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STATEMENT OF
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HUMAN RESOURCES DIVISION

BEFORE THE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
HOUSE COMMITTEE ON EDUCATION AND LABOR
ON
PROPRIETARY SCHOOL COMPLIANCE
WITH REQUIREMENTS OF THE PELL GRANT PROGRAM

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss the General Accounting Office's August 1984 report, "Many Proprietary Schools Do Not Comply With Department of Education's Pell Grant Program Requirements." Our review was requested jointly by the former chairman of this Subcommittee and Representative Richard A. Gephardt because of their concerns about reports of proprietary schools abusing the Pell Grant program.

Proprietary schools are generally private vocational schools operated for profit. The objective of the Pell Grant program at these schools is to help financially needy students get training which will prepare them for employment. (The Pell Grant program is one of the largest financial assistance programs authorized under title IV of the Higher Education Act.) During the 1980-81 school year, the most recent complete year at the time of our review, \$2.5 billion in Pell Grants were awarded to 2,855,000 individuals. About 300,000 of these students were

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attending proprietary schools and received about \$278 million in Pell Grants.

Each participating institution is responsible, under an agreement it has with the Secretary of Education, for administering the Pell Grant program on its campus according to program rules and regulations. This includes requirements for determining student eligibility, calculating and disbursing grant funds, enforcing academic progress standards, and calculating and making refunds.

Four groups are involved in monitoring the participating schools' day-to-day administration of the Pell Grant program. These groups--accrediting commissions, state licensing agencies, the Department of Education, and independent public accounting firms--play varying roles in ensuring that institutions comply with program regulations.

We judgmentally selected 15 states from which we randomly sampled 35 schools to determine how they administer the Pell Grant program. The 15 states contained 1,165 of the 1,725 proprietary schools nationwide that received Pell Grant funds. Students at these 1,165 schools received \$185 million, or 66 percent, of the \$278 million of Pell Grant funds disbursed in the 1980-81 award year. At the 35 schools, we selected a sample of 761 students who received a Pell Grant for the first time. The student sample was representative of an estimated 123,000 Pell Grant recipients at the 1,165 schools.

While our selection does not allow us to project our findings to the 1,725 schools nationwide, our principal findings are representative with 95 percent certainty of the 1,165 schools from which we drew our sample.

In summary, we found that many school were not complying with program requirements. Some of these schools' questionable practices included (1) admitting unqualified students, who we found had a greater tendency to drop out of school before completing their training than did qualified students; (2) not establishing and/or enforcing academic progress standards; (3) misrepresenting themselves to prospective students; and (4) making errors in computing and disbursing Pell Grant awards and refunds. We recommended several corrective actions, and the Department of Education has taken steps to implement each of these.

NONCOMPLIANCE WITH
PROGRAM REQUIREMENTS

Our review showed that at least 965 of the 1,165 schools did not comply with one or more program requirements. We estimated that these practices were costing the federal government millions of dollars. Some of the practices in question are summarized below.

--A little less than two-thirds of the schools admitted students who did not meet the admission requirement that they have a high school diploma, general education

development (GED) certificate, or ability-to-benefit from training. The majority of such students dropped out of school before completing their training but not before they received \$13 million in federal student aid. In addition, students who met the ability-to-benefit criteria dropped out at a significantly higher rate than students who were admitted with a high school diploma or GED certificate.

--Over 82 percent of the schools failed to consistently enforce academic progress standards, which usually consisted of minimum requirements for classroom attendance and grade point average. As a result, many students were allowed to remain in school and continued to receive federal funds when they were not making satisfactory academic progress, contrary to Education's regulations.

--About two-thirds of the schools misrepresented themselves to varying degrees--primarily when recruiting students--by overstating job placement rates, offering students "free scholarships" which did not reduce tuition, or inaccurately representing themselves in their advertisements.

--Under Education's regulations, schools perform the role of a fiduciary regarding their use of title IV funds. However, the federal government incurred additional

costs under the Pell Grant program because many schools did not adequately carry out their responsibilities for (1) accurately computing and disbursing Pell Grant awards to eligible students and (2) making accurate, timely, and equitable refunds to students and the federal government when students fail to complete their training.

INADEQUATE MONITORING
AND ENFORCEMENT

The Department of Education's regulations require that participating schools be audited by an independent public accountant at least once every 2 years. Schools must also be licensed by the state in which they operate and approved by an Education-recognized accrediting association. In its efforts to assure that schools comply with various Pell Grant program requirements, Education conducts on-site program reviews at some schools each year. However, the Department has limited staff resources to conduct these reviews and, therefore, can not adequately assure that schools comply with Pell Grant regulations.

Also, we found that state licensing agencies and accrediting associations offer little potential for assisting the Department in assuring that schools comply with program requirements. State licensing agencies are often hampered by staff shortages. The accrediting associations said that the

accrediting process provides assurances only at a given point in time and that they are not responsible for continuously monitoring school activities, especially concerning compliance with federal laws and regulations.

Independent audits offer the potential for helping Education with on-site monitoring because they are to be performed at each school every 2 years. However, these audits fall short of meeting Education's needs because they do not always adequately address compliance issues (such as schools' compliance with admission or academic progress requirements), or in some cases do not fully disclose the audit findings to Education.

The quality of the audits performed by independent public accountants is evaluated through quality assessment reviews performed by Education's Office of the Inspector General. The Inspector General has found problems with some independent audits, such as not providing adequate coverage or testing of compliance issues. In some instances the Inspector General has rejected audit reports and/or the audit work supporting them. However, the Inspector General has not established an effective system for gathering and using the reasons for such rejections as a basis for improving audit quality. This information, if properly analyzed, could form the basis for assessing the extent to which the work of public accountants can be relied upon, and for determining how the quality of such work can be improved.

RECOMMENDATIONS TO THE
SECRETARY OF EDUCATION

In view of the significantly higher dropout rate for students admitted on the basis of an ability-to-benefit criterion, we recommended that the Secretary explore the feasibility of developing criteria that would provide schools a better indication that such students have a reasonable likelihood to complete training. If suitable criteria cannot be developed, we recommended that the Secretary seek a legislative change to limit admission to students with a high school diploma or GED certificate.

To improve the monitoring and enforcement of school compliance with Pell Grant regulations, we recommended that the Secretary ask the Inspector General to gather information on why they reject the audit work and reports of independent public accountants. The analysis of this information could then be used by the Inspector General as a basis for assessing and, where necessary, improving the quality and reliability of independent audits.

In regard to the latter point, we suggested that a collaborative effort with the American Institute of Certified Public Accountants (AICPA) would seem to be most useful. The overall result of this effort would be the development of better information for Education to use in monitoring compliance. Such information, together with its program reviews and Inspector General audits, should allow Education to better assure that problems such as those noted regarding recruiting practices,

adherence to academic progress standards, and administering federal funds are identified and remedial or other enforcement action is taken where appropriate.

DEPARTMENT OF EDUCATION ACTIONS

Since the report was issued, Education has taken action to implement each of our recommendations. Education said it recognized the potential for abuse inherent in the ability-to-benefit clause and will propose its deletion from the Higher Education Act. As of today the Department's legislative proposals relative to the Higher Education Act's reauthorization have not been submitted to the Congress.

Education's Inspector General is developing a reporting system to gather the type of information we recommended for use in improving the quality and reliability of public accountant audits. Further, the Inspector General is assisting the AICPA to develop a training course for public accountants covering the audit requirements for federal student financial aid programs. The course is scheduled to be presented this winter. Further, the AICPA conducted a national conference on auditing federal assistance programs in which the Inspector General participated. The conference was held on July 25 and 26, 1985, and was attended by practicing public accountants and federal, state, and local officials.

Finally, in view of our findings regarding the timeliness of refunds, Education said it plans to publish final regulations this summer requiring that such refunds be made to the federal government within 30 days of the date a student leaves school.

We will continue to monitor Education's steps to implement our recommendations.

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Mr. Chairman, this concludes our statement. We will be happy to answer any questions at this time.

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