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United States General Accounting Office
Washington, DC 20548

Human Resources
Division

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SEPTEMBER 22, 1980

The Honorable Shirley M. Hufstedler
The Secretary of Education

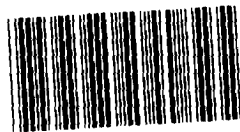
Dear Madam Secretary:

Subject: [Status of Special National Direct Student
Loan Funds] (HRD-80-125)

Recently, we initiated a survey of the effectiveness of educational institutions' efforts to collect defaulted National Direct Student Loans (NDSLs). Our survey included five institutions each with an NDSL default rate of at least 25 percent and defaults totaling \$100,000 or more.

The NDSL program provides for establishing a revolving fund at postsecondary educational institutions from which long-term, low-interest loans are made to qualified students who need financial assistance. The institutions are responsible for making and collecting the loans.

Under the NDSL program, the Federal contribution represents 90 percent of the loan funds, and the institution provides the other 10 percent. In addition to this method of financing the NDSL program, the Higher Education Act of 1965 (20 U.S.C. 1061) permitted institutions to use Federal grant funds as additional Federal contributions. Section 407(b)(1) of the 1965 act allowed institutions to use up to 25 percent of the Educational Opportunity Grant funds paid to them before July 1, 1970, as an additional Federal contribution for their loan programs. (The Educational Opportunity Grant program became known as the Supplemental Educational Opportunity Grant program under the Education Amendments of 1972.) Institutions established "special" NDSL funds with this additional Federal contribution. Unlike the Federal contribution to the regular NDSL program, institutions were not required to match the Federal contribution to the special NDSL fund.



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A special NDSL fund was established at 25 institutions. Special funds totaling \$272,000 and \$264,420, respectively, at the University of Illinois at Chicago Circle and Colorado State University were the two largest. The special funds at the 25 institutions totaled \$1.4 million. Institutions were given an opportunity in 1972 to merge their special funds with their regular NDSL funds by providing institutional funds equal to one-ninth of the amount transferred to their regular funds. Fourteen schools elected to merge their funds. The other 11 schools had established special funds totaling \$890,000 (see enc. I), which, according to a Department official, are still maintained by the institutions.

One of the 11 schools, the University of Illinois at Chicago Circle, was included in our survey. Separate fiscal operations reports for the regular and special funds were maintained at the University. According to the fiscal operations report on the special fund, only one loan has been made from the special fund since fiscal year 1976, and on June 30, 1979, the cash balance in the fund was about \$60,000. This balance, which was about \$21,000 as of June 30, 1976, has increased as a result of repayments of principal and interest on outstanding loans. A school official stated that the University does not anticipate any further need for the special fund because sufficient funds exist in its regular NDSL fund.

Although the University of Illinois at Chicago Circle maintained separate fiscal operations reports for its special and regular NDSL funds, it submitted a combined report on them to the Department for fiscal year 1979. We reviewed this report and fiscal operations reports submitted to the Department by four other institutions that established special funds which initially totaled \$547,000. These reports showed the status of each institution's NDSL fund as of June 30, 1979, but did not indicate which transactions, if any, applied to the institutions' special NDSL funds. Accordingly, we were unable to determine from these reports the status of the special funds at these institutions. Because the other four institutions were not included in our survey, we did not visit them. Thus, we did not determine the status of their special funds.

We have discussed this matter with Department officials in the Chicago Regional Office and at the headquarters level. These officials stated that the Department has not monitored the special funds for several years and that the status of these funds will have to be obtained from the institutions.

Inasmuch as the special fund at the University of Illinois at Chicago Circle has been inactive for several years, we recommend that the Department ascertain from the University its plans for using the fund and, if there are no plans for further use of it, require the University to return to the Federal Government the unused balance of the funds along with subsequent loan collections. We also recommend that the Department review the status of special NDSL funds at the other 10 institutions and, where appropriate, similarly require that funds be returned to the Government.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We would appreciate being advised of the Department's actions on our recommendations, particularly regarding funds collected from institutions and returned to the Government. Copies of this letter are being sent to interested congressional committees and subcommittees.

We will be glad to meet with you or your representatives to further discuss this matter.

Sincerely yours,


Gregory J. Hart
Director

Enclosure

INSTITUTIONS OPERATINGSPECIAL NDSL PROGRAMS

<u>Institution</u>	<u>Amount transferred to "special" fund</u>
American River College	\$ 8,800
Colorado State University	264,420
Edward Waters College	3,800
Rosary College	19,200
University of Illinois at Chicago Circle	272,000
Bowie State	16,058
University of Missouri Kansas City	108,000
Cleveland Institute of Music	3,200
Portland State University	48,000
South Dakota State University	127,000
University of South Dakota	<u>20,000</u>
	<u>\$890,478</u>