

Testimony

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Committee on Governmental Affairs, U.S. Senate

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STUDENT FINANCIAL AID

Data Not Fully Utilized to  
Identify Inappropriately  
Awarded Loans and Grants

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to present information on the U.S. Department of Education's Federal Family Education Loan Program (FFELP) and Federal Pell Grant Program. As you are aware, these are the largest federal programs providing financial aid to postsecondary students. In academic year 1994, they provided over \$26 billion in loans and grants to over 10 million students.

During your Subcommittee's hearings in 1993, we testified on abuses in the Pell Grant Program.<sup>1</sup> Because of your continuing concerns, you subsequently asked us to review (1) the extent to which the Department's student aid data are effectively used to help ensure compliance with federal requirements and prevent any abuses from reoccurring, and (2) the improvements that the Department has planned or made to its student aid systems. Today you are releasing our report on the results of this study. My statement, which is based on the report, highlights the results of our work.<sup>2</sup>

Data used in our analyses were maintained in the Department's student loan and grant systems. Recognizing that the Department has had long-standing problems with how timely and accurate its student loan data are, we eliminated potentially erroneous data from our analysis. For example, we identified over 6,400 loan records that had date fields that were in error because (1) they contained zeros or (2) they contained dates that were before the time that FFELP started.

#### RESULTS IN BRIEF

In general, the Department has done a good job of providing grants and loans to eligible students, but it has been less effective in using available data to enforce compliance with federal requirements. For example, Department data indicate that 43,519 ineligible students may have received 58,105 loans, totaling over \$138 million, for fiscal years 1982 through 1992, and that more than 48,000 students may have received overpayments of their Pell grants during the 5-year period ending in award year 1993. While our findings concern a small percentage of the total number of loans and grants in the Department's data systems, they indicate that the federal government can lose large sums of money through erroneous payments to students, some of whom are ineligible for any federal student aid.

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<sup>1</sup>Student Financial Aid Programs: Pell Grant Program Abuse (GAO/T-OSI-94-8, Oct. 27, 1993).

<sup>2</sup>Student Financial Aid: Data Not Fully Utilized to Identify Inappropriately Awarded Loans and Grants (GAO/HEHS-95-89, July 11, 1995).

The Department has initiated a series of improvements to its student loan and grant systems and programs. These include developing new systems, implementing data controls in existing systems, and strengthening program reviews at schools. These improvements are steps in the right direction, but some, corresponding with our review, have just recently been put in place and it is too early to determine their effectiveness. For example, new systems such as the National Student Loan Data System (NSLDS)--a national database on student loans and Pell grants--are just becoming fully operational. We also believe that some of the system controls in place, such as those to prevent students who had previously defaulted on loans from obtaining additional aid, are not sufficiently aimed at prevention.

In our report, we made recommendations to the Department to analyze student aid data more closely to identify patterns of noncompliance with federal requirements.

## BACKGROUND

The Department of Education administers student financial aid programs under title IV of the Higher Education Act of 1965, as amended (HEA). During academic year 1993-94, student financial aid totaled \$29 billion. The largest single source of this aid (72 percent) was FFELP,<sup>3</sup> which provided over \$21 billion to 6.5 million borrowers. The second largest source of aid was the Pell Grant Program, which provided \$5.6 billion in grants to 3.7 million students. During fiscal years 1983 to 1991, annual federal payments for FFELP loan defaults increased over 700 percent, from \$445 million to \$3.6 billion. Although FFELP loan defaults have decreased in the past 2 years, the federal government paid out over \$2.4 billion in fiscal year 1994 to make good its guarantee on defaulted student loans.

### Federal Family Education Loan Program

Most FFELP loans are based on financial need. A student typically applies for a loan, and the school verifies the student's eligibility. The school determines, based on family income and the estimated cost of attendance (COA), the amount of aid the student is eligible to receive. The student receives the loan from a participating lender. One of the state-designated guaranty agencies guarantees the loan against default. The agency is the intermediary between the Department and the lender, insuring the loan made by the lender to the student. The guaranty agency also ensures that the lenders and schools meet program requirements. The Department pays the interest due while the student is in school. The student begins repaying the loan, including interest

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<sup>3</sup>FFELP was formerly called the Guaranteed and Stafford Student Loan Programs.

and principal within 6 months after leaving school. The Department also reimburses guaranty agencies for most of the defaulted loans they paid to lenders and for some of their administrative costs.

### Federal Pell Grant Program

Pell grants are distinguished from other financial aid in that students meeting federal eligibility criteria are given, not loaned, money. The Pell grant amount is also based on the student's COA and financial need. Schools, which make the grants on behalf of the Department, are to ensure that (1) each student meets federal eligibility requirements for the grant and (2) each eligible student is paid the full Pell grant that he or she is eligible to receive. During award years 1984 through 1994, Pell grants were awarded to over 32 million students, totaling over \$50 billion.

### Systems Used to Monitor FFELP and the Pell Grant Program

The Department annually collected loan data from guaranty agencies and consolidated them in the FFELP database.<sup>4</sup> These data, the principal data available for the Department to use in monitoring FFELP, were used to (1) calculate annual student loan default rates for schools participating in FFELP; (2) target program reviews of schools, lenders, and guaranty agencies; and (3) identify possible ineligible borrowers and loans exceeding statutory limits. But the usefulness of these data was limited because the data were not provided to the Department until after loans were awarded, sometimes as long as a year afterwards. The timeliness problem, however, is expected to be alleviated to a great extent when NSLDS is fully operational, if it is implemented properly. NSLDS is designed to provide on-line access to student loan data, which are to be updated monthly, not annually like the FFELP database.

As part of its monitoring of the Pell Grant Program, the Department collects student information from schools and consolidates it through the Pell Grant Recipient and Financial Management System (PGRFMS). This system is used to track schools' request for funds and provide schools documentation to use in reconciling their total disbursements to students under the Pell Grant Program during an award year, with the records of the individual students participating in the program at the school. Starting in the fall of 1995, NSLDS will also contain Pell grant data, which will be updated weekly.

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<sup>4</sup>As of November 1994, NSLDS replaced the FFELP database and the data in the FFELP database were used to populate NSLDS.

DEPARTMENT DATA INDICATE STUDENT  
FINANCIAL AID INAPPROPRIATELY AWARDED

The Department's data show that ineligible students have received millions of dollars in student financial aid, and some eligible students have received more aid than permitted under the law. Students are generally ineligible for additional aid after defaulting on earlier loans and are prohibited from receiving funds in excess of statutory limits or their COA. Further, students are prohibited from concurrently receiving Pell grants from two or more schools.

Ineligible Students May Have Obtained  
Aid and Defaulted on Subsequent Loans

We identified 43,519 students that the Department's data showed may have been ineligible for 58,105 loans. The loans totaled over \$138 million. To identify these students, we used student loan data in the Department's FFELP database for fiscal years 1982 through 1993. As an example of what we found, one student defaulted on a loan in May 1992, making the student ineligible for subsequent loans. According to Department data, however, this student received five additional loans: one in February 1993, two in July 1993, and two in September 1993. In another example, a student defaulted on a loan in September 1986, thus making the student ineligible for subsequent loans. According to Department data, however, this student also received five additional loans: one in 1988, three in 1989, and one in 1990--4 years after defaulting on the first loan. Further, according to the data, as of September 30, 1992, of the 43,519 students who were ineligible for additional loans, 20,210 defaulted on 23,298 loans subsequently made to them. The amount outstanding on the subsequent defaulted loans, including interest and principal, was over \$56 million.

Through our analyses of both FFELP and PGRFMS data, we identified 101,327 students who previously defaulted on a student loan and were, therefore, ineligible for further federal student aid. Nevertheless, the data showed that they may have received 139,123 Pell grants totaling approximately \$200 million. Of these ineligible students, 73,934 may have received one grant, 19,838 two grants, and over 7,555 three or more grants.

Students May Have Received Loans  
Greater Than Their Cost of Attendance

The Department's FFELP database showed that, since 1982, students have received loans that exceeded their COA. The average amount of the overpayment was about \$1,200 and ranged from less than \$100 to over \$13,000; the overpayments totaled \$2.4 million.

Information available to the Department for tracking student loans--the FFELP database--was not used to verify that students received financial aid equal to or less than their COA, even though a COA data field is available for use. A Department official said that schools determine students' COA and financial need at the beginning of the student aid application process and that the Department relies on schools to ensure compliance with federal requirements.

To identify cases in which aid awarded exceeded COA, the Department could collect and use COA data to stop these practices and collect funds that were inappropriately awarded. COA data are currently used by schools to determine the amount of aid a student is eligible for, and we found that some schools are reporting these data. Therefore, collecting and reporting these data to the Department should not be a major burden for schools.

#### Students May Have Concurrently Received Pell Grants From Two or More Schools

According to the Department's records, during award years 1989 and 1993, over 35,000 students may have received Pell grants while attending two or more schools for the same enrollment period. The Department's data showed that these students attended two or more schools and received grants during the same month and year. Since the inception of the program in 1973, students have been limited to receiving Pell grants from one school at a time, even if they concurrently attended multiple schools. Schools are responsible for ensuring that students do not concurrently receive Pell grants from more than one school.

Although the Department has data to identify students who may have received grants while concurrently attending two or more schools, it does not use them for this purpose. Department officials said the data may be misleading. For example, they said the Department does not know how many of the students we identified or in PGRFMS actually received Pell grants concurrently from two or more schools because PGRFMS only records a student's enrollment date, not the date the school disbursed the grant. However, we believe that the information available to the Department indicates that numerous instances of noncompliance may have occurred and that, therefore, the Department should investigate further.

#### Students May Have Received Pell Grants in Excess of Statutory Limits

The Department has a control in place to prevent Pell grant payments from exceeding the maximum statutory limit for students

attending a single school.<sup>5</sup> Using Pell grant data for award years 1989 through 1993, we found no instance of a student receiving a Pell grant greater than the statutory limit. However, the data showed that 48,010 students attending two or more schools may have received multiple Pell grants that in total exceeded the statutory limits. For example, in award year 1993, one student received grant funds totaling \$5,640. The statutory limit in 1993 was \$2,400; therefore, the student received \$3,240 over the limit.

For award years 1994 and 1995, the Department implemented a system check in PGRFMS designed to block any Pell grant awards that would result in an overpayment and, as a result, the second school should not receive funds for that student unless the first school reports a downward adjustment. Because this system check was recently developed, it was too soon for us to determine what effects it will have on preventing Pell grant overpayments.

#### OVERSIGHT AND ACCOUNTABILITY IMPROVEMENTS MADE, BUT MORE NEEDS TO BE DONE

We found instances in which compliance responsibilities were divided and data were ineffectively shared between Office of Postsecondary Education (OPE) units in the Department. In April 1991, the Department and Office of Management and Budget (OMB) jointly reported on the results of their review of how the Department administers student financial aid programs and made a series of recommendations.<sup>6</sup> The Department subsequently reorganized OPE in 1992 and developed a series of initiatives designed to better oversee FFELP.

Although the Department has completed initiatives and has others underway, we continued to find instances of lapses in accountability in which compliance responsibilities were divided among OPE units. For example, at the time of our review there was no unit responsible for overseeing all aspects of the Pell Grant Program. Responsibilities for policy, accounting and financial management, as well as for program systems were divided among three OPE units that did not routinely share information with each other. According to a Department official, the office for Pell grant

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<sup>5</sup>The maximum statutory limit is set by the program's authorizing legislation. The appropriation legislation, however, often lowers the maximum statutory limit to meet the government's overall goals for domestic discretionary spending. We used the maximum appropriated statutory limits to determine whether students received overpayments.

<sup>6</sup>Administration Adopts Plan to Reorganize Student Financial Assistance Programs, U.S. Department of Education and the Office of Management and Budget (Washington, D.C.: 1991).

systems had difficulty obtaining information from the office responsible for the financial functions of the Pell Grant Program.

During our review, OPE reassigned personnel and began making other organizational improvements that address our concerns about the dispersion of responsibilities among units. For example, in January 1995, it consolidated the Pell Grant and Applicants Systems Divisions into the Application and Pell Processing Systems Division; in April 1995, it consolidated the Pell Grant and Campus-based Financial Management Divisions into the Institutional Financial Management Division. Although we have not thoroughly evaluated these recent changes, they appear to provide a better organizational framework for program oversight and accountability.

#### OTHER IMPROVEMENTS UNDER WAY

During the past 2 years, the Department began implementing a number of other initiatives to address problems in operating and overseeing of its student financial aid systems. We found, for example, that the Department has improved its (1) student aid systems, including developing new systems, such as NSLDS, and implementing changes to existing systems, and (2) gatekeeping efforts by expanding the criteria for scheduling institutional program reviews.

These improvements have addressed many problems in Department systems and controls. But as discussed in more detail in our report, the Department must continue to make enhancements to help ensure compliance with federal requirements and to eliminate situations such as these that we found.

#### Developing NSLDS

The Department is developing NSLDS to be the first national source of current loan and grant data on student financial aid participants. NSLDS, for example, is to provide the Department (1) on-line access to loan data on a loan-by-loan basis and (2) more detailed current information on each student with a FFELP loan. When fully implemented, NSLDS is expected to provide an integrated view of HEA programs and should help ensure that improved and more accurate information is available on student loans.

NSLDS is planned to be implemented in three phases. Phase I began in 1993 and included populating NSLDS with data submitted by guaranty agencies. It became operational in November 1994. As a result, annual guaranty agency submissions of FFELP data tapes to the FFELP database ceased, although NSLDS will be updated with monthly data submitted by guaranty agencies.

Phases II and III, which include providing a central source of financial aid information, are expected to begin by the summer of 1995. The system, for example, is expected to provide financial

aid transcripts, which will include information such as whether a student is in default on a loan or owes a repayment on a grant because of a previous overpayment. According to a Department official, selected Pell grant data from PGRFMS will be entered into NSLDS during Phase II.

#### Department Efforts to Strengthen Existing Systems May Not Go Far Enough

To reduce the likelihood that loans will be made to students who are ineligible because they had previously defaulted on their student loans, the Department has strengthened controls in its student financial aid systems. These changes include computer matches to identify students who defaulted and edits to identify Pell grant overpayments.

In July 1992, in response to an Office of Inspector General (OIG) recommendation, the Department expanded its computer matching. Through the Guaranty Agency Default Match, student aid applicant records are matched with guaranty agency files containing the names of students who defaulted on student loans held by guaranty agencies. OIG concluded that preventing ineligible students from receiving FFELP loans or Pell grants--abuses that the two computer matches were designed to prevent--should reduce program costs \$300 million annually.

The computer matches have not been fully effective. From our analyses of data in the FFELP database, ineligible students appeared to continue to receive loans after the data matches were implemented. Specifically, the number of loans made to ineligible students increased from 10,450 in fiscal year 1990 (which was before the computer matches began) to 12,134 in fiscal year 1993 (after both matches were implemented). The amount guaranteed on these loans also increased, from about \$24 million in fiscal year 1990 to over \$33 million in fiscal year 1993. For fiscal years 1989 through 1993, the number and amount of loans made to ineligible students increased each year, despite the implementation of the data matches.

We discussed these findings with OIG officials. They were concerned that the matches were not preventing subsequent loans from being made to ineligible students. They have agreed to determine whether (1) the data matches were failing to identify subsequent loans to ineligible students and (2) ineligible students actually received the monies.

#### Expanded Program Review Efforts

The Institutional Participation and Oversight Service (IPOS), the OPE unit responsible for monitoring schools and ensuring their eligibility to participate in HEA programs, conducts on-site reviews at schools to determine if they are meeting program

requirements. These program reviews are principally used to (1) identify violations and abuse after they occur and (2) target and conduct subsequent reviews.

OPE has revised its strategy for targeting IPOS program reviews by focusing on schools that had (1) significant increases in loan and grant volume and (2) high default rates for student loans. In part as a result of the Permanent Subcommittee on Investigations' October 1993 hearing and recommendations in a 1993 OIG audit report,<sup>7</sup> IPOS revised and expanded its criteria for selecting schools for program reviews. For fiscal year 1993 program reviews, the Department had 8 criteria for identifying schools for review. The number of criteria increased to 25 beginning in fiscal year 1994.

In addition, IPOS and OIG have begun to coordinate their review efforts to work better together and to help prevent simultaneous, uncoordinated, and multiple visits to schools. For example, beginning in the spring of 1995, IPOS and OIG began meeting monthly to discuss on-going OIG work and what effect it may have on IPOS reviews.

Because most of these initiatives were recently implemented, it was too soon for us to determine what effect they may have on improving compliance with federal requirements for the Department's student financial aid programs.

## CONCLUSIONS

According to data in the Department's FFELP and the Pell Grant Program data systems, the vast majority of student financial aid was awarded in accordance with federal requirements. But in some instances these systems failed to ensure compliance with federal requirements in awarding student loans or Pell grants--conditions that have been long standing and that are likely to continue unless changes are made and effectively implemented.

We recognize that the Department relies extensively on schools to provide aid to eligible students in accordance with federal requirements. But the Department must improve its use of its data to support schools in their compliance assurance role and to evaluate schools' effectiveness.

Over the past several years, the Department has strengthened program controls, interoffice communications, oversight, and the systems used in administering its student financial aid programs.

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<sup>7</sup>Report on the Effectiveness of the Regional Institutional Review Branches' Monitoring of Institutions Participating in the Student Financial Assistance Programs, Audit Control Number 05-20075, U.S. Department of Education (Washington, D.C.: 1993).

We commend these efforts and believe that they show a clear commitment by the Department to improve its management of the programs. But weak areas still exist. For example, data matches have not been fully effective in preventing ineligible students from getting additional aid and some Department systems, such as NSLDS, as currently being implemented will only identify ineligible students and will not be used to prevent them from receiving aid.

Many of the problems that we identified have been long-standing and are likely to continue unless the Department takes further action. In our report, we made recommendations to the Secretary to take actions to improve the accuracy and completeness of student aid data, such as continuing to screen data entered into NSLDS to ensure that they are in a consistent format, and testing the accuracy and validity of data in NSLDS.

Mr. Chairman, this concludes my testimony. I will be happy to answer any questions that you or members of the Subcommittee may have.

For more information on this testimony, please call Joseph J. Eglin, Jr., Assistant Director, at (202) 512-7009. Other major contributors include Paula N. Denman-Barnes, Scott M. Berger, Joel H. Marus, and Edward H. Tuchman.

RELATED GAO PRODUCTS

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).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994).

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28, Jan. 21, 1994).

Student Financial Aid Programs: Pell Grant Program Abuse (GAO/T-OSI-94-8, Oct. 27, 1993).

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33, Sept. 9, 1993).

Direct Student Loans: The Department of Education's Implementation of Direct Lending (GAO/HRD-93-26, June 10, 1993).

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

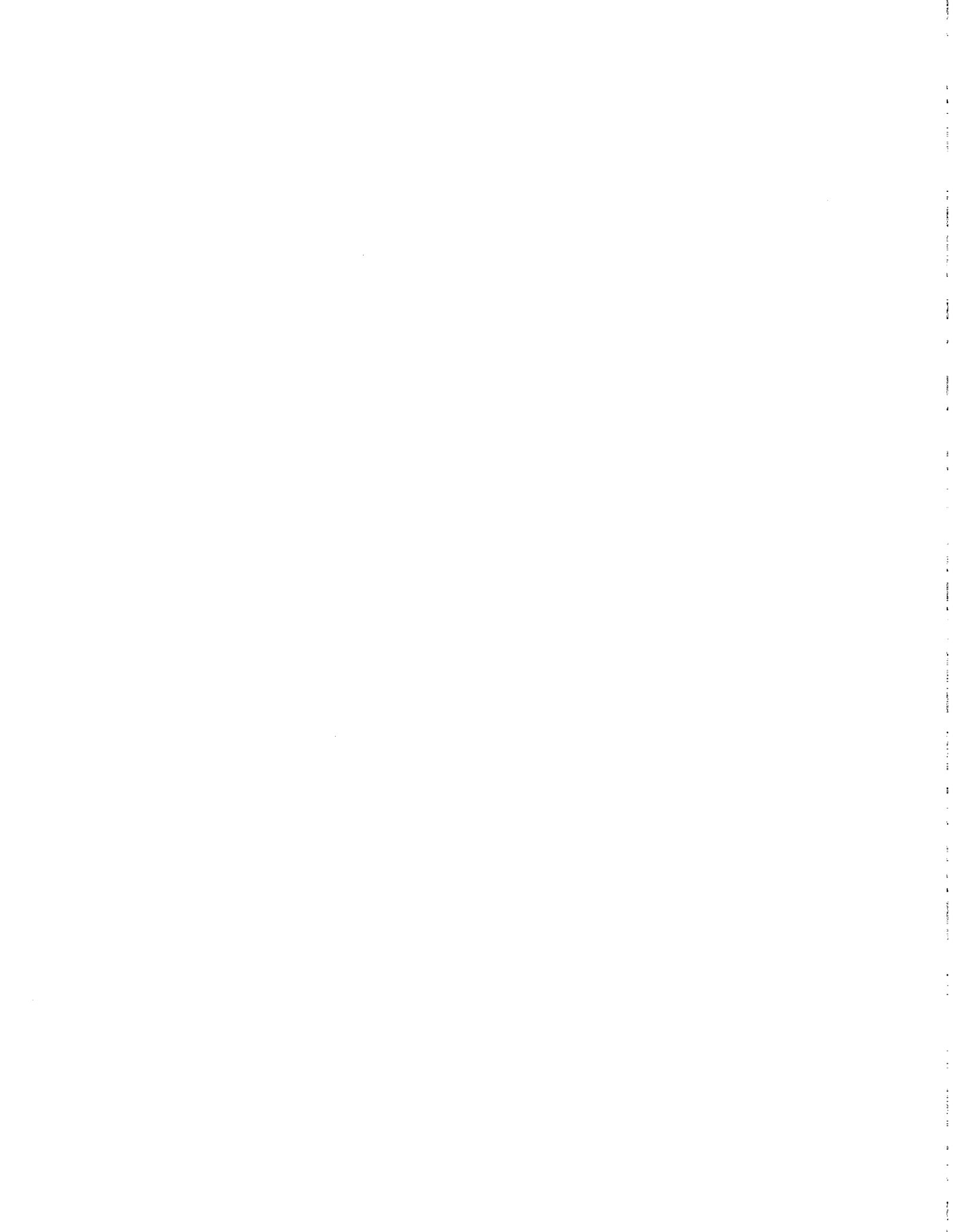
Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47, May 28, 1993).

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

Student Loans: Direct Loans Could Save Billions in First 5 Years With Proper Implementation (GAO/HRD-93-27, Nov. 25, 1992).

Stafford Student Loans: Millions of Dollars Awarded to Ineligible Borrowers (GAO/IMTEC-91-7, Dec. 12, 1990.)

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