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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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MANPOWER AND WELFARE
DIVISION

The Honorable Terrel H. Bell
Commissioner of Education
Office of Education
Department of Health, Education,
and Welfare



Dear Dr. Bell:

We now have underway a review of the Office of Education's Basic Educational Opportunity Grant (Basic Grant) program authorized by the Higher Education Act of 1965, as amended (20 U.S.C. 1070a). Under this program, students may apply for grants to help defray the cost of postsecondary education. Our work is being conducted at the Office of Education headquarters, the American College Testing Program, and selected secondary and postsecondary educational institutions.

Part of our review is directed toward assessing the adequacy of the program's refund policy and determining whether institutions are properly calculating and crediting refunds to the Basic Grant account. This letter is to apprise you of our interim observations on problems concerning this refund policy.

Basic Grants are intended to be the "floor" of financial aid, that is, the starting point for packaging aid for needy students. Students are not required to repay the grant unless they drop out of school within an institution's refund period. Both the program regulations and the handbook that is distributed to participating institutions' financial aid officers contain criteria for handling such refunds. These criteria provide for institutions to return part of the student's refund to the program. If the student has received other Federal aid, any remaining monies may be subject to these programs' refund policies.

Thus far we have completed our work at 12 postsecondary institutions. Refunds were due students who had dropped out during the 1974-75 school year at 10 of the 12 institutions. Nine of the 12 schools did not follow the Basic Grant refund policy. Some reasons for this were

--they were unaware that an official refund policy existed;

--they misunderstood the refund policy;

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--the policy did not address various refund situations the institutions encountered; or

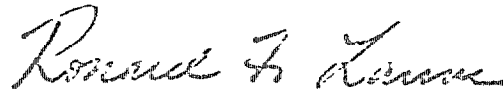
--the school did not agree with the criteria for computing refunds.

Moreover, while specific criteria exists for Basic Grant refund computations, other Federal student aid programs-- Supplemental Educational Opportunity Grants and National Direct Student Loans--have no stated refund policies. This situation has resulted in a lack of uniformity in calculating Basic Grant refunds and inequitable treatment of students. We have identified 64 cases where Basic Grant recipients dropped out within the institutions' refund periods. In our opinion, in 60 of these cases, refunds to the Basic Grant account, and in some instances to students, were erroneously calculated or omitted.

Over the past few months we have frequently discussed our observations with Basic Grant program officials. They have told us that the program's regulations and handbook, as well as regulations governing other Federal student aid programs, should be revised to address existing problems. We have agreed to provide them with information on the cases we identified. In turn, they have agreed to review the cases to determine whether refunds were erroneously calculated and make appropriate adjustments.

We would appreciate receiving your comments on the matters discussed in this letter--especially any actions taken to revise the Basic Grant refund criteria and to issue refund criteria for the other student aid programs administered by the Office of Education. Details on these and any other refund problems that we note will be included in our final report.

Sincerely yours,



Ronald F. Lauve
Assistant Director