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BY THE COMPTROLLER GENERAL

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Report To The Congress

OF THE UNITED STATES

Better Cash Management Can Reduce The Cost Of The National Direct Student Loan Program

Because the Department of Health, Education, and Welfare has not emphasized cash management, schools participating in the National Direct Student Loan program are holding more than an annual average of $63 million in Federal funds in excess of their 30-day needs. GAO estimates that the Government could save as much as $4 million annually in interest costs on its borrowings if the Treasury could use the $63 million until schools needed it for loans. The amount of interest savings would depend upon the Treasury's borrowing requirements and related factors.

Immediate action should be taken to have the excess Federal funds returned and to prevent future accumulations. Congressional advice should be sought on how funds needed in future years will be provided so that schools can continue making student loans.

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UNITED STATES GENERAL ACCOUNTING OFFICE

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To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our review on the cash management of the National Direct Student Loan program. It shows that schools maintain large amounts of Federal funds beyond their current program needs--those funds should be returned to the Government. However, to avoid serious impairment of program operations, the Congress may have to provide the Department of Health, Education, and Welfare with the necessary flexibility to reuse returned funds.

We are sending copies of the report to the Director, Office of Management and Budget; the Secretary of Health, Education, and Welfare; and the Secretary of the Treasury.

Comptroller General
of the United States

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AFC ~~22~~ 55
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Educational programs
Accounting systems
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1. schools
Colleges/universities
Vocational schools

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BETTER CASH MANAGEMENT CAN REDUCE THE COST OF THE NATIONAL DIRECT STUDENT LOAN PROGRAM

DIGEST

The Office of Education of the Department of Health, Education, and Welfare has allowed schools participating in the National Direct Student Loan program to hold more than an annual average of $63 million in Federal funds in excess of their 30-day needs. GAO estimates that if the Treasury had this money, it could save the Government interest costs of as much as $4 million annually. The precise amount of interest saved would depend upon a number of factors in the Treasury's borrowing and cash management plans.

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NEED TO IMPROVE CASH MANAGEMENT

The lack of sound cash management practices was the primary cause of the increase in excess funds at participating schools. For example, the Office of Education

--annually allocated more funds to schools than they needed,

--encouraged schools to request all funds allocated to them each year even though the funds were not needed for loans during the current school year,

--did not regularly monitor cash balances at participating schools to insure that requests were only for immediate needs, and

--did not establish procedures for schools to follow in determining and returning excesses. (See p. 7.)

Disbursing funds from the U. S. Treasury sooner than necessary forces the Government to borrow more money to finance its operations, thereby increasing the public debt and causing the Government to incur unnecessary interest expense.

The benefits of reclaiming excess funds and implementing management controls include

--reducing the Government's interest expense by about $4 million annually and

--diminishing the potential for loss or impoundment of Federal funds if a school closes or enters bankruptcy. (See p. 10.)

The Office of Education encourages schools to invest funds in short-term securities when they are not needed for making loans. Such investments help offset the Government's cost of borrowing, and the earnings from such investments would reduce the Government's expenditures for this program. Nevertheless, many schools GAO contacted had not invested such funds. (See p. 11.)

Neither the Office of Education nor the departmental Federal assistance financing system, which operates the Department's centralized disbursement activity, has recently monitored the reasonableness of school cash balances or withdrawals. This lack of monitoring has resulted because organizational responsibility for cash management has not been clarified, and as a result, neither organization has an adequate system to effectively monitor school balances. (See p. 9.)

Before 1970, the Office of Education monitored all aspects of the program including the disbursement of funds to schools and the reasonableness of school balances. However, since the Department transferred disbursing responsibilities to its Federal assistance financing system in 1970, the Office of Education has not actively monitored the school cash balances. (See pp. 9 and 16.)

Furthermore, the system does not have controls to prevent schools from obtaining more Federal funds than they need for current program operations. (See p. 17.)

GAO believes that the Secretary of HEW needs to clarify organizational responsibility for cash management of the program.

Onsite reviews of all campus-based student assistance programs, which include the National Direct Student Loan program, are intended as an aid for improving program administration, but in GAO's opinion the Office of Education has not made a sufficient number of reviews for them to be useful. (See p. 18.)

NEED FOR LEGISLATION

If excess funds are returned by the schools, the Commissioner of Education is required by law to deposit them in the miscellaneous receipts account in the U.S. Treasury. Deposits in this account are not available for reuse by the depositing agency without specific legislative authority.

The Office of Education believes that under existing law, returning excess funds would jeopardize many school loan programs because additional funds might not be available until the next fiscal year. If a school overestimates student repayments or underestimates the need for new student loans, that school could suffer a cash shortage which the Office of Education could fund only if all current year appropriations had not been allocated. GAO agrees that the program must be flexible enough to provide for such a shortage and that this can be done while still saving the Government potential interest costs. (See p. 13.)

RECOMMENDATIONS

Until the cash management system starts to work properly, the Secretary of Health, Education, and Welfare should

--determine which organization can best manage school cash balances and withdrawals and direct the head of that organization to develop and implement effective cash management procedures, including procedures for controlling school cash balances and withdrawals to prevent future excess cash situations at participating schools and

--propose legislation providing the Commissioner of Education with 1-year authority to reuse returned excess Federal funds to continue financing the National Direct Student Loan program.

The Secretary should direct the Commissioner of Education to

--determine the amount of Federal National Direct Student Loan funds that are in excess of the schools immediate needs,

--have schools deposit the excess funds in interest-bearing accounts until the schools are requested to return them to the Treasury, and

--develop procedures to return funds not immediately needed for loans.

AGENCY COMMENTS

The agency agrees with all but one of these recommendations. Instead of obtaining legal authority to permit the Commissioner of Education to reuse the returned excess Federal funds, the agency believes that any excess funds should be deposited in the Treasury as miscellaneous receipts which cannot be reused until they are made available through the annual appropriation and apportionment process. Since this will restrict flexibility and in all likelihood will discourage the return of excess funds, GAO believes that the agency should consider the need for legislative authority that provides greater funding flexibility without providing open-ended budget authority.

Contents

ABBREVIATIONS

CD	certificate of deposit
GAO	General Accounting Office
HEW	Health, Education, and Welfare
NDSL	National Direct Student Loan
OE	Office of Education

CHAPTER 1

INTRODUCTION

The National Direct Student Loan (NDSL) program provides funds to postsecondary schools for making long-term, low-interest loans to students. From the program's inception in 1959 through 1977, the Department of Health, Education, and Welfare (HEW), through its Office of Education (OE), has provided over $3.5 billion to about 3,300 participating schools. These schools in turn have provided financial assistance to about 3.6 million students.

A student may borrow up to $2,500 for tuition for a vocational program or for the first 2 years of a bachelor's degree program. The limit is increased to $5,000 for the second 2 years of a bachelor's degree and to $10,000 for graduate study.

Loan repayment starts 9 months after the student ceases to carry half of a workload and is to be completed within 10 years. Monthly installments vary according to the date the loan was obtained. For example, the minimum installment on a loan obtained between November 1965 and June 1972 is $15 and on loans obtained after June 1972, $30.

The NDSL program is one of three OE-sponsored student financial aid programs for which financial aid officers at the schools determine eligibility and the loan award. The others are the College Work-Study program and the Supplemental Educational Opportunity Grant program, both of which are authorized by the Higher Education Act of 1965, as amended. The three programs are usually referred to as campus-based, student-aid programs. A school may choose to participate in any combination of individual programs or in all three programs.

PROGRAM HISTORY

Because of Soviet space achievements in the late 1950s, the Congress decided Federal funds should be used to stimulate science and to assist students seeking higher education. On September 2, 1958, the Congress enacted the National Defense Education Act (Public Law 85-864) to authorize the assistance. The National Defense Student Loan program, authorized in title II, was an important part of that act.

The education amendments of 1972 transferred the student loan program from title II to title IV, Part E, of the Higher Education Act of 1965, as amended (20 U.S.C. 1087 aa-ff). Those amendments also changed the name of the program to the National Direct Student Loan program.

The President has requested $234.8 million to continue the program at least through fiscal 1980.

PROGRAM ADMINISTRATION

The Commissioner of Education is responsible for the Office of Education and its 10 regional offices, each of which administers the HEW education programs, including NDSL. Administrative activities include receiving and processing program applications, reviewing program information, and periodically visiting the schools.

Schools wishing to institute or continue the NDSL program apply each year and OE officials use information on their applications to determine appropriate funding levels. The Federal Government loans $8 for every dollar the participating schools provide to fund the program; OE provides the funds by cash request or by letter of credit. Both methods are intended to provide recipients with funds as needed and still minimize the rate of flow of funds from the Treasury, and thus help control the public debt and the Government's borrowing costs.

The cash-request method of obtaining funds is available to schools and other recipients with annual program authorizations of less than $120,000. Schools using the cash-request method make monthly forecasts of funds needed for all programs, notify HEW's departmental Federal assistance financing system of the amounts needed, and receive monthly checks from the Department of the Treasury.

The system was established within the Office of the Secretary to consolidate the management of HEW cash advances and to more fully utilize computer resources. The system handles most HEW agencies' cash advances to recipient organizations outside the Federal Government and furnishes transaction data on cash receipts and disbursements.

The letter-of-credit method of financing is available to recipients with a continuing total program of at least $120,000 a year. This financing method involves the U.S. Treasury, a Federal Reserve Bank, and the recipient's local bank. The amount of the letter-of-credit authorization is based on the recipient's average monthly disbursements against HEW programs and the recipient can draw upon the monthly amount established as needed during the month to cover disbursements. To do this, the recipient processes a payment voucher through its local bank. Payment vouchers can only be processed in minimum amounts of $5,000 and maximum amounts of $1,000,000, unless approved previously.

Program operations are monitored and evaluated in several ways. Periodically, regional OE staffs visit schools to review program operations. In addition, regional staffs receive the results of annual audits by independent public accountants and of special audits by the HEW Audit Agency to keep them apprised of program operations. The OE central office monitors the performance of schools participating in the program by reviewing reports from participating schools and through OE regional reviews and independent audits of NDSL funds.

OTHER RELATED REPORTS

We issued a report to the Secretary of HEW, on June 27, 1977, entitled "The National Direct Student Loan Program Requires More Attention by the Office of Education and Participating Institutions" (HRD-77-109). That report discussed problems in OE's administration of the NDSL program, specifically, the need to

--provide program guidance to schools so they can promptly and effectively implement established requirements and changes in the program,

--establish procedures to determine other Federal aid received by NDSL recipients,

--emphasize to schools their responsibility for collecting on loans to reduce delinquency rates,

--provide technical assistance to participating schools and periodically review their administration of the program, and

--improve the efficiency of reporting requirements and tabulating program data.

We issued a second report on the program to the Chairman of the Senate Committee on the Budget on May 2, 1978, entitled "Status of Office of Education's National Direct Student Loan Funds at Selected Postsecondary Education Institutions" (HRD-78-94). That report discussed various factors affecting the ability of educational institutions to attain a self-sustaining revolving fund status.

A separate review of the departmental Federal assistance financing system found that, in addition to the problem with student loan funds discussed in this report, the system had prematurely advanced about $249 million to HEW grant and contract recipients. The system's cash management weaknesses are discussed in detail in our report "Better Controls Needed Over Cash Advances by the Department of Health, Education, and Welfare" (FGMSD-80-6).

This report focuses on the cash management of Federal funds provided to participating schools. It shows that schools have excess Federal funds because adequate cash management controls over disbursements as well as adequate monitoring of cash balances in NDSL bank accounts are lacking.

RECENT EXECUTIVE BRANCH EMPHASIS ON CASH MANAGEMENT

Increasingly in recent years, the Department of the Treasury has encouraged Federal agencies to improve their cash management practices because the amount of annual interest on borrowed money has grown substantially. Federal agencies, however, have been slow in improving their practices because they receive no direct benefit for their additional efforts. That is, interest savings gained through improved cash management practices accrue to the Treasury.

The need for agencies to make additional improvements in cash management practices has also been recognized by the President. In September 1977, he directed the Treasury Department to expand the use of the letter-of-credit method for financing Federal disbursements throughout the executive branch. And in November 1977, he directed his reorganization staff to study cash management policies, practices, and organizations throughout the Government. Besides identifying and recommending immediate improvements to cash management problems, the study was made to identify incentives to encourage managers to solve those problems.

CHAPTER 2

SCHOOLS HAVE ACCUMULATED MILLIONS OF DOLLARS IN EXCESS OF PROGRAM NEEDS

Schools participating in the NDSL program have accumulated substantial amounts of federally-owned funds beyond their current needs. At the time of our review, we estimated that HEW allowed schools to hold more than an annual average of $63 million in Federal funds in excess of their 30-day needs. Schools have accumulated the excess cash primarily because OE and the departmental Federal assistance financing system have not exercised good cash management. This excess accumulation is not only inconsistent with Treasury and HEW policy but, if the Treasury had this money, it could save the Federal Government as much as $4 million annually in interest costs--the amount of such savings would depend upon the Treasury's borrowing requirements and related factors.

TREASURY AND HEW POLICY ON CASH BALANCES

The Department of the Treasury establishes cash management policy for all Federal agencies. Federal agencies issue more specific policies in line with the Treasury's general policy. The Treasury's policy, which covers cash balances of Federal funds to be maintained by recipients, is sufficiently broad to permit some flexibility in the size of balances held at any one time. However, the Treasury has made it clear that recipients' cash balances of Federal funds should be held to a minimum--the amount necessary to meet only immediate needs.

HEW reflects the Treasury policy on recipients' cash balances of Federal funds in its Federal assistance financing system operating guidelines. On January 9, 1978, the Treasury lowered the program's dollar criterion for using letters of credit for disbursing Federal funds from $250,000 to $120,000 and the minimum withdrawal amount from $10,000 to $5,000; however, at the time of our review HEW had not changed its guidelines.

According to the August 1974 operating guidelines, recipients with HEW federally-assisted programs totaling less than $250,000 should obtain funds monthly by Treasury check to finance their programs. Recipients in this category should have no more than a 30-day supply of cash on hand at any one time. According to these guidelines, most HEW recipients fall into this category and are therefore encouraged to request funds monthly rather than more frequently.

If, however, the total of all programs is at least $250,000, the guidelines state that recipients can obtain funds more often than once a month through a letter of credit. The guidelines further state that under this method of financing, recipients are required to request at least $10,000 each time. Thus, the cash supply maintained by a recipient need not be adequate to cover the recipient's 30-day disbursement needs.

ESTIMATES SHOW UNNEEDED FUNDS ARE HIGH

We estimate that the 3,300 universities and trade and professional schools in the NDSL program on June 30, 1976, had more than $63 million of Federal funds in excess of their 30-day needs. The extent of the excess was computed from information contained in a scientifically drawn random sample which assured that a proper mix of large and small schools was considered. We obtained and analyzed 99 schools' loan applications for fiscal 1974 through 1976. Among the information shown on the loan applications were beginning cash balances, anticipated receipts during the year (student repayments and Federal contributions), anticipated expenses (student loans and minor program expenses), and ending cash balances.

Our analysis of this data showed excess cash on June 30, 1976, and based on that analysis, we estimate that as of that date, all participating schools had excess cash totaling an annual average of $63 million over their 30-day needs.

To make a conservative estimate of the excess cash at participating schools, we considered a 30-day cash balance as an acceptable level of cash. However, we are not advocating that all schools retain a 30-day supply. Obviously, if a school already receives or should receive Federal funds through a letter of credit, it should strive to maintain cash balances of less than a 30-day supply.

It is important to recognize that schools' cash needs will vary throughout the year; they generally fluctuate with the extent of student loans and the repayment of those loans. Most student loans are made at the beginning of each school term so students can pay tuition and other educational expenses. Therefore, in projecting the cash supply needed during the next 30 days or less, it is necessary for school officials to estimate the amount of loans to be made and the amount of loan repayments expected, as well as other miscellaneous expenses and revenues during the period.

For some time, OE has suspected that schools have large excess fund balances but has not determined the amounts or reclaimed them because of higher priority work. At our suggestion, when OE reviewed loan applications for 1979, it confirmed that schools still had excess cash in November 1977. In April 1978, OE sent a letter to schools explaining their obligation to withdraw from the Government only those funds needed for the next 30 days.

HOW EXCESS FUNDS ACCUMULATED

Schools have accumulated excess funds primarily because OE and the departmental Federal assistance financing system have not given sufficient attention to cash management responsibilities. More specifically, schools were able to accumulate and retain these funds because OE

--annually allocated more funds to schools than they needed,

--encouraged schools to withdraw the total amount allocated whether or not they needed the funds for the current school year,

--did not regularly monitor school cash balances, and

--did not establish procedures for schools to follow in determining and returning excess funds.

Past cash allocations exceeded needs

In past years, OE regional panels annually reviewed schools' applications for NDSL program funds and recommended funding levels for each school. Their review procedures were resulting in recommendations for funding levels higher than necessary because they did not consider all available relevant information.

Our analysis of applications from the 99 schools in our sample for fiscal 1974 through 1976 showed that OE had allocated about $3.7 million in excess of program needs to 51 schools. OE's fund allocations to the remaining 48 schools were equal to or less than the schools' estimated program needs. Analysis of current reports for the 99 schools showed that OE also provided about $1.4 million more of unneeded funds to 50 of the same schools in fiscal 1978. In these cases, OE officials apparently did not consider funds either already on hand or anticipated from student loan repayments when determining the additional Federal funds schools needed for fiscal 1978.

OE agreed that its procedures for approving funding levels may have resulted in some schools receiving excesses.

Officials also acknowledged the need to determine a school's long-range disbursement needs and cash receipts before allocating Federal funds.

OE has also recently changed its method for determining school funding levels. The regional panel process has been discontinued, and all applications are forwarded directly to OE headquarters where financial data is evaluated with the aid of a computer to determine funding levels. If the new procedures are implemented as planned, the problem of allocating excess funds to schools could be alleviated.

<u>Schools were encouraged to withdraw more funds than needed</u>

Although the Treasury's and HEW's policies are to keep recipients' Federal cash balances at a minimum, OE encouraged schools to withdraw all NDSL funds allocated even though all the funds were not needed for the current school year. OE believed that schools would use such funds in subsequent years and would reduce their future requests for funds accordingly. Furthermore, OE believed that this procedure was consistent with the intent of the program--to provide sufficient Federal loans to schools so they could make student loans and eventually establish self-sustaining, revolving funds to continue the program in future years without further Federal assistance.

By encouraging schools to withdraw Federal funds prematurely to expedite the establishment of self-sustaining revolving funds, OE is taking an expensive and questionable approach. For example, the program has been in effect over 18 years, but only about 10 percent of the 3,300 participating schools have established self-sustaining revolving funds. The remaining 90 percent still require annual Federal capital contributions to obtain funds necessary for student loans because student loan repayments are insufficient to support the desired level of student loans. Furthermore, most schools that have excess Federal funds have not invested them, and those few schools that have invested these funds generally obtain a lower rate of interest than what the Federal Government currently is paying for its borrowings. This results in a net loss to the Government. In addition, substantial amounts of Federal contributions have been subjected to unnecessary risk because some of the privately-operated schools that OE encouraged to withdraw funds prematurely went bankrupt or have closed.

The NDSL program has continued longer than expected. The Congress conceived the program as a short-term remedy for providing financial assistance to needy students and, in the

1959 implementing legislation, required schools to return the Federal portion of the student loan fund to the Commissioner of Education after June 30, 1966. However, because the need for the program apparently continues, the date for the return of the Federal portion of the fund has been extended several times. The current target termination date for the program is March 31, 1985.

OE agrees that it must change its approach to the program, that it must identify the excess Federal cash that each school currently receives in capital contributions, and that it should take action to reduce excess Federal funds at participating schools.

Lack of monitoring

To ensure that the Treasury and HEW policy on cash management is being followed, school cash balances must be monitored. However, no one has consistently done this, and as a result, payments are made to schools without knowing how much cash they have on hand. Also, OE cannot systematically collect excess funds as required because it does not know how much cash schools have on hand throughout the year.

Since about 1970, OE has not actively monitored school NDSL cash balances or payments to schools. OE said that after HEW transferred payment activities to the departmental Federal assistance financing system, it lost staff and stopped receiving school expenditure reports and as a result, was unable to monitor cash balances.

The departmental system has not monitored school cash balances because (1) it believes OE is responsible for determining if schools are withdrawing more cash than they need and (2) its payment system does not record student loan repayment data and, therefore, cannot accumulate data needed to determine whether schools are withdrawing more cash than they need.

Although this system is responsible for handling payments to schools, the Commissioner of Education is still responsible for collecting excess funds. Therefore, to avoid excess payments and to identify funds that need to be returned, OE needs to assure that school withdrawals and balances are monitored regularly. We discuss this matter in greater detail in chapter 3.

Belated emphasis on determining and returning excess funds

Although required by the Higher Education Act of 1965, as amended, OE has only recently begun encouraging schools to determine if they have excess funds. The act states that if the school or the Commissioner finds that NDSL funds exceed the amount required for loans in the foreseeable future, the excess Federal portion is to be returned to the Commissioner. Despite this requirement, OE had not, at the time of our review, required or encouraged schools to determine if they had excess funds and had not established procedures for schools to follow in determining this.

Instead, OE generally provided detailed instructions only when a school requested them. For example, a school in the Midwest recently requested instructions from OE on what to do with a cash reserve of NDSL funds in excess of $700,000. OE notified the school to determine its program needs for the current and following year and return the Government's share of the excess to the Commissioner. Subsequently, this school returned the full amount of the reserve to the Commissioner.

OE has suspected for some time that schools have large amounts of excess funds; however, because of higher priority work, OE has done little to identify those excesses and have them returned. The HEW Audit Agency audit guide was not issued until July 1978 with instructions for schools to use in determining whether they have excess funds which should be returned.

WHY EXCESS FUNDS SHOULD BE RETURNED

Leaving Federal excess funds at schools is not only contrary to Treasury and HEW policy, but more importantly it increases the Government's interest expenses. Returning these funds to the Treasury until schools need them could reduce Government borrowing and minimize the risk of losing the use of Federal funds when schools declare bankruptcy or close.

Borrowing costs could be reduced

In fiscal 1979, the Federal Government was expected to spend about $49 billion in interest on its borrowings, which is about 8 percent of the Federal budget. The increasing cost of interest has placed new emphasis on cash management to reduce borrowing to finance Federal programs.

We estimate that the schools were annually holding $63 million in excess at the time of our review. If this amount were returned, borrowing could be reduced. Based on the

6.3-percent average annual interest rate the Treasury paid in December 1977 to borrow funds for a short term, we estimate that the Government could reduce interest on its borrowings by about $4 million annually. The precise amount would depend upon a number of factors in the Treasury's borrowing and cash management plans.

HEW encourages schools to invest funds in short-term securities when they are not needed for making loans. Such investments could reduce the amount of Federal money necessary to maintain the schools' student loan funds. Many schools contacted, however, were not investing the funds. For example, of 33 schools we contacted nationwide, each of which had at least $50,000 on hand on June 30, 1976, 23 (or 70 percent) were not investing idle funds. Finance officials at 10 schools said they were not aware that they could invest the funds, and 8 others said they had not invested funds for various reasons, including State laws that prohibit Federal or State funds from being invested and keeping excess funds to meet unexpected loan needs. The other five schools did not provide sufficient data to determine why they were not investing the funds.

An analysis of the eight schools that had invested idle Federal funds revealed that many of them were obtaining interest rates less than the Treasury's borrowing rate. The table on page 12 summarizes investment data on the eight schools that were investing idle funds. The table also shows that three schools have continuously invested funds since 1975, indicating that the funds are excess to program needs. As can be seen, most of the schools were receiving 5.25- and 5.5-percent interest which is returned to the NDSL loan fund. This is almost 1 percent below the Treasury's borrowing rate at the time of our review.

Risks from bankruptcy could be minimized

Each year some schools declare bankruptcy or close before OE can recover NDSL funds. Therefore, a large amount of Federal funds may either be in the custody of the courts for long periods of time or lost entirely. OE recognizes that bankruptcies and losses of NDSL funds due to school closings are a problem but does not know the magnitude of the problem.

The HEW Audit Agency reported in 1976 that, in the Southwest region alone, at least 11 private schools--with loan programs totaling $1.9 million--had closed, and 7 other schools--with loan programs totaling $2.6 million--were likely to close. Consequently, the Federal portion of the NDSL fund will probably be in the custody of the courts for a long time or lost completely. By returning excess Federal funds, the Government's risk of loss as well as the additional interest costs would be minimized when schools declare bankruptcy or close.

Investment of Idle NDSL Funds
by Selected Schools

School	Amount invested	Highest percent of return	Longest period invested (months)	Total interest earned	Type of investment
1	$800,000	6.4	12	$20,573	CD (note d)
2	155,000	a/ 7.0	7	43,532	CD
3	50,000	5.25	Continuous since Feb. 1975	6,647	Savings account
4	50,000	6.5	6	8,729	CD
5	45,000	5.25	Continuous since Nov. 1975	4,762	Savings account
6	20,000	5.5	6	2,150	U.S. Treasury bills
7	15,000	5.5	6	(c)	CD
8	5,000	5.25	(b)	320	CD

a/School invested about $150,000 between 1973 and 1975 at rates between 7 and 10 percent.

b/School has invested $3,283 continuously since November 1975, plus $1,717 from November 1975 to July 1976.

c/Not available.

d/Bank certificate of deposit.

MANAGEMENT OBSTACLE TO RETURNING UNNEEDED FUNDS

Although good business practice dictates that the excess Federal funds be returned, a significant obstacle remains. Until a sound cash management system is fully operational, the Commissioner of Education must have flexibility to collect and reuse funds considered excessive to existing needs so that he can provide schools with the funds necessary to meet their immediate needs.

The Commissioner is authorized to reclaim excess funds but cannot reuse these funds to continue financing schools' NDSL programs. According to OE, under existing law (31 U.S.C. 484), the Commissioner must return reclaimed funds to the Treasury as miscellaneous receipts, and such funds cannot be disbursed later to schools.

However, OE program officials assert that if, under existing law, excess funds are returned, the NDSL program at many schools would be jeopardized in the future. This potential exists because the schools would be unable to request that those funds be returned for use later in the fiscal year. As a result, schools would be forced to decrease their loan program activities until more Federal funds are appropriated.

These schools' loan programs could also be adversely affected the following fiscal year. When schools project how much Federal assistance they will need to carry out their student loan programs for the next year, they assume that all currently allocated funds will be available. However, if they return current year funds prematurely, that amount of their current year appropriation may not be appropriated to them the next fiscal year. For about 350 schools that do not receive Federal contributions annually, the impact could be even more severe because the leadtime needed to request and obtain new appropriations for them could exceed a year.

We believe that the Commissioner must temporarily have the legal authority to use all returned excess funds (not just currently available funds), as necessary, to assure that NDSL programs at the remitting schools are able to operate at authorized levels until the Congress can approve new appropriations for the program. In our opinion, this problem could be resolved by a legislative amendment to the education act which would give the Commissioner such authority for only 1 fiscal year.

Over the years, we have emphasized that congressional control over program activities is best exercised through regular, periodic reviews by the Congress and that actions on planned programs and financing requirements should be subject to the appropriations process. We do not normally advocate any financing method that permits an activity to operate without the requirement for regular congressional reviews on planned programs and financing needs.

Because of its temporary nature, our provision will not adversely affect either the Government's control over the NDSL program or the Government's potential interest savings because, as is true now, excess cash will be returned to the Treasury. When a school needs additional student loan program funding, the money can either be distributed under a new appropriation authority, or if authorized, previously returned excess cash balances can be redistributed. The provision would not lessen the existing congressional controls over this program.

CONCLUSIONS

Schools participating in the NDSL program have accumulated substantial amounts of Federal funds beyond their current needs. That practice not only violates Treasury and HEW policy on recipient cash balances, but more importantly, if the Treasury had this money it could reduce the Government's interest costs by as much as several million dollars annually.

HEW needs to give immediate attention to reducing new funding provided to schools that have excess funds. In addition, these excesses should be returned as soon as possible. To assure that procedures for reducing excess cash do not adversely affect authorized program levels, the Secretary of HEW should take immediate action to draft and propose the necessary legislation for congressional approval. Such legislation would permit the Commissioner to reuse the reclaimed funds to continue financing schools' programs, as necessary, to meet their immediate loan needs. The Secretary should also take immediate action to determine how much Federal money each school has in excess of its needs and develop procedures for returning that money if the legislation is enacted.

RECOMMENDATIONS

We recommend that the Secretary of Health, Education, and Welfare direct the Commissioner of Education to begin immediately to

- --determine the amount of NDSL funds that are in excess of schools' immediate needs,
- --have schools deposit the excess funds in interest-bearing accounts until the schools are requested to return them to the Treasury, and
- --develop procedures to return funds not immediately needed for loans.

We also recommend that the Secretary propose legislation providing the Commissioner with 1-year authority to reuse returned excess Federal funds to continue financing the NDSL program.

AGENCY COMMENTS

In a July 13, 1979, letter commenting on a draft of the report (see app. I), HEW's Audit Agency agreed that better cash management is a goal toward which all Government departments should work.

The agency agreed to implement all but one of our recommendations. It did not agree that the Commissioner of Education should obtain legislative authority to finance other NDSL programs from returned excess funds.

According to the program officials, the Administration recently reviewed the need for new legislation and determined that budget considerations require that such excess funds be deposited in the Treasury's miscellaneous receipts account. Subsequently, agency officials advised us that they were using an annual funding approach to finance the programs; schools could keep enough money to operate for a year and return any excess cash for deposit as miscellaneous receipts in the Treasury. This is basically the same approach that was being used at the time of our review, except the return of excess cash is emphasized. As previously mentioned, Office of Education officials have said that returning cash in excess of that needed for 30 days would not provide the flexibility necessary for effective program operations, especially if cash shortages resulting from uncertainties in estimating student repayments and new student loans are to be met.

We agree that the lack of flexibility to deal with such cash shortages could impair the program's effectiveness and might even discourage the return of excess funds by recipients afraid of a shortfall in funds. In the past, many schools were reluctant to return excess funds because they lacked this flexibility and were generally not investing the excess Federal cash they held. Moreover, when they did invest the money, the schools normally earned interest rates below the rate the Treasury paid. If the agency were authorized to reuse the returned funds, that money could be used to finance unforeseen contingencies in the student loan program and thus reduce the incentive for schools to retain funds.

We recognize that the agency instructed the recipients to return excess cash. However, under the present system, the provision is unenforceable until the cash management system starts to work properly. Because of inherent appropriation problems, the agency needs the authority to reuse returned funds.

CHAPTER 3

IMPROVEMENTS NEEDED TO MINIMIZE FUTURE

ACCUMULATION OF UNNEEDED FUNDS

Presently, the Office of Education uses HEW's centralized activity--the departmental Federal assistance financing system--to disburse NDSL funds to schools participating in the program. However, because responsibility for cash management within the Department is unclear, the schools' cash balances have not been monitored to determine if they are reasonable. As a result, no system exists to effectively monitor and control school cash balances.

To monitor program operations, OE has relied primarily upon information gathered through audits made every 2 years by private accounting firms and onsite program reviews by its managers. The onsite reviews have been limited, however, because OE regional offices have not had sufficient staff to properly review NDSL program activities.

To minimize future accumulations of unneeded funds, HEW needs to clarify cash management responsibilities and to monitor school cash balances. Student loan fund cash balances must be regularly monitored to insure that premature cash advances are not made. In addition, improvements are needed in other monitoring techniques, such as onsite reviews by OE regional staff and auditors. Such periodic onsite reviews allow programs to be thoroughly evaluated, including verifying NDSL cash balances.

ORGANIZATIONAL RESPONSIBILITY FOR CASH MANAGEMENT NEEDS TO BE CLARIFIED

When specific cash management responsibilities are assigned, an effective system can be developed to monitor and control cash balances and withdrawals. Before 1970, OE was responsible for all aspects of the NDSL program, including payment and monitoring of fund allotments to recipients. At that time, OE monitored school operating reports and requested a refund when it identified excesses. However, also about that time HEW transferred responsibility for the payments portion of the NDSL program to the National Institutes of Health financing system and later to the departmental Federal assistance financing system. OE has not regularly monitored schools' NDSL cash balances since the transfer because it lost staff, and school expenditure reports started going to the departmental system. However, the system also did not monitor the schools' NDSL cash balances.

An operations booklet for the financing system, in describing the purposes and capabilities of the cash advance system, states that improved cash management and the capability to effectively monitor cash flow are benefits of the system. However, the system has not monitored school cash balances and withdrawals because its personnel believed that OE was responsible for determining whether schools were withdrawing more cash than they needed. Also, the advance system does not have controls to prevent schools from drawing more Federal funds than needed for current program operations and is not producing reliable funding summaries which can be forwarded to OE.

HEW's system does not have controls to prevent excessive cash withdrawals

To effectively manage cash, a system must have adequate controls to minimize schools' NDSL cash balances and cash withdrawals. The HEW system does not have these controls, and as a result, no systematic controls exist to prevent future accumulations of these funds.

The HEW system is designed to account for advances of loan funds in the same manner it accounts for grant funds. Expenditures are recorded and reported as costs only when cash is actually transferred from the central cash accounts to the various program accounts. For grants, these transfers normally are to pay for actual expenditures and do represent grant costs.

With NDSL loan funds, however, cash transferred from the schools' central cash accounts to the NDSL fund cash accounts merely represents a transfer and not an expenditure. Funds could remain in the NDSL account for several years before a student loan is actually granted. Furthermore, student loan repayments are deposited in the NDSL fund account, thus increasing the balance in the account.

HEW's system, however, does not control or report on the schools' NDSL fund account balances because cash transfers have been previously recorded as expenditures. In addition to losing visibility of NDSL funds because expenditures are recorded prematurely, the system does not provide for obtaining current NDSL fund account balances and comparing these cash balances to school cash requests to ensure that withdrawals are minimized. Monthly funding summaries, which the system provides OE for program management, are intended to show the amount of the allocations that recipients have withdrawn. However, OE does not use these summaries because they are not reliable.

The amounts in schools' cash accounts can be substantial. For example, one school we visited reported that it had $73,952 cash on hand as of June 30, 1977, but did not report $408,000 in loan repayments which were in a separate NDSL account.

In 1978, the 60 people assigned to run HEW's system were responsible for disbursing about $38 billion to over 14,000 recipients. The system does not require recipients to identify programs on which requested funds are to be used; it relies solely on the integrity of the requesting school to draw only the funds needed for immediate loan purposes. Requests for funds are honored provided the total amount does not exceed the school's total authorized assistance level for all Federal programs.

We believe that the current advance system does not have the controls necessary to prevent future accumulation of unneeded NDSL funds at schools. To prevent recurrence of excesses, NDSL fund balances should, at a minimum, be periodically compared with school cash requests. HEW should either revise the advance system to provide for monitoring and controlling actual cash balances in the NDSL fund, or the NDSL fund should be removed from the system and a separate cash withdrawal and reporting system should be established.

ONSITE PROGRAM REVIEWS NEED TO BE IMPROVED

Another source of information on the operation of the NDSL program is onsite program reviews performed by regional offices. However, because of insufficient staff, OE regional offices have been unable to make many visits to participating schools. Along with other duties, regional program staff members are responsible for onsite program reviews of three campus-based student aid programs--NDSL, College Work-Study, and Supplemental Educational Opportunity Grants.

During fiscal 1978, 3,265 schools were participating in the NSDL program. About 48 staff members in the 10 regions were assigned to monitor all three campus-based programs--a ratio of one staff member to 67 schools. This condition is basically the same as it was during fiscal 1976 when we reported that the ratio was one staff member to 66 schools.

One region in our review had 288 schools participating in the program and only three staff members to perform onsite reviews. A former Assistant Regional Commissioner of Education said that onsite reviews, when performed, were superficial because each reviewer had too many schools to review and each review involved many aspects of two or three programs.

OE's goal is that schools receive program reviews at least once every 3 years. To accomplish this with the present staff, each staff member would need to review about 23 schools each year, in addition to processing annual applications for funds and providing day-to-day technical assistance to an equal number of schools.

We issued a report on June 27, 1977, to the Secretary of HEW on problems in administering the NDSL program. 1/ That report included a recommendation that the Secretary direct the Commissioner of Education to develop guidelines for regional staffs to use in conducting onsite reviews and to establish a system for periodic program reviews of all participating schools.

OE has developed guidelines and a plan for systematic onsite reviews which it expects to begin testing. Although the size of the staff has been increased since the 1977 report was issued, the ratio of schools to be reviewed to assigned program review staff members is still a problem which must be resolved.

CONCLUSIONS

HEW apparently assigned NDSL program disbursement functions to their departmental Federal assistance financing system without realizing the limitations of the advance system and without a clear statement of who would be responsible for specific cash management aspects of the program. Consequently, neither organization has monitored school cash balances and neither currently has an adequate system to effectively control school balances.

OE procedures provide for onsite reviews of campus-based student aid programs--which include NDSL--as an aid for improving program administration. However, OE has not made a sufficient number of onsite reviews for them to be effective. In response to our June 27, 1977, recommendations to the Secretary, OE has developed a more systematic plan for onsite reviews which may overcome this problem.

1/"The National Direct Student Loan Program Requires More Attention by the Office of Education and Participating Institutions," HRD-77-109.

RECOMMENDATION

We recommend that the Secretary of Health, Education, and Welfare determine which organization can best manage school cash balances and withdrawals, and direct the head of that organization to develop and implement effective cash management procedures, including procedures for controlling school cash balances and withdrawals to prevent future excess cash situations at participating schools.

AGENCY COMMENTS

The agency agreed with our conclusions and recommendation. Procedures to improve cash management controls are now being planned and will be tested during this calendar year.

CHAPTER 4

SCOPE OF REVIEW

We reviewed cash management activities of the NDSL program to determine whether (1) OE is effectively managing cash balances and periodic cash withdrawals by schools participating in the program and (2) funds determined to be excess to schools' needs are being returned to the Treasury as required by the Higher Education Act of 1965, as amended.

We reviewed program activities in detail at OE headquarters in Washington, D.C.; at OE region VI in Dallas; and at five postsecondary educational institutions in Texas, including two public universities, two junior colleges, and one trade school. We also obtained data on selected NDSL activities from finance officials at 75 schools in 34 States representing all OE regions.

We interviewed OE headquarters and region VI program officials concerning NDSL program operations and procedures for controlling school cash balances. At the postsecondary schools visited, we also discussed related NDSL operations and procedures with finance officials responsible for the program.

To determine if schools had excess NDSL funds, we prepared cash flow analyses on these funds and analyzed 99 randomly selected school loan applications at OE headquarters. We obtained data on school procedures for drawing down Federal funds and for investing funds not immediately needed for program operations and discussed these procedures with 33 school finance officials. In determining the amount of funds necessary to meet schools' immediate needs, we used a 30-day supply of cash which, according to HEW's policy, is the maximum that Federal recipients should have.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

JUL 13 1979

Mr. D.L. Scantlebury
Director, Financial and General
Management Studies Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Scantlebury:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Better Cash Management Can Reduce the Cost of the National Direct Student Loan Program." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Thomas D. Morris

Thomas D. Morris
Inspector General

Enclosure

Comments of the Department of Health, Education, and Welfare on the General Accounting Office Draft of Proposed Report Entitled "Better Cash Management Can Reduce the Cost of the National Direct Student Loan Program."

GAO RECOMMENDATION

We recommend that the Secretary of Health, Education, and Welfare --propose legislation providing the Commissioner of Education legal authority to use returned excess Federal funds necessary to continue financing the NDSL Program.

DEPARTMENT'S COMMENT

We do not concur. This issue was recently reviewed within the Administration and it was determined that budgetary considerations require that such funds have to be returned to the Treasury.

GAO RECOMMENDATION

We recommend that the Secretary of Health, Education, and Welfare --direct the Commissioner to begin immediately to (1) determine the amount of Federal NDSL funds which are in excess of schools' immediate needs, (2) have schools deposit the excess funds in interest-bearing accounts until the schools are requested to return them to the Treasury, (3) develop procedures to return funds not immediately needed for loans, and (4) implement these procedures as soon as possible if the Congress provides legal authority.

DEPARTMENT'S COMMENT

We concur. We are currently developing a letter which we intend to send during the summer of 1979 to all institutions which have NDSL funds. The purpose of this letter is to:

1. Provide a formula which will enable institutions to determine that portion of the funds available for the 1979-80 Award Period which are not needed to meet projected expenditures. They will then be required either to send a check immediately to the Bureau of Student Financial Assistance in the amount of the Federal share of the excess cash on hand, or to send the check when they file their fiscal-operations reports in October. We have the authority to do this under Title IV E, Section 466(c) of the Higher Education Act of 1965.

2. Encourage institutions to deposit all cash on hand in their loan funds into interest-bearing accounts until such time as the funds are needed for disbursement. They will be told that this interest income is an asset of the loan fund and, therefore, can be used only for such purposes as prescribed by regulations. We are in the process of developing regulations which will make such deposits of cash on hand mandatory.

GAO RECOMMENDATION

We recommend that the Secretary of the Department of Health, Education, and Welfare determine which organization can best manage school cash balances and withdrawals, and direct the head of that organization to develop and implement procedures for effective cash management procedures, including procedures for controlling school cash balances and withdrawals to prevent future excess cash situations at participating schools.

DEPARTMENT'S COMMENT

We concur. The Deputy Assistant Secretary of Finance, and the Deputy Commissioner for Student Financial Assistance are in agreement that the primary responsibility for monitoring cash withdrawals and excesses by participating institutions lies with the Bureau of Student Financial Assistance. This programmatic responsibility has never been a function of the DHEW Federal Assistance Financing System.

It is our intention to monitor cash on hand in institutional loan funds by means of the annual fiscal-operations report. An automated system will be developed, effective with the 1978-79 report that will be received this October, to compare funds available with projected expenditures for the 1978-79 Award Period.

If we determine that there is excess cash in a loan fund and the institution did not send a check, either earlier in the summer or to accompany the fiscal-operations report, a letter will be sent to it which requires immediate repayment of the Federal share of the excess. This procedure will be carried out annually. During the twelve-month period between reports, institutions will be required to carry out a partial liquidation of their loan funds whenever cash is in excess of projected disbursements for the remainder of the Award Period.

BSFA will also continue to monitor NDSL cash management procedures through the institutional program reviews and audits which are conducted on a routine basis.

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