

DOCUMENT RESUME

ED 356 717

HE 026 373

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TITLE Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement. Report to the Congress.
INSTITUTION Comptroller General of the U.S., Washington, D.C.
REPORT NO GAO/AFMD-93-20
PUB DATE 16 Mar 93
NOTE 65p.
AVAILABLE FROM U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20884-6015 (first copy free; additional copies \$2).
PUB TYPE Reports - Evaluative/Feasibility (142)
EDRS PRICE MF01/PC03 Plus Postage.
DESCRIPTORS Accountability; Educational Finance; Federal Aid; Federal Programs; *Financial Audits; Higher Education; Loan Default; *Program Evaluation; *Student Financial Aid; Student Loan Programs
IDENTIFIERS *Accounting Systems; Department of Education; Guaranteed Student Loan Program; *Guaranty Agencies

ABSTRACT

An evaluative study was done of the Department of Education's system of internal accounting controls over the Federal Family Education Loan Program, known as the guaranteed student loan program. The study evaluated internal control systems, the structure of the program with respect to the role of guaranty agencies, and the Department's ability to oversee the program and implement corrective actions. The audit included reviewing procedures at 10 of the largest guaranty agencies, the procedures of 46 randomly selected lenders, the Department's accounting systems, examination of selected transactions, and review and documentation of the Department's policies and procedures. The study found that there are material weaknesses in the Department's ability to obtain accurate and reliable data on the loan program, that there is inadequate oversight of guaranty agencies and lenders, and that there are weaknesses in the Department's controls to ensure the accuracy of its financial and other program data. The audit also identified serious problems in the program's structure. Guaranty agencies assume little financial risk and are not compensated in a way that provides sufficient incentives to prevent defaults. It is noted that some corrective actions are under way. Appendixes contain details of study methodology, comments from the Department of Education, and information on major contributors to the report. (JB)

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GAO

United States General Accounting Office
Report to the Congress

March 1993

FINANCIAL AUDIT

Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement



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GAO

United States
General Accounting Office
Washington, D.C. 20548

**Comptroller General
of the United States**

B-202873

March 16, 1993

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

This report presents the results of our study and evaluation of the Department of Education's system of internal accounting controls over the Federal Family Education Loan Program as of September 30, 1992. Our review was performed in preparation for our fiscal year 1992 financial statement audit of the program. Our opinions on the program's fiscal year 1992 financial statements and internal controls, and our report on compliance with laws and regulations, along with Education's overview of the reporting entity, and other supplemental information required by the Chief Financial Officers Act of 1990 and implementing guidance will be issued separately.

We are sending copies of this report to the Secretary of Education; the Secretary of the Treasury; and the Director, Office of Management and Budget. Copies will be made available to others upon request.

This work was performed under the direction of Donald R. Wurtz, Director of Financial Integrity Issues, who can be reached on (202) 512-9449 if you or your staffs have any questions. Appendix III lists major contributors to this report.



Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

Purpose

As administrator of the Federal Family Education Loan Program, commonly known as the guaranteed student loan program (GSLP), the Department of Education is one of the largest guarantors of loans in the federal government. In fiscal year 1992, the Department guaranteed over \$14.6 billion in student loans and paid about \$5 billion in default claims and interest subsidies. Because of a history of inadequate program oversight and management, GAO designated the GSLP as a "high-risk" area, particularly vulnerable to fraud, waste, and mismanagement. The Office of Management and Budget also designated the GSLP a high-risk area.

This report discusses internal control weaknesses over the GSLP that resulted in ineffective accounting, controlling, and reporting of the results of the GSLP's operations. This report also discusses the structure of the GSLP with respect to the role of guaranty agencies and Education's ability to oversee the program and implement corrective actions. GAO's review was conducted in preparation for its financial statement audit of the GSLP. Such an audit is required by the Chief Financial Officers Act of 1990 and the GSLP's enabling legislation.

Background

The GSLP was designed to increase postsecondary educational opportunities for eligible students. Under this program, Education pays interest subsidies directly to lenders and reimburses them for loan defaults directly or through state and non-profit guaranty agencies. Guaranty agencies share little risk with Education, but rather serve largely as its intermediaries.

The program has grown considerably since its inception in 1965—from 89,000 loans for \$73 million in 1966 to 5.1 million loans for \$14.6 billion in 1992. During this time, the federal role in the program and the roles of the guaranty agencies were expanded to achieve the program's objectives. Continued program growth is likely because the Higher Education Act Amendments of 1992 expanded the availability of loans to students.

Results in Brief

GAO identified material weaknesses in the Department's ability to obtain accurate and reliable data on the GSLP. These weaknesses included inadequate oversight of guaranty agencies and lenders, and weaknesses in the Department's controls to ensure the accuracy of its financial and other program data. Given these weaknesses, the Department could not ensure that billions of dollars in payments made annually to guaranty agencies

and lenders were proper or that financial information on GSLP operations was accurate.

GAO also identified serious problems in the program's structure. Guaranty agencies assume little financial risk and are not compensated in a way that provides sufficient incentives to prevent defaults. In addition to their guarantor role, they are legally allowed to be both loan servicers and secondary market operators, which can create conflicts of interest. By assuming servicing and ownership roles, guaranty agencies are, in effect, responsible for regulating their own activities.

The Department had some corrective actions under way, including intensifying its reviews of guaranty agencies and lenders and developing and reconciling subsidiary ledgers for the GSLP which, if successful, will increase program accountability. However, some weaknesses cannot be fully resolved until the role of guaranty agencies is addressed. Effective corrective actions will require new systems, revised regulations, and/or legislation and thus extend over several years.

Principal Findings

Oversight of Guaranty Agencies and Lenders Was Limited

The Department did not have adequate controls and procedures to ensure that it received the financial information needed from guaranty agencies and lenders to effectively manage the GSLP. Billings and other data from these entities were often late. Additionally, Education did not perform needed reconciliations between reports, or promptly resolve problems identified with reported data. The Department has begun to take actions to address long-standing problems with its oversight of guaranty agencies and lenders, including developing the National Student Loan Data System which will provide the Department with ready access to information on each guaranteed loan. However, the Department must ensure that the data entered in this system are accurate if the system is to realize its full potential.

Inadequate Financial Reporting

The Department did not have reliable and timely data on which to base its estimate of the future cost of outstanding guaranteed loans. GAO estimated that the cost could have exceeded \$10 billion at September 30, 1991. Education developed its estimate of \$6.1 billion using a model based on an

analysis of data which were not reliable and on a number of other assumptions about the program and economy, some of which were not reasonable. Education also did not adequately document its methodology for estimating this cost. In addition, significant unreconciled differences existed between financial information recorded in the Department's general ledger, subsidiary systems, and Treasury reports.

General Controls Over Information Systems Were Not Functioning as Designed

GAO identified a number of general control weaknesses in GSLP information systems that affected the reliability of GSLP financial data and reports and Education's ability to protect the data's confidentiality. The most significant weakness identified was that Education's controls over changes to GSLP application software did not ensure that such changes were adequately tested before being used to process GSLP data. In late 1992, Education began hiring additional personnel with information systems training to help resolve these problems.

Program's Structure Is Not Conducive to Good Financial Management

While guaranty agencies are independent entities, the Secretary has had to use federal funds to support agencies in financial difficulty. These actions were necessary to maintain lender participation and ensure student access to guaranteed loans. In reality, the guaranty agencies' role in the GSLP is essentially that of a fiscal intermediary. However, Education's relationship with these guaranty agencies is not structured to give the Department sufficient leverage to improve guaranty agency operations that affect Department operations and costs. In addition, many guaranty agencies have expanded their operations to activities that create serious conflicts of interest with their stewardship responsibilities in the program, and federal statutes and regulations do not prohibit guaranty agencies from engaging in such activities.

Recommendations

GAO is making several recommendations to the Congress and to the Secretary of Education to help strengthen the Department's accounting and internal control systems related to the GSLP. GAO is also recommending that the Secretary direct the Assistant Secretary of Postsecondary Education to prepare a comprehensive plan on the role of guaranty agencies and the manner in which they are compensated in conjunction with the study of guaranty agencies required by the Higher Education Act Amendments of 1992. The plan should recommend changes in the GSLP that, among other things, would provide more effective incentives to guaranty agencies and lenders to help prevent defaults, improve controls

over conflicting activities by guaranty agencies, and enhance federal oversight.

Agency Comments

The Department of Education provided written comments on a draft of this report. Education generally agreed with GAO's findings and recommendations and stated that it has initiatives under way to correct some of the deficiencies noted in this report. The Department's comments are discussed and evaluated in chapters 2 through 5 and are included in appendix II.

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Abbreviations

CFO	Chief Financial Officer
DCMAS	Debt Collection Management Assistance Service
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
GSLP	guaranteed student loan program
HEAF	Higher Education Assistance Foundation
NIST	National Institute of Standards and Technology
NSLDS	National Student Loan Data System
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
PLUS	Parent Loans for Undergraduate Students
SLS	Supplemental Loans to Students

Introduction

As administrator of the Federal Family Education Loan Program, commonly known as the guaranteed student loan program¹ (GSLP), the Department of Education is one of the largest loan guarantors in the federal government. In fiscal year 1992, the Department guaranteed approximately \$14.6 billion in new student loans and paid about \$5 billion in default claims and interest subsidies. At September 30, 1992, the outstanding balance of guaranteed student loans exceeded \$65 billion. Accurately accounting for and managing such a large volume of guarantees and payments requires effective internal control systems that ensure government assets are properly safeguarded. Because of a history of inadequate program oversight and management, we designated the GSLP as a "high-risk" area, particularly vulnerable to fraud, waste, and mismanagement. The Office of Management and Budget (OMB) also designated the GSLP as a high-risk area.

Background

The GSLP was established under Title IV² of the Higher Education Act of 1965. Initially managed by the Department of Health, Education, and Welfare, responsibility for the program was transferred to the Department of Education when it was established in 1980. Education administers the program primarily through state and private nonprofit guaranty agencies. The GSLP is an entitlement program—that is, eligible students are entitled to obtain loans and the government is obligated to pay program costs. Education's costs related to the program are funded, for the most part, by borrowings from the Treasury (which are subsequently paid through appropriations), collections on defaulted loans, and loan origination fees. As of September 30, 1992, the Department reported that since fiscal year 1966, it had guaranteed approximately \$142 billion in student loans and paid about \$35 billion in interest subsidies and about \$19 billion in gross default payments.

Loan Types

As initially authorized, the GSLP covered two types of loans: loans insured directly through the Department and loans insured indirectly through guaranty agencies. Both types of loans are currently referred to as Federal Stafford loans. Both have an interest subsidy component and are held by

¹Entitled the "Robert T. Stafford Student Loan Program" by the Higher Education Act Amendments of 1988, the program was renamed the "Federal Family Education Loan Program" when reauthorized by the Higher Education Act Amendments of 1992. It is commonly known as the guaranteed student loan program.

²Title IV refers to the portion of the Higher Education Act that established the student financial aid programs at institutions of higher education and vocational schools. Guaranteed student loan, Federal Pell Grant, and Federal Perkins Loan programs are currently included in Title IV.

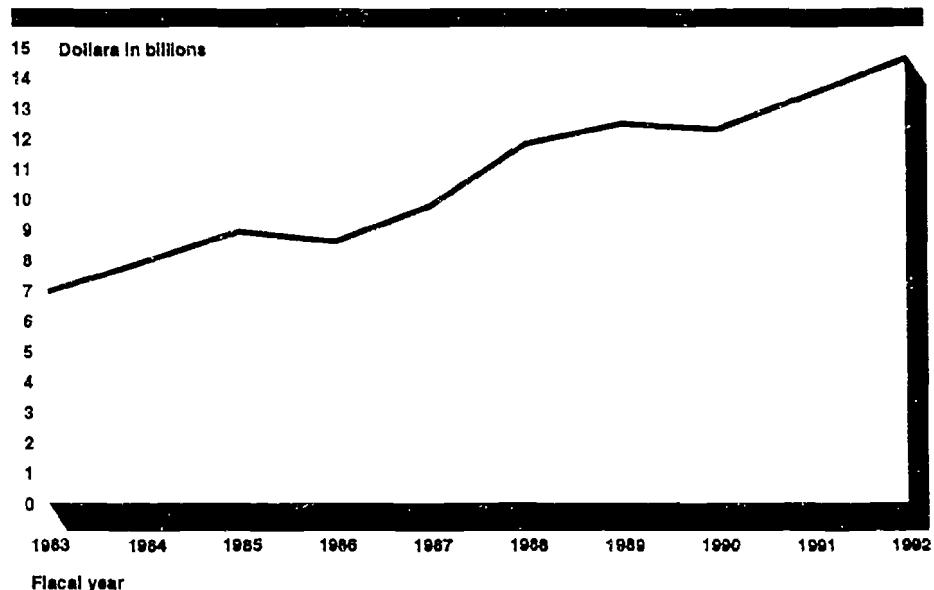
lenders.³ The Department discontinued making new direct guarantees in 1984, and most of these loans have been repaid or, for defaults or other reasons, are no longer outstanding. Indirectly insured Federal Stafford loans comprised about 81 percent of outstanding guarantees at September 30, 1991, and directly insured Federal Stafford loans accounted for less than 1 percent.

The remaining 18 percent are other types of loans intended to enhance students' opportunities for postsecondary education. Two of these loans are the Federal Parent Loans for Undergraduate Students (PLUS) and Federal Supplemental Loans for Students (SLS). Federal PLUS loans are made to parents of dependent undergraduate or graduate students. Federal SLS loans are made to graduate and professional (e.g., law and medical school) students, independent undergraduate students, and certain dependent undergraduate students. Federal PLUS and Federal SLS loans, which comprised about 13 percent of outstanding guarantees at September 30, 1991, are currently insured by the federal government through guaranty agencies.

The number of new loans made annually increased from 89,000 loans for \$73 million in 1966 to over 5 million loans for about \$14.6 billion in 1992. The Department estimates that over 22 million students have received guaranteed student loans. Because of the Higher Education Amendments of 1992, which expanded the availability of loans, we believe the program will continue to grow during the 1990s. Figure 1.1 depicts the growth in the program over the last 10 years.

³For the purposes of this report, lender refers to any bank, savings and loan, or other entity making or holding a federally guaranteed student loan.

Figure 1.1: Annual Loan Guarantee Volume for Fiscal Years 1983-92



Program Participants

The borrower, usually the student, initiates the loan process by providing eligibility information to the school and applying for a loan from a participating lending institution, which then forwards the application to the appropriate guaranty agency for approval. If the guaranty agency approves the loan, the lender generally disburses the loan amount. This process is largely automated and the student's principal contact is with the school's financial aid officer. Most students receive below-market interest rates for their loans as a result of a subsidy paid by Education to the lender. So that the lender continues to receive a return equivalent to current market rates, this subsidy is increased or decreased, on a quarterly basis, throughout the life of the loan as interest rates fluctuate. Generally, the student makes no payment of principal or interest while in school or during the grace period (a specified period after graduation) or authorized deferment period (e.g., unemployment). During this time, the government pays the lending institution not only the interest rate subsidy, but also the interest that would be owed by the student. When the student completes or otherwise leaves school, he or she is responsible for repayment of principal and interest, and, for most loans, the government continues to pay the interest rate subsidy.

After a student applies for a GSLP loan, the participating school is responsible for verifying the student's eligibility and determining that the loan amount does not exceed the student's cost of attendance. Over 7,500

schools participate, including 2- and 4-year public and private institutions and proprietary (for-profit trade) schools. Education can terminate access to GSLP loans at schools with a history of high default rates and for other reasons.

About 8,000 lenders participate in the program. Under the program's requirements, the lender must exercise proper care in making, servicing, and collecting loans. The lender also pays an origination fee to the Department and in most cases an insurance premium to the agency guaranteeing the loan. Lenders normally deduct the cost of these fees from the loan amounts disbursed. The lender generally bills the Department quarterly for the federal interest subsidy payment, which usually includes the student's share of interest for the loans it holds while the student is in school or in the grace period or other authorized deferment. If the borrower fails to make required payments, the lender must perform prescribed default claim prevention and collection procedures (known as due diligence). If these efforts are unsuccessful, the lender files a default claim with the guaranty agency. The lender cannot be reimbursed for its claim until a borrower has been delinquent for at least 180 days, and unless the lender has performed all required due diligence procedures.

Guaranty agencies encourage lender participation by paying lenders for losses on behalf of Education and thus increasing loan availability to students. Specifically, they (1) issue guarantees to lenders on qualifying loans so that if a borrower fails to repay his or her loan due to death, disability, bankruptcy, or default, the lenders can be paid for their claims, (2) oversee lenders' management of insured loans including verifying that lenders properly serviced and attempted to collect loans before paying default claims, (3) pay lenders for losses caused by death, disability, bankruptcy, or default, and (4) attempt to collect loans from borrowers who defaulted.

The role of the guaranty agencies has changed as the program has evolved. Originally, state and private nonprofit guaranty agencies were expected to operate their own student loan programs, and the programs were to involve minimal federal funding. With respect to guaranty agencies, the federal function was to have been one of sharing in the cost by supplying a portion of the funds needed to support guaranty agencies in operating these programs. However, financial backing from the states was virtually nonexistent from the outset and many did not establish guaranty agencies. The number of guaranty agencies varied between 17 and 26 until the Higher Education Act Amendments of 1976.

These amendments required Education to assume virtually 100 percent of program costs, while still requiring a network of guaranty agencies to help administer the program. During the 5 years following this change, the number of guaranty agencies increased rapidly, growing to 50 by 1981. As of September 30, 1992, 46 guaranty agencies actively participated in the program. Many of these agencies confine their operations to administering the program for schools located in, or students who are residents of, the state in which they are chartered. Some, however, operate nationally. For example, one large guaranty agency, United Student Aid Funds, operates in all 50 states, Washington, D.C., and several U.S. territories.

Education can provide guaranty agencies start-up money and pays a 1 percent administrative cost allowance, which is based on the principal amount of the new loans the agencies guarantee in a fiscal year. The Department also reimburses guaranty agencies for their payments to lenders for defaulted loans and allows them to retain 30 percent of amounts collected on defaulted loans. Further, guaranty agencies charge lenders an insurance fee of up to 3 percent of the loans they make. To encourage guaranty agencies to prevent defaults, Education charges them a reinsurance fee of one quarter or one half of 1 percent of new loans guaranteed during the year based on the agency's default claims-paid rate. Guaranty agencies can also receive a payment of \$50 per loan for certain default prevention efforts.

Overall responsibility for the GSLP resides in the Department of Education's Office of Postsecondary Education (OPE). Its duties include day-to-day administration of the program, operating GSLP information systems, overseeing the activities of the various participants, and establishing program policies and procedures. OPE determines which schools can participate (commonly referred to as the "gatekeeping" function), establishes loan collection requirements for lenders and guaranty agencies, pays lenders interest subsidies, and reimburses guaranty agencies for default claims paid to lenders. OPE also accounts for GSLP operations and reports those results to the Department's Office of Management and Budget/Chief Financial Officer (CFO) office. This office is responsible for maintaining Education's department level accounting records, which are summarized in the Department's general ledger, and reporting the financial results of all of Education's programs to OMB and the Department of the Treasury.

GSLP Systems

The financial transactions related to GSLP loans are recorded in several subsidiary accounting systems⁴ maintained by OPE. During fiscal year 1992, these systems were operated by Education's contractor, National Computer Systems in Arlington, Virginia, and Iowa City, Iowa. On October 1, 1992, E-Systems in Greenville, Texas, became Education's computer processing support contractor. Guaranty agencies and lenders submit monthly and quarterly billings and reports to the contractor for processing. Billing information and other financial data are transmitted from these subsidiary systems to Education headquarters in Washington, D.C., where the data are entered into the Department's general ledger.

Objectives, Scope, and Methodology

The objective of our review was to assess the Department's internal controls over the GSLP in preparation for our audit of the program's fiscal year 1992 financial statements. Specifically, we assessed controls over

- the timeliness and accuracy of billings and other data submitted to Education by guaranty agencies and lenders,
- Education's financial reporting on the GSLP, and
- the information systems of the GSLP maintained by Education and its contractor.

During the course of our audit, we became aware of a number of issues that related to Education's ability to properly manage the program as currently structured. We discussed these issues with officials at Education and at a number of the guaranty agencies. We also reviewed our previous reports on the GSLP as well as those by Education's Office of the Inspector General (OIG) and Education's Federal Managers' Financial Integrity Act (FMFIA) task teams for fiscal years 1989 through 1991. Our methodology is discussed in appendix I.

Our work was performed at

- the Department of Education headquarters in Washington, D.C.;
- National Computer Systems offices in Arlington, Virginia, and Iowa City, Iowa;
- 10 guaranty agencies (United Student Aid Funds in Indiana, California Student Aid Commission, Pennsylvania Higher Education Assistance Agency, New York State Higher Education Service Corporation, Texas Guaranteed Student Loan Corporation, Massachusetts Higher Education

⁴See GAO/AFMD-92-26ML, January 31, 1992, for detailed information on GSLP systems and their operations.

Assistance Corporation, Great Lakes Higher Education Corporation in Wisconsin, Illinois Student Assistance Commission, Ohio Student Loan Commission, and the State Education Assistance Authority in Virginia), and

- 46 lenders participating in the GSLP.

The Department provided comments on a draft of this report. These comments are presented and evaluated in chapters 2 through 5 and are included in appendix II.

Our work was performed from June 1991 through September 1992 in accordance with generally accepted government auditing standards and OMB Bulletin 91-14, Audit Requirements for Federal Financial Statements.

Oversight of Guaranty Agencies and Lenders Was Limited

Education did not have adequate controls and procedures to ensure that it received the financial information needed from guaranty agencies and lenders to effectively manage the GSLP. Specifically, guaranty agency and lender reports on the results of GSLP operations were often late, Education often did not perform needed reconciliations between reports, and Education did not always promptly resolve problems identified with reported data. Education relied on these data to (1) pay default claims, interest subsidies, and administrative cost allowances totaling about \$5 billion in 1992 and (2) calculate the \$6.1 billion it reported as its liability for guaranteed loans outstanding as of September 30, 1991. Education's liability estimate is discussed further in chapter 3.

Also, although guaranty agencies operate with the same basic program objectives and criteria, they do not use standardized loan information systems. Independent system development efforts, for which the Department will ultimately pay, may impair the Department's ability to effectively oversee guaranty agency activity.

Education plans to improve its monitoring of guaranty agencies and lenders by hiring more financial managers; providing better training for its program reviewers; expanding the scope of its reviews of guaranty agency and lender operations; and implementing a new loan management system, known as the National Student Loan Data System, by the end of 1993.

Inadequate Oversight of Guaranty Agencies

Education's internal controls did not provide reasonable assurance that financial information and other data received from guaranty agencies were accurate or that discrepancies in reports were resolved promptly. In addition, data from the guaranty agencies were not received in a timely manner. The combined effect of these problems was that Education had markedly reduced assurance that program outlays were accurate.

Reporting Discrepancies Not Identified and Resolved

Education officials told us they relied on reviews by the Department's program review teams and audits of guaranty agency financial statements by the agencies' external auditors to provide assurance that data reported by the guaranty agencies were accurate.¹ The 10 guaranty agencies we visited had all been reviewed during 1990 or 1991 by Education's program review teams and had their fiscal year 1991 or 1992 financial statements audited by external auditors. However, none of these efforts adequately

¹As recently amended, the Higher Education Act requires guaranty agencies to obtain independent financial and compliance audits at least annually. Prior to amendment, the act required such audits at least once every 2 years.

**Chapter 2
Oversight of Guaranty Agencies and Lenders
Was Limited**

tested the accuracy of the billings and reports of the guaranty agencies or assessed related internal controls.

Internal memorandums and our discussions with Education officials confirmed that Education's program review teams concentrated on determining whether the guaranty agencies were complying with requirements for preventing default claims and collecting on defaulted loans and on determining the solvency of guaranty agencies. The external audits of the guaranty agencies' financial statements focused on the broad objective of determining whether financial statement balances were fairly and reasonably presented. These audits were not intended to address (provide positive attestation on) the accuracy of individual billings and reports submitted by the guaranty agencies to Education or to opine on the internal controls over the development of the bills and reports.

We identified a number of errors in data submitted by 9 of the 10 guaranty agencies we visited. For example, one guaranty agency we visited overstated loans guaranteed during the third quarter of fiscal year 1991 by more than \$30 million, or 60 percent, due to basic clerical errors. At this agency, controls did not exist to detect such errors, and the quarterly report was not reviewed by a supervisor before its submission to the Department. This overstatement of loan guarantees could have resulted in Education overpaying the guaranty agency about \$300,000 in administrative cost allowances. The error was corrected after we brought it to the attention of the guaranty agency and Education.

We also found that the reviews of guaranty agencies did not identify or resolve significant differences among various monthly, quarterly, and annual bills and reports submitted to Education by guaranty agencies.

- Agencies submit monthly billings to Education on default claims and collections. Education uses these reports to determine amounts due guaranty agencies and to account for this activity.
- Agencies submit quarterly reports that provide cumulative totals on default claims paid and new loans guaranteed. By comparing quarterly reports, Education can determine the guaranty agency's activity for an individual quarter. Education then uses this information as the basis for calculating administrative cost allowances owed to, and reinsurance fees owed by, guaranty agencies.
- Finally, agencies submit annual tape extracts or "dumps" of selected information on each Federal Stafford, Federal PLUS, and Federal SLS loan guarantee issued by the agencies as of September 30 of that year, including

the borrower's name and social security number, net amount guaranteed, loan status, and enrollment status. Education uses tape dump data for a variety of analyses, including financial and budgetary estimates and program trend projections.

Discrepancies in the cumulative totals reported on the quarterly reports and the tape dump raise questions about data accuracy and completeness. We found unreconciled differences at all 10 of the guaranty agencies we visited. For example, differences between guarantees reported by guaranty agencies on their September 1991 quarterly report and guarantee amounts in their tape dumps for the same date ranged from \$6 million to \$212 million per agency. None of the 10 guaranty agencies we visited reconciled quarterly and yearly data and only one reconciled its monthly bills to its quarterly reports submitted to the Department.

In addition, we found that guaranty agencies made little effort to verify the accuracy of tape dump information before it was submitted to Education. None of the guaranty agencies we visited routinely researched and corrected erroneous data in the tape dump before submitting it to Education. For fiscal year 1991, only 16 of the 46 guaranty agencies' tape submissions were accepted when first submitted. We compared the information on tape dumps submitted to Education with guaranty agency source documents for 30 randomly selected loans and found that 19 had errors in the reported status of loans and student enrollment. In a separate test of tape dump data on 30 randomly selected loans in default, we found that 10 had errors in the reported status of loans, student enrollment, and claims paid to lenders. In a December 1990 report,² we also reported that the tape dump data were unreliable. In that report, we recommended that the Department require guaranty agencies to correct these data. The importance of these data will be even greater in the future with the implementation of the National Student Loan Data System, discussed later in this chapter.

Guaranty Agencies Did Not Report Loan Information Promptly

Of the 10 guaranty agencies we reviewed, 2 did not submit their final 1991 monthly billing until after Education's fiscal year 1991 cut-off date. This late reporting resulted in these agencies receiving a higher than appropriate reimbursement for defaults. As an incentive for guaranty agencies to minimize loan defaults, Education reduces a guaranty agency's reimbursement for default payments as default percentages rise. Simply

²Stafford Student Loans: Millions of Dollars in Loans Awarded to Ineligible Borrowers (GAO/IMTEC-91-7, December 12, 1990).

stated, when default claims reach 5 percent of the guaranty agency's prior year loans-in-repayment³ balance, the reimbursement rate is reduced from 100 percent to 90 percent of the claims subsequently made during that fiscal year. If default claims reach 9 percent, the reimbursement rate is lowered to 80 percent. By delaying the submission of bills from one fiscal year to the next, especially when these thresholds are approached, agencies can avoid, at least temporarily, reporting default totals to Education that would exceed these "trigger figures," thereby keeping their reimbursement rate at higher levels. Both of the guaranty agencies we reviewed that submitted reports after the year-end cut-off date would have been reimbursed by Education at a lower rate if they had reported on time. However, under the Higher Education Amendments of 1992, guaranty agencies must file a claim for reimbursement within 45 days of paying the claim from a lender.

In addition, 6 of the 10 agencies submitted their year-end quarterly reports late—one nearly 2 months late. Such late reporting makes it impossible for Education to determine the amount of administrative cost allowance due to, and reinsurance fees owed by, guaranty agencies and accurately report on other program costs in a timely manner.

Further, Education did not always receive annual tape dump data in a timely manner. Guaranty agencies are required to submit tape dumps to Education within 60 days after the fiscal year-end. Five of the 46 guaranty agencies did not submit their tapes within this time limit for the fiscal year 1991 tape dump. As a result, the Department did not have the most current data to use in making estimates of loan guarantee subsidies. Delays were compounded by errors detected by Education's edit processes. Education returned a number of guaranty agency tapes, some of them several times, before they passed all edits. The delays resulted in Education not having all the data to prepare a consolidated tape dump, which it needs for analysis of total program costs, for fiscal year 1991 until February 1992.

Inadequate Reviews of Lenders' Reports

Most major lenders prepare annual financial statements which are then audited by independent public accountants.⁴ However, these audits are designed to express an opinion on the financial position and results of

³Loans-in-repayment represents the total amount of loans originally guaranteed by an agency that are currently in repayment status. Guaranty agencies do not receive interim repayment data from lenders; therefore, amounts repaid by borrowers are not deducted until the loan has been paid in full. Thus, the balance reported for loans-in-repayment is higher than the true outstanding balance.

⁴Under the Higher Education Amendments of 1992, lenders are required to obtain independent compliance audits at least once a year.

operations of the lenders as a whole and are not specifically designed to assess the accuracy of the billings and other data submitted to the Department. Instead, the Department primarily relies on guaranty agency reviews of lenders to provide assurance that these data are accurate. However, these reviews were not comprehensive enough to provide such assurance.

**Lender Activity Not
Comprehensively
Reviewed**

Guaranty agencies' reviews of lenders' loans portfolios had scope limitations that limited the value of these reviews in detecting problems with billings to the Department. Lender billings to Education often include loans guaranteed by several different guaranty agencies. However, the guaranty agencies we visited limited their reviews to the loans they guaranteed. They also did not coordinate their reviews with other guaranty agencies who might have guaranteed loans at the same lender to maximize the value and effectiveness of these oversight efforts. Because they focused exclusively on their own guarantees for review, they could not project an estimate of the accuracy of a lender billing and thus could not provide the Department with assurance that these billings were accurate.

**Inadequate Controls Over
Origination Fees Due**

Accurate data on loan sales and purchases are crucial in ensuring that all loan origination fees are collected. Lenders generally bill Education for interest subsidies and report loan origination fees due quarterly. They are required to pay Education loan origination fees of 5 percent on new Federal Stafford⁶ loans when the loan is disbursed. By law, these origination fees must be offset against interest subsidies owed to the lenders by Education on the quarterly billings. At the time of our review, lenders were instructed by Education to submit these billings to Education within 90 days of the end of the quarter. However, we found that Education has done little to enforce this 90-day deadline and that delays were common. For example, 1,693 of 11,294 lender billings for the quarter ended March 30, 1992, were not submitted within the required 90-day time frame and 1,322 of these had not been submitted after 180 days. Education does not impose penalties for late bills or assess interest penalties for unpaid origination fees, in part, because it does not pay interest subsidies until a lender submits a bill.

One possible reason for delayed billings is that the lender may owe more in origination fees to Education than the amount it is owed for interest

⁶Lenders may pass on to the borrower the cost of loan origination fees charged by the Department. The Higher Education Amendments of 1992 require lenders to charge borrowers origination fees on PLUS and SLS loans.

**Chapter 2
Oversight of Guaranty Agencies and Lenders
Was Limited**

subsidies—a billing would show that the lender owed Education money. In a February 1990 management improvement report, Education's OIG reported that two lenders had not paid Education substantial amounts of origination fees—one lender had held about \$4.4 million of origination fees for 6 quarters and another had not submitted about \$5.5 million for about 2 years.

In a July 1992 report,⁶ we estimated that because, in part, Education did not require lenders to report until 90 days after the end of a quarter, the Department did not receive origination fees until an average of 131 days after Federal Stafford loans were disbursed by lenders. We estimated that as a result, the federal government was losing at least \$10 million annually in interest costs because it had to borrow funds that should have been collected from lenders in origination fees in a more timely manner. In that report, we recommended that the Congress repeal the provisions in the Higher Education Act, as amended, that require Education to collect origination fees by offsetting interest subsidy payments to lenders and instead require lenders to submit origination fees within 15 days of a Federal Stafford loan disbursement. These recommendations, if acted on by the Congress and implemented by Education, should help in alleviating the problem of lenders not submitting loan origination fees they owe to Education in a prompt manner.

In addition, lenders sometimes sell loans before paying the related origination fees, and Education's regulations provide that either the seller or the buyer can pay the fee. However, lender billings do not contain detailed information on individual loans, and lenders are not required to inform Education who is responsible for paying the fee for a particular loan. As a result, Education did not have the information needed to detect the nonpayment of origination fees when loans were sold.

We found that total reported loans sold differed from total reported loans purchased in every quarter of fiscal year 1991, by amounts ranging from \$155 million to \$861 million, and that Education had not investigated or reconciled the differences. Although some of these discrepancies might have been due to differences in the timing of reports from lenders, to the extent these differences are attributable to loan sales not being reported, they could result in Education not receiving millions of dollars of loan origination fees owed by lenders.

⁶Stafford Student Loans: Prompt Payment of Origination Fees Could Reduce Costs (GAO/HRD-92-61, July 24, 1992). The estimates in this report were based on an analysis of 1989 data.

Auditors' Attestation Would Provide Greater Assurance That Bills and Reports Were Accurate

As previously discussed, Department and external auditors do not conduct in-depth examinations of the accuracy and validity of guaranty agencies' and lenders' claims for defaulted loans and interest subsidies. Generally, these audits also do not provide a positive attestation to the claims submitted or to the adequacy of the guaranty agencies' and lenders' internal controls over such claims. As a result, Education has little assurance that the bills it pays are correct. Requiring guaranty agencies and lenders to obtain such assurance from an independent auditor would provide a meaningful front line of defense for the Department—helping to ensure that these entities maintain strong internal controls and properly report their GSLP activities.

Internal controls are the policies and procedures established by management to provide reasonable assurance that specific objectives are achieved. Internal control objectives include ensuring reliability of financial records, compliance with laws and regulations, and safeguarding assets. Currently, neither the Higher Education Act, as amended, nor its implementing regulations require guaranty agencies, lenders, or auditors to provide positive assurance on the effectiveness of a guaranty agency's or lender's internal controls.

Further, we believe that auditors have a basic responsibility to protect the interests of the government when auditing federally funded programs. Auditors should take an active role in assisting Education, guaranty agencies, and lenders in identifying, preventing, and correcting problems in financial reporting and internal controls. This expansion of the auditor's role is in keeping with our belief that audit firms should assume greater responsibility when accepting audit engagements for federally funded programs. We have also taken this position on audits of federally insured entities such as savings and loan institutions, banks, and pension plans.

Some Questioned Costs Not Resolved Promptly

We identified two instances in which Education had not resolved external auditors' findings or its own audit findings in a timely manner. As a result, collections from guaranty agencies and lenders were delayed. Federal internal controls standards require managers to promptly evaluate findings reported by auditors, determine proper corrective actions, and take actions such as collecting amounts owed in a timely manner.

During our guaranty agency and lender reviews, we noted that payments totaling over \$900,000 by Education to one guaranty agency had been questioned by the guaranty agency's external auditors in audit reports for

the period from June 30, 1987, through June 30, 1989. The auditors primarily questioned costs associated with (1) defaulted loans that had been repurchased by lenders and (2) discrepancies in the amounts reported as new loan volume. Although some of the costs giving rise to the payments had been reported as questionable since fiscal year 1987, Department officials took no substantive action to resolve the findings until we brought it to their attention in December 1991. After negotiating with the guaranty agency, Education received payment of \$601,500 in settlement of these questioned costs in September 1992.

Also, a 1990 program review disclosed that due to a computer programming flaw, a guaranty agency/loan servicer owed Education from \$778,000 to \$2.3 million for improperly calculating interest subsidies owed by the Department. As with the previous example, no substantive resolution action was taken until we brought this matter to the Department's attention. This finding was finally resolved in August 1992, when the guaranty agency/loan servicer paid the Department \$778,000. Education officials told us that they did not initiate resolution actions promptly because heavy work loads and high staff turnover led to delays.

Redundant Investment in Guaranty Agency Systems

Although guaranty agencies all operate with the same basic program objectives and criteria, at least 4 of the 10 guaranty agencies we reviewed were independently developing new loan information systems or upgrading their current systems. For example, the Pennsylvania Higher Education Assistance Authority and the Student Education Assistance Authority in Virginia were each planning to spend millions of dollars on separate new systems that will perform the same functions. In addition, Pennsylvania was using its current system to service part of Virginia's loan guarantee portfolio. However, Education did not review or approve guaranty agencies' system development efforts.

Such independent system development efforts may not be an efficient use of Education's funds and may impair the Department's ability to oversee guaranty agency activity effectively. Although guaranty agencies generally pay for system development efforts from their reserves, inefficient use of these reserves reduces funds available to cover defaults and other costs of the program.

Actions Under Way to Improve Program Oversight

During the course of our audit, we observed a clear commitment by top Education management to cooperate with OMB, Education's OIG, and us in identifying and correcting longstanding problems with its oversight of guaranty agencies and lenders. Education has already taken the initial steps to develop the National Student Loan Data System (NSLDS), reorganize OPE, and develop a plan for improving oversight of guaranty agencies. Although these efforts could significantly improve Education's ability to manage the program, we identified several problems that may hinder successful implementation of the NSLDS.

National Student Loan Data System

Education is currently developing the NSLDS, a national data base of loan-by-loan information on approximately 40 million loans awarded to borrowers under Title IV of the Higher Education Act of 1965, as amended, which includes the GSLP. Such information is not readily available using the tape dump. Education plans to have the system updated weekly based on information received from guaranty agencies, lenders, and schools. As a result, it will provide Education and the guaranty agencies with detailed current information throughout the year. The NSLDS, estimated to cost tens of millions of dollars, was authorized by the Higher Education Amendments of 1986, but specific funding was not provided until 1989.

The Department expected to implement the first phase of the system in December 1993. This first phase will allow Education to prescreen applicants to identify those (1) who may have previously defaulted and (2) whose current loan application would cause them to exceed the cumulative loan limits. This prescreening of applicants is expected to save \$800,000 per day in grants and loans to ineligible students based on Education's OIG estimates. Subsequent phases are to provide the Department with loan information administration and research support as well as information to respond to ad hoc inquiries by the Congress, OMB, and others regarding program delivery and effectiveness. A Request For Proposals to design, develop, and operate the system has been issued. However, as of December 31, 1992, a contractor had not yet been selected.

Inaccurate Data to Support NSLDS

Our primary concern with the NSLDS is that the data initially entered in the system will be erroneous. Education has included in its Request For Proposals a process to prevent erroneous data such as student loan status, student identification, and the bank currently holding the loan from being entered after the system becomes operational. However, this process does not specifically provide for validation of the system's initial input, which includes the large volume of loan guarantee data reported on the tape

dump. This condition could result in a multi-million dollar system that would not fully realize its objectives because it is supported by inaccurate data.

To address problems with tape dump data, in March 1992, Education initiated reviews at the guaranty agencies to better understand the problems with the reported data. At each guaranty agency, the Department is reviewing a judgmental sample of at least 20 borrowers. These reviews were completed in January 1993 and the Department is in the process of analyzing the results. Education officials informed us that preliminary results at 14 guaranty agencies have confirmed inaccuracies in data elements such as the date loan repayment is to begin (known as date-entered-repayment), enrollment status, and default value. These data elements are important in developing loan subsidy estimates for financial reports. Education found that inaccuracies occurred because some guaranty agencies were not using current loan status data received from the lenders or schools and instead were recording estimates for certain data elements. Education found that the date-entered-repayment data element was incorrect for all 130 files it reviewed at one of the largest guaranty agencies.

Inadequate Staff Development Resources

Education may not have a sufficient number of technically trained staff to manage the development effort. This project, as defined in the original Request For Proposals, was expected to be technically much more complex than efforts to develop existing Education systems and very broad not only in terms of the number of business functions included in the first phase but also in terms of the requested software and hardware architecture. Typically, development of such complex systems involves responding to hundreds of technical questions raised by prospective offerors. Education officials told us that they had received about 300 questions on the NSLDS Request For Proposals. In our discussions with the Education officials responsible for managing the project, it became clear to us that, in many respects, they did not have sufficient staff with the technical expertise to resolve all such questions themselves. Subsequent to the issuance of the Request For Proposals, Education modified its requirements and eliminated certain features to reduce the technical risks. In addition, in late fiscal year 1992, Education began hiring 10 staff members with relevant technical expertise who are expected to assist with NSLDS. However, as the project progresses, numerous additional technical issues are likely to arise. Given the complex communications, data base, and data conversion effort involved, we believe that the staff currently

assigned may still have difficulty producing a successful system by the initial target date.

Time Frame Is Not Reasonable

Based on our experience in reviewing system development efforts, we believe it will be difficult for Education to meet the December 1993 implementation date. A number of significant tasks must be completed before a detailed design can be finalized. For example, Education has not determined (1) how existing erroneous tape dump data will be corrected before being entered in the new system and (2) what reports users will need from the system. After the system design is finalized and the system software is developed, system testing and user training, which are often time-consuming, must also be completed. In light of these tasks, we believe that a target date could be more accurately estimated after Education has selected a contractor and completed a detailed system design. The risk of focusing on a desired conversion date may be that the system is placed in initial operation to meet the target date without adequate opportunity to address the data quality problems and adequately test the system to ensure that it operates as intended.

**Other Actions to Improve
Oversight**

In response to a 1991 joint study by OMB and Education which concluded that "management practices" contributed to weaknesses in the student aid programs, the Department recently completed a major reorganization of OPE to better administer and oversee Education's student financial aid programs. A new unit, exclusively responsible for oversight of guaranty agencies, lenders, and loan servicers, was established within OPE in August 1992. Its seven financial analysts and two program analysts comprise the guarantor and lender oversight teams whose goal is to monitor solvency issues, guaranty agency compliance with program requirements, management capacity, and other key factors affecting the health of guaranty agencies.

Also, to reduce the likelihood of awarding loans to previously defaulted borrowers, the Department, in response to a recommendation in our December 1990 report, sent tapes listing all those who had defaulted on GSLP loans to all guaranty agencies for matching prior to approving new guaranteed loans. Subsequent to a recommendation by Education's OIG, the Department also began matching names and social security numbers on the default tape with applicants for new Pell Grants. According to Education's OIG, these two actions should result in reduced program costs of approximately \$300 million annually by preventing ineligible persons from receiving GSLP loans or Pell grants.

OPE is also reviewing guaranty agency information to identify defaulted loans that should be assigned to the Department for collection. In July 1991, Education required guaranty agencies to assign defaulted loans meeting certain criteria to Education for collection 3 years after default rather than 5 years. These criteria included provisions on when the last collection had been made and how much had been collected. Education took this action because it believes it will collect more on these loans than the guaranty agencies. As of September 30, 1992, Education stated that it had received about 250,000 out of an estimated 540,000 loans that should have been returned. Some of the guaranty agencies requested waivers or have otherwise avoided assigning the loans to the Department for collection because to do so could have an adverse impact on their revenue from collections. Education's guaranty agency oversight teams are planning follow-up actions to ensure guaranty agency compliance with loan assignment. However, the Higher Education Amendments of 1992 require Education to evaluate an agency's collection efforts before demanding assignment of loans to the Department.

Conclusions

The numerous errors and discrepancies in billings and reports used by the Department to manage the program has led to program losses. Much of this was attributable to Education not having the necessary internal controls to ensure that bills from lenders and guaranty agencies were accurate or to ensure that it received all origination fees owed. Education's management has recently begun focusing more attention on the oversight of guaranty agencies and lenders and has initiated some corrective actions. The Department faces many challenges in addressing these issues in the near future, including correcting the data that are expected to be the initial input into the NSLDS. We reaffirm our previous recommendation that the Department require guaranty agencies to correct this data. How the Department meets this challenge will have a significant impact on the usefulness of this system.

Recommendations

We recommend that the Congress amend the Higher Education Act to require that originating lenders pay loan origination fees even if the loan is subsequently sold to another lender.

We recommend that the Secretary of Education direct the Assistant Secretary for Postsecondary Education to:

- require that guaranty agencies and lenders annually provide Education an independent public accountant's positive attestation on the claims for payment submitted to the federal government, and the basis for such attestation, including an opinion on the adequacy of internal controls over such claims;
- test billings from guaranty agencies and lenders as part of its internal reviews;
- require staff to follow up on questioned costs and other amounts owed based on reviews of guaranty agencies and lenders within a designated period of time from the time findings are reported;
- study the feasibility of requiring guaranty agencies to standardize their GSLP loan accounting systems; and
- reassess and, if appropriate, adjust the NSLDS implementation date after completion of a detailed system design.

Agency Comments and Our Evaluation

In its response, the Department agreed with our recommendations to improve oversight of guaranty agencies and lenders. Regarding our recommendation on amending the Higher Education Act to require that originating lenders pay loan origination fees even if the loan is subsequently sold to another lender, the Department concurred and stated that it believes the act should also be amended to require that guaranty agencies collect origination fees from lenders and forward the fees to the Department when they submit their monthly billings. Monthly collection of origination fees from the originating lenders would provide the Department with greater assurance that all origination fees are collected in a more timely manner.

Regarding our recommendation to require that guaranty agencies and lenders annually provide Education an independent public accountant's positive attestation on the claims for payment and related internal controls, the Department agreed with our recommendation in principle. Education plans to work with its OIG to ensure that billings are specifically tested and other steps in this area are strengthened in future audits of guaranty agencies and lenders. It also commented that to implement our recommendation for an opinion on the adequacy of internal controls over guaranty agency claims would require OMB to revise Circulars A-128, Audits of State and Local Governments, and A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.

We believe that the Department can implement our recommendation for an independent auditor's opinion on internal controls over guaranty

agencies' claims by relying on its broad statutory authority to require guaranty agencies to submit information necessary for the Department to carry out its functions. We view a requirement for guaranty agencies to submit such an opinion as being independent of the separate statutory requirement that guaranty agencies obtain annual independent financial and compliance audits. Accordingly, we believe that Education may require an opinion on internal controls over claims without such an opinion being incorporated in the OMB guidance under which financial and compliance audits are usually performed.

The Department agreed with our recommendation that it test billings from guaranty agencies and lenders as part of its internal reviews. The Department stated that the National Student Loan Data System will include reasonability tests of billings and, subject to availability of resources, regional offices will conduct reviews of lenders and guaranty agencies, including the testing of billings. However, since the NSLDS has not yet been developed, we believe that interim steps should be developed to test such billings.

Regarding our recommendation that the Department require staff to follow up on questioned costs within a designated period, the Department agreed and stated that it has set a goal of resolving all existing overdue audit findings from guaranty agencies by March 1993. The deadlines for audit resolution referred to in Education's response are those promulgated in OMB Circular A-50, Audit Followup, which requires audit resolution in 6 months. Education stated that this deadline has often been missed due to staff limitations, and this condition may be exacerbated in the future due to the increase in required audits of guaranty agencies and lenders. The Department said that it will work with its OIG to see if different approaches, priorities, and/or ideas can contribute solutions to this problem.

In response to our recommendation to study the feasibility of requiring guaranty agencies to standardize their GSLP loan accounting systems, the Department stated that it will address this issue as part of its comprehensive guaranty agency study, which is discussed in chapter 5.

Education agreed with our recommendation to reassess the NSLDS implementation date and has since advised us that the contract was awarded in January 1993.

Inadequate Financial Reporting

In addition to data quality problems which affect the reliability of its financial statements and reports, Education did not have adequate financial reporting processes. The Department's estimate of loan guarantee subsidies was not properly documented or reviewed and its general ledger was not supported by subsidiary ledgers nor was it reconciled to other supporting data on a timely basis. These control weaknesses, combined with questionable assumptions, further undermined the accuracy of reported (1) results of GSLP operations in its financial statements and (2) program costs in the budget. Although for fiscal year 1992 the Department made significant improvements in financial reporting for the GSLP, several critical weaknesses still existed.

Estimate of Loan Guarantee Subsidies Was Unreliable

For the first time since the program's inception, Education developed and reported a liability for the estimated costs to be incurred on outstanding guaranteed loans (referred to as loan guarantee subsidies) as of September 30, 1991. At \$6.1 billion, this was the most significant balance in the GSLP financial statements. Education developed its estimate of loan guarantee subsidies using a model based on an analysis of tape dump data, which were not reliable, and on a number of other assumptions about the program, some of which were not reasonable. We found that by using an overly optimistic assumption regarding collections on defaulted loans, Education significantly underestimated its liability. Based on our test work, we estimate that the cost of loan guarantee subsidies could have exceeded \$10 billion at September 30, 1991. The same data and assumptions were also used to prepare the estimates of the program's cost required to be included in the President's budget by the Federal Credit Reform Act.

Underlying Data Were Unreliable

Education's estimate of loan guarantee subsidies was based in part on assumptions derived from an analysis of the tape dump data submitted by guaranty agencies. Two of the key assumptions derived from these data and used to estimate guarantee subsidies are default rates by type of school and percentage of loan dollars outstanding for students remaining in school within a given year after disbursement. However, as discussed in chapter 2, reviews by GAO and Education found significant errors in tape dump data elements important to these assumptions (date entered repayment, enrollment status code, and default value), which raise questions about the accuracy of Education's estimate of loan guarantee subsidies. These data are used to estimate when and how much the Department will have to pay for interest subsidies and default and other

claims. Because of the number of errors found in the tape dump data there was significant risk that the assumptions in Education's model were materially inaccurate and that the estimate of loan guarantee subsidies as of September 30, 1991, was materially misstated.

**Preparation of Estimate of
Loan Guarantee Subsidies
Was Inadequately
Documented and
Reviewed**

Although the process for determining the estimate of loan guarantee subsidies was complex and the amount of the liability was material to the financial statements, Education did not adequately document its methodology for preparing the estimate. Education's estimate of loan guarantee subsidies was based on data and analyses prepared by four different offices within the Department with little coordination. Additionally, Education's CFO office, which has overall responsibility for the accuracy of financial reports, did not review the underlying assumptions used to derive the estimate.

Federal internal control standards require that all transactions and other significant events be clearly documented, properly reviewed, and readily available to authorized personnel. However, Education did not prepare formal working papers for subsequent review and evaluation of the estimate. Only informal notes, interviews, and files were available to support Education's estimate. Due to inadequate documentation of its methodology, the four offices involved could have interpreted or used the underlying assumptions in an inconsistent manner. Also, Education's CFO office did not independently review the estimate to assess the validity and accuracy of assumptions used in the model. Because of these control issues, we could not document the methodology and thus affirm or challenge the approach used to establish the estimated liability for loan guarantee subsidies.

We were, however, able to identify and test a key assumption that about 57 percent of the dollar amount of defaulted loans would be collected. This factor was substantially more optimistic than historical collection data that show that indirectly guaranteed loan recoveries were about 28 percent of the dollar amount of these defaulted loans. Education told us that one reason it used the higher estimate was that it expected more recoveries due to the requirement, imposed in July 1991, that guaranty agencies assign more of these loans to the Department for follow-up collection efforts, rather than having guaranty agencies continue their collection attempts. The Department assumed that it would collect more than the guaranty agencies were previously collecting. However, a 1990 study comparing the Department's collection efforts to those of the

guaranty agencies concluded that their collection performance is about equal. We believe that if the estimate had been properly documented and reviewed, this type of optimistic assumption would have been detected and revised and, therefore, the estimated liability for loan guarantee subsidies would have increased substantially. We recalculated the liability using the lower estimate for collections on defaulted loans and found that it increased the liability to over \$10 billion.

General Ledger Was Inaccurate and Formal Subsidiary Ledgers Were Not Maintained

Education's general ledger, the system containing accounting and fiscal information used to prepare financial reports, did not accurately reflect the GSLP's account balances. In its fiscal year 1992 FMFIA report, Education acknowledged that the general ledger could not be used to produce accurate and auditable financial statements. This condition resulted primarily because subsidiary records were not properly maintained and reconciled to the general ledger to detect errors.

Education also had not established formal subsidiary ledgers for GSLP activities. Instead, data from the GSLP systems were entered directly into the general ledger and supporting records were maintained by OPE. However, controls such as periodic reconciliations were not in place to ascertain that these data were entered into the general ledger properly. Education officials stated that financial data maintained by OPE were not reconciled to the general ledger primarily because Education's accounting policies did not specifically require it.

Reconciliations are necessary in order to maintain and substantiate the accuracy of the data reported in an agency's financial statements and reports. Federal accounting system standards require that general ledger balances be reconciled with subsidiary accounts and records in a timely manner. Additionally, they require that financial data produced by program offices or information systems be reconciled with comparable data in the general ledger.

Without timely reconciliations to detect and correct errors in the general ledger balances, the financial statements could be materially misstated. For example, due to years of not reconciling the GSLP cash accounts with Treasury balances, a \$1.1 billion adjustment, of which \$433 million could not be supported, was recorded to balance GSLP cash with Treasury's balance at September 30, 1991. Education officials said that this unsupported difference originated in prior periods—going back to the establishment of Education as a separate Department in 1980.

Also, abnormal balances, such as a credit balance in an account that should have a debit balance, were not resolved. For example, the nonfederal accounts receivable refunds account contained an abnormal negative balance of \$330 million as of September 30, 1991, when the balance should have been about \$14 million (positive). During fiscal year 1992, Education investigated this abnormal balance and found that it was due to various transactions posted to the wrong account.

Further, the appropriated capital account, which had a recorded balance of \$15.2 billion at fiscal 1991 year-end should have been about \$50 million. Education officials stated that this overstatement occurred because the appropriated capital account was not routinely updated to record program costs. We also found that the account was not reconciled with the budgetary accounts.

Since Education did not consider the general ledger to be reliable, it prepared several reports required by Treasury from other sources. For example, Education prepared the monthly Statement of Transactions (SF-224) reports using a separate data base rather than using the disbursement and collection register produced by the general ledger. Cash transactions were input to both the general ledger and the separate SF-224 data base. However, the fact that Education did not have an integrated system in which information was entered once and automatically posted to all appropriate accounts, increased the chance of input errors, which Education found was one reason for the discrepancies.

CFO's Office and OPE Working to Make Improvements

Education has recently made the accuracy of the financial statements and the underlying data a priority. This information has historically been unauditable because of the lack of an "audit trail" between summary level totals and supporting transactions. During fiscal year 1992, Education's CFO office and OPE reorganized in the two areas jointly responsible for financial reporting related to the GSLP and hired additional financial staff to oversee the development of new financial systems, improve financial reporting, and work on other financial management issues. During fiscal years 1991 and 1992, Education also contracted with a public accounting firm to help identify and correct weaknesses in the accounting systems and to reconcile the general ledger through fiscal year 1992. The Department has assigned personnel within Education's CFO office and OPE to assist in this project. The Department also has made numerous adjustments to correct identified problems in the general ledger and subsidiary accounts and records. Additionally, OPE is in the process of

hiring accountants and financial managers for a new Accounting and Financial Management Service staff within OPE. This staff is to be responsible for establishing and maintaining subsidiary ledgers and making other internal control improvements in the GSIP and other student financial aid programs.

Conclusions

Education's internal accounting controls over the GSIP data did not reasonably ensure the integrity and reliability of its financial management reports. The underlying data the Department used to prepare its estimate of loan guarantee subsidies was unreliable. However, even if the data had been accurate, Education lacked proper documentation and review of its methodology to prepare the estimate to ensure its accuracy. Additionally, Education had not instituted proper internal control procedures such as the establishment of subsidiary ledgers and regular reconciliation of data supporting the balances recorded in the general ledger to ensure that its financial data are accurate. Over the past year, Education's CFO office and OPE have taken steps that begin to address these problems.

Recommendations

We recommend that the Secretary of Education direct the Assistant Secretary for Management and Budget/Chief Financial Officer to develop written procedures detailing the methodology to be used to derive the estimate of loan guarantee subsidies and requiring that each year's estimate be fully documented and approved by the Department's CFO office.

We recommend that the Secretary of Education direct the Assistant Secretary for Postsecondary Education to establish and maintain subsidiary ledgers for the GSIP.

We also recommend that the Secretary of Education direct the Assistant Secretary for Management and Budget/Chief Financial Officer and the Assistant Secretary for Postsecondary Education to jointly develop procedures to ensure that the general ledger is periodically reconciled to subsidiary records maintained by OPE.

Agency Comments and Our Evaluation

The Department agreed with our recommendations and stated that it has reassessed the default collection rate component of its estimated liability for loans guaranteed prior to fiscal year 1992 and has lowered this rate to 34 percent. The Department also stated that it has written procedures

detailing its methodology. However, during our review we examined these procedures and found that they were summaries of what was done and not instructions on how to develop the estimate of loan guarantee subsidies.

The Department also noted that the NSLDS under development is to have the capability of replacing the tape dump as the source of data for estimating the Department's liability for loan guarantee subsidies. However, as discussed in chapter 2, if the NSLDS is to fully realize its objectives and be a useful tool for financial analysis, the Department must ensure that the tape dump data initially input into the system are corrected.

In regard to our recommendation that OPE establish and maintain subsidiary ledgers for the GSLP, the Department concurred and stated that it plans to implement an interim subsidiary ledger package in fiscal year 1993. It will also develop a task order to analyze a number of software packages to meet its long term needs.

In regard to our recommendation that the CFO office and OPE jointly develop procedures to ensure that the general ledger is periodically reconciled to subsidiary records maintained by OPE, the Department stated that its procedures will be modified and improved when the subsidiary ledgers referred to in the previous recommendation are implemented. Although at the time of our review, Education had a monthly reconciliation process in place, it had not identified and corrected all the transactions that created the differences.

General Controls Over Information Systems Were Not Functioning as Designed

Our review of general controls over information systems included reviewing changes to application and system software, system development design practices, segregation of duties, telecommunications, disaster recovery and contingency planning, and data security. These are considered general controls since their presence impacts the overall effectiveness of applications processed as opposed to being unique to any specific application. Our testing showed that controls over telecommunications and system software installation were effective. We found, however, that controls over application design, changes to application software, and data security were either not adequate or not functioning as designed. In addition, plans for disaster recovery were incomplete. The risks associated with these weaknesses are

- information may not be processed in accordance with agency policies, user requirements, or regulations;
- individuals may gain unauthorized access to data;
- unauthorized changes to application software or data can occur; and
- interruptions in program activities can occur or require costly recovery procedures.

The specific applications Education uses to provide financial statement information are shown in table 4.1.

Table 4.1: GSLP Applications and the Related Primary Processing Functions

Applications	Primary processing functions
Guaranty Agency Monthly and Quarterly Application	Reimbursing guaranty agencies for claims paid net of reinsurance fees and their reported collections on defaulted loans owed to Education and providing compensation to the agencies for administrative costs.
Interest and Special Allowance Application	Paying lenders for interest subsidies net of their reported loan origination fees owed to Education.
Federally Insured Student Loan Application	Paying lenders for claims on defaulted loans.
Stafford Tape Dump Application	Providing loan level detail of current year student defaults and individual loan guarantees outstanding.
GSL Utility	Summarizing activity for input to general ledger and scheduling payments due lenders and guaranty agencies via the Treasury payment system.
Debt Management and Collection Application	Processing collections on loans that are assigned to Education.

All of the above applications were designed and processed by Education's contractor. However, Education personnel were responsible for the definition of functional requirements for new or changed applications, testing and acceptance of software, and security administration.

Applications Change Controls Were Not Adequate

The most significant weakness we identified was that Education's controls over changes to GSLP application software did not ensure that such changes were adequately tested. In addition, some abnormal processing interruptions, which indicated that software problems existed, were not promptly investigated or fully resolved.

Abnormal processing interruptions are instances where an application, such as processing monthly billings, stops before the bills are completely processed. If software problems remain undetected or unresolved, there is no assurance that data are being properly processed or that reports are reliable.

Education's change control procedures are documented in its Software Lifecycle Management and Documentation Manual, which is incorporated in Education's contract with its contractor. Change controls procedures, which specify that users are responsible for acceptance and sign off of completed changes to software are also documented in National Institute of Standards and Technology (NIST) publications on federal information processing and telecommunications standards. If followed, these procedures should provide reasonable assurance that software changes are properly tested and operating as intended.

However, these procedures were not followed during the period of our review. The contractor's Quarterly Quality Meeting reports, which document production processing and testing problems, reflected over 400 abnormal processing interruptions due to either job control, program library, data dictionary, or programming errors during the first 3 quarters of fiscal year 1991. The Quarterly Quality Meeting report could not distinguish between problems caused by production processing and those caused by testing. A detailed analysis of these recurring software problems was not performed by Education. Additionally, the Change Control Log, which documents requested changes from users and discrepancies in system processing, reflected 18 pending changes related to incorrect data and account balances as of May 1992. Some of these requested changes had been pending for nearly 2 years. These errors occurred across all GSLP

applications except the tape dump and they reflected improper processing of data supporting account balances.

Although Education's GSL System's Branch project teams tested system changes, the improper processing that occurred indicated that this testing was not successful at detecting all errors. Incomplete testing of software changes creates not only the risks cited in the introduction to this chapter but also results in production reruns that affect the timeliness of the information provided to Education. One technique suggested in Federal Information Processing Standards¹ to ensure that testing is complete and adequate is the establishment of an acceptance testing group. Such a group is to independently test system changes prior to their implementation and, thus, serve as an additional control over this important aspect of system management. At the time of our review, Education had not established an acceptance testing group.

Implementation of Design Control Standards Was Insufficient

Education had not implemented controls to provide reasonable assurance that application files are balanced and/or that the correct database was processed. The Department's ADP Technical Controls Handbook describes database balancing techniques and alternative design control techniques to provide such assurance. These standards are consistent with OMB's Circular A-123, Internal Control Systems. OMB Circular A-123's directives are also incorporated into the President's Council on Integrity and Efficiency's Model Framework For Management Control Over Automated Information Systems. They provide for both changes to existing applications and incorporation of these techniques into newly developed applications.

Education's systems did not automatically compare key balances and report discrepancies. Although Education manually compared balances of current period interest payment data (input) received, it did not compare data between quarters. Thus, lenders could change opening balances without Education's controls detecting that such changes had been made. Because of this condition other information processed by this application, including loan origination fees owed to Education and interest subsidy payments owed to lenders may not have been properly recorded. For example, we found differences in outstanding student loan balances between the quarter ending balance and the following quarter's opening balance in the Interest and Special Allowance application during fiscal year 1991. These differences ranged from \$45 million to \$790 million.

¹NIST 500-180, Guideline to Software Acceptance.

Although aware that these differences occurred, Education's personnel responsible for reviewing such differences had not investigated and resolved them.

In addition, Education did not perform an internal controls review or risk assessment of its information systems in accordance with OMB Circulars A-123, Internal Control Systems, A-127, Financial Management Systems, and A-130, Management of Federal Information Resources to ensure that they operate effectively and accurately. Reviews of information systems are to be performed annually as part of an agency's review of internal controls and risk assessments updated at least once every 5 years. However, we found that neither had been done during the past 5 years.

Certain Systems Duties Were Not Segregated

To help ensure that one person cannot improperly alter application or system software or application data, key duties should be segregated among two or more personnel. We found overall effective segregation of duties with respect to data center operations, operating system software installation and maintenance, access control software administration, data entry, application programming, and software quality assurance. However, we identified some instances where systems duties were not properly segregated.

First, an individual who served as the overall contract technical representative was also involved in authorizing disbursements to lenders. Although this involvement was limited to authorizing certain transactions for payment, allowing personnel involved in the contracting function to be involved in authorizing payments without independent review and approval increases the risk of improper payments.

Second, Education had authorized certain individuals involved in database dictionary maintenance and database administration to have access to both the test and production data. This condition resulted in sensitive data about students, such as social security numbers, loan balances, and addresses, being accessible to individuals who did not need this information to perform their jobs. Education also did not routinely receive work logs that documented such individuals' access to production data. Education's contractor advised us that this dual access authority was granted to provide for workload peaks and absences.

We found no specific instances of data being altered because of the two conditions discussed above, but both increase the opportunities for data to

be changed or improperly disclosed without detection by Education's management.

Disaster Recovery Planning Generally Good but Some Documents Inadequately Protected

A computer disaster recovery plan is an integral part of an overall business recovery plan. It needs to cover all locations utilizing or relying on the GSLP system or where original source documents are located. We found that Education and its contractor developed and tested an extensive computer disaster recovery plan. This plan had important elements of a sound recovery plan, including

- relocation to an emergency processing site and restoration of the original site,
- computer recovery team responsibilities,
- recovery and restoration of off-site data files and reinstallation at an alternate site,
- procedures for use of the emergency site and telecommunications lines, and
- plan initiation and testing.

Education and the contractor performed periodic tests of the plan and evaluated the problems encountered during testing.

The plan did not provide, however, for offsite storage or backup copies of certain source documents, such as original promissory notes for direct Federal Stafford loans at regional offices or journal vouchers originated at headquarters. While these represent minor aspects of a comprehensive plan, they still should be reflected in the plan. Education officials recently advised us that a review of its disaster recovery plan is under way which addresses these issues as well as other areas regarding records management.

Security Control Weaknesses Existed

Several of the management and technical controls were not working as designed to detect or prevent unauthorized use of GSLP data. We found instances of terminated and transferred Education employees with access authorization to GSLP data. We reported similar instances in an April 12, 1991, management letter to the Secretary of Education (GAO/AFMD-91-53ML). In addition, we found that Education personnel were not effectively monitoring their contractor's granting access to GSLP data. We did not find any evidence of misuse of the data due to these security control

weaknesses; however, these conditions increase the possibility of data being misused or improperly changed.

For example, we found that security violation reports prepared by Education's contractor were not adequately reviewed by Education personnel and were incomplete. Thus, there was not an effective mechanism for determining if any improper attempts to access GSLP data were made by Education's Debt Collection Management Assistance Service (DCMAS) personnel or its contractor's personnel. While all Education employee violation notices were included on the report, Education's data management security officer, who is responsible for reviewing such reports, did not follow up on violations involving DCMAS personnel. The data management security officer told us that he did not review these violation notices because he believed this was the responsibility of DCMAS. In addition, when installing the security software, the contractor did not include a feature to report contractor violations on the reports provided to Education's data management security officer.

Another general security weakness we found was that certain technical decisions were made by the contractor when installing the access control software that were not consistent with Education's policy or were not fully understood by Education's personnel. For example, the contractor

- did not use the software feature that prevents files containing sensitive GSLP data from being reused;
- did not provide for automatically disconnecting, after a reasonable period of time, unattended terminals that have access to GSLP data;
- did not use the standard software features, such as standard label processing, to control files created by entities other than Education, such as guaranty agencies;
- permitted operators to temporarily disconnect the security software package and/or change the system parameters without reporting each occurrence to Education;
- allowed certain individuals to access the GSLP data without being detected or recorded by the security software; and
- allowed certain individuals to have two separate security identifications and passwords, which makes it difficult to maintain a unique audit trail.

Education's ADP Security Manual provides clear guidance on security events that should be monitored. This guidance is an extension of OMB Circular A-130. The policy provides a sound basis for an effective information security program. The policy also covers security awareness,

however, it does not cover training Education's staff in areas of access control software. Education's data management security officer received no formal training regarding technical oversight of system security from April 1989 to June 1992, when a new officer was assigned. It is important that the security officer and other support staff fully understand the specific operating system and access control software used by the Department's contractor.

As discussed earlier, we also found that a risk assessment, as required by OMB Circular A-130, had not been conducted by Education or its contractor. Such a review could have detected the problems we identified much earlier. The contractor also advised us that no other reviews similar to those required by OMB Circular A-130 were conducted by their internal or external auditors. Education officials informed us that they had relied on their contractor to comply with the OMB Circular A-130 requirements. Based on our discussions with Education's personnel, they were not familiar with the technical decisions made by the contractor regarding risk assessment nor did they have the necessary software manuals to guide the contractor on what procedures should have been performed.

Education's System Improvement Efforts

OPE has recently initiated actions to correct some weaknesses in its general controls over information systems that we identified. Department staff are working with its new contractor to address the security control problems discussed in this chapter. In addition, the 10 new employees OPE began to hire in late fiscal year 1992 are part of the Department's ongoing effort to acquire the technical staff resources needed to effectively perform systems software management.

A comprehensive reorganization in fiscal year 1992 by the Assistant Secretary for Postsecondary Education provided for a separation between computer system services and accounting and financial management services. This structure consolidated the management of all computer systems under one staff, and will allow current management a more focused concentration of effort on specific improvements. Education's CFO office and OPE's Accounting and Financial Management Service are developing requirements to ensure that internal accounting controls and procedures are incorporated in the development of new computer applications and processes.

Conclusions

We identified a number of general control weaknesses in GSLP information systems that affect (1) the reliability of the GSLP's financial data and reports and (2) Education's ability to protect the data's confidentiality and related source documents. While efforts are underway to address some aspects of these weaknesses, more is needed to strengthen system change and design controls if the systems are to provide useful and reliable financial information and reports. The staff also was not sufficiently trained in the operating systems and access control software used by the GSLP contractor.

Recommendations

We recommend that the Secretary of Education direct the Assistant Secretary for Postsecondary Education to

- establish an acceptance testing group responsible for independently testing GSLP application system changes prior to implementation;
- implement controls described in the Department's ADP Technical Controls Handbook to ensure that all data received from guaranty agencies and lenders is consistent and accurate;
- implement procedures to ensure that internal control reviews and risk assessments of the GSLP information systems are performed periodically as required by OMB Circulars A-123, Internal Control Systems, A-127, Financial Management Systems, and A-130, Management of Federal Information Resources;
- enhance the existing computer disaster recovery plan to include contingency options at Education headquarters and regional offices regarding key original documents; and
- require that the security administrator and appropriate supporting technical staff have formal training in the specific operating systems and access control software used by the GSLP contractor.

Agency Comments and Our Evaluation

In its response, the Department agreed with our recommendations and stated that Education will

- identify an independent acceptance testing group for each task order;
- implement controls over data quality and engage a consultant to compile an overall plan for implementation of improvements of program-wide data;
- require OPE's new Accounting and Financial Management Service, when staffed, to monitor the GSLP financial and accounting procedures and to conduct quality control reviews to ensure conformance with Education and governmentwide fiscal requirements;

Chapter 4
General Controls Over Information Systems
Were Not Functioning as Designed

- implement a plan to move regional collection files to a contractor for permanent storage and include contingency options for these and other GSLP original documents in its next computer disaster recovery plan; and
- schedule training for the security administrator and appropriate supporting technical staff in fiscal year 1993.

4.3

Program's Structure Is Not Conducive to Good Financial Management

Although Education is taking steps to improve management of the GSLP as discussed in the previous chapters, we believe Education lacks sufficient leverage over guaranty agencies to achieve effective financial management and adequate program control. Currently, the Department's options for strengthening controls over guaranty agencies are limited. Although Education and guaranty agencies view the agencies as independent "guarantors," the business incentives necessary for such a relationship to work most effectively do not exist. Further, the program's financial incentives, as prescribed by law, result in guaranty agencies placing emphasis on collection of defaulted loan balances rather than on the prevention of defaults. Until these aspects of the program's structure are addressed, the billing and reporting problems that we identified may be difficult to fully resolve and due diligence requirements associated with efforts to minimize loan defaults may be difficult to enforce.

Additionally, we are concerned that as this program has grown, several guaranty agencies have become involved in multiple business activities, such as simultaneously servicing loans and operating secondary markets, that create conflicts of interest and also may have contributed to one guaranty agency's financial problems. However, guaranty agencies are not prohibited from engaging in such activities either by federal statute or by Education's regulations.

Guaranty Agencies Inappropriately Viewed as "Guarantors"

At most of the guaranty agencies we visited and within the Department of Education, guaranty agencies were viewed as independent "guarantors." However, almost all of the economic risk associated with guaranteeing student loans under the GSLP is borne by the federal government. At the same time, Education is restricted by law from directly guaranteeing loans made by lenders in a state or region where a guaranty agency is operating. Because of these conditions, traditional business incentives do not govern Education's relationship with guaranty agencies. For example, in fiscal year 1991, the Department reimbursed the guaranty agencies for about 99 percent of the \$3.6 billion in default claims paid to lenders. These aspects of the relationship between Education and guaranty agencies as discussed below demonstrate that the guaranty agencies are not independent guarantors.

Department Backs Failed Guaranty Agency

Prior to the Higher Education Amendments of 1992, Education had no clear legal obligation to directly pay lenders' default claims if a guaranty agency became insolvent or otherwise failed to meet its obligations. Thus,

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Program's Structure Is Not Conducive to
Good Financial Management

a lender's recourse upon default was considered to be to the guaranty agency only and not to extend to Education. However, in 1990, the Higher Education Assistance Foundation (HEAF), a national guarantor, experienced financial difficulties. At that time, the Secretary recognized that lender participation and student access could be severely damaged if the Department did not back a failing guaranty agency. Accordingly, the Secretary entered into a liquidation agreement with HEAF and the Student Loan Marketing Association to resolve the failure and ensure that lenders were paid for their defaulted loans originally guaranteed by HEAF. In provisions of the 1992 Amendments, the Congress endorsed this action by legislatively extending Education's direct financial backing of the program by requiring the Secretary to pay a lender's claim directly if a guaranty agency is unable to meet its obligations.

**Guaranty Agencies'
Reserve Funds Are Federal
in Nature**

An amendment to the Higher Education Act in the Omnibus Budget Reconciliation Act of 1987 required that the Secretary of Education collect excess reserves—excess cash on hand—from guaranty agencies. Although 26 guaranty agencies challenged this requirement, the courts consistently held that guaranty agencies' reserve funds were not the private property of each guaranty agency, but were federal in nature and allowed the Department to collect the funds. Moreover, the 7th Circuit¹ specifically observed that the guaranty agency was essentially an intermediary between the lender and Education.

**Incentives to Prevent
Default Claims Are
Not Effective**

The Higher Education Act, as amended, established a payment formula for guaranty agencies that provides substantially greater incentives for collecting defaulted loans than it does for preventing default claims. The Department requires guaranty agencies to ensure that lenders perform certain procedures—referred to as due diligence procedures—to contact borrowers who are having difficulty in repaying their loans in an effort to reduce default claims. Guaranty agencies are to monitor lenders' efforts in performing due diligence procedures, and, when lenders file default claims, the agencies are responsible for performing additional procedures themselves. The guarantee fee that guaranty agencies charge lenders and the administrative fees received from Education are to cover the costs of these efforts, and, generally, they receive no additional funding for performing these procedures.

¹Great Lakes Higher Education Corporation v. Cavazos, 911 F.2d 10 (7th Cir. 1990).

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One program incentive, prescribed by law, is designed to reduce default claims. It reduces payments to those guaranty agencies whose default claims exceed certain levels, thus imposing a penalty to the guaranty agency for a higher default rate. As discussed in chapter 2, when defaults reach the 5 percent trigger figure, reimbursements are reduced to 90 percent, and when they reach the 9 percent trigger figure, reimbursements are reduced to 80 percent of the claim amount for subsequent claims submitted during the fiscal year. However, this incentive has not been effective because (1) the trigger figure calculation used to determine when a guaranty agency reaches a trigger overstates the value of loans in repayment (thus understating the actual default rate to be applied for claim reimbursement purposes) and (2) guaranty agencies could delay submitting default claims to avoid the trigger figure. Although as of September 30, 1991, the cumulative default rate on indirectly insured loans was about 14 percent, most guaranty agencies avoided this penalty and were reimbursed for over 95 percent of their claims.

However, after a guaranty agency pays a lender's default claim and is reimbursed by Education, it can retain an additional 30 percent of any amounts that it subsequently collects on the related defaulted loan. According to Education data, during fiscal year 1991, about 13 percent, or more than \$200 million, of guaranty agency revenues were from collections on defaulted loans. Thus, guaranty agencies have more financial incentive to expend resources collecting on defaulted loans than working with borrowers to prevent defaults because (1) they can earn additional revenue from default collections but not from performing due diligence procedures and (2) default prevention incentives have not been as effective as intended. Our prior work² and Education's program reviews found that guaranty agencies did not follow the Department's due diligence procedures in many cases or ensure compliance with their own procedures.

In addition, penalties can weaken the financial condition of the guaranty agencies and result in Education penalizing itself instead of the agencies. For example, the Department has attempted to enforce compliance with due diligence procedures by assessing monetary penalties; however, in some cases this has threatened the agencies' solvency. One guaranty agency currently owes Education about \$25 million for due diligence violations during the period from January 1990 to December 1991. Although Education could pursue payment, to do so would bankrupt the

²Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO/HRD-88-52BR, January 7, 1988).

guaranty agency. Because the Department is ultimately responsible for all default claims, it would then have to provide the guaranty agency emergency advances to enable it to continue paying lenders for defaults, or pay lenders directly until the state designated a new guaranty agency. This agency has requested that Education waive its due diligence requirements for the period in which the violations were found, and Education was reviewing the waiver request at the time of our work.

Conflict of Interest Concerns

Guaranty agencies have legally extended their activities beyond insuring loans and monitoring lenders to include servicing and purchasing loans. These activities create inherent conflicts of interest because, by assuming ownership and servicing roles, guaranty agencies are, in effect, responsible for regulating their own rather than lender activity. Of the 10 guaranty agencies we reviewed, 8 also serviced loans for lenders, and 4 operated a secondary market to purchase student loans.

Buying and servicing loans can create an environment in which a guaranty agency's financial transactions with lenders are "less than arms-length." Federal regulations require guaranty agencies to ensure that lenders follow established collection procedures on defaulted loans. By engaging in loan servicing or buying loans in the secondary market, the lenders that the guaranty agencies are required to audit and oversee are also their customers. Further, in some cases, the guaranty agencies are actually overseeing their own collection efforts, including approving defaulted loan claims which they may service or hold for payment by Education.

HEAF was an example of an agency that was engaged in loan servicing and secondary market operations. Eight of the 10 guaranty agencies we visited engaged in similar activities by servicing or purchasing loans that they guaranteed, some using virtually the same board of directors, officers, and employees for similar functions. Department officials stated that they believe that HEAF's efforts to grow and expand its operations in other GSLP activities, such as loan servicing, contributed to HEAF's financial problems. They further stated that similar activities by other guaranty agencies could adversely affect the Department because they may result in reduced attention by guaranty agencies to their oversight responsibilities under the GSLP. In essence, such activities eliminate the independent oversight for which guaranty agencies are responsible and paid.

Activities Under Way to Assess and Improve Guaranty Agencies' Role

Both the Congress and the Department recognize that the role of guaranty agencies in the GSLP needs to be reassessed. Several provisions of the 1992 Amendments demonstrate specific congressional interest and concern regarding the role of guaranty agencies in the GSLP. For example, the 1992 Amendments require that the Department study and report on the role of guaranty agencies by July 1993 and conduct a direct loan pilot program in which the federal government would become the direct lender, and lenders and guaranty agencies—in their present form—would no longer be needed. GAO is required to submit an interim report on the direct loan pilot program to the Congress by January 1, 1997, and a final report by May 1, 1998. Both reports are to include, among other things, recommendations for modifications, continuation, expansion, suspension, or termination of the direct loan pilot program or replacement of all or some of the guaranteed student loan programs.

The 1992 Amendments also require that officers, directors, and key officials of guaranty agencies and other program entities report to Education on financial interests that they have in other entities participating in the program. Since regulations have not yet been written, it is not clear how often such information will be reported or how it will be used by Education to reduce some of the conflicting functions of the guaranty agencies.

In addition, Education officials stated that because of the difficulties that Education has encountered in obtaining improvements in guaranty agency operations and their continued concerns over the financial solvency of several agencies, the Assistant Secretary for Postsecondary Education established guaranty agency oversight teams. These teams are to review, among other things, the role of and the need for the current number of guaranty agencies. These reviews are still in their early stages since the teams were established late in fiscal year 1992.

Conclusions

In terms of their function, the guaranty agencies' role in the GSLP is essentially that of a fiscal intermediary for Education. However, Education is required by law to rely on the guaranty agencies to carry out significant activities of the GSLP. Further, its relationship with these guaranty agencies is not structured to give the Department sufficient leverage to improve aspects of the program affected by guaranty agency operations. In addition, many guaranty agencies have expanded their operations to activities that create serious conflicts of interest with their stewardship

responsibilities in the program, and federal laws and regulations do not prohibit guaranty agencies from engaging in such activities.

Recommendations

As part of the study of the role of guaranty agencies in the GSLP required by the 1992 Amendments, we recommend that the Secretary of Education direct the Assistant Secretary for Postsecondary Education to develop a comprehensive plan for revising the role of guaranty agencies and the manner in which they are compensated. This plan should provide a clear explanation of the structure of guaranty agencies in relation to Education and recommendations as to where changes or modifications are needed. It should also include clear limitations and restrictions on the terms and conditions of any business activities that the guaranty agencies may undertake. In addition, this plan should address and where possible include recommendations on:

- revising the formula for reimbursing guaranty agencies from one that stresses the collection of defaulted loans to one that provides more effective incentives for prevention of defaults;
- the need and benefits of the current number of guaranty agencies versus the benefits of consolidating the guaranty agencies;
- the role of guaranty agencies in a direct loan program, if any; and
- changes to current legislation that will allow Education to implement the plan and oversee the program effectively.

Agency Comments and Our Evaluation

The Department agreed with our recommendation and stated that plans for a study will be initiated in fiscal year 1993. The report and recommendation have been modified to recognize that the 1992 Amendments require such a study.

Methodology

To assess the adequacy of controls over data submitted by guaranty agencies, we reviewed procedures at 10 of the largest guaranty agencies for accumulating and submitting reports and billings to the Department. During fiscal year 1990, these 10 agencies administered about 70 percent of new loan volume.¹ At each of these guaranty agencies, we verified balances reported to the Department for default claims paid, new loans guaranteed, loans in repayment, and collections on defaulted loans by comparing them to balances reported in the guaranty agencies' general ledgers (primary record of accounts) and to source documents. To determine that guaranty agencies' default claims were valid, we confirmed a judgmental sample of 300 claims made in fiscal year 1991 or 1992 through the records of the guaranty agencies and the lenders making the initial claims.

To assess the adequacy of controls over data submitted by lenders, we selected 46 lenders from about 8,000 lenders participating in the program as of June 30, 1991. These lenders were randomly chosen using a probability proportionate to size method. Under this method, lenders with larger outstanding guaranteed student loan portfolios had a greater chance of being selected than those with smaller portfolios. The lenders selected held over 50 percent of outstanding guaranteed student loans at September 30, 1991.

At the selected lenders, we tested the validity of amounts reported on the lender's billings to Education, which were used to compute loan origination fees and interest subsidies as of September 30, 1991, by tracing amounts reported to supporting documentation. For these same lenders, we performed similar tests at either December 31, 1991, or March 31, 1992. We also compared such amounts to balances reported in the lenders' general ledgers. Additionally, we compared amounts reported for 1,212 outstanding loan balances to supporting documentation maintained by lenders and tested these balances through confirmations sent to the borrowers.

To evaluate the Department's controls over financial reporting on the GSLP, we reviewed Education's accounting systems and examined selected transactions to determine if they were properly authorized and recorded. We tested subsidiary balances reported by guaranty agencies for default claims paid, new loans guaranteed, loans in repayment, collections on defaulted loans, interest subsidies, and loan origination fees by comparing

¹We excluded one guaranty agency, the Higher Education Assistance Foundation (HEAF), because as of April 30, 1991, HEAF no longer guaranteed new loans, and the Department was in the process of liquidating it.

such amounts to source documents and to balances reported in the general ledger. We also assessed Education's methodology for preparing its estimate of loan guarantee subsidies for fiscal year 1991 and examined supporting documentation to determine if the assumptions were reasonable and supported by reliable data and if calculations were correct.

To evaluate the Department's general controls over GSLP information systems, we reviewed and documented Education's policies and procedures regarding (1) changes to application and system software, (2) system development and design practices, (3) telecommunications, (4) disaster recovery, (5) contingency planning, and (6) data security. We determined if the general controls in these areas complied with federal information processing and telecommunications standards prescribed by the National Institute of Standards and Technology (NIST) and Education's standards and policies. (NIST is responsible for setting standards for federal information processing and telecommunications.) We verified through observation, inquiry, and testing that specified control procedures were in place and functioning as intended. We compared lists of active personnel passwords to lists of terminated employees to verify that only authorized personnel could access the systems. We compared balances on data tapes for different quarters in fiscal year 1991 to determine if they were reasonable. We reviewed recent internal audit reports on data center operations and discussed selected procedures and control policies with Education and contractor personnel.

While we examined guaranty agency records in preparation for this report, we did not focus on Education's use of guaranty agency data in calculating school default rates. Hence, this report does not address the Department's procedures for determination of school default rates or for considering requests from educational institutions for recalculation of those default rates. We have not examined this process, and therefore express no opinion as to its efficacy.

Comments From the Department of Education

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202

JAN 13 1993

Donald H. Chapin
Assistant Comptroller General
Accounting and Financial Management Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Chapin:

The Secretary has asked that we respond to your request for comments on the General Accounting Office (GAO) draft report, "Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement" (GAO/AFMD-93-20), which was transmitted to the Department of Education (ED) by your letter of December 18, 1992.

Thank you for the opportunity to review the GAO draft report. We, along with David Kearns, Deputy Secretary, appreciate the high level of professionalism, impartiality, and sincerity demonstrated by the GAO audit team, particularly Don Wurtz, Director, Financial Integrity Issues. Thank you also for acknowledging actions taken within ED toward correcting problems identified in previous GAO reports.

Enclosed is ED's response to the draft report. If you have any questions, please contact Mitchell L. Laine, Deputy Chief Financial Officer, at 401-0207.

Sincerely yours,

Carolynn Reid-Wallace
Carolynn Reid-Wallace
Assistant Secretary for
Postsecondary Education

William D. Hansen
William D. Hansen
Assistant Secretary
for Management and Budget/
Chief Financial Officer

Enclosure

5

Appendix II
Comments From the Department of
Education

General Accounting Office (GAO) draft report,
"Financial Audit: Guaranteed Student Loan
Program's Internal Controls and Structure
Need Improvement," (GAO/AFMD-93-20),
transmitted December 18, 1992.

OVERVIEW

The Federal Family Education Loan Program, formerly known as the Guaranteed Student Loan (GSL) Program, was established primarily to increase access to institutions of higher education and other postsecondary schools by providing loans to individuals and families without regard to the student's non-federal credit history. The Department of Education (ED) has undertaken numerous measures, most of which are acknowledged in the GAO draft report, to improve the collection performance and administrative efficiency of the GSL program. GAO has also proposed, in this draft report and elsewhere, legislative changes that would further enhance loan collectability and administrative control over the program. ED concurs with all of GAO's recommendations for legislative changes and other enhanced internal control policies and procedures. Following are (I) responses to the specific recommendations made in the draft report and (II) our comments on statements made in various portions of the report.

I. RESPONSES TO THE RECOMMENDATIONS MADE IN THE REPORT

Recommendation 1 Congress should amend the Higher Education Act (HEA) to require originating lenders to pay loan origination fees even if a loan is sold to another lender.

See comment 1.

See comment 2.

Response: ED concurs with recommendation 1. This is consistent with our response to recommendations made in a previous GAO report, "Stafford Student Loans: Prompt Payment of Origination Fees Could Reduce Costs," (GAO/HRD 92-61, issued April 17, 1992).

We also believe the HEA should be amended to require that guaranty agencies collect the origination fees from the lenders. The guaranty agencies currently receive a monthly report from the lenders. The lenders could report their origination fees on this report and submit payment to the guaranty agencies. The guaranty agencies would then forward the payments to ED with their Monthly Claims and Collections Report (ED Form 1189). This would enable monthly collections, and ensure that every time a loan is disbursed the origination fee is collected.

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Recommendation 2 The Office of Postsecondary Education (OPE) should require that guaranty agencies and lenders annually provide ED an independent public accountant's positive attestation on the claims for payment submitted to the federal government, and the basis for such attestation including an opinion on the adequacy of internal controls over such claims.

See comment 1.

Response: ED concurs in principle with recommendation 2. We agree that annual audits should contain formal auditor attestations on lender and guarantor billings. We will recommend that this be provided for in the audit guide for lenders now being drafted by the Office of Inspector General (OIG). All guaranty agencies are required to submit audits prepared in accordance with OMB circulars A-128 or A-133. For guaranty agencies that are governmental entities, the guaranty agency can satisfy its A-128 audit requirement if it is included in a statewide A-128 audit. Coverage of the GSL Program is usually performed in accordance with the A-133 Compliance Supplement. That Compliance Supplement currently provides for testing of federal financial reports, including requests for funds. However, this is discussed in general terms and does not specifically mention guaranty agency billings. We will work with the OIG to assure that the next revision of the A-133 Compliance Supplement assures that billings are specifically tested and other steps in this area are strengthened.

Similar provisions will be recommended for inclusion in a guaranty agency audit guide prepared by the OIG. Such a guide would be prepared for use by entities which choose an option in A-133 to have a program specific audit. For guaranty agencies covered under A-128 we will work with the Inspector General to initiate similar changes.

However, regarding the recommendation for an opinion on the adequacy of internal controls over guaranty agency claims, current requirements for A-128 and A-133 audits do not require such opinions. To implement this recommendation would require OMB to revise A-128 and A-133.

Recommendation 3 OPE should test billings from guaranty agencies and lenders as part of its internal reviews.

See comment 1.

Response: ED concurs with recommendation 3. Design of the National Student Loan Data System (NSLDS) will include reasonability tests of billings. The detailed loan records for the applicable lenders or agencies will be summarized and compared to billing totals. If results fall outside of reasonable ranges, staff will contact lenders and guaranty agencies to resolve discrepancies. In this way ED plans to use the NSLDS as a tool for testing the reasonableness of total billings from lenders and guaranty agencies. Also, subject to

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availability of resources, regional offices will conduct reviews of lenders and guaranty agencies, including the testing of billings.

Recommendation 4 OPE should require staff to follow up on questioned costs and other amounts owed based on reviews of guaranty agencies and lenders within a designated period of time from the time findings are reported.

See comment 1.

Response: ED concurs with recommendation 4 and has set a goal of resolving all existing overdue audits from guaranty agencies by March 1993.

Deadlines for audit resolution already exist. They have often been missed due to staff limitations. Further, the present staff and increases authorized for FY 1993 will still fall short of the resources needed for this task. Also, there will be an additional 8,000 annual audits expected as a result of the passage, on July 23, 1992, of the 1992 amendments to the HEA of 1965. This dramatic increase in audits to be received by ED will further strain resources. The initial meeting of representatives from OPE, the OIG and the Office of Management and Budget/Chief Financial Officer (M&B/CFO) to discuss solutions to this problem is scheduled for January 15, 1993.

ED will strengthen its efforts to search for and implement efficiencies. OPE and the M&B/CFO, with the assistance of the OIG, will work together closely to examine the impact of the new audit requirements, as well as the existing procedures, to see if different approaches, priorities and/or ideas can contribute solutions to this problem area.

Recommendation 5 OPE should study the feasibility of requiring guaranty agencies to standardize their GSLP loan accounting systems.

See comment 1.

Response: ED concurs with the goal of recommendation 5. ED shares CAO's concerns about the cost of redundant guarantor systems. A feasibility study as recommended needs to consider that, within the current program structure some agencies are departments within state governments and must follow state accounting procedures. Therefore, ED proposes to address redundant accounting systems as part of the comprehensive guaranty agency study called for in recommendation 15.

Recommendation 6 OPE should reassess and, if appropriate, adjust the NSLDS implementation date after completion of a detailed system design.

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See comment 1.

Response: ED concurs with recommendation 6. Because of delays encountered in awarding the contract for implementing the NSLDS, the December 1993 implementation date is not feasible however. Once the contract is awarded, and a detailed system design is completed, ED will establish a revised date for system implementation.

See comment 3.

Recommendation 7 M&B/CFO should develop written procedures detailing the methodology to be used to derive the estimate of loan guarantee subsidies and require that each year's estimate be fully documented and approved by the Department's CFO office.

Response: ED concurs with recommendation 7. M&B/CFO and OPE will work together in using current written procedures, detailing the methodology, to derive the estimated loan guarantee subsidies. In addition, it should be noted that the NSLDS being developed will have the capability of replacing the tape dump as the source of data elements, thereby improving the estimated liability calculation for loan guarantee subsidies.

The Division of Financial Systems and Reporting in the Accounting and Financial Management Service of M&B/CFO issued a directive documenting the methodology for preparing the GSL estimated subsidy liability for general ledger entry and financial statement display. However, this methodology is being improved upon as more guidance is received from OMB and Treasury, and more experience is gained in interpreting and implementing the Credit Reform Act of 1990.

For the financial statements of FY 1992 and restated FY 1991, the default collection rate component of the GSL liability for pre-credit reform loans will be based on a 34% rate determined as follows. Total cash collections on all defaulted 1991 and prior year loans at guaranty agencies and assigned to ED, including Internal Revenue Service (IRS) offsets, projected through fiscal year 2014 were divided by the total amount receivable on these loans, including accrued interest. The projected cash collections used in this calculation take into consideration new authorities for wage garnishment and elimination of statute of limitations provisions in the years after they became effective.

Now on p. 30

It should be noted that the default collection rate of 57%, referred to on page 50 of the draft report had been determined as above, but without consideration of accrued interest in the denominator. Also, the rate of 28%, shown on page 50, did not include IRS offsets in its numerator. Finally, the collection rates used in subsidy calculations for 1992 and subsequent defaulted loans (under Credit Reform) are based on budget projections, which exclude accrued interest from the denominator, as directed by the Office of Management and Budget (OMB).

Now on p. 30.

Recommendation 8 OPE should establish and maintain subsidiary ledgers for the GSLP.

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See comment 3.

Response: ED concurs with recommendation 8. The GSL Accounting and Systems Branches are working together with M&B/CFO's Division of Financial Systems and Reporting to review and implement system requirements submitted by the certified public accounting firm contractor for an interim subsidiary ledger package designed to address GAO audit concerns. This is scheduled for implementation in FY 1993. For a permanent solution, a task order is being developed to analyze a number of software packages for their ability to meet the needs of all student financial assistance programs within OPE. After the analysis is completed a course of action will be chosen. This entire process could take two years to complete and will require funding to implement.

Recommendation 9 M&B/CFO and OPE should jointly develop procedures to ensure that the general ledger is periodically reconciled to subsidiary records maintained by OPE.

See comment 3.

Response: ED concurs with recommendation 9 and has already implemented it. M&B/CFO and OPE have been jointly working on reconciling GSLP subsidiary records to the general ledger as of October 1, 1990. As of January 1, 1992, the GSLP accounts were reconciled on a monthly basis. Thus, the principal financial statements prepared for FYs 1991 and 1992 are based on reconciled accounts. The procedures used in OPE and M&B/CFO will be modified and improved when the subsidiary ledgers referred to in the previous recommendation are implemented.

Recommendation 10 OPE should establish an acceptance testing group responsible for independently testing GSLP application system changes prior to implementation.

See comment 4.

Response: ED concurs with recommendation 10. The Program Systems Service of OPE will identify an independent acceptance testing group for each task order, to be comprised of system users and/or independent contractor staff.

Recommendation 11 OPE should implement controls described in ED's ADP Technical Controls Handbook to ensure that all data received from guaranty agencies and lenders is consistent and accurate.

See comment 4

Response: ED concurs with recommendation 11. OPE will implement all feasible and reasonable controls over data quality. OPE is also planning to engage a consultant, with considerable experience in developing data quality strategies, to compile an overall plan for implementation of improvements of program-wide data.

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See comment 4.

Recommendation 12 OPE should implement procedures to ensure that internal control reviews and risk assessments of the GSLP information systems are performed periodically as required by OMB Circulars A-123, Internal Control Systems, A-127, Financial Management Systems, and A-130, Management of Federal Information Resources.

Response: ED concurs with recommendation 12. When fully staffed under the recent OPE reorganization, the Accounting and Financial Management Service (OPE/AFMS) functional plan provides for an Internal Audit and Management Advisory Unit responsible for monitoring the implementation of recommendations for improving the GSLP financial and accounting control procedures. Also, the Financial Systems Interface and Requirements Unit will continue to conduct quality control reviews of OPE/AFMS activities, including internal control reviews to ensure accountability of funds and conformance with ED and government-wide fiscal requirements. OPE/AFMS plans to post these positions in early 1993 and fill them as soon as possible through personnel procedures.

See comment 4.

Recommendation 13 OPE should enhance the existing computer disaster recovery plan to include contingency options at ED headquarters and regional offices regarding key original documents.

Response: ED concurs with recommendation 13. Copies of detail documents supporting journal vouchers sent by OPE to M&B/CFO Financial Management Service are kept in OPE/GSL. In addition OPE has begun implementing a plan to move regional collection files to a contractor for permanent storage and eventual conversion to electronic imagery, as resources permit. Contingency options for these documents and other original documents relevant to the GSLP system will be included in the computer disaster recovery plan, which will be completed February 1993.

See comment 4.

Recommendation 14 OPE should require that the security administrator and appropriate supporting technical staff have formal training in the specific operating systems and access control software used by the GSLP contractor.

Response: ED concurs with recommendation 14. Such training will be scheduled for the appropriate staff in FY 1993.

Recommendation 15 OPE should develop a comprehensive plan for revising the role of guaranty agencies. This plan should provide a clear explanation of the structure of guaranty agencies in relation to ED and recommendations as to where changes or modifications are needed. It should also include

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clear limitations and restrictions on the terms and conditions of any business activities the guaranty agencies may undertake. In addition this plan should address and where possible include recommendations on:

- o A revised formula for reimbursing guaranty agencies from one that stresses the collection of defaults to one that provides more effective incentives for prevention of defaults;
- o The need and benefits of the current number of guaranty agencies versus the benefits of consolidating the guaranty agencies;
- o The appropriate role, if any, of guaranty agencies in a direct loan program;
- o Legislative changes needed to implement the OPE comprehensive plan for revising the role of guaranty agencies and the manner in which they are compensated.

See comment 5.

Response: ED concurs with recommendation 15. As required by a 1992 amendment of HEA, Title IV, Part A, §1401, plans for a study will be initiated during FY 1993.

II. RESPONSE TO OTHER STATEMENTS IN VARIOUS PORTIONS OF THE REPORT

Now on pp. 31-32.
See comment 6.

- o Page 52 and 53, the report discusses various problems with account balances due to lack of reconciliation. The M&B/CFO, as of December 1992, has reconciled every general ledger account during its data clean-up effort. Upon completion of this effort all questionable balances were resolved.
- o Page 67, last sentence: While OPE was authorized to hire 10 new systems analyst employees in late FY 1992, it was only able to acquire a net of five employees due to a combination of a lack of applications from skilled individuals and resignations of employees on board. We have initiated personnel actions for the additional five employees.

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The following are GAO's comments in response to the Department of Education's letter dated January 13, 1993.

GAO Comments

1. See the "Agency Comments and Our Evaluation" section in chapter 2.
2. The report referred to was issued on July 24, 1992.
3. See the "Agency Comments and Our Evaluation" section in chapter 3.
4. See the "Agency Comments and Our Evaluation" section in chapter 4.
5. See the "Agency Comments and Our Evaluation" section in chapter 5.
6. See the "Agency Comments and Our Evaluation" section in chapter 3 as it relates to reconciliations.
7. The report has been changed to reflect that Education began hiring 10 new systems personnel in fiscal year 1992.

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Related GAO Products

High Risk Series: Guaranteed Student Loans (GAO/HR-93-2, December 1992).

Transition Series: Education Issues (GAO/OCG-93-18TR, December 1992).

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

Guaranteed Student Loans: Prompt Payment of Origination Fees Could Reduce Costs (GAO/HRD-92-61, July 24, 1992).

Guaranteed Student Loans: Eliminating Interest Rate Floors Could Generate Substantial Savings (GAO/HRD-92-113, July 21, 1992).

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

Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO/HRD-88-52BR, January 7, 1988).

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