local education agency's weighted GPA and the cumulative unweighted GPA. The former allows for more than four quality points.
- For the last five non-matches, we attempted the GPA calculation in multiple ways, including the UGP and the school and/or county policy, and could not get our calculation to match the data reported on the transcript.

Of the transcripts reviewed, 51 of 65 had only one GPA and 16 of the 51 GPAs did not match calculations based on the UGP. Four of the 16 matched if we rounded in one of three different ways—by dropping the calculation to two decimal places without rounding, by dropping the calculation to two decimal places and rounding up, and by dropping to three decimal places and rounding up. For the seven that did not match our calculations at all, we attempted the calculation based on the UGP and the school and/or county policy but could not get our calculation to match what was reported on the transcript.

For the last five that we could not match, we found the following issues:

- The student's GPA was simply based on the average of their numeric grades; i.e., a numeric average of 95.11=4.0 GPA.
- The transcript shows only one GPA of 3.72, and it is based on local education agency policy scale of more than 4.0 points. The UGP GPA calculation showed a GPA of 2.92, and auditors noted that even though this GPA was not listed on the transcript, it was reported to TSAC as the unweighted GPA. Based on UGP, this student is not eligible for the lottery scholarship but still received it.
- The local education agency GPA policy says the GPA calculation is based on semester grades, but the transcript only lists final grades.
- The difference in our GPA calculation and the GPA reported on the transcript could be due to rounding.
- A private school's policy is not required to and does not match UGP.

During our testwork, we discovered the following:

- Rounding is not consistently used and methods of rounding are not consistent. For reporting GPAs to TSAC, some schools round up, while others do not round at all. This could affect students on the cusp of receiving scholarships; those whose schools round up could receive the scholarship, while those whose schools do not would not receive the scholarship.
- Some schools report both semester grades and final grades on the student's transcript, but their policies may not indicate which is used in the GPA calculation.
- One school's policy required the use of the number of classes instead of the use of credits.

While the UGP applies only to Tennessee public schools and local education agencies, private schools still report GPAs (based on their own adopted grading scales) to TSAC for student TELS eligibility. In our random sample of 65, there were 2 private schools. Both reported only one GPA and one matched our UGP calculation while the other did not.

Even with a uniform grading policy in place for public schools and local education agencies, there are many GPA calculation variations (see appendix 1). The policies and grading method could be used to boost student GPA's reported by a school in an effort to increase the number of students who receive the lottery scholarship. Without verification that the GPAs reported to TSAC are based on the State Board of Education's UGP and board policy clarifying GPA calculations, rounding practices, etc., TSAC and the state cannot ensure lottery scholarships are being fairly awarded.

Recommendation

The Tennessee Student Assistance Corporation should implement a process to annually review (at least a sample of) student transcripts to verify student GPAs being used for lottery scholarship eligibility are calculated in compliance with the uniform grading policy.

The General Assembly may wish to consider requiring a more specific grading policy that includes specifications on how the GPA is calculated and directions regarding rounding for the lottery scholarship. The General Assembly may want to consider expanding the policy and calculation of the GPA for Tennessee Education Lottery Scholarship eligibility to private institutions in an effort to make the distribution of lottery funds as fair and equitable as possible.

*For additional information on Tennessee's High School Uniform Grading Policy, see Tennessee Comptroller of the Treasury's Offices of Research and Education Accountability Report, *Evaluation of Tennessee's High School Uniform Grading Policy*, dated September 2011.

Management's Comment

We concur in part. As noted in the audit finding, GPAs can be calculated differently within the State Board of Education's Uniform Grading Policy (UGP). Consequently, TSAC agrees that GPA calculations reported by the high schools are inconsistent within the UGP. The UGP was established by the State Board of Education in 2004, and TSAC concurs that some schools may not strictly adhere to the UGP in determining GPAs. However, TSAC makes substantial effort to mitigate this. Outreach staff visit every public and private high school in Tennessee at least once each year to ensure that high school administrators fully understand the requirements of the lottery scholarship program, including use of the UGP.

Additionally, TSAC's electronic grants and scholarship (eGRandS) system, which receives all high school student data for scholarship purposes, includes the instruction:

The high school GPA used to determine HOPE Scholarship is based on the State Board of Education Uniform Grading Policy (UGP). You must enter the student's GPA determined by the UGP in the '8th Weighted Semester GPA' field in eGRandS.

A link to the State Board of Education's Uniform Grading Policy also is provided on eGRandS which schools can access for specific guidance on the UGP.

The audit correctly points to T.C.A. 49-4-903(a) in establishing TSAC's responsibility "for determination of eligibility of students and for the distribution of funds appropriated by the general assembly." TSAC is in compliance with the requirement to "determine" eligibility based on the GPAs and test scores that are submitted by the local education agencies. The audit states that TSAC does not "verify" accuracy of GPAs. It is TSAC's assertion that the statute does not require verification of the GPA accuracy, but rather, requires only that TSAC determine eligibility based on the GPAs submitted by the high schools.

As recommended in the audit, TSAC will examine a sample of student GPAs each year to determine accuracy of GPA calculations; however, only verifying an annual sample of GPAs as recommended in the audit will not correct the problems identified in the finding. TSAC also is willing to verify each GPA, but doing so would require an allocation of additional resources, either by increasing personnel or implementing a technology-based solution.

3. TSAC's rules regarding repayment or partial repayment of a scholarship or grant awarded to students who withdraw from courses or from postsecondary institutions may result in students receiving refunds of state dollars

Finding

Section 49-4-903, *Tennessee Code Annotated*, requires the Tennessee Student Assistance Corporation (TSAC) to administer state lottery and grant programs, part of which includes creating rules regarding the administration of the programs. However, the rule TSAC created regarding refunds to students fails to adequately address repayment or partial repayment to TSAC of Tennessee Education Lottery Scholarships (TELS) funds when students withdraw from courses or from postsecondary institutions. In fact, this rule leaves the determination of refund policies up to the schools, and most schools' policies do not address state financial aid, which could lead to inconsistent treatment of state funds.

Section 49-4-924(b), *Tennessee Code Annotated*, requires TSAC to create rules and regulations for repayment or partial repayment of a scholarship or grant awarded to a student who subsequently withdraws from courses or from a postsecondary institution. State law further requires that these rules be comparable to rules for repayment of other financial aid available to postsecondary students. TSAC created rule 1640-01-19-.18 that states, "If a recipient of a TELS award or Dual Enrollment Grant fails to complete a semester for any reason, the eligible postsecondary institution shall apply its refund policy to determine whether a refund may be required and/or funds returned to the Corporation."

We reviewed refund policies for state institutions and found that most of the schools' policies were silent regarding the treatment of state lottery and grant program funds but clearly stated the treatment and reconciliation of Title IV federal financial aid funds when students withdraw from courses or from postsecondary institutions. For Tennessee Board of Regents schools, 75% refunds are given to students who drop out of school or withdraw from a class between the first and the 14th day of class. For those withdrawing from a class, the 75% is based on the difference between the per-credit-hour cost of the originally enrolled hours and the per-credit-hour cost of the courses at final enrollment after adjustments have been applied for all courses dropped. Refunds of 25% are given for a period of time that extends to 25% of the length of the term. No refunds are issued after this timeframe. University of Tennessee (UT) schools give refunds of 100% for days 1-7, 80% for days 8-14, 60% for days 15-21, and 40% for days 22-28. There is no refund from day 29 to the end of the term. These timelines are adjusted for summer terms at both the Tennessee Board of Regents and UT schools.

Information provided to the auditors from the Tennessee Board of Regents indicates that if a student withdraws from a class or from the institution within the first 14 days, adjustments are made to the TELS awards and TSAC is notified. After the 14th day and before the end of the refund period, adjustments are not always made to the TELS awards so that if a student drops a class or drops out of school, these funds could be disbursed to other students.

The treatment of the TELS funds varies among UT's campuses. According to information from UT-Martin, TELS funds are not returned to TSAC or refunded to students when classes are dropped. At UT-Chattanooga, funds are returned to TSAC if the date of withdrawal or drop is within UTC's refund period. If the student drops or withdraws from classes after the refunds and charges period, funds are not returned to TSAC; however, the student has forfeited all future eligibility. For the UT Health Science Center, when a student drops a class, the award is pro-rated and funds are returned to TSAC. UT-Knoxville also indicates pro-rating awards and returning the funds to TSAC.

Data required to analyze how often students withdraw from classes or from school after the 14-day census point is not tracked; therefore, there is no estimate of the amount of TELS funds that could be recouped for future use. In addition, without rules and regulations clearly defining the expected treatment of state financial aid in the event of a student withdrawing from a class or from school entirely, some students may receive refunds of state financial aid dollars that will not be used toward higher education expenses.

Recommendation

The Tennessee Student Assistance Corporation (TSAC) should determine the frequency of students receiving refunds after the 14-day census point and work with the schools to implement a process beyond the Title IV reconciliation for state lottery and grant funds.

TSAC should then revise and clarify rules regarding refunds of state lottery and grant dollars so that all schools treat these funds the same.

Management's Comment

We do not concur. We do not agree with the statement that the TSAC rule "fails to adequately address repayment or partial repayment to TSAC of Tennessee Education Lottery Scholarships (TELS) funds when students withdraw from courses or from postsecondary institutions." TSAC's refund policy is based on T.C.A. 49-4-924(b), which requires TSAC to create a refund policy "comparable to rules for repayment of other financial aid available to postsecondary institutions." TSAC's refund policy was written to allow for each postsecondary institution to use its existing financial aid refund policy as the model for the lottery scholarships. Therefore, our existing policy is fully compliant with both the existing statute and the legislative intent to make such policies comparable to existing rules for repayment of other financial aid available to postsecondary students.

While it is possible that some students who drop enrollment may receive a refund of lottery dollars, such a refund may only be for the purpose of reimbursing out-of-pocket expenses already paid by the student and would not exceed the institutionally-defined total cost of education as provided in T.C.A. 49-4-922. In no circumstance would a student receive reimbursement from lottery funds in excess of out-of-pocket expenses already paid to the postsecondary institution.

The refund policy is further reviewed when TSAC compliance staff visit postsecondary institutions to ensure that each institution adheres to their refund policy when returning lottery scholarship funds.

Auditor Comment

Current TSAC policy allows each school to determine when scholarship dollars are returned to TSAC or refunded to the student. The frequency of refunds after the 14-day census point is unknown, and policies for returning these funds to TSAC are inconsistent.

4. TSAC's poor recordkeeping of Tennessee Education Lottery Scholarship appeals resulted in missing records and some appeals not being considered, denied, or otherwise closed

Finding

The Tennessee Student Assistance Corporation's (TSAC) failure to maintain adequate records and documentation of submitted Tennessee Education Lottery Scholarship (TELS) appeals resulted in missing records and some appeals not being heard.

Per Section 49-4-924, *Tennessee Code Annotated*, TSAC created rules and regulations to establish appeals process for the TELS awards. Section 1640-01-19-.26(2) of the *Rules of the Tennessee Student Assistance Corporation* (the Rules) require a student seeking an appeal to submit a written statement and all pertinent information related to the appeal to TSAC within 45 calendar days of receiving the results of the student's Institutional Review Panel (IRP). Pertinent information includes the student's medical, personal, or financial supporting documentation and the student's college transcripts.

Recordkeeping Issues

When TSAC receives appeal documentation, it is date stamped, recorded in an electronic log, and placed in a folder until all required information has been received from the student. The electronic appeals log contains the date TSAC received the appeal, the appellant's first and last name, the nature of the appeal, the name of the school(s) attended by the student, and the outcome of the appeal.

As part of our audit, we obtained TSAC's electronic appeals log, which is kept as an Excel spreadsheet, and selected a sample of TELS appeals for our review. We found many students' names listed multiple times on the log. Because the student's first and last name was the only personally identifiable information listed for each appeal, we were unable to determine if the multiple listings represented a single person making multiple appeals or multiple people sharing the same first and last name. The appeals log should include personally identifiable information so that TSAC staff and the TELS Award Appeals Panel (appeals panel) can distinguish between student appeals. We also found that, although appeals documents are stamped with the date received, the appeals log did not list the type of documentation or the date TSAC received the appeals documentation. Without this information, TSAC cannot determine if documentation could be missing from the appeals files.

Missing Records

Our initial sample request consisted of 75 appeals, 25 each for fiscal years 2011, 2012, and 2013. This was a judgmental sample size, and results of our review were not intended for projection to the entire population of appeal files. TSAC was unable to provide us with all of the 75 appeals files requested. We discovered that many of the appeals files provided by the corporation were missing documentation, did not contain student appeal records matching the information listed in the electronic appeals log, or were simply missing.

We expanded our sample to replace those appeals that could not be located; however, TSAC was only able to produce 67 of the 124 that we requested—nearly half of the appeals we requested were missing.

TSAC staff explained some missing files by stating that, prior to late 2012, the corporation did not make copies or maintain files of the incomplete appeals they received. Instead, all documentation submitted was returned to the student with a letter stating the appeal was incomplete and requesting additional documentation. The Director of Lottery Scholarships explained additional missing files were the result of human error in entering information into the appeals log.

Failure to Consider Appeals

According to the rules, once an appeal has been properly filed, the appeals panel has 45 days to consider the appeal and shall render a decision in writing no later than 14 days after ruling on an appeal.

While conducting our review of appeals, we discovered that seven appeals submitted to TSAC were not considered by the appeals panel and were never denied or otherwise closed. These appeals files were stamped as received by TSAC ranging from nine months to over eight years prior to our review during May 2013. In five of these files, TSAC requested additional information from the appellant but the file includes no indication of whether the information was received and TSAC never denied or closed out the appeals by sending a final letter to the appellant. The file that is over eight years old was provided to us as a result of problems with record keeping. We requested a file for fiscal year 2012 but were provided a file from fiscal year

2005. We note this file here because it did not include a letter from TSAC requesting additional information or a letter denying or closing the appeal.

When interviewed about the appeals log process, TSAC staff told us that when an incomplete appeal is received and filed, staff periodically (approximately every two weeks) review the files and make contacts with the student to request additional documentation. However, these contacts are not recorded in the appeals log. Only periodically reviewing files and not recording contacts for additional information could explain how these seven appeals remained in the log without recorded resolutions.

When asked about these appeals, the Director of Lottery Scholarships informed us that TSAC does not have any record indicating that a judgment was rendered for these appeals.

Recommendation

The Tennessee Student Assistance Corporation (TSAC) should improve its recordkeeping process by logging, copying, and maintaining all student appeals documentation received by the corporation.

TSAC should consider revising its electronic appeals log to include sufficient personally identifiable information for each student so TSAC can distinguish between the appeals listed in the appeals log.

Management's Comment

We concur in part. TSAC agrees that improvements need to be made to the appeals record keeping process. As recommended in the audit TSAC is currently enhancing its data system to improve the structure and organization of the appeal files.

Staff have worked to reconcile the files considered missing by the auditors. The auditors noted in their work papers that the files provided in many cases did not match the institution and dates in the sample as selected from the log. Staff have determined for most of these files, lines on the log were mislabeled due to an autopopulate feature in Excel. At the time of this response TSAC has reconciled 50 of the 57 files considered missing by matching the appeals information on the log to documents of the proper appellant. TSAC is continuing to research all remaining files to determine final disposition.

We do not agree with the statement that TSAC's recordkeeping has resulted in some appeals not being considered, denied, or otherwise closed. We emphasize that every request for an appeal that is properly submitted with the necessary supporting documentation is heard by the Appeals Panel.

5. TSAC handles students inconsistently during the Tennessee Education Lottery Scholarship appeals process

Finding

As administrator of the Tennessee Education Lottery Scholarship (TELS) Program, the Tennessee Student Assistance Corporation (TSAC) created an appeals process for students who lose eligibility for the TELS scholarships; however, we found weaknesses in this process that may make the process less than fair to all who apply. First, rules and other information readily available to the public do not address when an appeal should go directly to TSAC instead of to an Institutional Review Panel (IRP). Second, TSAC's application of its own rules regarding the timeliness of appeals submissions is not consistent, and the calculation of timeliness TSAC uses does not comply with rules.

Section 49-4-924, *Tennessee Code Annotated*, authorizes TSAC to promulgate rules and regulations to establish appeal procedures for the denial or revocation of TELS scholarships. Section 1640-01-19-.26 of the rules establishes the appeals process for postsecondary institutions and for TSAC. TSAC also follows the *Tennessee Education Lottery Scholarship Program Policies and Procedures Manual*.

According to the *Rules of the Tennessee Student Assistance Corporation* (the rules), the appeals process begins when a student submits an appeal to a postsecondary institution's IRP. The IRP must decide on the appeal no later than 14 calendar days after the appeal has been filed. If a meeting is required, the IRP has an additional 7 calendar days to consider the appeal. The IRP is required to provide the student with a written copy of the IRP's decision. If the appeal is denied, the IRP renders a denial letter to the student stating that they may submit a second appeal to TSAC. Each postsecondary institution must establish a process to ensure that students are notified of the procedures to appeal, including the timeframe within which an appeal must be filed with the TELS Award Appeals Panel (appeals panel).

The rules state that a student must submit all pertinent information related to the appeal to the appeals panel within 45 days from the date the IRP's decision was delivered to the student. The rules further state the decision delivery date is two calendar days after the IRP places its decision with U.S. Postal Service, according to the postsecondary institution's records. An appeal sent to TSAC is the final administrative appeal available to students.

Rules and Other Readily Available Information Do Not Address When Appeals Should Go Directly to TSAC

TSAC accepted appeals before they were submitted to an IRP even though the appeal rules state that an appeal begins when a student submits an appeal to their institution's IRP.

The established appeal rules differ from the *Tennessee Education Lottery Scholarship Program Policies and Procedures Manual* (TELS manual).

Although the rules state the appeals process begins when a student submits an appeal to an IRP, the TELS manual discusses scenarios that permit a student to submit an appeal directly to TSAC. Specifically,

- TSAC shall hear all appeals from students who are transferring from a regionally accredited out-of-state postsecondary institution seeking a decision by the eligible postsecondary institution to deny a TELS award.
- TSAC shall hear all appeals from students who did not maintain TELS continuation requirements without the award while enrolled at a regionally accredited out-of-state postsecondary institution, students who have delayed their enrollment beyond 16 months after graduating from high school, and students who withdrew from an eligible postsecondary institution while seeking eligibility as a non-traditional student.
- TSAC shall hear all appeals from students who are enrolled part-time due to documented medical conditions as certified by a licensed physician and who are petitioning an extension to the five-year limit so long as the student has not been enrolled 10 years from the state of initial enrollment at an eligible postsecondary institution.

We also reviewed TSAC's CollegePaysTN.com for information on the types of appeals and found only references to appeals being for part time enrollment for medical reasons.

TSAC stores the TELS manual on a secure server at TSAC, which means any additional information in the manual is not readily available to the public; however, TSAC has previously provided the manual to appellants upon request.

According to staff, TSAC sometimes rejects appeals and informs the student to first submit an appeal to an IRP; however, during our review we found that some appeals submitted directly to TSAC were accepted before they were submitted to an IRP for reasons not provided in the TELS manual or the Rules. For example, one student was instructed to send an appeal directly to TSAC after transferring from one Tennessee postsecondary institution to another. The Director of Lottery Scholarships stated that TSAC will accept an appeal before it has been submitted to an IRP because postsecondary institutions often disagree about who should hear an appeal when an appellant has attended multiple institutions. He further stated that TSAC will also accept an appeal before it has been submitted to an IRP at the corporation's discretion.

The inconsistent guidance provided in the rules, the TELS manual, and on TSAC's website create confusion about what types of appeals should be submitted to an IRP or directly to TSAC. This could leave a student with a valid appeal unable to regain the scholarship because there is not enough clear information that defines what and where to appeal. The guidance provided in the rules and the TELS manual creates inconsistency in the appeals process that results in disparate treatment for students who appeal the loss of a TELS award.

Application of Rules

Calculation of 45-calendar-day Filing Timeframe

The method used by TSAC to calculate the 45-calendar day filing timeframe is not consistent with the rules. The rules state that the timeframe begins two calendar days after the IRP places its decision with U.S. Postal Service, according to the postsecondary institution's records. None of the appeals reviewed contained documentation indicating the date the institution placed the letter with the U.S. Postal Service. Without documentation from the postsecondary institution showing when the letter is placed with the U.S. Postal Service, it is impossible to determine the delivery date and calculate the 45-calendar day timeframe.

TSAC staff use the letterhead date on the IRP denial letter to calculate the 45-calendar-day filing timeframe. TSAC's method to calculate the forty-five calendar day timeframe should be consistent with the rules. Using the letterhead date on IRP denial letters shortens the 45-day appeal time.

Inconsistently Denying Appeals Based on 45-calendar-day Filing Timeframe

We reviewed student appeals that were submitted to TSAC after initially being denied by an IRP. TSAC's appeals panel did not deny all appeals submitted after the 45-calendar-day timeframe established by the rules. Eleven of 23 appeals (48%) were not submitted to TSAC within 45 calendar days. Five of those 11 appeals included a denial letter from TSAC stating that the appeals were denied based on exceeding the timeframe; however, the remaining six appeals ranging from 48 to 74 days were accepted for consideration. Three of these six appeals were approved by the appeals panel, and three were denied for reasons other than not being submitted within 45 calendar days. At least one denial letter sent to a student stated, "TSAC does not have the authority to consider requests outside of the 45 day timeframe." This statement is in contradiction to other instances when TSAC granted extensions. (See "Extensions to the 45-day Filing Timeframe" section below.)

Inconsistently applying the timeframe established by the rules creates an inequitable system for students to appeal the loss of a TELS award.

Communication of the 45-calendar-day Filing Timeframe by Institutions

The rules state that each postsecondary institution must establish a process to ensure that students are notified of the timeframe within which an appeal must be filed with the appeals panel.

During our review, we found that 12 of the 23 appeals reviewed (52%) contained an IRP denial letter but did not state the correct timeframe that an appeal must be filed at TSAC and two other letters did not state a timeframe at all. The timeframe stated in each letter reviewed was inconsistent for nearly every postsecondary institution.

The Associate Executive Director of Grants and Scholarships acknowledged that some post-secondary institutions do not inform students of the correct timeframe to file an appeal;

however, he stated that TSAC is working with the institutions to ensure that students are informed of the timeframe stated in the rules.

TSAC should clearly define and communicate the expectation for postsecondary institutions to communicate a consistent timeframe for students to submit an appeal in accordance with the rules. In order to submit a timely appeal, students must be informed of the correct timeframe stated in the rules.

Extensions to the 45-calendar-day Filing Timeframe

In two instances, TSAC granted extensions to the 45-calendar-day filing timeframe. One student requested the extension after the timeframe had expired. There is nothing in the rules or the *Policies and Procedures Manual* that indicate extensions to the 45-calendar-day filing timeframe are available. TSAC's rules regarding extensions are in regard to Appeals Panel meetings once a complete appeal is filed, not an extension to the filing timeframe.

When responding to students who provided incomplete documentation, TSAC misquoted the rule by including the ability to request an extension. TSAC's letter to the student states that

Pursuant to TSAC Rule 1640-1-19-.26(2), a student seeking an appeal of a decision rendered by the institution shall provide all pertinent information to the TELS Appeal Panel within forty-five (45) calendar days from the date of denial from the institution, unless an extension is requested by the student within the 45 calendar day period, and granted by the Appeals Panel.

Rule 1640-1-19-.26(2) does not contain this language but states that

A student seeking an appeal of a decision rendered by an IRP shall request an appeal, to include a written statement outlining the basis for the appeal as well as all pertinent information related to the appeal, with the Corporation within forty-five (45) calendar days from the date that the decision was delivered to the student.

The Director of Lottery Scholarships stated that extensions are evaluated on a case-by-case basis and that TSAC regularly communicates with students who have submitted an appeal to determine if the student is "serious" about filing an appeal timely. Selectively providing students an extension to the 45-day timeframe, contrary to the rules, creates an inequitable appeals system.

Recommendation

The Tennessee Student Assistance Corporation (TSAC) should consider revising the rules or the *Tennessee Education Lottery Scholarship Program Policies and Procedures Manual* to eliminate inconsistent guidance concerning the appeals process. TSAC should consistently

follow the appeals process to ensure that all students are treated equitably. TSAC should also clearly publicize when appeals can and should be sent directly to TSAC.

TSAC should consistently apply the 45-calendar-day timeframe stated in the rules to provide equitable treatment to all students. If TSAC permits extensions on a case-by-case basis, the rules should be updated to include this language. TSAC should communicate with each postsecondary institution to document calculation of the 45-day timeframe or change the rule to reflect TSAC practice.

TSAC and postsecondary institutions should consistently communicate the 45-day timeframe to students.

Management's Comment

We concur in part. We agree that calculation of the 45-day timeframe to file an appeal to TSAC should be clarified and applied consistently across all institutions. TSAC will revise its rules to ensure consistency and will advise all postsecondary institutions of the change. Further, TSAC will include a statement on its website and appeal application clarifying the 45-day timeframe.

From the inception of the program TSAC has requested the postsecondary institutions include instruction in their IRP denial letter on the 45-day timeframe. TSAC has continued to communicate this to the institutions, including during this audit. In the future if an institution fails to include the 45-day notice in a denial letter TSAC will continue to notify the institution that the notice must be included in the letter.

Contrary to the finding's statement that TSAC rules do not allow for an extension to the 45-day timeframe, Rule 1640-1-19-.26(2) states that "If the Appeals Panel determine that a meeting is required the Appeals Panel shall consider the appeal no later than forty-five (45) calendar days after the appeal is properly filed, unless an extension is requested by the appellant and granted by the Appeals Panel." Generally, TSAC has allowed appeal extensions without approval by the Appeals Panel to accommodate extenuating circumstances in the best interest of the student. Extensions have typically been allowed when a student is waiting for a third party (e.g. a doctor's office) to submit supporting documentation. Circumstances where an appeal was denied due to the 45-day timeframe were because students did not respond to TSAC's requests for additional documentation. TSAC will revise its current Rule to make the language for appeals and extensions clearer and will ensure that all extensions are first reviewed by the Appeals Panel. TSAC's website has been updated to include additional information on the appeals process.

We agree that the TSAC rule provides that an appeal first be heard by the Institutional Review Panel (IRP). TSAC's policy manual includes exceptions for students to appeal directly to TSAC in the very limited circumstances in which it would not be appropriate for the IRP to hear the appeal. The policy and procedures manual, however, is not intended for use by students and is therefore not posted on the website, but is for use by the postsecondary institutions in

administering the HOPE scholarship programs. The manual addresses specific circumstances that have arisen in the actual administration of the program. An example is where a student drops from full-time to part-time enrollment while attending an out-of-state institution, then transferring to an in-state institution. Since the violation of lottery eligibility occurred at an out-of-state institution, the in-state institution would refer the student's appeal directly to TSAC. Other examples include a loss of eligibility while attending an in-state institution followed by a transfer to another in-state institution. In these situations, the original institution will not hear the appeal since the student is no longer enrolled and the second institution will refer the appeal directly to TSAC because the loss of eligibility occurred at a different institution. In all of these circumstances, appeal applications are handled consistently.

OBSERVATIONS AND COMMENTS

The topics discussed below did not warrant a finding but are included in this report because of their effect on the operations of the Tennessee Student Assistance Corporation and on the citizens of Tennessee.

TSAC could improve the monitoring of its default aversion contractor Student Loan Counseling Service

The Tennessee Student Assistance Corporation (TSAC) contracts with Student Loan Counseling Service, (SLCS) to perform default aversion services by assisting delinquent borrowers to avoid defaulting on student loans provided through the Federal Family Education Loan Program. This two-year federally funded contract became effective January 1, 2012, with an option to extend the term for an additional three years. The contract has a five-year maximum liability of \$5,384,600. Auditors' review of TSAC's Loan Administration Division *Policies and Procedure Manual* and discussion with staff revealed that TSAC did not adequately monitor its contract with SLCS. We also noted the contract does not include sanctions for non-performance of some contract services.

Default aversion activities begin when the lender or servicer determines that a borrower is 60 days delinquent on the loan. The lender contacts Nelnet Guarantor Solutions (NGS), TSAC's student loan portfolio servicer, informing them that the loan is delinquent. NGS submits a default aversion assistance request to SLCS to request for default aversion activities to begin with the borrower. Default aversion assistance ends when the delinquency has been resolved with a cure. A cure as it relates to default aversion is when through a resolution (i.e., grace period due to in-school enrollment, making payments current, deferment, forbearance, loan discharge, bankruptcy, or payment in full), a loan is no longer in delinquent status.

The SLCS contract is funded on a per-loan basis. The contractor receives payment for each new loan assigned, reassigned, or cured. The contract also requires SLCS to perform certain additional activities as part of its scope of default aversion assistance services. Examples

of these activities include providing TSAC with a system to process default aversion assistance request data; timely accepting, entering, and servicing default aversion assistance requests; performing skip tracing; participating in conference calls; performing communication campaigns targeted at borrowers; tracking default aversion assistance activities; providing a contact center and counseling support services; providing three field service representatives to perform default aversion activities; and providing TSAC with comprehensive reports detailing services performed.

The following chart depicts the required timeliness of default aversion assistance services to be provided by SLCS, according to the contract:

SLCS Services	Timeliness Requirement
Enter service request	24 hours
Begin default aversion activities	48 hours
Begin skip tracing	24 hours
Resolve contact center incident reports	60 minutes
Answer 85% of inbound calls	30 seconds
Answer calls on hold	2 minutes
Respond to voice messages	24 hours
Respond to written inquiries	3 business days
Notify TSAC of other inquiries	24 hours
Notify TSAC of complaints	24 hours
Forward documentation	24 hours
Forward borrower payments	24 hours
Correct hardware/software defects	7 calendar days
Report non-contractor software defect	48 hours
Report of system outages	1 hour

According to the contract, SLCS must provide TSAC with comprehensive management and statistical analysis reports detailing the activities of the contractor in order to gauge past performance and project future opportunities. These reports include an annual performance report and data on incoming call volume, live and virtual campaigns, resolved assignments, number of assignments closed, skip tracing, and system outages. According to the Associate Executive Director of Loan Administration, SLCS provides only an annual report.

Contract Monitoring

The corporation’s contract with SLCS includes language that the contractor’s activities are subject to monitoring by the state; however, the only monitoring provisions listed in the contract consist of “performance reviews.” The requirements for these performance reviews only require TSAC to hold periodic meetings and conference calls to discuss if the contractor is

meeting the standards of the contract. According to TSAC, the staff have a conference call once a month and a meeting once a quarter with the contractor, but they do not compile minutes or produce a summary of these calls and meetings.

TSAC management reconciles default aversion assistance requests sent by NGS to those received by SLCS, but the corporation does not perform any other contract monitoring activities for the SLCS contract.

Although performing default aversion assistance request reconciliations could provide TSAC with some assurance that requests have been received, the agency should audit the contractor's management and statistical analysis reports to ensure that SLCS is providing adequate services to TSAC and to student loan borrowers. Poor quality default aversion assistance services could lead to higher cohort default rates for the state and post-secondary institutions and could reduce the likelihood that delinquent student loans will be rehabilitated.

Policy and Procedure Manual

The Loan Division's *Policy and Procedure Manual* does not include any information or guidance regarding contract monitoring. According to the Associate Executive Director of Loan Administration, contract monitoring occurs on an "as needed basis."

Without written policies and procedures, TSAC will not be able to effectively monitor its contractor, SLCS. Further, the corporation cannot ensure contract requirements are met if the vendor's activities are not regularly monitored via contractually required management reports.

Sanctions for Non-performance

The corporation's contract with SLCS contained sanctions for hardware and software defects; however, the contract did not contain sanctions for services not performed (e.g., timely performance or skip tracing).

The contract defines hardware and software defects as unrecoverable data loss, corrupt data files, erroneous data that prevents proper billing, loss of system access, missing files, loss of functionality, and total failure of hardware or software. Hardware and software defects not corrected within seven days are subject to a \$500-per-day penalty. Sanctions are not assessed against the contractor for services not provided, but the contract did include language stating that TSAC may perform "audits" that allow it to reduce the contractor's invoice based on improper remuneration for compensable services.

The corporation should revise the Loan Division's *Policy and Procedure Manual* to include contract monitoring procedures and reporting procedures in order to ensure the contractor provides quality default aversion assistance services and TSAC management can obtain information needed to assess the performance of SLCS.

Most foster care youth fail to satisfy the academic requirements of the HOPE Foster Care Grant, and additional aid available through the state may not meet the financial need of this disadvantaged group; however, data about this group’s academic capabilities and postsecondary financial needs in Tennessee are unavailable

In 2005, the HOPE Foster Care Grant received funding from the Tennessee Education Lottery Corporation to pay all tuition and mandatory fees—less any gift aid—at an eligible public postsecondary institution for students meeting the state’s definition of a foster child. (See the table below.)

Tennessee Education Lottery Scholarship HOPE Foster Care Grant

Custody requirements	<p>In custody of the Department of Children’s Services (DCS) for at least one year:</p> <ul style="list-style-type: none"> • after turning 14 years old, • after turning 14 years old and placed for adoption by DCS or one of its adoption contract agencies and the adoption was finalized, or • after turning 14 years old was placed in permanent guardianship by DCS.
Eligibility requirements	<ul style="list-style-type: none"> • Tennessee resident • Earn a high school diploma or equivalent, • Enroll in an eligible postsecondary institution and apply for the grant no more than four years after the graduation from high school or equivalent, • Present TSAC with official certification from DCS that the student meets eligibility requirements for the grant, and • Meet academic requirement of a minimum GPA of 3.0 or 21 ACT score.
Amount covered	<p>All tuition and mandatory fees—less any gift aid—at an eligible public postsecondary institution. The maximum award is limited to the statewide average of tuition and mandatory fees for a public four-year or two-year institution.</p>
Length of eligibility and maintenance of eligibility	<p>Six years from admittance if satisfactory progress is made.</p>

The eligibility process for the HOPE Foster Care Grant begins when the student completes a Free Application for Federal Student Aid (FAFSA) and checks the box on the form indicating they are currently or were previously a ward of the state after age 13. Once the student enrolls, the institution contacts TSAC to verify the student’s eligibility for the grant. To ensure students meet the minimum age and qualifying length of time for the grant, TSAC’s scholarship program director forwards a list of potentially eligible recipients to the Department of Children’s Services (DCS). DCS staff reviews their records, makes an eligibility determination, and reports to TSAC. TSAC then sends the information to the respective school. If a student satisfies both academic and foster care eligibility, then TSAC disburses the award amounts to the schools’ business offices to be applied toward the students’ tuition costs or other related expenses.

The table below shows the majority of students indicating some form of foster or state care after the age of 13 do not meet the foster care custody requirements or academic requirements of the HOPE Foster Care Grant. In fact, for this 3-year period, of the 1,216 that meet the custody time requirements, only 173 (14%) meet the academic requirements. Even less actually receive the scholarship. One reason so few receive the scholarship may be due to having to turn it down because they did not receive enough financial aid to afford attending college.

**HOPE Foster Care Grant Applicants & Recipients
Academic Years 2010-2012**

Academic Year	Indicated Previous Foster Care Status on FAFSA	Indicated Previous Foster Care Status on FAFSA & Qualified for HOPE Scholarship	Satisfied Foster Care Criteria and Qualified for HOPE Scholarship	Number of Recipients *	Dollars Awarded
2009-2010	4,071	496	81	30	\$126,360
2010-2011	4,477	333	49	51	\$251,584
2011-2012	<u>4,003</u>	<u>387</u>	<u>43</u>	<u>64</u>	<u>\$354,155</u>
Total	12,551	1,216	173	145	\$732,099

*Number of Students Served includes students with continuing eligibility, not just new applicants.

In addition to the HOPE Foster Care Grant, DCS administers two scholarship programs, Chafee Educational Training Voucher and the TN Governor’s Kids in Care Scholarship. These scholarships are limited to \$5,000 per academic year, which is less than the average annual cost of tuition at Tennessee’s four-year public institutions.

With the academic requirements of the Foster Care Grant and the low amounts of the two DCS scholarships, some former foster children may not qualify for enough aid to cover educational expenses. However, the combined data currently compiled and maintained by both TSAC and DCS does not allow for a detailed assessment of the academic capabilities of foster care youth, percentages of college-ready and college-seeking foster care youth that receive postsecondary educational assistance, and whether or not award amounts meet their financial need.

The effect of the discontinuation of the Federal Family Education Loan Program on TSAC

Under the Federal Family Education Loan Program, the U.S. Department of Education designated the Tennessee Student Assistance Corporation (TSAC) as the State of Tennessee’s guaranty agency. TSAC administered the Federal Family Education Loan Program (FFELP), which includes the Federal Stafford (subsidized and unsubsidized) Loan, the Federal PLUS (parent and graduate/professional) Loan, and the Federal Consolidation Loan authorized by Title

IV of the Higher Education Act of 1965, as amended, and further authorized by Section 49-4-401, *Tennessee Code Annotated*.

The Health Care and Reconciliation Act of 2010 discontinued loans or consolidations under FFELP after June 30, 2010. All Stafford, PLUS, and Consolidation Loans now come directly from the U. S. Department of Education under the Federal Direct Loan Program.

FFELP loans were made through private lenders. TSAC guarantees these loans against losses due to default and is reimbursed by the U.S. Department of Education. Although FFELP loans are no longer issued to students, the corporation still has a portfolio of previously issued FFELP loans.

TSAC's contract with Nelnet Guarantor Solutions (NGS) includes servicing the corporation's FFELP loan portfolio and runs to 2016.

TSAC uses two funds to service the FFELP portfolio: a federal fund and an operating fund. The federal fund is the property of the U.S. Department of Education and contains a reserve component available for use if fund revenues are not sufficient to pay for fund expenses. Revenue to this fund is generated from borrower payments, from claims paid by U.S. Department of Education to TSAC for loans in default, and from interest on the principle of the fund. Fund expenses include claims paid to lenders for loans that students have defaulted on, default aversion costs, and an accounting offset to borrower payments.

The operating fund is the property of the State of Tennessee and receives cash from loans transferred, the sale of rehabilitated loans, account maintenance fees paid by the U.S. Department of Education, interest, Treasury offset payments, and reductions in revenue for discounts paid to contractors to rehabilitate loans. Fund expenses include indirect costs, contractor payments, and administrative expenses for TSAC's Loan Division, fiscal affairs, and compliance and legal affairs division staff.

According to TSAC, the FFELP portfolio is currently producing positive cash flow and the agency plans on keeping the portfolio as long as it remains viable. The corporation's goal is to time the sale of the FFELP portfolio to coincide with the end of the NGS contract and the portfolio's ability to produce a positive cash flow.

TSAC must obtain permission from the U.S. Department of Education to sell the portfolio, but does not know how long this approval process may take; therefore, the corporation is uncertain if the portfolio can be sold before becomes it unprofitable. To mitigate this risk, TSAC has developed a contingency plan to fund the portfolio using the reserve in the federal fund in the event TSAC is unable to sell timely the portfolio. TSAC will terminate the contract with NGS if they sell the portfolio before the NGS contract ends.

TSAC has not developed a formal plan to address the operational changes that will occur after FFELP services are no longer required; however the corporation is trying to identify new processes and activities that could be implemented to keep the division functioning after the portfolio is no longer serviced by the corporation. TSAC has considered providing loan

collection services for the Tennessee Teaching Scholars Program or assisting the U.S. Department of Education to service loans made through the Federal Direct Loan Program. TSAC estimates the Loan Division will continue to provide FFELP services for four to six more years.

TSAC is currently cross-training FFELP staff. Two Fiscal Affairs staff members primarily involved in FFELP are cross-training in areas of purchasing, accounts payable, account entry, and accounting transactions outside of the FFELP. One staff member involved in the review of NGS invoices is training in human resources, travel, training, and special projects.

On April 11, 2013, Governor Bill Haslam signed House Bill No. 188 to create a need-based grant program funded through an endowment for Tennessee citizens seeking an associate's degree or certificate. Awards may be applied to the cost of attendance at a Tennessee public two-year postsecondary institution. TSAC is developing selection and renewal criteria and may work with outside organizations to develop an effective means of delivering the grant awards. TSAC has transferred \$47 million from the FFELP operating fund to the new endowment.

Federally mandated changes to the calculation of student loan cohort default rates may leave some Tennessee postsecondary institutions in jeopardy of losing their eligibility to participate in the Direct Loan and Federal Pell Grant programs

The U.S. Department of Education annually releases official cohort default rates for institutions that participate in Title IV student loan and grant programs. A cohort default rate is the percentage of a school's borrowers who enter repayment on certain loans during a fiscal year and default within the cohort default period. Currently, the U.S. Department of Education uses a two-year default period to assess default rates. The rates are based on the federal fiscal year (October 1 to September 30 of the following fiscal year).

If a postsecondary institution's most recent two-year cohort default rate exceeds 40%, the institution will lose Federal Direct Loan Program eligibility for the remainder of the fiscal year and for the following two fiscal years. Further, if the school's three most recent official cohort default rates are 25% or greater, an institution will lose Direct Loan and Federal Pell Grant Program eligibility for the current and subsequent two fiscal years.

When the Higher Education Opportunity Act was renewed in 2008, the period used to calculate an institution's default rate was extended from two to three years beginning in 2012. Under the new three-year cohort default rate rules, an institution will be subject to sanctions if its three most recent default rates are over 30%, or if it has a default rate over 40% in the most recent year. However, institutions will not be sanctioned based on the new rates until the new three-year rates have been published annually three times, meaning institutions will not be subject to sanctions until 2014.

Impact of Change To Three-Year Cohort Default Rate

While the cohort default rate calculations are in transition from two to three years, to assess the impact of the new three-year cohort default rate, we obtained fiscal year 2009 (reported in 2012) two- and three-year cohort rate data for 106 Tennessee postsecondary institutions. We compared the increase in cohort rates for these schools from the two-year cohort period to the three-year cohort period and assessed the number of Tennessee institutions that were in danger of sanctions based on the 30% and 40% three-year cohort default rate rules. We then performed an identical evaluation for Alabama, Kentucky, Arkansas, Mississippi, Virginia, Georgia, and North Carolina postsecondary institutions and compared this information to the results obtained for Tennessee.

While no institution's cohort default rate decreased when measured over three years rather than two, the percentage of Tennessee institutions that experienced an increase was the lowest among all eight states compared.

We determined that 3 out of 106 Tennessee postsecondary institutions had a 2009 official three-year cohort default rate greater than 40%: North Central Institute, Memphis Institute of Barbering, and the Institute of Hair Design. If the new three-year criteria were applied now, these schools would lose their ability to participate in the Federal Direct Loan Program. None of these schools had a 2009 two-year rate greater than 40%.

Additionally, 7 of 106 (6.6%) Tennessee higher education institutions had a 2009 three-year cohort default rate of 30% or greater. This figure is lower than the average (7.2%) for all states compared. Notably, these postsecondary institutions that exceeded the 30% sanction criteria will not lose Title IV Direct Loan or Pell Grant eligibility if the institutions can lower their three-year cohort rate for the 2010 and 2011 fiscal years (reported in 2013 and 2014). Also, 6 of 106 (5.7%) of all Tennessee postsecondary institutions were within 5% of meeting the 30% three-year sanction criteria, which is slightly below the 8.3% average for all states compared.

When compared to the surrounding states, Tennessee's percentage of postsecondary institutions that exceeded the three-year 30% cohort default rate for fiscal year 2009 was lower than average. Tennessee also has a lower than average percentage of schools at risk (within 5% of the 30% rate).

Although sanctions are imposed upon schools if the cohort rate exceeds the limits established by the U.S. Department of Education, it does not appear that most Tennessee postsecondary institutions are in danger of losing Direct Loan and Pell Grant eligibility. TSAC should continue to provide default aversion assistance services to Tennessee student loan borrowers and monitor cohort default rates for Tennessee postsecondary institutions.

TSAC’s process for reviewing defaulted borrowers for license revocation remains a mostly manual process, but TSAC works closely with the vendor NGS to continually improve the process

According to Section 49-4-210, *Tennessee Code Annotated*, Tennessee Student Assistance Corporation (TSAC) has the authority to create rules for determining when a person holding a Tennessee law license or any other professional, trade, occupational, business, or industry license regulated by a Tennessee agency has defaulted on any state or federal educational loan or service-conditional scholarship program. The law requires TSAC to notify the appropriate licensing agency when a person fails to respond to a notice of intent to file an order seeking suspension, denial, or revocation of the debtor’s license; fails to timely request a hearing; or fails to appear at a scheduled hearing. TSAC is also required to notify the appropriate license agency when the debt has been satisfied or the licensee is no longer delinquent. (See tables below for professional licenses that can be revoked. Note, this is a list of the departments or professional boards responsible for issuing licenses, not a list of all licenses that can be suspended.)

**Statute Authorizing License Revocation for Loan Delinquency
Licenses and Issuing Agencies Included in Each Statute**

Section 49-4-210, <i>Tennessee Code Annotated</i>	
Tennessee Department of Education – Teaching and administrative licenses	
Tennessee Supreme Court – Law licenses	
Any other professional, trade, occupation, business or industry licensed by an agency in Tennessee	
Section 63-1-141 , <i>Tennessee Code Annotated</i>	
Tennessee Department of Health	
Division of Health Related Boards	
Athletic Trainers	Nursing
Acupuncture	Nursing Home Administrators
Alcohol and Drug Abuse Counselors	Occupational Therapy
Chiropractic Examiners	Optometry
Clinical Perfusionist	Osteopathic Examiners
Communications Disorders/Sciences	Pharmacy
Controlled Substance Database Program	Physical Therapy
Dentistry	Physician Assistants
Dietitians/Nutritionist Examiners	Podiatric Medical Examiners
Dispensing Opticians	Polysomnography Professional Standards Committee
Electrolysis Examiners	Professional Counselors and Marital and Family Therapist
Emergency Medical Services	Psychology
Hearing Instruments Specialist	Respiratory Care
Massage	Reflexology
Medical Examiners	Social Work
Medical Laboratories	Veterinary Medical Examiners

Midwifery	X-Ray Operators
Section 56-1-312 , <i>Tennessee Code Annotated</i> Tennessee Department of Commerce and Insurance Division of Regulatory Boards	
Accountancy	Limited Licensed Electricians
Alarm Systems Contractors	Limited Licensed Plumbers
Architectural & Engineering Examiners	Locksmith Licensing Program
Auctioneer Commission	Motor Vehicle Commission
Barber Examiners	Private Investigation and Polygraph Commission
Collection Service	Private Probation Service Council
Contractors/Home Improvement	Private Protective Services
Cosmetology	Race Track Licensing Program
Funeral Directors, Embalmers and Burial Services	Real Estate Appraisers
Geology	Real Estate Commission
Home Inspector Licensing Advisory	Scrap Metals Registration Program
Land Surveyors	Soil Scientist Licensing Program

The June 2008 performance audit reported that TSAC had not implemented a process for notifying licensing authorities of defaulted student loans. Since that audit, TSAC has implemented a process for notifying the state’s professional boards in the Department of Commerce and Insurance, the Department of Health, the Department of Education, and the Tennessee Supreme Court when a borrower defaults on a student loan. TSAC began sending notices to the boards under the departments of Commerce and Insurance in May 2009, Health in May 2009, and Education in March 2013, and will begin notifying the Tennessee Supreme Court in January 2014. According to TSAC, almost 2,000 professional licenses for 1,600 borrowers have been suspended since August 2009. Borrowers may have more than one professional license in the state, and licenses can be suspended more than once for each borrower. The license revocation process is still somewhat manual, but TSAC works closely with its vendor, Nelnet Guarantor Solutions (NGS), to continually improve the process.

Manual Process Results in Duplicate Entries

After the 2008 audit and once TSAC and the professional boards were able to compare the TSAC’s databases of defaulted borrowers to the boards’ databases of licensees, TSAC reviewed the list of licensees in default to determine if payments had been made since initial default. TSAC also had to send out certified letters notifying the borrowers of the process, review and approve payment agreements, and continually follow up to determine if the borrower was making payments as agreed. When the license revocation process began, one person at TSAC was responsible for all license revocation in the state, and there was not a database to keep track of licensees in default whose professional licenses were suspended. TSAC manually reviewed payment transaction histories, repeat suspensions, and compliance with payment agreements. While the process is still not completely automated, TSAC and

their vendor, NGS, have created an Access database to help monitor license revocations and rescissions. Even with this in place, the process is still labor intensive and requires some manual data entry and review between the vendor-provided GuranteePro (GPro) system which lists defaulted borrowers' transaction histories, and the Access database. This process results in some duplication of efforts by having to record information regarding suspension and rescission of suspensions in both the Access database and GPro. Examples of these manual and duplicate recordings include

- recording license suspensions and rescission of license suspensions by individual into GPro when already recorded in Access database;
- recording the mailing of notification letters regarding license suspension and rescission by individual in GPro and Access database;
- recording the receipt of certified mail cards for license suspension letters in GPro and Access database; and
- recording returned mail in GPro and Access database.

We randomly selected 25 licensees whose professional license was suspended in fiscal year 2012. This was intended as a judgmental sample; it is not a statistically representative sample and cannot be projected to the 2012 suspension population of 353 licensees. There were two cases where rescind suspension letters were sent before appropriate repayment was made, and one rescind suspension letter was not recorded by TSAC staff.

Any process requiring review and recordkeeping in multiple places has an elevated risk of items not being recorded properly. Since the implementation of the license revocation process, TSAC's work with NGS to track license suspensions via electronic records has improved license suspension efficiency. TSAC would benefit from having only one place to record license suspension information; however, until significant program modifications can be made to GPro or until TSAC purchases a new license tracking system with the capability to interface with multiple computer systems, TSAC and NGS should continue their efforts to decrease risk of items being overlooked and ensure the process is as efficient as possible.

RESULTS OF OTHER WORK PERFORMED

The following topics, reviewed as part of our audit objectives, are included in this report to provide additional information on the activities of the Tennessee Student Assistance Corporation.

Timeliness of payments and recordkeeping in the scholarship loan forgiveness programs

We reviewed scholarship loan contact records and payment records for the five state-funded scholarship loan programs administered by the Tennessee Student Assistance

Corporation (TSAC) to determine if the corporation receives payments within an allowed grace period when a student fails to complete a program or service obligation. According to TSAC rules, each loan has a grace period of either 3 or 12 months.

We randomly selected 10 files from each scholarship loan program in repayment or deferment, except the Tennessee Math and Science Teacher Loan Forgiveness Program for which we reviewed the entire population of 11 recipients. Other than the Math and Science Teacher Program, the files reviewed were a judgmental sample and are not intended for projection to the entire population of the individual scholarship loan programs or all of the scholarship loan programs. Of the 51 recipient files for the 5 loan forgiveness programs:

- 20 recipients (39.2%) made their first payment within the established grace period;
- 7 recipients (13.7%) began paying but not within the grace period;
- 5 recipients (9.8%) have made no payments and their grace period has expired;
- 1 recipient (2%) was denied additional deferments because the account has been in deferment for more than 10 years and has now begun making payments; and
- 18 of the files (35.3%) were not applicable for our review because the student is in deferment, is still in school, is working toward service cancellations, is within the grace period, or submitted the first payment prior to the beginning of electronic records in November 2007.

TSAC has no control over when a recipient submits a payment, but there were records of contacts or attempted contacts with the non-paying recipients. While there were some large spans of time between records of contacts, most records included significant information regarding recipient contacts.

Status of scholarship loan forgiveness program license revocation process

One of our audit objectives was to determine if professional licenses could be revoked after a licensee defaulted on a state-funded scholarship loan. TSAC plans to have academic year 2014-2015 promissory notes include information on professional license revocation and credit bureau notifications in the event a recipient fails to complete program requirements and does not repay the loan. As of July 2013, the Grant and Scholarship Programs Division has begun working with the Loan Division on a license revocation process for defaulted loans.

Status of electronic grant and scholarship system

One of our audit objectives was to review the electronic grant and scholarship system (eGRandS) to determine whether data is secured, complete, accurate, and reliable. The Grant and Scholarship Programs Division uses eGRandS, a web product provided by Nelnet Guarantor Solutions (NGS) to monitor student scholarship and grant awards issued by TSAC.

We reviewed independent attestation reports completed by Klynveld Peat Marwick Goerdele (KPMG), one of the four largest professional service companies in the world. The reports focused on GuaranteePro, eGRandS, and other web products provided by NGS. The KPMG reviews encompass the systems' security, the buildings that house the systems, and the actual workings of the systems. According to Division of State Audit information systems auditors, the KPMG controls questions are similar to questions included in State Audit reviews of controls over information systems. The KPMG reports had no findings regarding data security, completeness, accuracy, or reliability. KPMG also completed attestation work on the guaranty function of NGS and found no problems. TSAC and NGS have controls in place to decrease risks regarding data security, completeness, accuracy, and reliability.

RECOMMENDATIONS

LEGISLATIVE

This performance audit identified an area in which the General Assembly may wish to consider statutory changes to improve the efficiency and effectiveness of the Tennessee Student Assistance Corporation's operations.

The General Assembly may wish to consider requiring a more specific grading policy that includes specifications on how the GPA is calculated and directions regarding rounding for the lottery scholarship. The General Assembly may want to consider expanding the policy and calculation of the GPA for Tennessee Education Lottery Scholarship eligibility to private institutions in an effort to make the distribution of lottery funds as fair and equitable as possible.

ADMINISTRATIVE

The Tennessee Student Assistance Corporation should address the following areas to improve the efficiency and effectiveness of its operations:

1. The Tennessee Student Assistance Corporation (TSAC) should ensure that all rules for interest accrual in its loan forgiveness programs comply with state law and should make appropriate adjustments to all accounts affected by incorrect application of interest accrual.
2. The TSAC should implement a process to annually review (at least a sample of) student transcripts to verify student GPAs being used for lottery scholarship eligibility are calculated in compliance with the uniform grading policy.
3. The TSAC should determine the frequency of students receiving refunds after the 14-day census point and work with the schools to implement a process beyond the Title

IV reconciliation for state lottery and grant funds. TSAC should then revise and clarify rules regarding refunds of state lottery and grant dollars so that all schools treat these funds the same.

4. The TSAC should improve its recordkeeping process by logging, copying, and maintaining all student appeals documentation received by the corporation.

TSAC should consider revising its electronic appeals log to include sufficient personally identifiable information for each student so TSAC can distinguish between the appeals listed in the appeals log.

5. The TSAC should consider revising the rules or the *Tennessee Education Lottery Scholarship Program Policies and Procedures Manual* to eliminate inconsistent guidance concerning the appeals process. TSAC should consistently follow the appeals process to ensure that all students are treated equitably. TSAC should also clearly publicize when appeals can and should be sent directly to TSAC.

TSAC should consistently apply the 45-calendar-day timeframe stated in the rules to provide equitable treatment to all students. If TSAC permits extensions on a case-by-case basis, the rules should be updated to include this language. TSAC should communicate with each postsecondary institution to document calculation of the 45-day timeframe or change the rule to reflect TSAC practice.

TSAC and postsecondary institutions should consistently communicate the 45-day timeframe to students.

APPENDICES

Appendix 1 GPA Calculation Methods

As discussed in finding 2, different grading methods and policies affect a student's GPA and potentially their eligibility for the Tennessee Education Lottery Scholarship (TELS). Example calculations in the tables below demonstrate variations in GPA calculation methods and policies we observed during our review. As shown below, depending on the calculation method or grading policy, one set of grades can be calculated as multiple GPAs allowing a student who does not qualify for the lottery scholarship under the Uniform Grading Policy to qualify based on a different calculation. Thus, students whose schools use the Uniform Grading Policy could be at a disadvantage to their peers.

Schools are not required to report the state's Uniform Grading Policy GPA on the student's transcript, leaving high school counselors, college financial aid administrators, parents, and students to use the GPA provided on the transcript for TELS eligibility. Also, schools are allowed to use their own class ranking policy, including additional external points for honors, advanced placement, and international baccalaureate courses. Some schools using external weighting points in their GPA calculations report both the school's policy and the Uniform Grading Policy GPA but might not clearly explain which GPA should determine TELS eligibility.

Example 1 in the table (on page 50) shows how one school averaged all of the student's grades and used the UGP scale to arrive at the final GPA of 3.0, instead of 2.84 using the UGP. The student had four classes that were half credits, so half of the points for those classes should be used to obtain the student's average. Using this school's calculation method, the student's average grade of 87.38 would have been used to report a 3.0 which would qualify the student for the lottery scholarship.

We found the grading policies used to calculate student GPAs in Tennessee in Examples 2 and 3 below.

Example 2 Grading Policy

			Grade Points				
			Internal Percentage Weighting		External Weighting		
Grade	Percentage Range		Weighting for Honors Course and National Industry Certification	Weighting for Advanced Placement and International Baccalaureate Courses	Regular Classes	Honors Classes	AP/IB Classes
A	93	100	Addition of 3 points to each grading period grade	Addition of 5 points to each grading period grade	4.0	4.5	5.0
B	85	92			3.0	3.5	4.0
C	75	84			2.0	2.5	3.0
D	70	74			1.0	1.5	2.0
F	0	69			0	0	0

Example 3 Grading Policy

			Grade Points				
			Internal Percentage Weighting		External Weighting		
Grade	Percentage Range		Weighting for Honors Course and National Industry Certification	Weighting for Advanced Placement and International Baccalaureate Courses	Regular Classes	Honors Classes	AP/IB Classes
A	97	100	Addition of 3 points to each grading period grade	Addition of 5 points to each grading period grade	4.0	4.5	5.0
	94	96			3.7	4.2	4.7
	91	93			3.5	4.0	4.5
B	87	90			3.3	3.8	4.3
	84	86			3.0	3.5	4.0
	81	83			2.7	3.2	3.7
C	77	80			2.3	2.8	3.3
	72	76			2.0	2.5	3.0
D	70	71			1.0	1.5	1.9
F	0	69			0	0	0

For students covered by the policies in examples 2 and 3, we assumed the appropriate internal weighting points were already added to the “Final Grade” column, then used the final grade to determine the number of grade points received. For example, a final grade of 81 in a

regular (not honors, advanced placement, or international baccalaureate) course received 2 points under example 2 and 2.7 points under example 3.

Next, we multiplied the grade points for each class by the number of credits for each class, then divided the total number of grade points by the total credits the student received.

Using the state's Uniform Grading Policy, the student has a 2.84 GPA and does not qualify for the lottery scholarship. Under any of the other three grading policies, the student meets TELS eligibility criteria.

Multiple Grade Point Average Calculations based on one set of grades									
Course Type	Course Credit	Final Grade	State Uniform Grading Policy		Example 1	Example 2		Example 3	
			Grade Points Based on Final Grade	Grade Points * Course Credit = Grade Points in Cumulative GPA	Points Used to Calculate Grade Average	Grade Points Based on Final Grade	Grade Points * Course Credit = Grade Points in Cumulative GPA	Grade Points Based on Final Grade	Grade Points * Course Credit = Grade Points in Cumulative GPA
AP	1	81	2.0	2.0	81	3.0	3.0	3.7	3.7
Honors	1	100	4.0	4.0	100	4.5	4.5	4.5	4.5
Honors	0.5	100	4.0	2.0	50	4.5	2.25	4.5	2.25
Honors	1	96	4.0	4.0	96	4.5	4.5	4.2	4.2
Honors	1	95	4.0	4.0	95	4.5	4.5	4.2	4.2
Honors	0.5	94	4.0	2.0	47	4.5	2.25	4.2	2.1
Honors	1	91	3.0	3.0	91	3.5	3.5	4.0	4.0
Honors	1	91	3.0	3.0	91	3.5	3.5	4.0	4.0
Honors	1	90	3.0	3.0	90	3.5	3.5	3.8	3.8
Honors	1	90	3.0	3.0	90	3.5	3.5	3.8	3.8
Honors	1	90	3.0	3.0	90	3.5	3.5	3.8	3.8
Honors	1	90	3.0	3.0	90	3.5	3.5	3.8	3.8
Honors	1	90	3.0	3.0	90	3.5	3.5	3.8	3.8
Honors	1	89	3.0	3.0	89	3.5	3.5	3.8	3.8
Honors	1	89	3.0	3.0	89	3.5	3.5	3.8	3.8
Honors	1	80	2.0	2.0	80	2.5	2.5	3.2	3.2
Honors	1	77	2.0	2.0	77	2.5	2.5	2.8	2.8
Honors	0.5	76	2.0	1.0	38	2.5	1.25	2.5	1.25
Honors	1	74	1.0	1.0	74	1.5	1.5	2.5	2.5
Honors	1	73	1.0	1.0	73	1.5	1.5	2.5	2.5
Regular	1	94	4.0	4.0	94	4.0	4.0	3.7	3.7
Regular	0.5	93	4.0	2.0	46.5	4.0	2.0	3.5	1.75
Regular	1	90	3.0	3.0	90	3.0	3.0	3.3	3.3
Regular	1	90	3.0	3.0	90	3.0	3.0	3.3	3.3
Regular	1	87	3.0	3.0	87	3.0	3.0	3.3	3.3
Regular	1	83	2.0	2.0	83	2.0	2.0	2.7	2.7
Regular	<u>1</u>	73	2.0	<u>2.0</u>	<u>73</u>	1.0	<u>1.0</u>	2.0	<u>2.0</u>
Total	25			71	2,184.5		79.75		87.85
Grade Avg.					87.38		3.19		
GPA				2.84	3.0		3.19		3.51

**Appendix 2
Title VI and Other Information**

At the request of the Government Operations Committee, we compiled information on federal funds received by the Tennessee Student Assistance Corporation (TSAC); results of the Tennessee Human Rights Commission’s *Tennessee Title VI Compliance Program Report* to the Governor and General Assembly; and demographic information on board members and staff.

According to the state’s budget documents, TSAC received the following in federal funding:

**Tennessee Student Assistance Corporation
Federal Funding
Fiscal Years 2012 and 2013**

<u>Program Area</u>	<u>Budget Code</u>	<u>2011-2012 Actual</u>	<u>2012-2013 Estimated</u>
Tennessee Student Assistance Awards	332.03	0	\$1,562,400
Federal Family Education Loan Program	332.04	\$148,875,400	\$181,101,900
Tennessee Student Assistance Corporation	332.05	\$3,135,100	\$9,489,100
Loan/Scholarship Program	332.07	\$151,400	\$178,200
Total		<u>\$152,161,900</u>	<u>\$192,331,600</u>

The Human Rights Commission is responsible for reviewing Title VI Implementation Plans submitted by agencies, including the TSAC. A plan must contain the following elements:

- overview of the agency;
- description of the federal programs or activities;
- organization of the civil rights office and duties of the civil rights coordinator;
- data collection and analysis, including total number of complaints received;
- definition of key terms;
- types of discriminatory practices;
- Limited English Proficiency;
- complaint procedures;
- compliance review of subrecipients;
- compliance/noncompliance reporting procedures;
- Title VI training plan;

- public notice and outreach;
- evaluation procedures of Title VI implementation; and
- responsible officials.

According to the *Tennessee Title VI Compliance Program Report*, TSAC is in compliance with the guidelines and requirements for fiscal year 2012. The implementation plan was filed on time, as well, according to the report.

The report also compiles complaint filings of all state agencies. The Human Rights Commission received two complaints against the TSAC between 2011 and 2012. The cases were closed as of June 30, 2012, according to the report. One case was outside the scope of TSAC’s jurisdiction and authority to investigate. The second case was resolved between the complainant and the institution.

The breakdown of TSAC board members and staff by title, gender, and ethnicity is detailed below.

Tennessee Student Assistance Corporation Member Ethnicity and Gender By Position August 2013					
	Gender			Ethnicity*	
	Male	Female		Black	White
Board Members	13	2		1	12
Board Designees	<u>8</u>	<u>1</u>	-	<u>1</u>	<u>8</u>
Total	21	3		2	20

*Ethnicity of the two student members is unknown.

Tennessee Student Assistance Corporation Staff Ethnicity and Gender by Position August 2013						
Position Title	Gender			Ethnicity		
	Male	Female		Asian	Black	White
Accounting Technician 2	0	2		0	0	2
Administrative Assistant 1	0	1		0	0	1
Administrative Assistant 2	0	1		0	0	1
Administrative Services Assistant 2	0	1		0	0	1
Administrative Services Assistant 3	0	2		0	1	1
Administrative Services Assistant 4	1	1		0	0	2
Administrative Services Manager	0	1		0	0	1
Associate Executive Director for Communication Services	0	1		0	0	1

**Tennessee Student Assistance Corporation
Staff Ethnicity and Gender by Position
August 2013**

Position Title	Gender		Ethnicity		
	Male	Female	Asian	Black	White
Associate Executive Director for Grant & Scholarship Programs	1	0	0	0	1
Associate Executive Director for Loan Administration	0	1	0	0	1
Business Development Specialist	1	0	0	0	1
Chief Financial Officer	1	0	0	0	1
Collections Manager	0	1	0	0	1
Communications Representative	1	2	0	2	1
Compliance Director	0	1	0	1	0
Compliance Officer	0	1	0	0	1
Contract & Audit Coordinator	0	1	0	0	1
Contract Administration Manager	0	1	0	0	1
Counselor Services Director	0	1	0	1	0
Director of Grant Programs	0	1	0	0	1
Director of Lottery Scholarship Programs	1	0	0	1	0
Director of Outreach & College Access	1	0	0	0	1
Education Consultant 4	1	0	0	0	1
Financial Aid Compliance Coordinator	0	1	0	0	1
Financial Aid Program Specialist 4	1	2	0	0	3
Fiscal Manager	0	1	0	1	0
Grant & Scholarship Analyst	1	1	0	0	2
Human Resources Director	0	1	0	0	1
Information Resources Support Specialist 2	1	0	1	0	0
Internal Auditor	0	1	0	0	1
Outreach Specialist	4	3	0	3	4
Senior Associate Executive Director and Staff Attorney	1	0	0	0	1
Student Loan Program Administrator	0	2	0	0	2
<u>TOTAL</u>	<u>16</u>	<u>32</u>	<u>1</u>	<u>10</u>	<u>37</u>

The breakdown of active contracts is detailed below.

Contractor Name	Amount	Description
Nelnet, Inc.	Revenue	Revenue contract for purchasing loans from TSAC through its Loan Rehabilitation Program. (Loan rehabilitation is a service that allows borrowers with defaulted federal loans to remove the default status on their loans and repair their credit history if 9 consecutive, on time, voluntary monthly payments have been made within a ten-month period.
SunTrust Bank	Revenue	Revenue contract for purchasing loans from TSAC through its Loan Rehabilitation Program.
Nelnet Guarantor Solutions	\$67,436,275	Fee-for-service contract for full servicing of TSAC's Federal Family Education Loan Program and loan portfolio, Grant and Scholarship Programs, and the General Ledger System.
Student Loan Counseling Services	\$5,384,600	Fee-for-service contract for providing default aversion assistance services for TSAC's loan portfolio, postsecondary institutions, lenders, and servicers.
Federal Family Education Loan Program (FFELP)	\$190,000,000	Delegated authority for payment of lender claims arising from defaulted student loans, as defined by the Federal Family Education Loan Program requirements.
GEAR-UP TN Bridge Incentive Awards	\$2,038,084	Delegated Authority for providing GEAR UP TN scholarships to assist students in transitioning to and succeeding in postsecondary education. TSAC administers this program for the Tennessee Higher Education Commission.
Tennessee Education Lottery Scholarship (TELS) Program	\$335,000,000	Delegated Authority, funded through the state Tennessee Education Lottery Scholarship, for providing several merit-based scholarships to Tennessee residents attending postsecondary institutions in Tennessee in pursuit of certificate, associate, and baccalaureate degrees.
Tennessee Student Assistance Award Program (TSAA)	\$68,800,000	Delegated Authority, funded through state appropriations, providing educational grants to students with financial need for the purpose of attending a postsecondary institution in Tennessee.

Appendix 3 Performance Measures Information

As stated in the Tennessee Governmental Accountability Act of 2002, “accountability in program performance is vital to effective and efficient delivery of governmental services, and to maintain public confidence and trust in government.” In accordance with this act, all executive-branch agencies are required to annually submit to the Department of Finance and Administration a strategic plan and program performance measures. The department publishes the resulting information in two volumes of *Agency Strategic Plans: Volume 1 - Five-Year Strategic Plans* and *Volume 2 - Program Performance Measures*. Agencies were required to begin submitting performance-based budget requests according to a schedule developed by the department, beginning with three agencies in fiscal year 2005, with all executive-branch agencies included no later than fiscal year 2012. The Tennessee Student Assistance Corporation (TSAC) began submitting performance-based budget requests effective for fiscal year 2012. In April 2013, the Tennessee Governmental Accountability Act of 2013 changed the state’s process for developing, reporting, and monitoring performance measures; however, higher education entities, including the TSAC, were exempted from this process.

Detailed below are TSAC’s performance standards and performance measures, as reported in the September 2012 *Volume 2 - Program Performance Measures*. Also reported below is a description of the corporation’s processes for (1) identifying/developing the standards and measures; (2) collecting the data used in the measures; and (3) ensuring that the standards and measures reported are appropriate and that the data are accurate.

Program: Tennessee Student Assistance Awards

Performance Standard 1: To fund the maximum of student awards.

Performance Measure 1: The number of student awards.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
31,000	32,000	31,000

This performance standard determines the number of recipients for the Tennessee Student Assistance Awards. TSAC uses the eGRandS database to collect student award data. The database can track whether or not a student is in award or paid status. Postsecondary institutions certify the student’s enrollment, which is an eligibility requirement of the award. TSAC extracts from the database the number of students that were paid an award to generate a report that measures the number of student awards.

Program: Federal Family Education Loan Program (FFELP)

Performance Standard 2: To lower the TSAC cohort default rate.

Performance Measure 2: The TSAC cohort default rate.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
8.4%	8.0%	7.2%

This performance standard monitors defaulted loans held by the corporation. The U.S. Department of Education prescribes procedures for collecting and calculating the default rate. Data used in the calculation is reported monthly to the National Student Loan Data System from GuaranteePro. Default rates are calculated twice a year. The first calculation is considered a draft rate and is published in February of each year. The second is the official calculation published in September of each year. The calculation takes the number of students who entered repayment on their loans and defaulted, divided by the total number of students who entered repayment.

Program: Tennessee Student Assistance Corporation

Performance Standard 3: To inform Tennesseans of the various financial aid programs available for higher education students and application procedures.

Performance Measure 3: The number of College Goal Sunday participants.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
1,774	3,400	1,951

This performance standard quantifies the corporation's ability to inform Tennesseans of financial aid programs. The College Goal Sunday site coordinators tally participant attendance data through sign-in sheets at each event.

Program: Academic Scholars Program

Performance Standard 4: To increase the total number of students awarded the Ned McWherter Scholarship to 200 (50 students awarded per cohort per year).

Performance Measure 4: The number of students awarded.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
178	200	200

This performance standard measures the program's ability to fund more students entering college. The corporation uses the eGRandS database to collect student award information. The database can track whether or not a student is in award or paid status. Postsecondary institutions

certify the student’s enrollment, which is an eligibility requirement of the award. TSAC extracts from the database the number of students that were paid an award to generate a report that measures the number of student awards.

Program: Loan/Scholarship Programs

Performance Standard 5: To increase the total number of students awarded in an academic year to 170 in the Tennessee Teaching Scholars Program.

Performance Measure 5: The number of students awarded in the Tennessee Teaching Scholars Program.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
161	170	170

This performance standard measures the program’s ability to fund more students entering the teaching field in Tennessee. The corporation uses the eGrandS database to collect student award information. The database can track whether or not a student is in teaching status after the award is issued. Students who accept the award must sign a promissory note and in doing so incur an obligation to teach at a PreK–12 level in a Tennessee public school one year for each year an award is received. The corporation extracts from the database the number of students that were paid the award in the academic year to generate a report that calculates the number of student awards.

Program: Loan/Scholarship Program

Performance Standard 6: To maintain the success rate in the Minority Teaching Fellows Program.

Performance Measure 6: The success rate in the Minority Teaching Fellows Program.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
53%	60%	60%

This performance standard measures the success rate of the Minority Teaching Fellows Program, or the percentage of recipients who teach at a public school in Tennessee. As the recipients’ employers, public high schools send data to TSAC twice a year. Information for those who do not teach is self-reported. The eGrandS database tracks the recipient’s award status as teaching. The success rate is calculated by dividing the number of recipients who teach in a Tennessee public school by the number of total recipients (less those receiving the award in the current year) based on the information submitted to the corporation. The recipients receiving the award in the current year are not included because they have not yet had the opportunity to teach in a Tennessee public school.

Program: Lottery for Education Account

Performance Standard 7: To increase the number of participants in the Tennessee Education Lottery Scholarship program.

Performance Measure 7: The number of students paid a lottery-related scholarship.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
103,000	110,000	120,000

This performance standard measures the number of students awarded funds from net lottery proceeds. The corporation uses the eGrandS database to collect student award information. The database can track whether or not a student is in award or paid status for any and all scholarships. Postsecondary institutions certify the student's enrollment, which is an eligibility requirement of the program. TSAC extracts from the database the number of students that were paid an award into a report that measures the number of student awards for the following scholarships and includes these totals in the final calculation: HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE Award, Tennessee HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Tennessee HOPE Scholarship for Non-traditional students, Tennessee HOPE Foster Care Grant, Helping Heroes Grant, Tennessee Rural Health Loan Forgiveness Program, Tennessee Math and Science Teacher Loan Forgiveness Program, and Dual Enrollment Grant.

Program: Lottery for Education Account

Performance Standard 8: To maintain the semester HOPE scholarship award amount.

Performance Measure 8: The HOPE Scholarship award amount.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
\$2,000	\$2,000	\$2,000

This performance standard aims to monitor the award amount given to HOPE Scholarship recipients. The amount of the award is determined in the General Appropriations Act. TSAC staff tracks any award amount changes during the legislative session. The calculation is simply the appropriated amount of the scholarship.