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Health, Education and Human Services Division

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February 6, 1997

The Honorable William F. Goodling
Chairman, Committee on Education
and the Workforce
House of Representatives

The Honorable Pete Hoekstra
Chairman, Subcommittee on Oversight
and Investigations
Committee on Education and the Workforce
House of Representatives

The Honorable Howard McKeon
Chairman, Subcommittee on Postsecondary
Education, Training, and Life-Long Learning
Committee on Education and the Workforce
House of Representatives

The Department of Education provides loans to students to help finance their postsecondary education. For fiscal year 1996, the Department reported that the Ford Direct Loan Program (FDLP) provided \$9.3 billion in loans to 1.7 million students.

Recently, concerns have been expressed about FDLP student loan borrowers not starting to repay their loans when they are no longer enrolled in school. Specific concerns involve schools' failing to report enrollment changes to the Department's FDLP Servicing Center¹ or the Servicing Center's failing to accurately or promptly record the reported enrollment changes. Failure to record these changes may result in borrowers not promptly repaying their student loans or in the loans becoming delinquent and increasing the likelihood of defaulting.

¹The Servicing Center services the loan during in-school, grace, and repayment periods; collects the loan; and provides customer service to borrowers.

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Because of concerns that information on students with direct loans leaving a certain medical college was not being reported to the Servicing Center, you asked that we provide you with that school's information on

- the extent to which borrowers' school enrollment dates differ from the dates recorded by the Department's servicer and
- whether the problem lies in the school's transmissions to the servicer, the servicer's method of updating its records, or elsewhere.

To respond to your request, we analyzed the records of student loan borrowers who left the medical college during, or at the completion of, the fall 1995 semester (August through December 1995). For each borrower identified, we compared the date the borrower left the medical college,² as recorded by the school, with the Servicing Center's records. We carried out our work at the Department of Education's headquarters in Washington, D.C., and at the medical college. We did our review from October 1996 through December 1996 in accordance with generally accepted government auditing standards.

In summary, borrowers' enrollment dates at the medical college differed from the dates recorded at the Servicing Center. The dates differed because the medical college did not promptly update the Servicing Center's records. Department of Education officials said that they do not plan to penalize the medical college for failing to report the borrowers' enrollment dates.

BACKGROUND

FDLP, authorized by the Student Loan Reform Act of 1993, began in the 1994-95 school year. FDLP provides direct financing and delivery of funds to eligible borrowers to cover postsecondary education costs and uses loan capital provided by the Department. The success of FDLP depends on the effective interaction of three primary participants—the student borrower, the school, and the Department through its Servicing Center. Schools decide whether to participate in FDLP, either instead of or in addition to the longer established Federal Family Education Loan Program (FFELP).

Department regulations require that schools confirm and report the enrollment dates and status of borrowers—including when borrowers leave school for any reason—who receive federal loans. Schools use the Student Status Confirmation Report (SSCR) to submit this

²For this report, the date a borrower left the medical college is referred to as his or her "completion date."

information; schools in FDLP report it to the Servicing Center. Because a borrower's enrollment date and status determine his or her deferment privileges and grace periods,³ as well as the government's payment of interest subsidies, enrollment status reporting is critical for effectively administering student financial aid loans. SSCR is the primary means of verifying borrowers' loan privileges and determining the federal government's monetary obligations.

Some schools report their student borrowers' enrollment status changes to the National Student Loan Clearinghouse (NSLCH), a private third-party loan servicer. NSLCH in turn submits the information to guaranty agencies for loans made under FFELP and to the Servicing Center for loans made under FDLP.

The accuracy of student financial aid loan records depends heavily on the accuracy of the data the school reports. The Department, borrowers, schools, and the Servicing Center are responsible for confirming or updating borrowers' enrollment status information. As stated above, schools are required to report the enrollment status of their FDLP student borrowers to the Servicing Center. Borrowers are also responsible, according to the Department's publication, Borrower's Rights and Responsibilities, to notify their schools' financial aid office and the Servicing Center if any of the following enrollment- and address-related events occurs:

- reduction in enrollment status to less than half time,
- withdrawal from school,
- graduation from school,
- stopping class attendance,
- failure to enroll for any term,
- change in expected graduation date, or
- change in name or local or permanent address.

To determine the accuracy of information on students' enrollment status, the Department relies on audits of schools and the Servicing Center. The Department expects (1) schools to promptly update their students' enrollment status by returning their SSCRs to the Servicing Center and (2) the Servicing Center to record and maintain correct loan records on FDLP borrowers. The Department uses independent auditors and its own program reviewers through its Institutional Participation and Oversight Services (IPOS) to monitor compliance by schools and the Servicing Center.

³FDLP loan borrowers receive a 6-month grace period before their first loan payments must be made. The grace period begins the day after the borrower ceases to be enrolled at least half time.

According to a Department official, in May 1996, the Department provided each FDLP school information outlining the type of enrollment data to be reported. The schools were expected to report borrowers' completion dates and enrollment status changes in July 1996. Because the Department and some schools had problems with either the schools' submissions or the Department-provided software, the Department extended the reporting date to August 1996. This was intended to give the Department and schools the opportunity to resolve software problems. To facilitate this, Department staff visited schools to train student aid officials on submitting information, including SSCRs, electronically. The next date all schools are expected to report enrollment information is February 1997.

SCHOOL'S ENROLLMENT DATES DIFFERED FROM THOSE OF THE FDLP SERVICING CENTER

The Servicing Center's enrollment dates differed from the medical college's enrollment dates. The medical college identified 28 FDLP student loan borrowers who left during the fall 1995 semester, which is when the school began FDLP participation, and who did not return for the spring 1996 semester. According to an official at the medical college, 11 of those 28 borrowers did, however, return for the fall 1996 semester.

As of December 10, 1996, the Servicing Center's data showed that only 9 of the 28 borrowers had left the medical college during or after the fall 1995 semester and that 1 of the 9 returned to the medical college during the fall 1996 semester. See enclosure I for detailed information on the 28 borrowers.

SCHOOL DID NOT PROMPTLY REPORT ENROLLMENT STATUS CHANGES

The main reason why the medical college's enrollment data differed from the Servicing Center's was that, before October 1996, the college had not reported any information to the Servicing Center. On October 7, 1996, the medical college, using NSLCH, made its first report on FDLP borrowers to the Servicing Center. The medical college reported information, however, on only the 11 borrowers who returned for the fall 1996 semester. In other words, as of December 10, 1996, the medical college had not reported information to the Servicing Center on 17 of the 28 borrowers who left school during the fall 1995 semester.

Although the medical college had not reported that the 17 borrowers had left, the Servicing Center data showed the following:

- 7 were erroneously recorded as continuing at the medical college,

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- 4 had contacted the Servicing Center and requested that their completion dates be changed,
- 3 were recorded as enrolled at other schools on the basis of loan disbursement data received from the other schools,
- 2 were recorded as enrolled at the medical college for the fall 1996 semester on the basis of loan disbursement data received from the medical college, and
- 1 had a new completion date sent in by the medical college.

The seven who were erroneously recorded as continuing at the medical college should have been asked to begin repaying their loans. Because of the medical college's failure to report, however, Department officials said that some of these 17 borrowers probably will not be expected to begin repayment until 6 months after their anticipated completion or graduation date.⁴ As a result, the borrowers, at a minimum, may be late in repaying their loans.

According to an official at the medical college, the college had not reported information to the Servicing Center earlier because it did not have a mechanism for doing so before October 1996. Furthermore, the official commented that the medical college has contacted NSLCH and plans to report enrollment status to it on the 28 borrowers by February 1997, if not before. The official also said that in the future (spring 1997) the medical college will report enrollment status information to the Servicing Center six times a year, using NSLCH.

THE DEPARTMENT DID NOT KNOW THAT THE MEDICAL COLLEGE HAD NOT REPORTED ENROLLMENT DATA

As of October 1996, the Department did not know that the medical college had not reported enrollment status changes on student borrowers who left during, or at the completion of, the fall 1995 semester. The Department believes it did not have accurate enrollment status information for two main reasons:

- Because the medical college did not provide updated enrollment status information on the 28 borrowers, its FDLP Servicing Center did not know that these borrowers' status had changed nor that these changes should have been recorded and the borrowers placed in repayment status.

Department officials believe that the medical college, which had been used to receiving SSCRs periodically from FFELP lenders or guaranty agencies, had also received

⁴The anticipated completion date is determined when borrowers take out a loan. This date must be updated as appropriate, especially when enrollment status changes occur.

automated SSCRs for the Servicing Center but did not properly complete and return them. The medical college did not respond to the SSCR request because it was having difficulties making required computer software and system procedural changes. The Servicing Center did not follow up with the medical college when it did not reply to the SSCRs it was sent.

- As of October 1995, IPOS had not yet conducted a program review at the medical college, and the Department had not yet received a compliance audit for the college. Neither an IPOS program review nor a compliance audit had been scheduled for the medical college, so these monitoring tools could not have been used to identify the college's failure to report the enrollment status changes of the 28 borrowers.

Although Department officials said that the medical college should have informed the Servicing Center when the 28 borrowers left school during or after the fall 1995 semester, they do not believe it appropriate to assign financial liability to the medical college for not doing so. Their explanation is that the college's error was unintentional and resulted from misunderstandings during the transition to SSCR reporting procedures.

CONCLUSIONS

The Department's processes for ensuring that accurate enrollment status changes were recorded in the Servicing Center were inadequate concerning the 28 borrowers who left the medical college during or after the fall 1995 semester. This occurred because of significant confusion about the new procedures, including problems with computer software, both at the Department and at the medical college. In addition, when the college failed to report the enrollment status changes of the 28 borrowers, the Servicing Center did not follow up to obtain the information.

The medical college's plans to provide the Department's Servicing Center the correct enrollment status of the 28 borrowers, however, should allow the enrollment status of its borrowers to be correctly recorded by the Servicing Center. And if the Department appropriately implements its SSCR reporting system in February 1997, with required updates six times annually, problems like those identified at the medical college should be avoided.

AGENCY COMMENTS

On January 9 and 21, 1997, the Department of Education provided us comments on a draft of this report. The Department said that a number of changes to its loan systems have contributed to the medical college's, and other colleges' misunderstanding some system applications, including the revised SSCR process.

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The Department also said that it has been working with these schools to ensure their future compliance with requirements, and that is why, in part, it did not assign financial responsibility for schools' ". . . unintentional misreporting during the transition in SSCR reporting procedures." It said that after the new SSCRs are generated by its National Student Loan Data System in February 1997, the Department will address appropriate liabilities against schools it determines to be out of compliance with reporting requirements.

On January 9, 1997, an official at the medical college provided us comments on a draft of this report. The official said that the medical college recognizes that it should have reported the enrollment status changes of the 28 borrowers who left during or at the end of the fall 1995 semester. He said that the college's computer programmers were working on other higher priority system changes for FDLP, and the necessary changes to allow the college to report the enrollment status changes were not made. He said that the medical college is making the system changes and that the enrollment status changes of the 28 borrowers will be provided to NSLCH, for transmittal to the Servicing Center, before the Department's February 1997 SSCR reporting date.

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We are sending copies of this correspondence to the appropriate congressional committees and subcommittees, the Secretary of Education, and other interested parties. If you have any questions, please feel free to contact me at (202) 512-7014. Major contributors to this correspondence include Joseph J. Eglin, Jr., Assistant Director, and Paula N. Denman, Evaluator-in-Charge.

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for Carlotta C. Joyner
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Enclosures - 2

DETAILED INFORMATION ON THE 28 BORROWERS' COMPLETION DATES

Student borrower	Date borrower left the medical college as of 10/9/96	Servicing Center's borrowers' completion dates as of		Remarks by the medical college or Servicing Center
		10/17/96	12/10/96	
1 ^a	12/8/95	5/30/97	5/15/98	Currently attending Old Dominion University
2 ^a	12/8/95	5/15/98	5/15/98	Currently attending Virginia Polytech Institute and State University
3 ^a	12/8/95	5/30/97	2/15/96	On 11/7/95, borrower requested that completion date be changed to 2/15/96
4 ^a	12/8/95	5/30/98	12/14/95	Currently attending George Washington University
5 ^{a,b}	1/3/96	12/15/95	12/15/95	On 2/14/96, borrower requested that completion date be changed to 12/15/95
6 ^a	12/8/95	1/15/96	1/15/96	On 10/14/96, borrower requested that completion date be changed to 1/15/96
7 ^a	12/8/95	5/30/97	5/30/97	No updates since 10/17/96

Student borrower	Date borrower left the medical college as of 10/9/96	Servicing Center's borrowers' completion dates as of		Remarks by the medical college of Servicing Center
		10/17/96	12/10/96	
8	12/8/95	5/30/97	5/30/97	Medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
9 ^a	12/8/95	5/30/97	5/30/97	No updates since 10/17/96
10 ^b	12/8/95	12/23/95	12/23/95	On 6/26/96, borrower requested that completion date be changed to 12/23/95; medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
11 ^a	12/8/95	5/30/97	5/30/97	No updates since 10/17/96
12	12/8/95	5/30/96	5/30/96	The medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996

Student borrower	Date borrower left the medical college as of 10/9/96	Servicing Center's borrowers' completion dates as of		Remarks by the medical college or Servicing Center
		10/17/96	12/10/96	
13 ^{a,b}	12/8/95	12/18/95	12/18/95	On 1/22/96, borrower requested that completion date be changed to 12/18/95
14	10/25/95	5/30/97	5/30/00	Medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
15	12/8/95	8/30/98	8/30/98	Medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
16	10/25/95	5/30/99	5/30/00	Medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
17 ^b	11/3/95	8/31/97	5/20/00	Medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996

Student borrower	Date borrower left the medical college as of 10/9/96	Servicing Center's borrowers' completion dates as of		Remarks by the medical college or Servicing Center
		10/17/96	12/10/96	
18	9/12/95	5/30/96	5/30/98	Medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
19	12/8/95	5/30/96	5/30/98	Medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
20	12/8/95	5/30/97	5/30/97	Medical college's data show that borrower returned to medical college in fall 1996; Servicing Center reports no updates since 10/17/96
21 ^a	12/8/95	5/30/97	5/30/97	No updates since 10/17/96
22 ^a	12/8/95	5/30/97	5/30/97	No updates since 10/17/96

Student borrower	Date borrower left the medical college as of 10/9/96	Servicing Center's borrowers' completion dates as of		Remarks by the medical college or Servicing Center
		10/17/96	12/10/96	
23 ^b	12/8/95	1/30/96	5/30/99	On 3/8/96, borrower requested that completion date for the first loan be changed to 1/30/96--this loan is currently in deferment; medical college reported enrollment status to NSLCH on 10/7/96; borrower returned to college in fall 1996
24 ^a	9/15/95	5/30/98	5/30/98	No updates since 10/17/96
25 ^a	12/8/95	5/30/97	5/30/97	No updates since 10/17/96
26 ^a	10/10/95	5/30/96	5/30/96	No updates since 10/17/96
27 ^a	12/8/95	5/20/97	5/20/97	Borrower returned to the medical college
28 ^a	12/8/95	5/30/96	5/30/97	Borrower returned to the medical college

^aThe medical college did not report enrollment status to NSLCH for these borrowers.

^bBorrower has made or is currently making payments.

RELATED GAO PRODUCTS

Department of Education: Status of Actions to Improve the Management of Student Financial Aid (GAO/HEHS-96-143, July 12, 1996).

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/T-HEHS-95-1995, July 12, 1995).

Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/HEHS-95-89, July 11, 1995).

High-Risk Series: Student Financial Aid Programs (GAO/HR-95-10, Feb. 95).

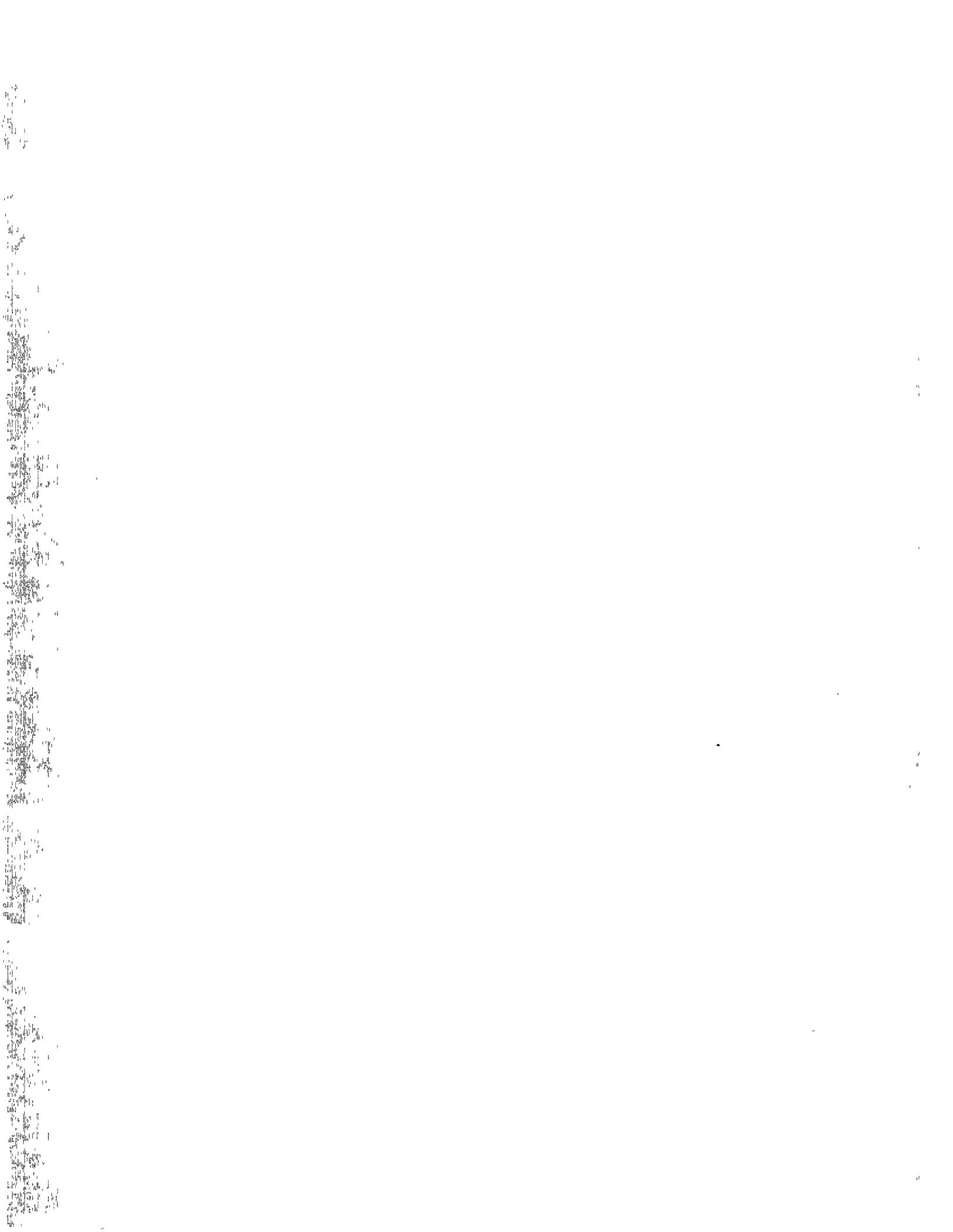
Direct Student Loans: The Department of Education's Implementation of Direct Lending (GAO/HRD-93-26, June 10, 1994).

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47, May 28, 1993).

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20, Mar. 16, 1993).

Department of Education: Management Commitment Needed to Improve Information Resources Management (GAO/IMTEC-92-17, Apr. 20, 1992).

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