

Testimony of  
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before the  
Committee on Education and Labor  
Higher Education, Lifelong Learning, and Competitiveness Subcommittee  
U. S. House of Representatives  
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Chairman Hinojosa, Ranking Member Guthrie and Members of the Committee:

Thank you for the opportunity to testify about the findings of the Government Accountability Office (GAO) report “Low-Income and Minority Serving Institutions: Management Attention to Long-standing Concerns Needed to Improve Education’s Oversight of Grant Programs” (GAO-09-309), as well as the opportunity to update you on the status of the transition to the William D. Ford Federal Direct Loan (Direct Loan) Program at minority-serving institutions (MSIs). The GAO report focused on the federal oversight of institutions of higher education that receive federal funds under certain programs authorized by Titles III and V of the Higher Education Act of 1965 (HEA).

The GAO examined three programs under Title III, Part A of the HEA: the Strengthening Institutions program (SIP), the American Indian Tribally Controlled Colleges and

Universities program (TCCU), and the Alaska Native and Native Hawaiian Serving Institutions program (ANNH). The Strengthening Historically Black Colleges and Universities program (HBCUs), under Title III, Part B of the HEA and the Developing Hispanic Serving Institutions program (HSIs) under Title V of the HEA were also reviewed by GAO.

To be eligible for the Title III, Part A programs and the HSI program, an institution must have at least 50 percent of its degree students receiving need-based assistance under Title IV of the HEA, or have a substantial number of enrolled students receiving Pell Grants, and have low educational and general expenditures. The Secretary may waive these eligibility requirements under certain conditions. There are additional institutional eligibility requirements for the TCCU, ANNH, and HSI programs. TCCU applicants are limited to tribal colleges and universities, including institutions that qualify for funds under the Tribally Controlled College or University Assistance Act of 1978 or the Navajo Community College Assistance Act of 1978, or listed in section 532 of the Equity in Educational Land Grant Status Act of 1994. Under the ANNH program, an Alaska Native-serving institution must, at the time of application, have an enrollment of undergraduate students that is at least 20 percent Alaska Native students and a Native Hawaiian-serving institution must have an enrollment of undergraduate students that is at least 10 percent Native Hawaiian students. To be eligible to receive a grant under the HBCU program, an institution must have been established prior to 1964 and its principal mission must have been, and must still be, the education of Black Americans. To be eligible to receive funding under the HSI program, an institution must have an enrollment of undergraduate full-time equivalent students that is at least 25 percent Hispanic students at the end of the award year immediately preceding the date of application.

The Title III and Title V programs are administered in the Institutional Development and Undergraduate Education Service (IDUES) division of the Department's Office of Postsecondary Education (OPE).

GAO was asked to determine: (1) the characteristics of institutions eligible to receive grants under Titles III and V, including the characteristics of students served by these institutions; (2) any challenges that grantees face and how they spent Title III and Title V funds to address these challenges; and (3) to what extent the Department of Education monitors the financial and programmatic performance of Title III and Title V grantees and uses this information to target technical assistance.

The Title III and Title V programs are intended to strengthen and support developing postsecondary institutions that enroll large proportions of low-income and minority student populations. The programs provide grants to help institutions improve their academic quality, institutional management, and fiscal stability. Demographic projections suggest that the minority student population will continue to increase. Thus, the federal government maintains a continuing interest in assisting Title III and Title V institutions meet these students' needs.

The GAO study found that Title III and Title V eligible institutions enrolled a greater percentage of minority students than other institutions. Eligible institutions were also found to serve more low-income students than ineligible institutions. The report says, "Specifically, 44 percent of students enrolled in eligible institutions received Pell grants compared to 26 percent at ineligible institutions." Larger proportions of students at eligible institutions were found to attend part-time, and with the exception of students enrolling at HBCUs, to delay college enrollment. Eligible institutions also had lower retention and graduation rates than other institutions. Although grantees reported challenges in academic quality, student support,

institutional management, and fiscal stability, GAO found that the majority of program funds were spent by grantees in the areas of academic quality and student support.

GAO also reviewed the Department's monitoring of grantees under these programs. Historically, grants were monitored using several methods including site visits, reviews of annual and interim performance reports, desk monitoring, and the review of information in the Department's Grants Administration and Payment System (GAPS). In 2002, OPE began using an electronic performance monitoring system to evaluate annual performance reports. Electronic monitoring of grants using OPE's e-Monitoring system began in 2004. Eventually, this system evolved into the Grant Electronic Monitoring System (GEMS), which was introduced in 2008. Currently, an e-Folder system is being piloted to file documents electronically, which also has the benefit of reducing the amount of paper used. In addition, the Department has recently introduced the G5 grants management system which is being used in conjunction with GEMS to enhance grant monitoring.

Generally speaking, in the past, the Department did not make frequent site visits to grantees due to lack of travel funds. As a result, these programs were likely to be monitored using desk monitoring and reviews of annual performance reports. OPE's Program Monitoring Information Technology (PMIT) staff, who were trained in performance monitoring, conducted site visits for selected IDUES grants until 2004, when this unit was disbanded. Subsequently, OPE's Program Oversight Staff (POS) was established to assist program offices in their monitoring efforts. However, the responsibility for conducting programmatic and fiscal site visits was recently transferred from POS to the OPE program offices, and efforts are under way to enhance the staffing of the program offices.

GAO had previously reported on the Department's administration of Title III and Title V programs in 2004 (GAO-04-961) and 2007 (GAO-07-926T), finding that the Department had made limited progress in implementing initiatives to enhance grantee monitoring and technical assistance. In the 2009 study, GAO concluded that the Department made limited progress in improving its monitoring and technical assistance efforts beyond what GAO recommended in its 2004 and 2007 studies, but has not implemented a systematic approach to coordinating these efforts. GAO also found that the Department's targeting of technical assistance remains limited. Based on its findings, GAO recommended that the Secretary of Education take five actions:

1. "Develop a comprehensive, risk-based approach to target grant monitoring and technical assistance based on the needs of grantees. In doing so, Education should take steps to ensure that all available tools, including its electronic monitoring system, risk-based criteria, site visits, and grantee annual performance reports, are fully integrated to better target its limited resources.
2. Follow up on each of the improper uses of grant funds that were identified in the report.
3. Provide program staff with the necessary training to fully carry out monitoring and technical assistance responsibilities.
4. Disseminate information to grantees about common implementation challenges and successful projects to leverage the investment that has been made across the programs.
5. Develop appropriate mechanisms to collect and use feedback from grantees. "

The Department agreed with GAO's recommendations.

To that end, I appreciate the opportunity to be here today. I am happy to report that we have made progress in implementing GAO's recommendations. Our successes include:

In response to Recommendation #1:

- We have developed a Monitoring Plan to target grant monitoring and technical assistance based on the needs of grantees. The plan uses a comprehensive approach to assess risk so that we can better target our resources and makes clear what the monitoring expectations are for the service unit. The main tool for risk assessment is the Monitoring Index, which is used to identify grantees for on-site reviews and additional desk monitoring. Six primary indicators are used to assess institutional risk: A-133 Audit findings, a missing A-133 Audits, accreditation issues, a commercial credit score class of 4 or 5 (severe delinquency measure), evidence of route payment/reimbursement (payments are routed to program office for approval), and inclusion in Federal Student Aid's (FSA) on-site review list. For FY 2010, we anticipate that 50 percent of on-site reviews will be at institutions that are deemed to be high-risk by using the Index. For FY 2010, using the Monitoring Index, 64 institutions have been identified as high risk, with 32 of those being Title III or Title V grantees. In addition to developing the risk-based criteria, we have expanded the use of OPE's GEMS which is used for post-award monitoring and recordkeeping, including the tracking of on-site monitoring review findings and reports and e-Folders. Desk monitoring by program officers, including using the Annual Performance Report (APR), as well as the targeted use of travel funds, are other methods by which integrated targeting of at-risk grantees for monitoring and technical assistance is achieved. It should be noted that APRs are transferred from the web-based APR system into GEMS for all open grants.
- We are planning to conduct 10 more site visits for Title III and Title V programs in FY 2010. One site was previously identified by GAO (three have already been visited), 2 were identified through an IG complaint, and 5 were identified through the Monitoring

Index. In addition, we are pairing experienced staff with new staff on site visits as part of new staff training initiatives.

- We are tying our resource allocation to risk by focusing our resources on grantees that need enhanced monitoring.

In response to Recommendation #2:

- We are making progress in following up on GAO's findings of the improper use of grant funds at four institutions. We visited one institution, Wiley College, in November 2009. The site reviewer found that the College had made improvements in the areas addressed in GAO's findings, and found no evidence of policies, procedures, or activities that did not comply with applicable Federal laws and regulations. We visited two other institutions, University of Sacred Heart and Morgan State, and reports are being prepared by the site visit teams. Riverside Community College was scheduled to be visited May 16-21, 2010, but the site visit was postponed due to a scheduling conflict. A new date has not been scheduled. It is expected that the site visit will be completed by August 30, 2010.

In response to Recommendation #3:

- With regard to training, as I mentioned earlier, new program officers are paired with more experienced program officers as part of the new staff mentoring process. Also, in anticipation of several new hires in FY 2010, a comprehensive orientation process is being developed.
- IDUES staff participated in training specific to improving their staff monitoring and technical assistance responsibilities that included "Programmatic Site Visit Training" and "Fiscal Monitoring Training."

- Department -wide training to improve monitoring skills is also being developed by the Department’s Risk Management Services, which will include “Grants Management Training.” Employees are also able to participate in Basic Federal Accounting classes and are required to take “Internal Controls” training.

In response to Recommendation #4:

- IDUES held a project directors’ meeting in March 2010 in Washington, DC that was attended by over 1,000 Title III and Title V project directors and personnel. The agenda included program-specific discussions and project presentations. Our plan is to have an annual project directors’ meeting for these programs.

In response to Recommendation #5:

- The Department has provided an e-mail address that allows grantees to provide anonymous feedback. The e-mail address appears on all IDUES grant program websites. As of March 1, 2010, 8 Title III and 7 Title V-related e-mails were referred to the IDUES service director or a staff member for response.

In sum, we have made good progress in improving our ability to monitor and provide technical assistance to Title III and Title V grantees and we will continue to expand our capacity to do so. The changes we are making should result in better information with which to provide oversight to these programs. I would like to conclude this part of my remarks by emphasizing that we will continue to implement GAO’s recommendations in the coming months and years. Our ultimate goal is to increase the number of students accessing and completing a postsecondary education. MSIs play a critical role in our achievement of this objective.

## Status of the Transition to the Direct Loan Program for Title III and Title V Institutions

As you know, the SAFRA, which was included in the Health Care and Education Reconciliation Act of 2010 (Public Law 111-152), provides that, after June 30, 2010, no new student loans will be made under the Federal Family Education Loan (FFEL) Program. Therefore, beginning July 1, 2010, all new subsidized and unsubsidized Stafford Loans made to students, PLUS loans made to parents and to graduate and professional students, and consolidation loans will be made under the William D. Ford Federal Direct Loan Program.

The Department is closely tracking the transition of Title III and Title V institutions into the Direct Loan Program and, by all accounts, the transition of these institutions is going well. A number of these schools have been processing Direct Loans already. In October 2009, we identified all schools that were still processing only FFEL Program loans and identified which of those schools were Title III or Title V institutions. As of May 20, 2010, of the approximately 300 institutions that meet the definition of a Title III or Title V institutions:

- 121 schools need to transition to the Direct Loan Program (the rest are already participating)
- All 121 of these schools have submitted their notice of intent to participate in the Direct Loan program
- 118 of these schools already process Pell Grants
- 106 schools have attended training
- 94 schools have tested for 2010-11.

## Tracking Major Milestones

The Department tracks each major milestone that Title III and V schools need to complete to participate in the Direct Loan Program to help gauge direct loan origination

readiness and to ensure that all students who need a loan will receive one. These milestones include:

1. Submission of “Intent to Participate” in the Direct Loan Program. Prior to the law being passed, each school interested in participating in DL had to submit to the Department a notice of its intent to participate in the Direct Loan Program. The initiation of this process triggers the assignment of a Point of Contact (POC) in the Department’s office of Federal Student Aid (FSA) to help the school with Common Origination and Disbursement (COD) options, training, and testing. After the bill was signed, the Department identified the schools that had not submitted an Intent to Participate, assigned the POC, and the POC contacted each school. Moreover, Dr. Joel Harrell, Director of the Special Initiatives Service, has assigned one of his staff members to each Title III or Title V school that is transitioning into the Direct Loan Program. The COD POC staff and the Special Initiatives staff work closely together to assist schools in transition.
2. Schools Already Processing Pell Grants. The Department is tracking each institution that is already processing Pell Grants through the COD System because this is an indication of their capability to process a Direct Loan.

The COD System contains a "Common Record" that is used by all schools for submitting Pell Grant transactions to the Department. This same Common Record is used by schools to submit Direct Loan and other Title IV program transactions to the Department. Different data need to be submitted on the Common Record (Promissory Note status, Origination fees, etc.) that are specific to a Direct Loan. However, the record itself and the types of edits and rejects generated by a Direct Loan transaction, are much the same as the edits and rejects generated by a Pell Grant transaction.

3. Training Attendance. The Department is tracking whether Title III and Title V school officials have received any FSA Direct Loan Program training.
4. COD Testing. The Department tracks whether a school has tested with COD or whether the school's software provider has tested with COD. Testing allows a school or their software provider to send records to COD and see if the record is accepted. Testing assures the school that the direct loan record format is correct and that the schools software can successfully send and receive direct loan transmissions to and from COD.
5. First Batch Monitoring. The Department monitors each school's "first batch," which means that when a school is prepared to start processing direct loans, staff check to be sure that the school's first batch of direct loan records is successfully transmitted to FSA. If there are rejects, staff works with the school and the school re-submits the student records until all are successfully transmitted.

#### Direct Loan Transition Training

Besides the many Direct Loan webinars, Regional Training, and association meetings in which training has been made available to schools, other training opportunities have or will be provided:

- FSA Staff have visited 3 of the 4 tribal institutions that participate in the student loan programs and provided default prevention training.
- On-site visits from the Special Initiative team have provided training support where needed.
- The Special Initiatives team follows the above milestones carefully and, if a school has not attended training, they work with the school to ensure that it registers for training.

- COD staff worked directly with groups of HBCUs in the Atlanta area to provide training and other support.
- On May 18-21, the Special Initiative staff, along with Training officers in the Denver Regional Office, sponsored an annual Tribal College workshop in the Denver Regional Office. The workshop included additional discussions and training with the 4 Tribal Colleges and Universities that participate in the student loan programs.
- From May 18 to June 28, the Department will present the HBCU Summer workshop series. These are one-day workshops across the southeast, east, and southwest areas of the country. The workshop has a module devoted to Direct Loans.
- In February, training was provided in three Puerto Rico cities. 90% of the Puerto Rican schools use the EDEExpress product to process Title IV aid. The training provided information on Direct Loans and COD with a heavy focus on EDEExpress as well as providing hands on training with the EDEExpress tool. The training was done in Spanish.
- A full day of training is scheduled in the Dominican Republic for domestic schools that are in the Caribbean area.

To summarize, the Department has taken a comprehensive and proactive approach to assisting the Title III and Title V institutions in the transition to the Direct Loan Program. We believe that all of these institutions will be ready and able to begin processing Direct Loans for their student borrowers for the coming award year.

I would be pleased to respond to any questions that you might have.