G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

November 21, 2002

The Honorable Susan M. Collins
Ranking Minority Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate

Subject: Department of Education: Guaranteed Student Loan Program Vulnerabilities

Dear Senator Collins:

This report responds to your request and subsequent conversations with your staff, that we investigate weaknesses in the Department of Education's administration of student loans for postsecondary education under the Federal Family Education Loan (FFEL) Program.[1] Specifically, you asked that the Office of Special Investigations, acting in an undercover capacity, examine weaknesses in Education's procedures for certifying foreign schools to participate in the FFEL Program and to determine whether student loans can be obtained by fictitious students purportedly attending a foreign school. We briefed your office on our investigative findings. This report summarizes those findings and includes documents we referenced in that briefing.

As a result of our undercover investigation, we exposed vulnerabilities in Education's administration of the FFEL Program. With relative ease, we created Y'Hica Institute for the Visual Arts, a fictitious graduate-level foreign school purportedly located in London, England. After creating Y'Hica, we obtained certification from Education for the school to participate in the FFEL Program. Finally, we sought and obtained approval for student loans totaling $55,500 on behalf of three fictitious students purportedly attending Y'Hica. After completing our investigation, we contacted Education officials and briefed them about our findings. As set forth below, we are making recommendations aimed at preventing fictitious foreign schools from participating in the FFEL Program and preventing fictitious students from obtaining student loans.

[1] The FFEL program is a loan program for postsecondary students that the government supports under Title IV of the Higher Education Act. Previously, GAO identified vulnerabilities in the Guaranteed Student Loan Program. (See U.S. General Accounting Office, *High-Risk Series: Guaranteed Student Loans*, GAO/HR-93-2 (Washington, D.C.: December 1992), and *High-Risk Series: Student Financial Aid*, GAO/HR-95-10 (Washington, D.C.: February 1995).

We conducted our investigation from January 25, 2001, through May 8, 2002, in accordance with investigative standards established by the President's Council on Integrity and Efficiency. To assist us in creating a foreign school and qualifying to participate in the FFEL Program, we had numerous discussions, in an undercover capacity, with Education's Foreign Schools Team and reviewed the procedures that a foreign school must follow. We then submitted false and counterfeit documentation to support our application for institutional eligibility and certification to participate in the FFEL Program. We also submitted false and counterfeit documentation in order to obtain student loans for fictitious students.

Creating Y'Hica, a Fictitious Foreign School

Adhering to Education procedures, we successfully created Y'Hica Institute for the Visual Arts, a fictitious foreign school purportedly located in London, England. We first created a consulting firm called Weinstein & Associates to pose as Y'Hica's U.S. representative and the principal point of contact with Education. We also created identities for the President of Y'Hica and the President and Executive Director of the consulting firm. In addition, we created Web sites for Y'Hica and the consulting firm as well as telephone numbers and addresses for Y'Hica and the consulting firm. Finally, we obtained an international Dun and Bradstreet number and an Education personal identification number (PIN) on behalf of Y'Hica. Education then recognized that Y'Hica could apply to participate in the FFEL Program.

Obtaining Approval for Participation in the FFEL Program

Subsequently, we created and provided Education with documents that are required for approval to participate in the FFEL Program. Specifically, we provided the following counterfeit documents on behalf of Y'Hica: (1) a school catalog purportedly describing Y'Hica's mission (a cover page of which is reprinted in enc. I), (2) certified financial statements of Y'Hica for fiscal years 1998 and 1999, signed by a fictional accountant residing at a fictional address in London, (3) a letter indicating that John Moores University—an education entity in the United Kingdom—validated Y'Hica's academic program, and (4) a letter from educational authorities in the United Kingdom stating that Y'Hica is a nonprofit institution with degree-granting authority. In response to requests from Education for additional information to complete the FFEL application, we created false documentation indicating that Web sites of the British Department for Education and Employment and the Charity Commission for England and Wales recognize Y'Hica as a nonprofit, postsecondary institution. Based on these documents, Education certified Y'Hica to participate in the FFEL Program.

Obtaining Student Loans for Fictitious Students under the FFEL Program

After requesting and obtaining a federal school code from Education, we created identities, addresses, and telephone numbers for three students, one of which was Susan M. Collins, purportedly attending Y'Hica. We also accessed Education's Free Application for Federal Student Aid Web site and completed PIN applications for each of the students. Upon receipt of PINs for the fictitious students, we completed on-line financial aid applications on their behalf. After obtaining Student Aid Reports from Education establishing financial aid eligibility and authorization to proceed with the student loan application process, we submitted student loan applications to three

lenders on behalf of Ms. Collins and the other two purported students. Nellie Mae Student Lending, Inc. and Sallie Mae Servicing Corporation, acting as the guarantor for Nellie Mae, sent letters to the students (an example of which is reprinted in enc. II) advising them that their student loans had been approved for $18,500 each (totaling $ 55,500).[2] However, Bank of America, the third lender, did not approve the loans.

Recommendation for Executive Action

We recommend that the Secretary of Education implement a verification process to ensure that a foreign school applying to participate in the FFEL Program actually exists and is recognized by an appropriate educational entity. Specifically, we recommend that Education enter into a relationship with an organization such as the Department of State, which would verify the existence of a foreign school that applies for certification to participate in the FFEL Program through site visits to the school and verification of its accreditation by local educational authorities. In addition, we recommend that the Secretary of Education review the process for certifying student loans and develop controls to prevent fictitious students from obtaining student loans.

Agency Comments

We provided a briefing to administrators of Education's Foreign Schools Team who agreed that our investigation disclosed weaknesses in connection with the certification of foreign schools seeking participation in the FFEL Program. As a result, Education advised us that it has taken actions based on our recommendation. In this regard, the Foreign Schools Team has developed a list of education ministries in each country in which certified foreign schools purportedly exist and has verified that each school properly received certification to participate in the FFEL Program. In addition, the team has implemented a procedure by which its staff is responsible for contacting the respective education ministry each time a school applies for certification or recertification to ensure that the school exists and has been recognized by the appropriate educational entity as a nonprofit, degree-granting institution. The Foreign Service Team also advised us that there are other actions that it plans to take based on our investigative findings and recommendation. Those actions include, among others, (1) revising the internal certification checklist so that the source of the validation is noted and (2) providing technical assistance to foreign schools on financial aid requirements, such as certifying loan applications, ensuring students are accepted for enrollment prior to disbursement, and reporting enrollment status updates.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 30 days after its date. At that time, we will send copies of this report to the Secretary of Education and interested congressional

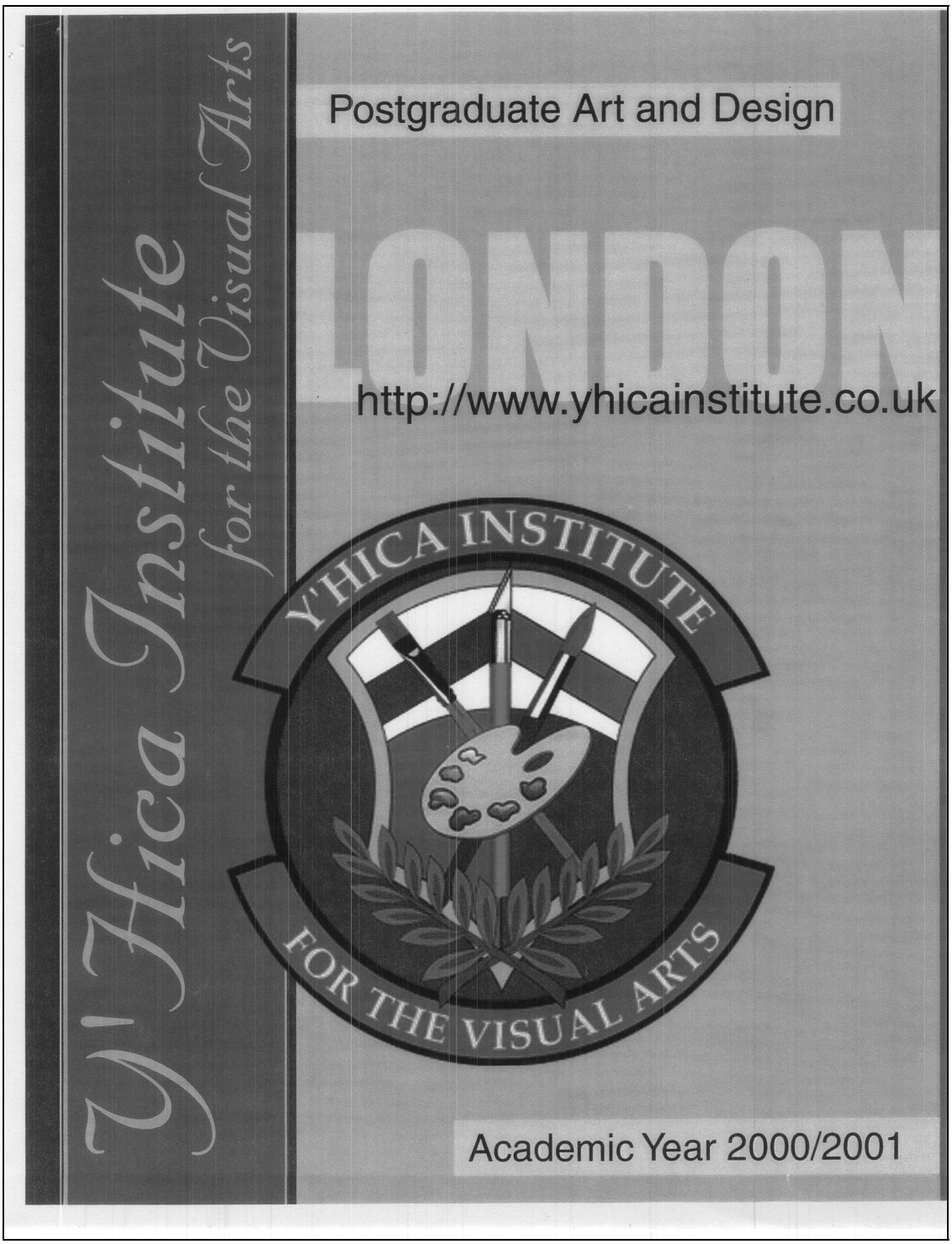
[2] We contacted the financial institutions to explain that we had applied for the loans as a part of our investigation and requested that the financial institutions stop payment on the disbursement checks.

committees. The report will also be available at no charge on the GAO Web site at http://www.gao.gov. If you have questions about the investigation, please contact Acting Assistant Director Andrew O'Connell at (202) 512-7449 or Senior Special Agent Robyn D. Stewart at (202) 512-7475.

Sincerely yours,

Robert J. Cramer
Managing Director
Office of Special Investigations

Enclosures


Y'Hica Institute
for the Visual Arts
Postgraduate Art and Design
LONDON
http://www.yhicainstitute.co.uk
Y'HICA INSTITUTE
FOR THE VISUAL ARTS
Academic Year 2000/2001

SallieMae[redacted]
CORPORATION
PO BOX [redacted]
KILLEEN TX [redacted]

NELLIE MAE, FNBC AS TRUSTEE

(888) 272-5545

SUSAN M COLLINS
4201 WILSON BLVD
110 317
ARLINGTON VA 22203-1859

ACCOUNT NUMBER: 007-02-3155-1

Dear SUSAN M COLLINS, 02/19/02

Congratulations. We are disbursing the funds for your Federal Family Education Loan according to the accompanying disclosure statement. Please allow time for the funds to be made available to you at the school.

Remember that this is a loan that must be repaid. Make sure you have investigated all other options for financial aid such as grants and scholarships before you accept these funds. The accompanying Plain Language Disclosure describes your key rights and responsibilities. A comprehensive list is included in your Master Promissory Note and Rights and Responsibilities statement.

To assist you in estimating your repayment amount, we are providing a chart entitled "Repaying My Loans", or you may use the repayment calculators featured at www.salliemae.com. You can also check the status of your loans.

We wish you the best as you continue your education.

Loan Origination Department

Enclosure: Interim Disclosure Statement
Plain Language Disclosure
Loan Repayment Estimate Chart

B454 SYSTEM 0001

007023155106269596

SallieMae Servicing CORPORATION

NELLIE MAE, FNBC AS TRUSTEE

(888) 272-5543

Federal Interim Disclosure Statement

This is a loan that must be repaid

This disclosure statement identifies for you the particular terms of your loan. Laws and regulations governing the program may have changed since you completed your Promissory Note or since you obtained your last loan. Any changes appear on the following page of this disclosure statement and become part of the terms and conditions of your loan.

Date: 02/19/02

Account Number: 007- 02- 3155 - 1

Borrower Name: SUSAN M COLLINS

Student Name: SUSAN M COLLINS

Student SSN: 007-02-3155-1

Interest Rate: 5.390

For Stafford loans the interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned just prior to June 1, with the following additions: 1.7% during in-school, grace and deferment periods; and 2.3% during repayment. The rate will not exceed 8.25%. For PLUS loans the interest rate is variable and is based on the bond equivalent rate of the 91-day Treasury bill auctioned just prior to June 1, plus 3.1%. The rate will not exceed 9%.

School: Y'NICA INST FOR THE VISUAL ARTS

Anticipated Graduation Date: 06/30/04

Grace Period: 6 months

Repayment Begin Date: 12/31/04

For PLUS loans, first payment is due after final disbursement.

Lender: NELLIE MAE, FNBC AS TRUSTEE

Lender ED Code: 829076

Disbursement Information

If your funds are disbursed by check, we will send the check(s) to your school. Your school will notify you when they receive your check(s). The school will apply the check to your bill at the school, and issue a check to you for any remaining balance on your loan. If you do not want your funds, *do not endorse the check(s), but return it to us immediately* (or have the school return it to us). If your funds are disbursed by EFT, we will wire the funds to your school. Your school will deposit the funds into your account at the school and issue a check to you for any remaining balance on your loan. *If you do not want your funds, notify us or your school immediately.*

LOAN PROGRAM	SCHEDULED DISBURSEMENT DATE*	PRINCIPAL LOAN AMOUNT	ORIGINATION FEE**	GUARANTEE FEE**	NET DISBURSEMENT AMOUNT
STAF-UNSUB	02/19/02	$ 9,250.00	$ 277.50	$	$ 8,972.50
	05/30/02	9,250.00	277.50		8,972.50
		$	$	$	$
TOTAL		$ 18,500.00	$ 555.00	$ .00	$17,945.00

* *Dates are estimated and subject to your continued eligibility. Interest begins to accrue on PLUS and unsubsidized Stafford loans on the disbursement date.*

***Fees have been subtracted from your principal loan amount.*

Unsubsidized Interest Payments

The estimated interest that will accrue each quarter on your unsubsidized Stafford loans is listed below. All unpaid interest will be capitalized (added to principal) when you begin repayment. If you wish to pay the interest, write your social security number on your check, note "unsub interest" on the memo line, and send to our payment address.

05/31/02	$ 55.97	PO BOX 4700
06/30/02	$ 167.90	WILKES-BARRE PA 18773-4700
	$	
	$	

If you would like to receive quarterly interest notices, please call us.

Total Cumulative Debt

The information below lists your cumulative Federal Stafford (subsidized and unsubsidized), SLS and PLUS loan debt, including the total principal loan amount listed above and the outstanding principal on any previous loans. This summarizes only the loans owned by us and serviced by Sallie Mae Servicing Corporation. It does not include amounts you may owe through other lending institutions.

LOAN PROGRAM	PRINCIPAL LOAN AMOUNT
STAFFORD - SUBSIDIZED	$ .00
STAFFORD - UNSUBSIDIZED	$ 18,500.00
SLS	$ .00
PLUS	$ .00
TOTAL	$ 18,500.00

PLEASE SEE THE FOLLOWING PAGE FOR IMPORTANT INFORMATION ABOUT YOUR LOAN

0070231551062695 95

B049 SYSTEM 0001

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