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Testimony

Before the Subcommittee on Higher
Education, Lifelong Learning and
Competitiveness, Committee on Education
and Labor, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, October 14, 2009

PROPRIETARY SCHOOLS

Improved Department of Education Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid

Statement of George A. Scott, Director
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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Department of Education's oversight of student eligibility for federal aid at private for-profit schools, also known as proprietary schools. Education's monitoring of eligibility requirements is part of a larger oversight structure governing federal aid to students at all schools. For example, in order to receive federal aid, students must attend schools that are legally authorized to operate in a state, accredited by reliable authorities to help ensure education programs meet acceptable levels of quality, and certified by Education to participate in federal student aid programs.¹ In addition, students attending proprietary, public, or private non-profit schools are also required to demonstrate that they are ready for higher education. Generally, students who do not have a high school diploma or general equivalency diploma (GED) are required to pass an "ability to benefit" (ATB) test of basic math and English skills in order to be eligible for loans, grants, and campus-based aid under Title IV of the Higher Education Act of 1965, as amended.² Education's monitoring of ATB tests and high school diploma requirements is critical to protecting students and guarding against potential fraud and abuse of federal student aid funds. When students who do not have the skills needed to succeed in school are fraudulently given passing scores on the ATB test or directed to diploma mills for fake high school degrees, they are at greater risk of dropping out of school, incurring substantial debt, and defaulting on their federal loans. When this happens, students' credit records are tarnished and their long-term financial well-being is jeopardized. In addition, taxpayers and the government, which guarantees the loans, bear the risks associated with federal loans when a student defaults.

Today I will discuss the extent to which Education's policies and procedures for monitoring eligibility requirements for federal aid at proprietary schools protect students and the investment of Title IV funds. This testimony is based on a GAO report that we released on September 21, 2009, titled *Proprietary Schools: Stronger Department of Education*

¹In addition to these requirements for all schools, proprietary schools must also comply with the 90/10 rule, which provides that these schools may not receive more than 90 percent of their revenue from federal student aid grants and loans.

²While there are other ways a student without a high school diploma or GED can establish eligibility, for the purposes of our testimony we focus on whether a student has passed an independently administered ATB test.

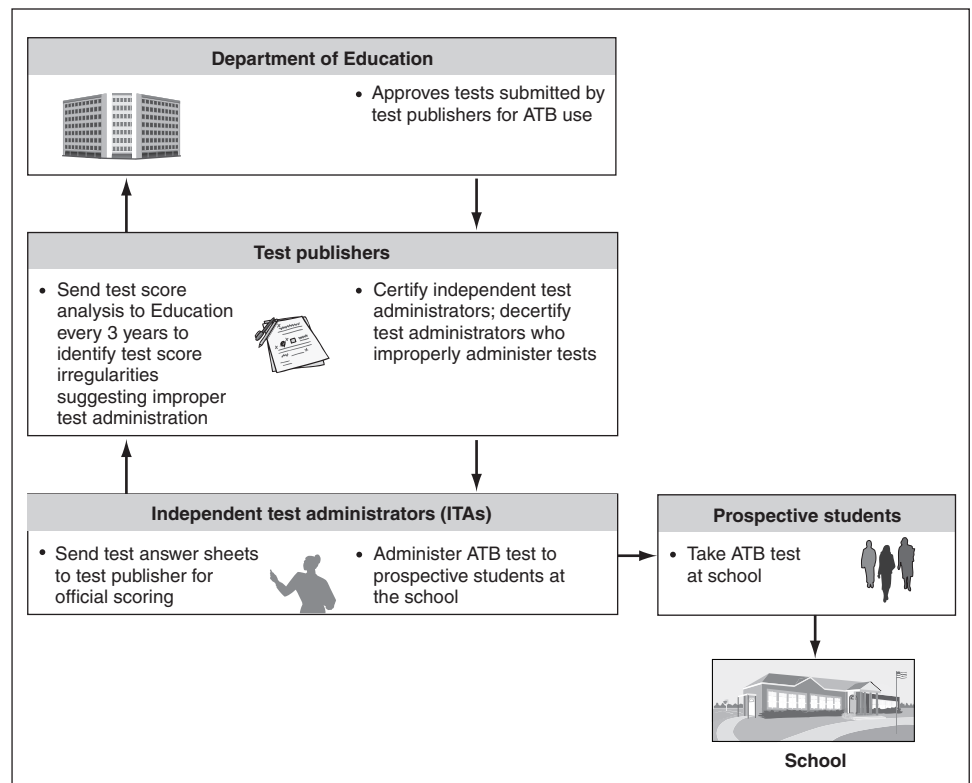
*Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid.*³ To address Education's monitoring of federal aid eligibility requirements, we reviewed Education's policies and procedures for overseeing the administration of ATB tests and for enforcing high school diploma requirements; reviewed relevant Department of Education program reviews and independent audits; and reviewed enforcement actions taken against schools. We reviewed relevant federal laws and regulations, conducted interviews with officials from Education, state education licensing agencies and higher education associations; and gathered information during school site visits. In addition, GAO anonymously tested institution compliance with ATB test requirements by sending, on two separate occasions, analysts posing as prospective students to take and purposely fail ATB tests at a proprietary institution. We supplemented this work with a review of investigations conducted by Education's Office of Inspector General (OIG) and the New York Department of Education. A more detailed explanation of our methodology is available in our full report. We conducted our work from October 2007 to August 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In separate investigations at proprietary schools, we, along with other federal and state investigative agencies, found test administrators or school officials violated rules intended to ensure prospective students without high school diplomas pass required ATB tests before obtaining access to Title IV financial aid. For example, when GAO analysts posing as prospective students took the ATB test at a proprietary school, the independent test administrator gave them and all the test takers in the room—about 20 people in total—answers to some of the test questions. In addition, the analysts' test forms were tampered with: their intentionally incorrect answers were crossed out and changed to correct answers to ensure the individuals passed the test. Our work confirmed similar findings by Education's OIG and New York state investigators.

³[GAO-09-600](#) (Washington, D.C.: August 17, 2009).

These problems result, in part, from key weaknesses in Education's oversight of ATB testing. Under the ATB test program, Education is responsible for overseeing test publishers who, in turn, are responsible for certifying and monitoring test administrators who give the ATB tests to prospective students at schools. Regulations governing the test process require test administrators to be independent of the school where they administer the test and to submit test answer sheets directly to the test publisher for official scoring. The test publishers, in turn, are responsible for analyzing test scores and submitting an analysis of these test scores to Education every 3 years to help identify improper testing (see figure 1).

Figure 1: ATB Test Process



Sources: GAO analysis; images, Art Explosion.

Nevertheless, we found that Education had not followed up with test publishers to ensure that all comply with these requirements. For example, as of early 2009, one of the four approved test publishers had yet to submit test score analyses due in April 2005 and in April 2008 for two of its approved tests. Education officials told us the employee responsible for

test publisher oversight and review of test submissions had retired in 2008 and no one at Education had followed up with test publishers to obtain unsubmitted test score analyses until March 2009, in response to our review. We also learned from OIG and Education officials that while one test publisher provides thorough analyses that have led to the identification of possible violations, other test publishers provide only cursory analyses of test scores. In addition to problems with Education's monitoring of test publishers, Education regulations do not allow for the timely identification of improper test administration. For example, as noted earlier, regulations require test score analyses to be conducted every 3 years, which may leave improper testing undetected for years. Furthermore, regulations do not require test publishers to follow up when irregularities are identified, or to report corrective actions to Education. Given the risks of potential fraud and abuse associated with ATB testing, such weaknesses in Education's monitoring and oversight leave the ATB test program vulnerable to future violations.

We also identified cases in which recruiters at two separate publicly traded proprietary schools helped prospective students obtain invalid high school diplomas from diploma mills—entities that provide invalid diplomas, usually for a fee and little academic work—so that students could gain access to federal loans. In one case, representatives of a student interest group told us a student who dropped out of high school in the 9th grade was guided by the proprietary school to take an online test to receive a high school diploma. In another case, a student told us during a site visit that he was flunking out of high school when a recruiter at the proprietary school directed him to a place where he could pay a fee to take a test and obtain a high school diploma. Based on further review, we confirmed that state and county government agencies had determined these entities to be diploma mills. Our findings also confirmed similar problems identified by Education, and Education regional officials told us the problem may be more widespread than is known.

Problems with the use of invalid high school diplomas to gain access to federal student aid are partly attributed to key weaknesses in Education's policies governing high school diploma requirements, and the lack of information and guidance on valid high school diplomas. For example, while senior Education officials told us it is the department's official policy that high school diplomas from diploma mills are not acceptable for federal aid eligibility, Education has not communicated this position in clearly written policies. Without written and clear communication of its policy, Education staff and external parties, including schools and independent auditors, lack important information regarding eligibility and

compliance requirements under Title IV rules.⁴ Education officials have acknowledged that the use of high school diploma mills is a problem and that more guidance would be helpful. In May 2009, Education announced plans to convene public forums to help inform negotiated rulemaking sessions on, among other matters, the definition of a high school diploma as a condition of receiving federal student aid. We also found that Education provides limited guidance and tools that Education staff, schools, and independent auditors can use to help identify high school diploma mills. In its Federal Student Aid Handbook, Education advises officials to contact state education agencies if they question the validity of a high school diploma.⁵ Yet, Education officials told us that Education staff have no other guidance to help them judge whether there is a potential problem with a diploma. In addition, Education officials told us a list of recognized high schools could help its staff and schools better identify diplomas from diploma mills. Several states already provide lists of recognized high schools and make them available to the public on their Web sites. Yet, Education provides little information on these already available resources. In contrast, Education does offer information and resources on its Web site to help individuals identify and avoid higher education diploma mills by listing colleges and universities that are eligible to participate in federal student aid programs.⁶

Our findings do not represent nor imply widespread problems at all proprietary schools. Many proprietary schools play an important role in providing a range of students, including non-traditional and disadvantaged students, with an opportunity to obtain the education they need to increase their work skills and find jobs. However, our work has identified potential fraud at a few proprietary schools and significant vulnerabilities in Education's oversight of a key aspect of the federal student financial aid

⁴Education is responsible for overseeing schools' compliance with Title IV laws and regulations including their role in ensuring that only eligible students receive federal student aid. As part of its compliance monitoring, Education relies on department employees and independent auditors of schools to conduct program reviews and audits of schools to monitor compliance with eligibility requirements for Title IV.

⁵The Federal Student Aid Handbook provides guidance to Education staff, schools, and lenders that offer federal student assistance to students and borrowers.

⁶The Higher Education Opportunity Act, which reauthorized and amended the Higher Education Act of 1965, provides that the Secretary shall maintain information and resources on the Department's Web site to assist students, families, and employers in understanding what a college diploma mill is and how to identify and avoid such diploma mills. Pub. L. No. 110-315, § 109.

program. In our recently issued report, we recommended that Education strengthen its monitoring and oversight of federal aid eligibility requirements to (1) improve its monitoring of ATB tests and target schools that fail to follow testing regulations for further review; (2) revise regulations to strengthen controls over ATB tests; and (3) provide information and guidance on valid high school diplomas for use in gaining access to federal student aid. After reviewing the draft report, Education provided comments and noted the steps it would take to address GAO's recommendations. A complete discussion of our recommendations, Education's comments, and our evaluation are provided in the recently issued report.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions that you or other members of the subcommittee may have.

For further information regarding this testimony, please contact George A. Scott (202) 512-7215 or ScottG@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony include Melissa Emrey-Arras (Assistant Director), Claudine Pauselli, Jessica Botsford, Susan Aschoff, Mimi Nguyen, and Paul Desaulniers.

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