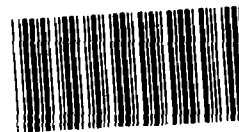


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
GREGORY J. AHART, DIRECTOR
HUMAN RESOURCES DIVISION
BEFORE THE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
UNITED STATES HOUSE OF REPRESENTATIVES
ON
CERTAIN GAO REPORTS CONCERNING FEDERAL STUDENT FINANCIAL AID PROGRAMS



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Mr. Chairman and Members of the Subcommittee:

I am pleased to appear here today to discuss three recent General Accounting Office reports on Federal student financial aid programs. These reports concern (1) academic progress standards for students receiving Federal financial aid, (2) the collection of defaulted National Direct Student Loans and (3) the Guaranteed Student Loan information system.

TOUGHER ACADEMIC PROGRESS STANDARDS
NEEDED FOR STUDENTS RECEIVING FEDERAL AID

First I would like to discuss our report on the need for tougher academic progress standards for students receiving Federal financial aid which is dated December 3, 1981. This report concerns programs administered by the Department of Education (ED), the Veterans Administration (VA), and the Social Security Administration (SSA) of the Department of Health and Human Services (HHS). These programs provided about \$6.8 billion in aid during fiscal year 1980 to students.

Our report is based on analyses of (1) statutory and administrative requirements for the student aid programs and (2) specific standards set by institutions of higher education to meet these requirements. In total, we reviewed the transcripts and financial aid records of a sample of 5,805 students randomly selected out of a universe of 49,250 aid recipients at 20 schools in 12 States. Since we used statistical samples, we were able to project our findings to all students receiving aid at the individual schools. The schools selected represent a broad cross-section of higher education, considering type, support, educational purpose, and location.

We initiated our review on the academic progress issue because we saw it as a serious problem, affecting various federally sponsored student aid, that had been addressed only peripherally in our previous reports on specific programs.

An effective academic progress standard should, in our view, consider all the factors which affect a student's progress. This requires accurate measurement of both the quality of the student's work and the rate of progress toward a definite educational goal. To do this, schools must have reasonable and consistent requirements for such factors as grade point average (GPA), nonpunitive grades which have no effect on the GPA or do not count toward program completion, the rate of movement toward completion of a course of study, and related elements. In our opinion, an academic progress standard which does not consider these factors does not adequately measure progress, even though it is in technical compliance with Federal regulations.

We believe that inconsistent, weak, and nonspecific Federal academic progress requirements have led to abuse of the student financial aid programs, particularly those administered by ED and SSA. At the schools visited, students often had GPAs well below graduation requirements, were awarded nonpunitive grades, and were progressing toward graduation or program completion at a slow rate. Inadequate requirements, coupled with weak probation or suspension policies, allowed students to stay in school and receive financial aid far beyond the point they stopped making progress.

In addition to academic progress requirements being generally weak, 9 of the 20 schools visited were not fully enforcing the standards they had adopted. While the total effect was not measureable, we identified overpayments of \$1.28 million in ED programs.

Academic Progress Standards Imposed By Agencies

The agencies included in our review are the three major sources of federally-supported student aid. Both VA and ED have academic progress requirements set by law and regulation, but rely heavily on an institution's ability to set and enforce its own standards. SSA does not impose standards for academic progress in its program since there is no requirement set by law.

VA, which provides education and training benefits to veterans and eligible dependents, has the most comprehensive requirements of the three agencies included in our study. Each participating institution is required to have VA-approved standards of progress and to enforce certain requirements set by law and regulation. GPA standards, for example, must bear a reasonable relationship to graduation requirements. Also, VA will not pay a student for courses outside an approved program of study, from which he or she withdrew, or which do not count toward graduation.

The ED programs we reviewed included Pell Grants, Supplemental Educational Opportunity Grants, National Direct Student Loans, and the College Work Study Program. The requirements for these programs essentially leave the determination of academic progress to the institutions. While each school must

establish, publish, and enforce a standard, there are no requirements on what the standard must include. Thus, the institutions have great leeway in setting standards and the standards established by various schools differ significantly. According to ED officials, ED has no statutory authority to question the adequacy of an institution's standards.

SSA benefits are provided to unmarried students, ages 18 through 21, who are children of deceased, retired, or disabled Social Security contributors. To remain eligible for SSA benefits, a student must be enrolled full-time, as certified by the school. However, there is no academic progress standard set by SSA, since the Social Security Act requires only that eligible students attend school full time.

Standards Set by Schools Not Adequate

A basic problem related to academic progress that we noted was that the standards set by schools did not insure a reasonable level of progress. The standards in effect at the schools we visited were often not adequate because they did not consider such factors as GPA, nonpunitive grades, the rate of progress toward educational goals, and related factors. Many students' grades were low and often inflated by the overuse of nonpunitive grades. Progress toward educational goals was slow and, in some cases, virtually impossible to determine.

Grade point average

Institutions generally use the GPA as a key indicator of academic progress. To graduate, a student would normally have to

attain a "C" average, or a GPA of 2.0 on a 4.0 scale. In setting academic progress standards, institutions frequently allow students to maintain GPAs below 2.0, particularly during the first few terms.

VA instructs institutions, in setting their academic progress standards, to set GPA or other minimum proficiency requirements at a level consistent with graduation or program completion requirements. We found fewer cases of low GPAs among VA students than either ED or SSA students in our samples.

Many students receiving aid at the schools we visited had cumulative GPAs well below graduation requirements. For example, 19.9 percent of the Pell Grant recipients and 23.1 percent of the SSA recipients had cumulative averages below 2.0. About 9.5 percent of the Pell Grant recipients and 10.8 percent of the SSA recipients had averages below 1.5, the equivalent of a "D-plus." Fewer VA students had low averages, with 12.4 percent having GPAs below 2.0 and 3.5 percent below 1.5.

We noted numerous instances where students had remained in school with extremely low GPAs. For example, a student at a public community college received \$2,215 in Pell Grants over 5 semesters, successfully completing only 3 of 58 credit hours attempted with a 0.11 GPA. A student at a private, 4-year college received \$7,771 in ED aid over 4 semesters, with a cumulative GPA of 0.76.

Students remaining in school with low GPAs were largely the result of academic progress standards that fell short of graduation

requirements. While each of the schools visited required a 2.0 GPA to graduate, students could often stay in school and continue to receive aid with much less. For example, a public university permitted students well into their third year academically to continue if they could maintain a GPA of above 1.6. A private, 4-year college had lowered its requirement to a 0.5 ("F-plus") after the first year, a 1.4 after the second, and a 1.7 after the third.

In addition to GPA standards being low, schools often have other policies that negate the effectiveness of their academic progress standards. Weak probation and suspension policies may allow a student to remain on aid long after having been identified as not making progress. Some schools may overlook a low cumulative GPA if the student is progressing from term to term. Schools also may elect to apply their standards at the end of the year rather than at the end of each grading period.

Nonpunitive grades

A student's GPA should be an average of the grades received for the courses taken. In some cases, however, schools assign nonpunitive grades, which can distort a student's actual performance. Common examples of these are grades for course withdrawals, courses not completed, and courses later repeated. The basic problem with assigning nonpunitive grades is that the grades often are not reflected in a student's GPA, but enable a student to stay in school and receive Federal financial aid. At the schools visited, the policies on assigning nonpunitive grades often al-

lowed students on financial aid to maintain GPAs that were not truly indicative of their academic progress.

The withdrawal policies at many of the schools we visited were lenient. Some schools allowed students to withdraw from courses without penalty two-thirds of the way through the term. One school permitted withdrawals through the 14th week of a 16-week semester. Two other schools allowed withdrawals up to the end of the term. One of these schools allowed some students to withdraw after they had taken the final examinations.

Even more of a problem were institutional policies which permitted "unofficial withdrawals." Essentially, this happens when a student simply stops showing up for class. Some schools do not penalize students for this by giving them failing grades.

We noted numerous cases where students had made liberal use of withdrawals. For example, a student at a private university had received more than \$6,900 in ED aid over 4 years while maintaining a GPA of near 2.0. During this time, however, she had withdrawn from 57 of the 115 semester hours for which she had enrolled. An SSA recipient at a public community college had maintained a 3.33 GPA for six quarters. However, the GPA did not reflect the fact that the student had withdrawn from 49 of the 75 credit hours attempted.

Also, in some of the schools visited, incomplete grades were often assigned liberally, were not always reconciled promptly, and

occasionally did not follow stated policies. This had the effect of producing higher GPAs than the students deserved, thereby distorting the measurement of academic progress.

The effect of a repeated course grade on a student's GPA varies among schools. In some cases, all the grades appear on the record, but the student receives credit for only the highest grade received. In other cases, the previous grade is removed from the record. In still others, a grade for a repeated course is simply another grade used in computing the GPA.

Besides the obvious distortion repeats can have on a student's GPA, it is also difficult to determine how a student can be "progressing" when he or she must repeat the same basic course several times. A business major at one 4-year college, who had received \$6,000 in ED aid, had taken Accounting Principles 5 times, earning three F's and two D's, and Quantitative Analysis 4 times, earning three F's and one D.

Rate of progress toward educational goals

The concept of satisfactory academic progress should include the principle that a student should make quantitative as well as qualitative progress. That is, the student should be moving toward some definite educational goal at a reasonable rate.

None of the agencies included in our review specifically require schools to develop quantitative measures of academic progress.

Only 10 of the 20 schools visited had specific requirements for quantitative academic progress. The absence of quan-

titative academic progress standards can lead to students remaining in school and on financial aid for a long time, particularly under the Pell Grant program where there is no limit on the number of school terms for which financial aid can be provided. For example, a student at one public university had been enrolled for 5 years and had received more than \$4,200 in Pell Grants, but was academically a second quarter sophomore. Some students had been in school up to 8 academic years.

Other factors affecting academic progress

VA requires recipients to identify a program of study and to enroll in courses that will lead to the successful completion of that program. There is no such requirement in the ED and SSA programs. At the schools we visited, we noted numerous instances of students who were taking courses that had little relationship to the completion of a definite program. For example, a student at a public community college received an associate degree in nursing, assisted by more than \$5,000 in ED aid. After completing this course of study, she remained in school for two more quarters, receiving more than \$2,000 in ED aid while taking general interest courses such as yoga, architecture construction, and beginning snow skiing.

Standards Not Enforced

An academic progress standard is only as good as its enforcement. There is no benefit to setting qualitative and quantitative standards if an institution does not enforce them. We

found, however, that some schools are not.

Nine of the 20 institutions we visited were not fully enforcing their published standards. At the nine schools, we estimated overpayments to ED aid recipients of about \$1.28 million. We did not project overpayments for VA recipients because the schools did not have information on the amount of financial aid paid by VA.

The lack of enforcement resulted in many cases of students with poor performance remaining on Federal aid for extended periods. A student at a private 4-year college, for example, received \$15,587 in ED aid over a 5-year period, earning 65 semester hours with a 1.35 GPA. Had aid been terminated after 2 years, as required by the school's standard, \$9,136 in aid could have been saved. A VA student at a public, 4-year college was dismissed for academic reasons on five separate occasions, but was given a waiver to continue each time. At the end of 11 quarters, he had a 1.48 cumulative GPA, far below the school standard of 1.8.

Conclusions

We believe a uniform Federal policy for academic progress standards is needed. Although VA standards set by existing legislation and regulations are generally adequate, standards are needed for the rate at which a student is progressing. We believe that ED and SSA requirements should be essentially the same as those set by VA. These additional requirements are especially important for ED, since the Pell Grant is available to a qualifying student for as long as it takes to get a degree.

We believe that changes to the authorizing legislation and program regulations to strengthen academic progress requirements would result in

- savings in Federal funds now being paid to students who are not making satisfactory progress,
- fewer differences in Federal requirements encountered by institutions in establishing standards for students under the three programs, and
- better coordination of Federal efforts to establish and monitor enforcement of academic progress requirements.

Also, students might be encouraged to enroll in programs which are more nearly suited to their abilities and which they are more likely to complete.

Recommendations

Our report contained recommendations to the Congress, ED, HHS, VA, and the Office of Management and Budget (OMB). We recommended that the Congress (1) amend the Social Security Act to require satisfactory academic progress for SSA student aid recipients, and (2) amend the Social Security Act and the Higher Education Act of 1965 to authorize HHS and ED to issue regulations setting forth general standards for institutions to follow in establishing academic progress standards.

We recommended to the Secretaries of HHS and ED that, in issuing regulations on academic progress, they should consider a number of factors similar to those now in effect for VA students. We recommended that the Administrator of VA require institutions to include quantitative measurements of academic

progress in establishing their standards. Finally, we recommended that the Director of OMB ensure coordination by the other three agencies in setting and enforcing requirements on academic progress.

Agency Comments and Our Evaluation

HHS and the Office of Management and Budget generally agreed with our recommendations. HHS questioned, however, the usefulness of implementing standards for its program, which is being phased out. VA did not agree with our recommendation, claiming it would be unworkable and an administrative burden. ED was given the opportunity to provide comments on a draft of this report, and it had not done so when the 30-day statutory comment period expired.

HHS agreed with the concept that academic progress standards were needed in the SSA student benefits program, but questioned the use of such an addition when the program is being scaled down and phased out over the next 4 years. The agency noted that the administrative costs of establishing and carrying out a system of monitoring academic progress may make the change not worthwhile.

While we realize that SSA benefits for postsecondary students are to be phased out, the annual funding level was \$1.8 billion in fiscal year 1981 and will probably remain at significantly high levels throughout the phaseout. Also, a number of students who would otherwise be terminated could continue to receive aid for the next 4 years. We believe it would be in the best interests of the Government to place academic progress

standards on this program while it is being phased out and instruct the schools to enforce them.

VA did not concur with our recommendation that institutions be required to establish standards on the rate at which a student should progress. The basis for this response was that VA had previously been required by law to set a specific standard for the rate of progress toward program completion. VA stated that this had proved to be unworkable and an administrative burden. The requirement was subsequently dropped from the law in favor of a school's own standard.

While we understand VA's concerns in this area, we do not believe the implementation of our recommendation would lead to administrative problems nor be contrary to the intent of the Congress. We are not recommending that VA establish a single quantitative standard, as it did before, but rather require each school to set its own standard for rate of completion as a portion of its overall academic progress requirements. This would allow each school to set an enforceable standard tailored to its own programs. In essence, this is what VA now requires a school to do in setting GPA standards. Each school may establish its own standards, but these standards must be reasonable and enforced uniformly and consistently.

The Office of Management and Budget shared our concern for the absence of more stringent academic progress standards and said that it was working with the agencies in question to insure adequate enforcement of existing laws and regulations. Also,

the Office of Management and Budget noted that while it believed in tightening program administration, "uniform standards run the risk of imposing severe and unnecessary reporting and record-keeping burdens on institutions of higher education." Thus, care must be taken in coordinating the requirements for student assistance.

STRONGER ACTIONS NEEDED TO
RECOVER DEFAULTED NATIONAL
DIRECT STUDENT LOANS

Now I would like to discuss our report on the need for stronger actions to recover defaulted National Direct Student Loans which is dated September 30, 1981.

Since the National Direct Student Loan program began in 1958, nearly \$5 billion in Federal funds have supported loans to about 11 million students.

The program has been plagued by high default rates--16.04 percent as of June 30, 1979, the latest date for which data were available at the completion of our review. ED's most current data show that the default rate as of June 30, 1980, was 16.3 percent. As of these dates outstanding defaulted loan balances exceeded \$730 million and \$830 million, respectively. Nearly 1,200 schools had default rates of 20 percent or higher; 315 schools had default rates exceeding 41 percent.

Our review focused on determining how well schools were carrying out their responsibilities for administering and collecting student loans and identifying ED actions for collecting defaulted loans forwarded to it by participating schools. We visited seven schools in the Midwest with default rates ranging from 5.9 to 63.1

percent and obtained information on 599 defaulted loans. Six of these schools had default rates exceeding 20 percent. The seven schools were judgmentally selected; therefore, the observations on loan collection procedures relate only to these schools. We also obtained information on defaults and collections for 33 other schools in the same geographical area with default rates exceeding 20 percent.

Schools Need to Improve
Loan Administration and
Collection Procedures

Schools are responsible for making loans and collecting repayments either themselves or through agents. ED regulations require schools to be diligent and forceful in administering and collecting student loans.

The seven schools we visited did not fully comply with ED's loan collection procedures. Though they generally did an adequate job sending bills and collection letters, improvements were needed in other areas. For example:

- Some schools were remiss in counseling borrowers and maintaining contact with them.
- Most of the schools had problems locating borrowers with whom they had lost contact.
- Schools often did not refer accounts quickly to collection agencies, monitor the status of accounts referred, and determine the collection agencies' success.
- The seven schools had been reluctant to sue borrowers to collect defaulted loans.

Several school officials believed that referring names of defaulted borrowers to credit bureaus could aid in collecting defaulted loans by providing an incentive for repayment. However, this practice was impeded by the Family Rights and Privacy Act because, according to ED, there were only limited situations in which a credit bureau would be authorized to disclose information about a defaulted loan to a third party. ED has since obtained a legal reinterpretation of the act. Credit bureaus can now enter student loan information into the credit information mainstream as they would any other credit information.

Collection of Defaulted National
Direct Student Loans Hampered

Schools are permitted to forward National Direct Student Loans to ED for collection. As of September 15, 1979, ED had received from schools about 240,000 defaulted National Direct Student Loans with outstanding loan balances of nearly \$215 million. Through March 1981, ED had collected \$5.8 million, most of which had been collected since December 1980.

Many of the loans turned over to ED by schools we visited were in default for a number of years, which could make collection difficult. By law, loans must be in default for at least 2 years before they can be turned over to ED. School officials and ED regional office collection officials believed that forwarding defaulted loans to ED sooner could help to increase collections.

Reduction Planned in the
Number of Federal Collectors

ED plans to reduce the number of its collectors from 955 to 250

by early 1982, and to contract out collections of defaulted loans. The Federal Claims Collection Standards allow agencies to use private collectors, subject to certain limitations and guidelines. The standards provide for the use of private collection agencies when it is cost effective and otherwise practical.

An ED task force study and a contracted study concluded that use of private collection agencies would be at least as cost effective as the use of ED collectors. However, the statistics contained in these studies do not conclusively support that contention. The contracted study's cost data indicated that the collection efforts in one ED region were clearly outstanding and could not be duplicated by a private contractor.

Recommendation to the
Secretary of Education

To strengthen collection activities of National Direct Student Loans we recommended that the Secretary:

- Require schools to comply with the ED's loan collection procedures, particularly with respect to bringing suit against defaulted borrowers and submitting defaulted loans more quickly to collection agencies.
- Require schools to monitor results of collection agencies' actions.
- Establish an acceptable default rate and suspend from the program or withhold Federal funds from schools that exceed the established default rate.

- Determine whether submissions of National Direct Student Loans to ED for collection earlier than the statutory 2-year time limit would be beneficial to collection efforts and, if so, consider proposing legislation to allow schools to submit defaulted loans as soon as possible after completion of required collection activities.
- Advise schools and credit bureaus of ED's legal reinterpretation of the law that credit bureaus can redisclose student default data.
- Monitor the ED's use of private collection agencies to insure that their use is the most cost-effective means of collecting defaulted student loans; any reassessment should consider the collection program that was in place in ED's San Francisco region that was returning approximately \$6 for every \$1 spent.

Department of Education Comments
and Our Evaluation

In a draft of our report that was sent to ED for comments we had proposed that ED assess the economic feasibility of its plan to use private collection agencies to make sure that their use is the most cost-effective means of collecting defaulted student loans. However, because ED intended to award a collection contract soon, we reconsidered our proposed recommendation and concluded that it may not be practicable to perform a detailed cost assessment before the contract is awarded. ED, however, should monitor the performance of its collection contractors to insure that the

collection of defaulted loans is being carried out in a manner that will return the most Federal dollars at the least cost to the Government.

While ED has not yet responded to our recommendation concerning monitoring of collection agencies, it said that it plans to examine the performance of the San Francisco regional office staff in an attempt to determine whether there really is a significant cost difference.

ED agreed with our other recommendations.

A REDESIGN OF THE GUARANTEED STUDENT
LOAN INFORMATION SYSTEM IS NEEDED

Finally I would like to discuss our report on the Guaranteed Student Loan information system which is dated September 24, 1981. This report was requested by the Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations. The Subcommittee was concerned over the lack of progress in developing and operating an adequate automated information system for processing transactions, maintaining financial accounts and producing reports to operate and manage the Guaranteed Student Loan program.

ED's Guaranteed Student Loan program guarantees loans from eligible lending institutions to undergraduate and graduate college students in two ways:

- Insuring the loans directly by the Federal Government (Federal loans).
- Reinsuring loans insured by States (State agency loans).

In fiscal year 1980, the program (1) insured \$504 million in Federal loans and reinsured \$4.3 billion in State agency loans, (2) paid about \$130 million for defaulted Federal loans and \$157 million for defaulted State agency loans, (3) recovered about \$40 million and \$25 million in student loan default collections from the Federal and State programs, respectively, and (4) paid interest and "special allowances" totaling about \$1.1 billion to lenders for both types of loans.

To keep track of and control this multibillion dollar program, the program office maintains a computerized information system to process most program transactions. This information system has been plagued with problems for years, and millions have been spent trying to resolve them.

A major focus of our review was to determine the efforts and plans to correct known deficiencies in the system.

To meet this objective we reviewed program activities at program office headquarters in Washington, D.C., and at the three largest regional offices--San Francisco, Chicago, and Atlanta--to learn how well the system was meeting the program's needs. We interviewed a cross-section of information system managers and users at these locations concerning what the program office had done and planned to do about correcting system deficiencies.

We interviewed officials from Department offices for finance, automatic data processing oversight, and contract administration to determine their relationship with and control over information system activities.

We contacted State guaranty agencies in Virginia, Pennsylvania, and New Jersey and obtained 52 student loan histories from the States to check for instances of reinsurance transactions that conflicted with Federal regulations.

We concluded in our report that the system continue to be deficient in the following four major areas:

- First, State agency loans were automaticlaly reinsured regardless of whether the student was qualified under the law and regulations. We determined that some loans to students who had exceeded loan limits were being reinsured. One reason this could happen was that State agencies did not have access to the program office master loan file to detect possible program abuses by students, and even if they did, such access would be of limited value because the file was incomplete.
- Second, the system paid lenders' bills for interest and special allowances without validating them.
- Third, the system did not rebill lenders for insurance premiums when the lender did not pay the first bill.
- And fourth, the system did not accumulate and report the Guaranteed Student Loan program's financial status in accordance with the needs of the Department's financial managers.

Furthermore, we found that the Department's efforts to improve the system featured a piecemeal approach to identifying deficiencies and attempting corrections. Under this approach, user needs had not been fully identified and a system design had not been fully completed prior to beginning to build the system.

We believe the Department should first determine the extent and degree of the controls and accountability it wants to provide for this this multibillion dollar program. When that decision is made, the Department should change its development approach by

adopting the more systematic process specified in its own policies for the design, development, and operation of automated information systems. This should include, first, comprehensively identifying what the users of the Guaranteed Student Loan system need from it; then, translating such needs into design specifications of how these needs will be met. Once the specifications are completed, the Department should develop the system under a competitively procured fixed-price contract. Also, the Department should develop the plans and timetables needed to manage this sequence of activities.

Our report was discussed with agency officials who expressed general agreement with our findings, but stated that they had been restricted in their efforts by limited resources.

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This concludes our Statement, Mr. Chairman. We will be happy to answer any questions you may have.