

# GAO Highlights

Highlights of [GAO-17-555](#), a report to congressional requesters

## Why GAO Did This Study

Education oversees the financial condition of about 6,000 postsecondary schools whose students received \$125 billion in federal student aid in fiscal year 2016. With the recent closures of several large schools, GAO was asked to review Education's financial oversight of schools.

This report examines (1) how Education oversees the financial condition of schools; (2) the extent to which Education's oversight has been effective at identifying schools at risk of closure; and (3) the extent to which Education informs schools and the public about its financial oversight. GAO analyzed the most recent Education data on school closures and finances since school year 2010-11 (through 2015-16 for closures, 2014-15 for composite scores, and 2013-14 for letters of credit); examined federal laws, regulations, and guidance; reviewed accounting standards and industry practices; and interviewed Education officials, experts in school finance, and administrators at 10 schools in a nongeneralizable sample selected for variation in financial condition, enrollment, and ownership.

## What GAO Recommends

GAO recommends that Education (1) update the financial composite score to better measure schools' financial conditions, (2) improve its guidance to schools on how it calculates the composite score, and (3) provide public data on final composite scores for all schools. Education disagreed with the first recommendation, agreed with the second, and will further evaluate the third. GAO continues to believe these recommendations are valid, as discussed in the report.

View [GAO-17-555](#). For more information, contact Melissa Emrey-Arras at (617) 788-0534 or [emreyarrasm@gao.gov](mailto:emreyarrasm@gao.gov).

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## HIGHER EDUCATION

### Education Should Address Oversight and Communication Gaps in Its Monitoring of the Financial Condition of Schools

## What GAO Found

The Department of Education (Education) reviews the annual audits of postsecondary schools to assess compliance with financial responsibility standards for schools that participate in federal student aid programs and increases its oversight of schools that do not meet these standards. In school year 2014-15, Education reviews found that about 450 of approximately 6,000 schools that participate in federal student aid programs did not receive a passing financial composite score (a measure of schools' financial health). Education may secure financial assurances from schools that do not meet the standards, in the form of a letter of credit, to help cover federal costs if a school closes and students become eligible to have their federal student loans forgiven. Education has also taken steps to expand its oversight of certain large schools and companies that own multiple schools through more frequent monitoring and additional reporting requirements.

School closures are relatively rare, but limitations of Education's composite score hamper its effectiveness at identifying at-risk schools. About 95 schools closed in school year 2015-16, according to Education data. The vast majority of closures in the past 5 years were small schools (less than 500 students), but recent closures of several large schools affected thousands of students and resulted in over half a billion dollars in federal losses from unrepaid student loans. The composite score has been an imprecise risk measure, predicting only half of closures since school year 2010-11, although schools can close for nonfinancial reasons as well. GAO identified three key limitations of the composite score:

- **Accounting changes:** It does not reflect updates in accounting practices.
- **Outdated financial measures:** It does not incorporate new financial metrics that would provide a broader indication of schools' financial health, such as liquidity, historical trend analysis, or future projections.
- **Vulnerability to manipulation:** It allows some schools to take advantage of a feature of the composite score calculation to inflate their scores by taking out loans, thereby avoiding requirements to post letters of credit.

Despite these limitations, Education has not updated the composite score since it was first established 20 years ago. Identifying and responding to risks is a key component of federal internal control standards, and Education's failure to update its key financial measure makes it harder for Education to identify and manage schools at risk of closure.

Education does not fully explain to schools key aspects of its financial oversight nor does it disclose complete results to the public. Effective communication is a key principle of federal internal control standards. However, Education's guidance to schools does not sufficiently detail how it calculates the composite score; administrators GAO interviewed at 7 of 10 selected schools expressed confusion about their scores' calculations. Schools that are unable to accurately estimate their scores may not be able to effectively plan for the costs of obtaining a letter of credit. Further, the most recent composite scores publicly released by Education left out 17 percent of schools, whose students received over \$8 billion in federal student aid. As a result, students do not have access to available information on whether their schools are financially sound so they may confidently invest their time and money.