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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20546

HUMAN RESOURCES
DIVISION

B-164031(1)

OCTOBER 25, 1979

The Honorable Patricia Roberts Harris
The Secretary of Health, Education,
and Welfare

Dear Mrs. Harris:

Subject: Student Loan Insurance Fund (HRD-80-12)

Under the Higher Education Act of 1965 (20 U.S.C. 1001, et seq., as amended), the Comptroller General is required to examine annually the financial statements of the Student Loan Insurance Fund. The Fund is used to finance Federal insurance and reinsurance of loans made under the Guaranteed Student Loan (GSL) program. Section 432(b)(2) of the act requires that the Commissioner, Office of Education (OE):

"* * * maintain with respect to insurance under this part an integral set of accounts, which shall be audited annually by the General Accounting Office in accordance with principles and procedures applicable to commercial corporate transactions, as provided by section 105 of the Government Corporation Control Act, except that the transactions of the Commissioner, including the settlement of insurance claims and of claims for payments pursuant to section 428, and transactions related thereto and vouchers approved by the Commissioner in connection with such transactions, shall be final and conclusive upon all accounting and other officers of the Government."

In seven reports issued to the Congress since 1968 on the financial aspects of the Fund, we have discussed the inability of OE's accounting and computer systems to provide accurate information for the Fund's financial statements

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and program operation. The deficiencies discussed in our reports for fiscal years 1969-75 were so serious that we either (1) issued an adverse opinion on the financial statements because they did not fairly present the financial position of the Fund or (2) did not express an opinion on the financial statements because of inadequate records.

Because we found the condition of the Fund's records to be unsatisfactory in past years, we made a limited review of the Fund's financial transactions and operations for fiscal years 1976 and 1977 to assess the progress made in correcting noted deficiencies. For fiscal year 1976 we concluded that the Fund's automated records did not provide reliable information to administer the program or necessary detailed accounting records to adequately support the financial statements.

Our work relating to fiscal year 1977 operations disclosed that deficiencies in the accounting system records and the computer system remained uncorrected. We felt that to render an opinion would require us to do additional work that would be time consuming and expensive because of the poor condition of the accounting records and the lack of adequate internal control procedures. Furthermore, because the problems remained uncorrected, we anticipated rendering another adverse opinion on the financial statements.

In September 1978 we issued a report to the former Secretary, which summarized the deficiencies noted in prior reports and pointed out that, although corrective action had been promised several times, the problems had persisted. We recommended that the Department develop a plan of action that would detail the steps needed to improve (1) the Fund's accounting controls and procedures and (2) the computer system that provides data for the Fund and the management of the GSL program. In responding to our report in December 1978, HEW expressed concern about the significant problems identified, particularly since some had existed since the program's inception, and agreed with our recommendations.

Also, in a December 1978 memorandum to the Commissioner of Education, the former Secretary stated that the deficiencies in the financial statements of the Student Loan Insurance Fund had existed far too long and commitments for improvements had not been met. The Secretary asked that quarterly reports be submitted to the Inspector General on the status of actions taken or planned, including completion dates, until the matters were resolved.

After our September 1978 report was issued, data problems continued. OE's Finance Division, which maintains in summary form the official accounting records of the Fund, was not receiving accounting data from the Bureau of Student Financial Assistance (BSFA), which maintains much of the detailed information needed to support the accounting records. For example, the Division's Director in a January 12, 1979, letter to the former Deputy Commissioner, BSFA, stated that an analysis of the data required to be submitted to Finance indicated that

- magnetic tapes containing data on Federal accrued interest on loans receivable had not been received since the inception of the GSL program,
- magnetic tapes containing data on allowance for losses on loans receivable and interest had not been received since the program's inception although required semiannually,
- magnetic tapes containing data on writeoffs of loans receivable and interest had not been received since the program's inception,
- magnetic tapes containing data on Federal collection of loans receivable had not been received since the end of fiscal year 1977, and
- magnetic tapes containing data on insurance premium collections had not been received since March 1977.

These are only a few of the problems identified in the January letter. The Director added that the Division must become totally involved in all phases of the accounting

for the GSL program, including both formulating systems and procedures and operating the subsidiary records for all receivables.

In a February 1979 progress report, BSFA identified improvements that it feels will resolve the problems identified in our September 1978 report and by OE's Finance Division. BSFA added that it had previously assigned top priority to creating an effective collection system, which was largely complete and functioning, and that the highest priority will be placed on solving the problems we identified. BSFA stated that it had prepared a general system design which outlined tasks to accomplish the following:

- Prepare records of all transactions to be forwarded to OE's financial management information system.
- Prepare summary accounting records on GSL data.
- Prepare and record the detailed accounts and transactions.
- Ultimately reconcile the account balances between the GSL program and the financial management information system.

In a June 1979 progress report, BSFA pointed out that it was continuing to address the problems identified in our September 1978 report. For example, BSFA reported that in April 1979 the Boeing Computer Services Company became the general contractor for GSL data processing and systems support. Boeing is to assume full technical responsibility for GSL computer programs and provide technical and operational management direction to other GSL contractors to ensure the successful conversion, implementation, and operation of the GSL program during the transition from the prior contractor. (Potential problems during the transition were discussed in our September 1978 report.) BSFA stated that, because of the change in contractors, no specific timetable of proposed actions could be provided, although system improvements to correct the deficiencies of the present system were expected to be included in such actions.

Although efforts are underway to improve the GSL accounting and computer systems, many problems remain unresolved. The former Deputy Commissioner, BSFA, and the Director, OE Finance Division, advised us that an audit of the Student Loan Insurance Fund at this time would simply disclose that previous deficiencies remain uncorrected. Therefore, we anticipate that, were such an audit made, another adverse opinion would be rendered on the financial statements. We believe that BSFA and the new contractor will have to correct deficiencies discussed in our prior reports before reliable information necessary to administer the program and detailed accounting records needed to support the GSL financial statements can be developed. The timing and scope of future annual audits of the Fund will depend on OE's ability to resolve the identified deficiencies.

Copies of this letter are being sent to the Assistant Secretary for Education, the Office of the Commissioner of Education, and interested congressional committees and subcommittees.

Sincerely yours,


Gregory J. Ahart
Director