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EXAMINING GAO'S FINDINGS ON EFFORTS TO IMPROVE OVERSIGHT OF LOW-INCOME AND MINORITY SERVING INSTITUTIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON HIGHER EDUCATION, LIFELONG LEARNING, AND COMPETITIVENESS

COMMITTEE ON EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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EXAMINING GAO'S FINDINGS ON EFFORTS TO IMPROVE OVERSIGHT OF LOW–INCOME AND MINORITY SERVING INSTITUTIONS

Thursday, May 27, 2010
U.S. House of Representatives
Subcommittee on Higher Education,
Lifelong Learning, and Competitiveness
Committee on Education and Labor
Washington, DC

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2175, Rayburn, Hon. Ruben Hinojosa [chairman of the subcommittee] presiding.

Present: Representatives Hinojosa, Tonko, Davis, Fudge, Guthrie, Biggert, and Roe.

Also Present: Representative Scott.

Staff Present: Jeff Appel, Senior Education Policy Advisor/Investigator; Andra Belknap, Press Assistant; Calla Brown, Staff Assistant, Education; Jose Garza, Deputy General Counsel; Mike Kruger, Online Outreach Specialist; Sadie Marshall, Chief Clerk; Ricardo Martinez, Policy Advisor, Subcommittee on Higher Education, Lifelong Learning, and Competitiveness; Bryce McKibben, Staff Assistant, Education; Alex Nock, Deputy Staff Director; Kristina Peterson, Legislative Fellow, Education; Julie Radocchia, Senior Education Policy Advisor; Alexandria Ruiz, Administrative Assistant to Director of Education Policy; Ajita Talwalker, Education Policy Advisor; Stephanie Arras, Minority Legislative Assistant; Kirk Boyle, Minority General Counsel; Amy Raaf Jones, Minority Higher Education Counsel and Senior Advisor; Brian Newell, Minority Press Secretary; Susan Ross, Minority Director of Education and Human Services Policy; and Linda Stevens, Minority Chief Clerk/Assistant to the General Counsel.

Chairman HINOJOSA. A quorum being present, the committee will come to order.

Pursuant to the committee rules, any member may submit an opening statement in writing which will be made part of the permanent record; and now I recognize myself, followed by Ranking Member Guthrie, for an opening statement.

First, I would like to welcome my colleagues on both sides of the aisle to this important hearing on examining GAO's findings on efforts to improve oversight of minority serving institutions.

I want to commend and recognize some of our colleagues on the Education and Labor Committee for their leadership in advancing the Student Aid and Fiscal Responsibility Act, known as SAFRA, enacted as part of a Health Care and Education Reconciliation Act of 2010. Since last fall, I have had the pleasure of working closely with Representatives Bobby Scott, Raul Grijalva, Dale Kildee, David Wu, as well as other members of the Congressional TriCaucus to ensure that SAFRA included targeted funding for Title III and Title V institutions.

I want to thank GAO for the release of their report examining GAO's findings on efforts to improve oversight of low-income students and minority serving institutions.

As many of you know, I have fought rigorously to increase Federal resources to MSIs throughout my tenure in Congress. Historically black colleges and universities, known as HBCUs, and Hispanic serving institutions, known as HSIs, as well as tribal colleges and universities and Alaska native serving institutions or native Hawaiian serving institutions and predominantly black institutions, as well as Asian American and Native American Pacific Islander serving institutions and Native American serving nontribal institutions are an invaluable segment of our Nation's higher education system. Each year they ensure access and affordability to millions of minority and low-income students and workers.

Over the past 15 years or so, we have made significant strides in addressing the funding gap for these institutions. On March 30th, President Obama signed the Health Care and Education Reconciliation Act of 2010, providing $2.55 billion for Title III and Title V institutions. This is the largest investment ever in HBCUs and HSIs.

At this time, I wish to acknowledge HBCUs for the tremendous job they have done in educating a large portion of our Nation's African American students. HBCUs prepare exceptional leaders in the fields of medicine, in law, science, technology, engineering, mathematics, teaching, and other areas where minority students continue to be underrepresented.

According to the State of America's Black Colleges, HBCUs graduate 40 percent of all African American students receiving a 4-year STEM degree and 50 percent of African American teachers. HBCUs play an extremely vital role in our Nation's higher education system and serve as role models for other institutions of higher learning.

We have also made substantial progress in supporting and developing the capacity of Hispanic serving institutions, known as HSIs. According to Excellencia in Education, a nonprofit organization which promotes success for Latinos in higher ed, HSIs enroll approximately half of all Latino undergraduates in the United States.

In 1995, HSIs received an appropriation of only $12 million. That was the first time that they were funded. They were one of a number of institutions receiving funding under Title III. Then, in 1998, we were successful in creating a separate title for HSIs to underscore the importance of these institutions to our Nation's growing Latino community. In fiscal year 2010, the developing Hispanic serving institutions program received an appropriation of $117 million; and the Promoting Post Baccalaureate Opportunities, our

newly created graduate program for HSIs, received an appropriation of $22 million.

I am very proud of what our committee has been able to accomplish for all of our institutions of higher learning, and as we build on our successes and set goals for the next decade it is imperative that we have stronger mechanisms to monitor these Federal programs. We must have increased accountability and work with the United States Department of Education to improve annual monitoring and reporting requirements. Our students deserve the very best, and our institutions must provide exemplary leadership in managing these resources effectively. To achieve President Obama's goal of leading the world in college graduates by 2020, we must ensure that MSIs are doing their part to increase persistence, retention, and completion rates of all students.

Based on the findings of the GAO report, four institutions used grant funds improperly; and that is a serious concern for me and for our committee. The GAO report is a great starting point for today's hearing, and I hope that we can have a robust discussion and learn more about these issues from our distinguished witnesses.

With that, I say thank you; and I now yield to Ranking Member Guthrie.

[The statement of Mr. Hinojosa follows:]

Prepared Statement of Hon. Rubén Hinojosa, Chairman, Subcommittee on Higher Education, Lifelong Learning, and Competitiveness

I would like to welcome my colleagues, on both sides of the aisle, to this important hearing on "Examining GAO's Findings on Efforts to Improve Oversight of Low-Income and Minority Serving Institutions."

I want to recognize some of our colleagues on the Education and Labor Committee for their leadership in advancing the Student Aid and Fiscal Responsibility Act (SAFRA), enacted as part the Health Care and Education Reconciliation Act of 2010.

Since last fall, I have had the pleasure of working closely with Representatives Bobby Scott, Raλl Grijalva, Dale Kildee, David Wu as well as other members of the congressional tri-caucus to ensure that SAFRA included targeted funding for Title III and Title V institutions.

I want to thank the GAO for the release of their report: "Examining GAO's Findings on Efforts to Improve Oversight of Low-Income and Minority Serving Institutions."

As many of you know, I have fought vigorously to increase federal resources to MSI's throughout my tenure in congress.

Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), Tribal Colleges and Universities (TCUs), Alaska Native-Serving Institutions or Native Hawaiian-Serving Institutions, Predominantly Black institutions, Asian American and Native American Pacific Islander-Serving Institutions and Native American-Serving Nontribal Institutions are an invaluable segment of our nation's higher education system.

Each year, they ensure access and affordability to millions of minority and low-income students and workers.

Over the past fifteen years or so, we have made significant strides in addressing the funding gap for these institutions. On March 30th, President Obama signed the Health Care and Education Reconciliation Act of 2010, providing $2.55 billion for Title III and Title V institutions. This is the largest investment ever in HBCUs and MSIs.

At this time, I wish to acknowledge HBCUs for the tremendous job they have done in educating a large proportion of our nation's African-American students.

HBCUs prepare exceptional leaders in the fields of medicine, law, science, technology, engineering, mathematics, teaching, and other areas where minority students continue to be underrepresented.

According to "The State of America's Black Colleges" HBCUs graduate 40 percent of all African-American students receiving a four-year STEM degree and 50 percent of African-American teachers.

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In 1995, HSIs received an appropriation of just $12 million; they were one of a number of institutions receiving funding under Title III. In 1998, we were successful in creating a separate title for HSIs to underscore the importance of these institutions to our nation's growing Latino community.

In FY 2010, the developing Hispanic-Serving Institutions program received an appropriation of $117 million, and the promoting post-baccalaureate opportunities, our newly created graduate program for HSIs, received appropriations of $22 million.

I am very proud of what our committee has been able to accomplish for all of our institutions. As we build on our successes and set goals for the next decade, it is imperative that we have stronger mechanisms to monitor these federal programs.

We must have increased accountability and work with the U.S. Department of Education to improve annual monitoring and reporting requirements. Our students deserve the very best, and our institutions must provide exemplary leadership in managing these resources effectively.

To achieve President Obama's goal of leading the world in college graduates by 2020, we must ensure that MSIs are doing their part to increase persistence, retention, and completion rates for all students.

Based on the findings of the GAO report, four institutions used grant funds improperly and that is a serious concern for me.

The GAO report is a great starting point for today's hearing, and I hope that we can have a robust discussion and learn more about these issues from our distinguished witnesses.

Thank you, I now yield to Ranking Member Guthrie.

Mr. GUTHRIE. Thank you, Mr. Chairman. I appreciate you holding this hearing.

And thank you, Mr. Scott and Secretary Shireman, for coming today. We appreciate you being here.

This hearing is about the Government Accountability Office's recent findings concerning the Department of Education's oversight and monitoring of Federal funds intended to support low-income and minority serving institutions. Federal funds flow to these institutions primarily through programs authorized under Title III and V of the Higher Education Act. I look forward to hearing about GAO's examination of the Department's efforts to ensure taxpayers' funds are spent appropriately.

The diversity that currently exists within the American higher education system is part of what makes our education system the envy of the world. The institutions that receive funds through these programs serve some of the most vulnerable students and those students perhaps in the most need of a postsecondary education. These students come from either low-income, first-generation, or minority families that are often underserved in the higher education system. As a result, it is important to ensure the institutions being attended by these students are using Federal taxpayer dollars wisely.

I am concerned by the GAO's findings that there still exists a lack of proper oversight regarding how program dollars are being spent. The institutions these programs are intended to support are already underresourced and may need additional assistance understanding all of the parameters that go with receiving a Federal grant. To ensure the success of these institutions, it is critically important every Federal dollar is spent properly.

I recognize GAO did find the Department of Education has made some improvements in response to previous reports of fraud and its use of funds. However, I am concerned that as Congress has increased taxpayer support of these institutions the Department has not also increased its monitoring and oversight. Through its investigations, GAO found misuse of Federal funds at four of the seven institutions they visited, including one institution recommended by the Department as a model grantee.

Our country is facing a difficult economic time, and just this week the Federal debt passed an historic $13 trillion. This year alone we are expected to run a Federal deficit of $1.5 trillion.

For many Americans, including many low-income or minority students, higher education is the way to a better life. Congress recognized the public good advanced by providing Federal assistance to institutions that serve underprivileged students and spelled out how support was to be allocated to ensure students benefit from a quality education and taxpayers have confidence limited Federal resources are spent wisely.

It is important that the Department of Education do its part to ensure these institutions are acting in accordance with the letter and spirit of the law. I look forward to hearing what steps the Department has done since the release of this report and why.

And, with that, I thank the chairman for holding this hearing; and I yield back.

[The statement of Mr. Guthrie follows:]

Prepared Statement of Hon. Brett Guthrie, Senior Republican Member, Subcommittee on Higher Education, Lifelong Learning, and Competitiveness

Thank you Mr. Chairman.

This hearing is about the Government Accountability Office's recent findings concerning the Department of Education's oversight and monitoring of federal funds intended to support low-income and minority-serving institutions. Federal funds flow to these institutions primarily through programs authorized under Title III and Title V of the Higher Education Act. I look forward to hearing about GAO's examination of the Department's efforts to ensure taxpayer funds are spent appropriately.

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I look forward to hearing what steps the Department has done since the release of this report and with that, I thank the Chairman for holding this hearing and I yield back.

Chairman HINOJOSA. Before I introduce the panelists, I want to read into the record that all members will have 14 days to submit additional materials or questions for the hearing record.

This subcommittee hearing on May 27, 2010, will hear from two witnesses. The first one I wish to introduce is Mr. George Scott, who is the Director, Education, Workforce, and Income Security issues for the United States Government Accountability Office. He is a frequent witness before our committee. He oversees the high-quality work that GAO provides for our committee in various areas of our jurisdiction.

He is a graduate of North Carolina at Chapel Hill and has received several GAO management awards. George has been recognized for exemplary achievement in public administration.

Once again, we are anxious to hear from you, sir, and we welcome you.

Also, we will hear from Mr. Robert Shireman, who is the Deputy Under Secretary in the Department of Education. He is a leading expert on college access and financial aid. Prior to his appointment, he served on the Federal and Advisory Committee on Student Financial Assistance. Robert has served as staff for Senator Simon, and during the Clinton administration he served on the National Economic Council.

He holds a bachelor's degree in economics from the University of California at Berkeley. He earned a masters degree from Harvard in education and the University of San Francisco in public policy.

Thank you for being with us today.

For those of you who have not testified before this subcommittee, let me explain our lighting system and the 5-minute rule. Everyone, including members, is limited to 5 minutes of presentation or questioning. The green light is illuminated when you begin to speak, and when you see the yellow light it means you have 1 minute remaining. When you see the red light, it means your time has expired and you need to conclude your testimony. Please be certain as you testify to turn on and speak into the microphones in front of you.

With that, we will now hear from our first witness, Mr. Scott.

STATEMENT OF GEORGE SCOTT, DIRECTOR, EDUCATION, WORKFORCE AND INCOME SECURITY ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. SCOTT. Mr. Chairman, Ranking Member Guthrie, and members of the subcommittee, I am pleased to be here today to discuss the Department of Education's oversight of grants to low-income and minority serving institutions.

As you know, Title III and Title V of the Higher Education Act provide grants to strengthen and support these institutions. Given the challenges that many of these schools face, grants for these programs will continue to play an important role in helping them. Funding for these programs has increased significantly over the past 10 years, almost tripling from $230 million in 1999 to $681 million in 2009. Last year, we again reported on our long-standing concerns with Education's oversight of these grants. Today, I will discuss the Department's progress in addressing those concerns.

In summary, Education has made some progress in implementing a systematic approach to grant monitoring and technical assistance, but much work remains to be done.

GAO and Education's Inspector General have recommended multiple times that Education implement such an approach to better evaluate the performance of grantees. For example, in 2004, we recommended that Education complete its electronic monitoring system and training programs to ensure its monitoring plans target at-risk grantees. In our recent report, however, we found that, while Education has taken some steps to better target monitoring, many of its initiatives have yet to be fully realized. Currently, Education is still in the processes of modifying its monitoring approach.

To its credit, we found that Education has made progress in automating its monitoring tools and developing risk-based criteria. The redesigned system brings together information about a school's performance in managing all of its higher Education grants, increasing education's ability to assess the risk of grantee noncompliance.

Another feature of the system is a monitoring index that identifies institutions that need heightened monitoring or assistance.

Education has also taken steps to improve the technical assistance it provides to grantees and develop mechanisms to routinely collect and use grantee feedback.

Despite progress in these areas, we found that Education still lacked a coordinated approach to guide its monitoring efforts. The Department recently developed a draft monitoring plan for Title III and Title V programs, but it has not consistently developed realistic and measurable targets for each of the activities in the plan. For example, Education commits to offering physical monitoring training, but it has not established measurable targets for how many staff will receive the training or how it will determine the effectiveness of the training. Without a comprehensive approach to monitoring, Education lacks assurance that grantees appropriately manage Federal funds, increasing the potential for fraud, waste, or abuse.

We identified over $140,000 in questionable expenditures at four of the seven institutions where we conducted financial site visits. For example, at one institution, we identified significant internal control weaknesses and over $105,000 in questionable expenditures. These expenditures included almost $80,000 for student field trips to locations such as amusement parks. Grant funds were also used to purchase an airplane global positioning system, even though the school did not own an airplane.

Education had recommended that we visit this school as an example of a model grantee. We referred the problems we found at

this school to Education's Inspector General for further investigation. In response to our recommendation, the Department is following up on each of the questionable expenditures we identified during our visits.

In conclusion, Education has taken steps to respond to our recent recommendations to improve grant oversight, but it is too early to tell if the Department has fully embraced a comprehensive risk-based approach to monitoring. The questionable expenditures we identified at some schools demonstrate the importance of Education having an effective monitoring and technical assistance program in place. Targeting oversight and assistance to grantees with the greatest risk is critical to ensuring that grant funds are used to improve institutional capacity and student outcomes. To do this effectively will require Education's sustained attention and a long-term commitment. We will continue to track the Department's progress in fully implementing our recommendations.

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. Thank you.

[The statement of Mr. Scott follows:]

Prepared Statement of George A. Scott, Director, Education, Workforce, and Income Security, U.S. Government Accountability Office

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: I am pleased to be here today to discuss the Department of Education's (Education) oversight of grant assistance to schools that provide low-income and minority students with access to higher education. While higher education has become more accessible than ever before, students from some demographic groups still face challenges in attending college. In 2007, for example, an estimated 58 percent of low-income students enrolled in college soon after completing high school, compared to 78 percent of students from high-income families. Similarly, African American and Hispanic high school graduates enrolled at lower rates than white students. To help improve access to higher education for minority and low-income students, Titles III and V of the Higher Education Act, as amended, provide grants to strengthen and support institutions that enroll large proportions of these students.[1]

Today I will discuss progress Education has made in monitoring the financial and programmatic performance of Title III and V grantees. In August 2009, we issued a report that discussed long-standing concerns regarding Education's oversight of these programs that limit its ability to ensure grant funds are used appropriately.[2] This testimony is based on that report and updated information provided by Education. In developing that report, we analyzed data from grantees' annual performance reports detailing expenditures of fiscal year 2006 grant funds and conducted site visits at seven grantee institutions. We also interviewed officials at Education and reviewed grant program requirements and monitoring plans. We conducted the work for our August 2009 report from September 2007 to June 2009 in accordance with generally accepted government auditing standards and updated this information from April to May 2010. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our

[1] Title III and V programs include three Title III, Part A programs: Strengthening Institutions, American Indian Tribally Controlled Colleges and Universities, and Alaska Native and Native Hawaiian Serving Institutions. They also include Title III, Part B Strengthening Historically Black Colleges and Universities, and Title V, Part A Developing Hispanic Serving Institutions. Throughout this testimony when we refer to Title III and Title V programs or grants, we are referring to these specific programs. Our review did not include Title III, Part A Predominantly Black Institutions, Title III, Part A Native American-serving, Nontribal Institutions, Title III, Part A Asian American and Native American Pacific Islander-serving Institutions, Title III, Part B Historically Black Professional or Graduate Institutions; Part D Historically Black Colleges and Universities Capital Financing; or Part E Minority Science and Engineering Improvement Program.

[2] GAO, Low-Income and Minority Serving Institutions: Management Attention to Long-standing Concerns Needed to Improve Education's Oversight of Grant Programs, GAO-09-309 (Washington, D.C.: Aug. 17, 2009).

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.

Background

Postsecondary institutions that serve large proportions of low-income and minority students are eligible to receive grants from Education through programs authorized under Title III and Title V of the Higher Education Act, as amended.[3] Institutions eligible to receive these grants include historically black colleges and universities, Hispanic-serving institutions, tribally controlled colleges and universities, Alaska Native-serving institutions and Native Hawaiian-serving institutions, and other undergraduate postsecondary institutions that serve large numbers of low-income students. In 2007, Congress authorized new programs for other categories of minority serving institutions, including predominantly black institutions, Native American-serving nontribal institutions, and Asian American and Native American Pacific Islander-serving institutions.[4]

Funding for Title III and V programs included in our review has increased significantly over the past 10 years. In fact, funding almost tripled from fiscal year 1999 to fiscal year 2009, increasing from $230 million to $681 million (see table 1). In addition, fiscal year 2009 funding for the three new Title III programs created in 2007 was $30 million.

TABLE 1.—TITLE III AND V FUNDING: FISCAL YEARS 1999 AND 2009

[Dollars in millions]

Funding program	1999	2009
Title III, Part A, Strengthening Institutions	$60	$80
Title III, Part A, Tribal Colleges and Universities	3	53
Title III, Part A, Alaska Native and Native Hawaiian Institutions	3	32
Title III, Part B, Historically Black Colleges and Universities	136	323
Title V, Part A, Hispanic-Serving Institutions	28	193
Total	$230	$681

Source: Appendix, Budget of the United States Government for Fiscal Year 2001, ''Department of Education,'' (Feb. 7, 2000), at 362; Appendix, Fiscal Year 2011, (Feb. 1, 2010), at 376.

While the institutions included in these programs differ in terms of the racial and ethnic makeup of their students, they serve a disproportionate number of financially needy students and have limited financial resources, such as endowment funds, with which to serve them. The Higher Education Act outlines broad goals for these grants, but provides flexibility to institutions in deciding what approaches will best meet their needs. An institution can use the grants to focus on one or more activities to address challenges articulated in its comprehensive development plan, which is required as part of the grant application and must include the institution's strategy for achieving growth and self-sufficiency. Under Education's program guidance, institutions are allowed to address challenges in four broad focus areas: academic quality, student support services, institutional management, and fiscal stability. For example, funds can be used to support faculty development; purchase library books, periodicals, and other educational materials; hire tutors or counselors for students; improve educational facilities; or build endowments.

Long-Standing Deficiencies in Grant Monitoring and Technical Assistance Limit Education's Ability to Ensure That Funds Are Used Properly and Grantees Are Supported

EDUCATION HAS MADE LIMITED PROGRESS TOWARD IMPLEMENTING A SYSTEMATIC APPROACH TO MONITORING AND TECHNICAL ASSISTANCE

GAO and Education's Inspector General have recommended multiple times that Education implement a systematic monitoring approach to better assess the fiscal and programmatic performance of Title III and V grantees. Such an approach would include implementing formal monitoring and technical assistance plans based on risk models and developing written procedures for providing technical assistance. In

[3] 20 U.S.C. § 1051 et seq. and 20 U.S.C. § 1101 et seq.

[4] These programs were first authorized in the College Cost Reduction and Access Act (Pub. L. No. 110-84) and reauthorized in the Higher Education Opportunity Act (Pub. L. No. 110-315). They received initial funding in fiscal year 2008 and were therefore not included in our review.

2004, for example, we recommended that Education complete its electronic monitoring system and training programs to ensure its monitoring plans are carried out and target at-risk grantees.[5] In our 2009 report, however, we found that while Education had taken some steps to better target its monitoring in response to our previous recommendation, many of its initiatives had yet to be fully realized. Accordingly, we recommended that the Secretary of Education develop a comprehensive, risk-based approach to target grant monitoring and technical assistance based on the needs of grantees. Education officials agreed with this recommendation and told us that they were working to implement it. At this time, however, Education is still in the process of modifying its monitoring approach and it is too early to determine the effectiveness of its efforts. Table 2 summarizes the status of Education's key monitoring initiatives, followed by a more detailed discussion of each initiative.

TABLE 2.—A COMPARISON OF THE STATUS OF EDUCATION'S MONITORING INITIATIVES IN 2004 AND 2010

Monitoring initiative	2004 status	2010 status
Implement electronic monitoring system	Education implemented electronic monitoring of Title III and V grantees at the end of 2004.	Redesigned in fiscal year 2007 because the original system did not achieve its intended goal of presenting a comprehensive view of risk based on an institution's portfolio of higher education grants from Education. The new system is now fully operational and allows for electronic storage of all grant file records.
Establish risk-based criteria	The program office for Title III and V grants developed risk-based criteria in fiscal year 2003, but used these criteria inconsistently within the program office.	The program office for Title III and V grants established preliminary risk-based criteria for all its grant programs in fiscal year 2008. Criteria were used to create a monitoring index to identify schools for additional monitoring, but only a small portion of these criteria were being utilized to set priorities at the time of our 2009 report. While Education officials recently told us that they plan to use the monitoring index to select half of the schools selected for site visits, they have not done so for visits conducted so far in fiscal year 2010.
Develop monitoring plans	Following a fiscal year 2002 effort to place greater emphasis on performance monitoring for all grantees, annual monitoring plans were developed to guide monitoring and technical assistance.	Once Education rescinded the requirement to submit annual monitoring plans in 2006, the program office ceased to develop monitoring plans. In response to a new agency-wide requirement, the program office has recently developed a new monitoring plan for fiscal year 2010 to help facilitate a more coordinated and risk-based approach to monitoring and intends to develop a monitoring plan annually; however, some of the monitoring activities lack realistic and measurable performance goals.
Design comprehensive approach to site visits	While program staff were required to complete at least two site visits annually, the majority of staff did not fulfill the requirement. Site visits that were conducted lacked a standard approach and varied in quality.	The requirement for program officers to complete a minimum number of site visits was eliminated and few site visits have been completed since 2004. Most completed visits did not include financial monitoring to determine whether program funds were properly used. Since our report, site visits in 2009 and 2010 have remained limited.
Develop training for enhanced monitoring	Education developed a corrective action plan to provide additional courses over a 3-year period to address training needs of its staff.	Education has developed courses to enhance its monitoring training, but as of our 2009 report, most staff had not completed coursework and one key course had yet to be offered. Education officials recently told us that they have developed two new training courses to address skill deficits identified by GAO; however, only about half of program staff have so far attended the two courses on programmatic and fiscal monitoring during site visits.

Source: GAO analysis.

[5] GAO, Low-Income and Minority Serving Institutions: Department of Education Could Improve Its Monitoring and Assistance, GAO-04-961 (Washington, D.C.: Sept. 21, 2004).

ELECTRONIC MONITORING SYSTEM AND RISK-BASED CRITERIA

In 2009, we found that Education had made progress in automating its monitoring tools and developing risk-based criteria. Specifically, Education redesigned its electronic monitoring system in 2007 to add several key enhancements which, if fully integrated into the oversight activities of program staff, have the potential to improve the quality and consistency of monitoring. The redesigned system brings together information about an institution's performance in managing its entire portfolio of higher education grants, increasing Education's ability to assess the risk of grantee noncompliance with program rules. Program officers can also enter into the system updates about a grantee's performance, based on routine interactions with the grantee. Because the system integrates financial and programmatic data, such as institutional drawdown of grant funds and annual performance reports, staff have ready access to information needed to monitor grantees. However, it will be important for Education to ensure that staff use the system to appropriately monitor grantee performance. For example, our 2009 report found that program staff did not consistently review the annual performance reports grantees are required to submit—reports that provide key information to determine whether grantees have demonstrated adequate progress to justify continued funding. Education officials reported that they have established new processes and a new form to ensure that staff review these reports as part of their regular monitoring activities.

Another feature of the system is a monitoring index, implemented in 2008, that identifies institutions that need heightened monitoring or technical assistance based on criteria designed to assess risk related to an institution's ability to manage its grants. For example, at the time of our 2009 report, an institution that had lost accreditation or had grants totaling more than $30 million was automatically prioritized for heightened monitoring, which could involve site visits or other contacts with the school. Since our 2009 report, Education has twice updated the index. For fiscal year 2010, Education officials told us they reduced the number of criteria to focus on those that it has found more accurately identify high-risk schools that are likely to be experiencing financial or management problems. The fiscal year 2010 index has identified 64 institutions across all higher education grant programs for heightened monitoring, half of which participate in Title III or V programs.

ANNUAL MONITORING PLANS

Our 2009 report found that Education still lacked a coordinated approach to guide its monitoring efforts. In 2002, Education directed each program within the agency to develop a monitoring plan to place greater emphasis on performance monitoring for all grantees and to consider what assistance Education could provide to help grantees accomplish program objectives. However, Education rescinded the requirement in 2006 because the practice did not achieve the intended purpose of better targeting its monitoring resources, and Education officials told us the program office for Title III and V grants discontinued the development of annual monitoring and technical assistance plans.

Since our report was published, Education required all major program offices to develop a monitoring plan for fiscal year 2010. Officials from the office responsible for administering Title III and V programs said they submitted a monitoring plan for review in February 2010, and have been using the plan in draft form while waiting for it to be approved. The plan for Title III and V programs outlines Education's monitoring approach and describes various monitoring tools and activities—such as the monitoring index and site visits; how they are to be used to target limited monitoring resources to grantees that need it most; and an increased focus on staff training. The monitoring plan also includes a section on next steps and performance measures, but Education has not consistently developed realistic, attainable, and measurable targets for each of the monitoring tools and activities outlined in the plan. For example, Education developed specific goals for the number of site visits and technical assistance workshops it would conduct, but it will consider these goals attained if it completes at least 75 percent of them. Additionally, under staff training, Education commits to offering fiscal monitoring training sessions, but it has not established measurable targets for how many staff will receive the training or how it will determine the effectiveness of the training in meeting staff needs.

SITE VISITS

With the implementation of an electronic monitoring system and risk-based monitoring index, Education now has tools to enhance its ability to select grantees for site visits, a critical component of an effective grants management program. Targeting grantees that need assistance or are at high risk of misusing grant funds is

critical, given Education's limited oversight resources and the expansion of its grant oversight responsibilities with the addition of new Title III programs created in 2007. In our 2009 report, however, we found that overall site visits to Title III and V grantees had declined substantially in recent years (see table 3), and Education was not making full use of its risk-based criteria to select grantees for visits. Since our 2009 report, site visits to Title III and V grantees have remained limited, with six visits conducted in fiscal year 2009 and five visits completed more than half-way through fiscal year 2010.

TABLE 3.—SITE VISITS TO TITLE III AND V GRANTEES, FISCAL YEARS 2003 THROUGH 2010

	2003	2004	2005	2006	2007	2008	2009	2010 [a]
Number of site visits	26	18	6	10	1	5	6	5

Source: GAO analysis of Department of Education data.

[a] Completed as of May 2010. Education conducted an additional site visit in 2010 to an institution that participated in one of the grant programs not included in our review. Education officials told us that they plan to conduct eight additional site visits in fiscal year 2010.

One former senior Education official told us that site visits had declined because the program office had limited staff and few had the requisite skills to conduct financial site visits. To obtain the experience and skills needed to conduct comprehensive site visits, Education leveraged staff from another office to conduct site visits for Title III and V programs in 2008, but Education officials recently told us that staff from that office have been dispersed and are no longer available to conduct site visits. They also told us they anticipate hiring four new program officers during the summer of 2010, but it is unclear what effect such hiring will have on Education's ability to conduct site visits.

Our 2009 report also found that the program office for Title III and V grants was not fully using its monitoring index to select high risk schools for site visits. Aside from referrals from the Inspector General, Education officials told us they selected schools for fiscal year 2008 and 2009 site visits based on the total amount of higher education grants awarded (i.e. grantees receiving $30 million or more), which represented only 5 percent of the monitoring index criteria in these years. In response to our 2009 report, Education officials said that they would use the revised monitoring index to select half of the schools chosen for site visits. However, none of the five site visits completed so far in fiscal year 2010 was selected based on the monitoring index. Education officials told us that they have used the index to select five of the eight remaining site visits planned for 2010, but these have not been scheduled yet. Using its monitoring index to select fewer than half of its site visits does not seem to be a fully risk-based approach, leaving open the possibility that Education will not target its limited resources to those grantees most likely to experience problems.

STAFF TRAINING

In our 2009 study, we reported that Education had made progress in developing grant monitoring courses to enhance the skills of Title III and V program staff, but skill gaps remained that limited their ability to fully carry out their monitoring and technical assistance responsibilities. For example, Education had developed courses on internal control and grants monitoring, but these courses were attended by less than half of the program staff. Senior Education officials also identified critical areas where additional training is needed. Specifically, one official told us that the ability of program staff to conduct comprehensive reviews of grantees had been hindered because they had not had training on how to review the financial practices of grantees. As a result, our 2009 report recommended that Education provide program staff with the training necessary to fully carry out their monitoring and technical assistance responsibilities. Education agreed with the recommendation and has developed additional training in key areas. Specifically, Education developed two courses on how to conduct programmatic and fiscal monitoring during a site visit, but only about half of the program officers have attended both courses so far. Education has also established a mentoring program that pairs new program officers with experienced staff. While Education is taking steps to develop training in needed skill areas, implementing an effective monitoring system will require sustained attention to training to ensure that all staff can perform the full range of monitoring responsibilities.

TECHNICAL ASSISTANCE

While Education provides technical assistance for prospective and current Title III and V grantees through preapplication workshops and routine interaction between program officers and grant administrators at the institutions, our 2009 report found that it had not made progress in developing a systemic approach that targeted the needs of grantees. According to one senior Education official, technical assistance is generally provided to grantees on a case-by-case basis at the discretion of program officers. Grantees we interviewed told us that Education does not provide technical assistance that is consistent throughout the grant cycle. Several officials complimented the technical assistance Education provided when they applied for grants, but some of those officials noted a precipitous drop in assistance during the first year after grants were awarded. During the initial year, grantees often need help with implementation challenges, such as recruiting highly qualified staff, securing matching funds for endowments, and overcoming construction delays. In the past, grantees had an opportunity to discuss such challenges at annual conferences sponsored by Education, but Education did not hold conferences for 3 years from 2007 to 2009, despite strong grantee interest in resuming them. According to Education officials, resource constraints prevented them from holding the conferences in those years.

To improve the provision of technical assistance, our 2009 report recommended that Education disseminate information to grantees about common implementation challenges and successful projects and develop appropriate mechanisms to collect and use grantee feedback. In response, Education held a conference for all Title III and V grantees in March 2010, with sessions focused specifically on best practices. Education officials told us that they plan to organize another conference in 2011 and said they will explore the use of webinars to share information with grantees that may be unable to attend. Education has also created an e-mail address for grantees to express concerns, ask questions, or make suggestions about the programs. The address is displayed on every program Web page and is monitored by an Education official not associated with the program office to allow grantees to provide anonymous feedback. In addition, Education officials reported that they have developed a customer satisfaction survey that the Office of Management and Budget has approved for distribution. The survey will be sent to new grantees and grantees that are near the end of their grant period and will obtain feedback on the quality of information provided before a grant is approved, the quality of technical assistance provided, and satisfaction with communications with the program office.

Education Lacks Assurance That Grant Funds Are Used Appropriately

Without a comprehensive approach to target its monitoring, Education lacks assurance that grantees appropriately manage federal funds, increasing the potential for fraud, waste, or abuse. In our 2009 report, we reviewed financial and grant project records at seven institutions participating in Title III and V programs in fiscal year 2006 and identified $142,943 in questionable expenses at 4 of the 7 institutions we visited (see table 4).[6]

TABLE 4.—SUMMARY OF FINDINGS FROM FINANCIAL SITE VISITS

Grantee[a]	State	Total dollars reviewed	Questionable grant expenses
A	Texas	$300,438	$2,127
B	Puerto Rico	353,963	29,258
C	Illinois	226,670	
D	Maryland	427,180	105,117
E	Tennessee	175,388	
F	California	108,977	6,441
G	North Dakota	299,846	
Total		$1,892,462	$142,943

Source: GAO analysis of grantee disbursement records conducted during site visits.

[a] The seven institutions were selected using a nonprobability sample based on factors such as program participation, grant size, and geographic location.

[6] Questionable expenses are expenditures that appear to have been made for incorrect amounts, for unauthorized purposes, or for personal use. They can be inadvertent errors, such as duplicate payments and calculation errors, or violations of grant agreement terms, such as payments for unsupported or inadequately supported claims or payments resulting from fraud and abuse.

At one institution—Grantee D—we identified significant internal control weaknesses and $105,117 in questionable expenditures. A review of grant disbursement records revealed spending with no clear link to the grant and instances in which accounting procedures were bypassed by the school's grant staff. Of the questionable expenditures we identified, $88,195 was attributed to an activity designed to promote character and leadership development, of which more than $79,975 was used for student trips to locations such as resorts and amusement parks. According to the grant agreement, the funds were to be used for student service learning projects; instead, more than $6,000 of grant funds was used to purchase a desk and chair and another $4,578 was used to purchase an airplane global positioning system even though the school did not own an airplane. In purchasing the global positioning system and office furniture, a school official split the payments on an institutionally-issued purchase card to circumvent limits established by the institution. Officials at the institution ignored multiple warnings about mismanagement of this activity from external evaluators hired to review the grant. Education visited the school in 2006 but found no problems, and recommended we visit the institution as an example of a model grantee. We referred the problems we noted at this institution to Education's Inspector General for further investigation.

Examples of the questionable expenditures we identified at three other institutions we visited included:

- At Grantee A, we were unable to complete testing for about $147,000 of grant fund transactions due to a lack of readily available supporting documentation. For one transaction that was fully documented, the grantee improperly used $2,127 in grant funds to pay late fees assessed to the college. Once we pointed out that grant funds cannot be used for this purpose, the college wrote a check to reimburse the grant.
- Grantee B used $27,530 to prepay subscription and contract services that would be delivered after the grant expired.
- Grantee F used more than $1,500 in grant funds to purchase fast food and more than $4,800 to purchase t-shirts for students.

Our 2009 report recommended that Education follow up on each of the improper uses of grant funds identified.[7] In response, Education conducted a site visit to one institution in November 2009 and approved its corrective action plans. Education officials also reported that they visited two other institutions in April 2010 and plan to visit the fourth institution before November 2010.

Concluding Observations

We have recommended multiple times that Education implement a systemic approach to monitoring postsecondary institutions receiving Title III and V grants. As we reported in 2009, Education has made progress in developing tools—such as an electronic monitoring system and risk-based criteria—to assess potential risks, but it lacks a comprehensive risk-based monitoring and technical assistance approach to target its efforts. In the 9 months since our report was issued, Education taken some steps to respond to our most recent recommendations, but it is too early to tell if it has fully embraced a risk-based monitoring approach. For example, Education is still not relying on its risk-based monitoring index to target site visits to schools at highest risk. Until Education is fully committed to such an approach, Title III and V funds will continue to be at risk for fraud, waste, or abuse. The internal control weaknesses and questionable expenditures we identified at some grantees we reviewed demonstrate the importance of having a strong and coordinated monitoring and assistance program in place, especially as Education is called on to administer additional programs and funding. Targeting monitoring and assistance to grantees with the greatest risk and needs is critical to ensuring that grant funds are appropriately spent and are used to improve institutional capacity and student outcomes. To do this effectively will require Education's sustained attention and commitment. We will continue to track Education's progress in fully implementing our recommendations.

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.

Chairman HINOJOSA. At this time, we will hear from Deputy Under Secretary Shireman.

[7] We presented Education with the results of our analysis supporting each of our findings related to our grantee visits.

STATEMENT OF ROBERT SHIREMAN, DEPUTY UNDERSECRETARY, U.S. DEPARTMENT OF EDUCATION

Mr. SHIREMAN. Thank you, Chairman Hinojosa, Ranking Member Guthrie, and members of the subcommittee, for the opportunity to testify about our efforts to strengthen minority serving institutions.

We very much appreciate GAO's continuing review of our oversight of the Title III and V programs. The effectiveness of these institutions is critical to meeting the President's 2020 goal for college completion. We know that we will not meet that goal if we continue business as usual, if institutions don't improve retention rates, graduation rates in their efforts to improve institutions; and that is the purpose of these funds for minority serving institutions, to improve academic quality, to improve institutional management, to improve the fiscal stability of the institutions so that they can best serve students.

We have to manage this program well, also, as we encourage institutions to do the best job possible to manage their programs for students. That means providing targeted support and assistance to institutions where there is an indication that they need that kind of help. It means being responsive when we become aware of issues at institutions. And it means that we need to be aware of the same kind of learning organization that we want colleges to be, getting better and better at the work that we do with those institutions.

On the particular issues that GAO raised in its report, we are pleased to say that we are now doing a better job of using data to target our grant monitoring. We now have a monitoring index for identifying institutions for possible review that looks at audit findings, accreditation findings, commercial credit scores, and other measures that goes into the index to help identify institutions for us to review.

We also review annual performance reports from institutions that tell us how are they doing on the goals that they set out when they first received the grant so that we can respond when goals are not being achieved, benchmarks aren't being reached, or if money is being spent in ways that was not a part of the plan.

We have increased our site visits. We expect 14 site visits of Title III and V institutions in this fiscal year, which compares to six that were done last year.

We are following up on the improper use of funds that were identified in the GAO report. Three of four planned site visits have been done, and one more is planned.

Training of our staff for monitoring and technical assistance has increased with a new orientation process, a mentoring process where we pair experienced staff with newer staff for site visits so that they can learn from those who are experienced. Mandatory internal controls training to all of these as part of the effort to make sure that our staff are well qualified to do the oversight and site visits at institutions that have been identified.

And on the other two recommendations the GAO has made, disseminating lessons learned and getting feedback from institutions, we held in March, for the first time in 10 years, a project director's conference here in Washington with 1,000 plus project directors from MSIs around the country to provide the kind of sharing of

best practices across institutions and for us to be able to hear concerns and questions in an area that we can be more helpful on.

We are enhancing our staffing and leadership in the office and even provided a way for institutions to provide us with anonymous feedback that we can then follow up on if they feel uncomfortable raising an issue directly with their program officer.

All of this is part of an effort for us to be a stronger learning organization so that we can get better and better at what we do and figure out how we can help institutions to grow, improve, and graduate more students toward the President's 2020 goal. Our goal here is not only to make sure that the funds are used appropriately but also to do all we can to make sure that they are used as effectively as it is possible.

Thank you so much for the opportunity to testify, and I would be happy to take questions.

[The statement of Mr. Shireman follows:]

Prepared Statement of Robert M. Shireman, Deputy Undersecretary, U.S. Department of Education

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 Depart-

ment 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 EDExpress product to process Title IV aid. The training provided information on Direct Loans and COD with a heavy focus on EDExpress as well as providing hands on training with the EDExpress 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.

Chairman HINOJOSA. Thank you.

I would like to begin the questioning, and my question will be to George Scott.

Mr. Scott, the GAO has done many programmatic and fiscal reviews of institutions. In your experience, have you seen whether on-site reviews are more effective than electronic monitoring by the sponsoring agencies? And as part of that question, is it more productive to have a combination of methods or is there a point at which costs become the determining factor in oversight?

Mr. SCOTT. Mr. Chairman, given the limited resources that Education faces, we certainly believe it is important that the agency have a range of tools at its disposal, including the electronic monitoring capability.

That said, though, it is not just important to have a capability. It is how you use the information that is generated from the various systems that the Department has available. That is why I believe it is very important that they continue to develop a risk-based approach so they could best target the limited resources to those institutions that present the highest risk to the program.

Chairman HINOJOSA. Is there enough money in the budget to be able to send monitors to campuses?

Mr. SCOTT. We didn't look at the resources broadly available to the office that conducts these oversights. We will note that the

number of program officials in that office have been relatively flat, I believe.

That said, despite the limited resources, it is always important for agencies to continue to look for opportunities to improve the effectiveness and efficiency of the activities, given the limited resources that are available to them; and that is why we have continually been pressing the Department to make sure it is fully utilizing the tools it has and making sure that it fully addresses skills gap among its staff so that it be best prepared to provide effective oversight and monitoring of these institutions.

Chairman HINOJOSA. And my last question to you, sir, is Title III and Title V institutions are eligible to participate in the direct student loan program. With billions of dollars flowing to these institutions over the next 10 years, what recommendations do you think are absolutely necessary for the Department to conduct high-quality financial site visits and electronic monitoring so that we can have a good grasp of how the use of these fiscal resources is being done?

Mr. SCOTT. Mr. Chairman, thank you for that question.

As I said in my statement, it is most important for the Department to develop a comprehensive risk-based approach to targeting these institutions. In the long term, it is really going to take a sustained focus and long-term commitment to develop and maintain such an effective monitoring program. I think the prior GAO recommendations will provide a good road map that the Department can take and use to start to improve and continue to improve its oversight. So I believe that to the extent the Department starts to fully implement the various recommendations that we previously laid out, I think that is a good start for how they can improve their overall oversight.

Chairman HINOJOSA. Thank you.

Mr. Shireman, I see that you gave us some good, effective numbers that I can relate to; and I will ask you some questions. The GAO reported that 44 percent of students enrolled in eligible MSIs received PELL Grants compared to only 26 percent of students at ineligible institutions. Does the Department have evidence that the students receiving the PELL Grants at MSIs depend on the funds for access, persistence, and graduation?

Mr. SHIREMAN. Certainly students that receive PELL Grants are relatively low-income and so those funds help them to be able to afford tuition, to be able to focus on their studies without having to work excessively that might undermine their ability to persist in college and graduate. So we think that those PELL Grants are a very important tool for the students and institutions to promote enrollment, retention, and graduation.

Chairman HINOJOSA. Well, it is cost efficient to allocate your oversight resources according to those institutions who are showing risk factors. It is also important to allocate resources to disseminate the findings so those institutions are having success in highest-quality performance. So my question is, does your management staff try to balance your resources for both purposes?

Mr. SHIREMAN. Certainly we are enhancing our efforts in that area. The first big example of this was the project director's meeting of more than a thousand participants in March to share best

practices. That not only helps the institutions to hear from each other and hear about best practices. It helps our program officers to hear about what is going on in institutions around the country so that when they are working with an institution they can cite examples and they can connect people to leaders of other institutions who might be able to assist them in implementing best practices that have been implemented at that other institution.

Chairman HINOJOSA. My time has run out, and so I am now going to recognize Mr. Guthrie.

Mr. GUTHRIE. Thank you very much.

Thank you, Secretary Shireman. I have a couple of questions.

One, in your testimony, you talked about implementing the recommendations from the report. Are you all planning to—the Department planning to fully implement all recommendations from the 2004—and, if so, what is the timeline in that respect?

Mr. SHIREMAN. I believe so. I would need to take another look at each and every line in the report to see if there are maybe some things that might be difficult to implement. But certainly the thrust of everything in that report are things that we know need to be addressed.

Mr. GUTHRIE. Do you know when? I mean, what your time line is?

Mr. SHIREMAN. Well, some of this is about being a learning organization and getting better and better. So we have already, for example, implemented a monitoring index. We will learn over time whether that can be improved. So in some ways it is an ongoing type of process.

Mr. GUTHRIE. So you don't have recommendation this and here is the timeline to do that?

Mr. SHIREMAN. I certainly expect that this fiscal year we will be largely—we will largely have complied, addressed—I mean, we will have visited all of the institutions where there were questions about spending that was inappropriate. We will have increased the number of site reviews, implemented training, you know. Then, beyond that, we need to get better, because that won't be enough. I mean, I would agree with the comment that we made a good start, but there is still more to do.

Mr. GUTHRIE. I do have a question. It was in your written testimony, actually. And you talked about the Department has a special initiative team, and that is being disbursed to help schools transition to the direct loan program. Who is on the team and who is the team made up of and what is their special purpose?

Mr. SHIREMAN. A team led by Joel Harrell, who is in our Atlanta office, experienced and knowledgeable with the financial aid programs, as well as MSIs, and well known in the MSI community. So they are our lead in making sure that the MSIs have the information and resources they need to be able to implement the financial aid programs effectively.

Mr. GUTHRIE. There is still concern—because I want to ask Mr. Scott a question, but we still have concern as Cash for Clunkers all of a sudden the Transportation Department in that case was overwhelmed with applications. We are still concerned about what is going to happen this fall, so we are still going to be looking at

that. But I don't want to get into the direct loan. It is a different issue for another day, but I know that was in your testimony.

Mr. Scott, you were listening to the testimony, and you have seen what the Department has been doing. When you see the progress that has been made, are you comfortable with the progress that has been made? Are you optimistic that they are getting a handle on this situation?

Mr. SCOTT. As I mentioned in my oral statement, we will continue to monitor the Department's progress in addressing our recommendations.

One of the concerns we have is, over the years, they have sort of made progress and then we have sort of seen regression. So what we are looking for is a long-term, sustained commitment to improving the oversight and effectiveness of these programs. So that is why we are going to continue to monitor these programs and continue to ensure the Department is making progress.

Mr. GUTHRIE. Are you optimistic about that?

I know if you look at it over time—obviously, Mr. Shireman, those guys are newer than—over time, are you optimistic about what you have seen? Because I know you can't be held accountable for what happened over 2 years ago, but where we are going forward.

Mr. SCOTT. I certainly want to give the Department credit for the steps it has taken recently to address our recent recommendations. But, as I said, what we are looking for here is a long-term commitment to improving its oversight and monitoring of these grantees. These institutions are very dependant on many of these funds, so it is very important for the Department to make sure it is well positioned to both provide the technical assistance these schools need but also have an effective and credible oversight presence among the grantees. So that is what we are looking for, is this long-term, sustained focus and commitment to improving the oversight of these grant programs and the technical assistance it provides to the schools.

Mr. GUTHRIE. I think it might have been you, actually, as well, but we had testimony from other types of schools, not in the full committee, about just misuse of funds or misappropriation of applications for funds. And I guess you could go in every government department, because we all have to watch funds and where we are going with it. So I guess my question is, are you looking at implementation just for these Title III and Title V schools? It seems maybe there is an overall issue with the way funds are being spent and how we need to monitor as well.

Mr. SCOTT. The focus of this study was for the recipients of the Title III and Title V grants.

Mr. GUTHRIE. Are there specific unique characteristics with these funds that have to be monitored differently? I know when we were looking it was a different type of school and different group before.

Mr. SCOTT. For these visits, we just selected a range of schools, a total of seven, to go in and sort of conduct what we call our financial testing and internal controls; and that is how we identified some of the problems.

Mr. GUTHRIE. I guess what I am trying to point out is that we found seven schools, had problems in four. Well, I think we had a

different class of schools, a different group of schools, and we can have problems there. So it is not just these particular schools have problems. It seems like it is more widespread with other type of issues as well.

I just want to say that specifically for the historically black college or at least Title II and Title V schools, it is not unique to these types of schools, we seem to have them in other schools as well. I think it was prior to we were looking at some ways some things were done. I think you testified on that, actually.

Mr. SCOTT. Yes.

Mr. GUTHRIE. Thanks.

Chairman HINOJOSA. At this time, I would like to recognize the gentlelady, Congresswoman Davis from California.

Mrs. DAVIS. Thank you, Mr. Chairman.

Thank you to both of you for being here.

I wonder if you could just talk a little bit more about staff training for this and what is required and whether you feel more confident. In fact, I understand there has been more training, but how are you actually monitoring that people are getting that? And for those who are engaged in the process who have not been especially trained, how do you then have confidence that they are really looking for the right things and being able to pull out what is required over and above even the actual—like the actual technical criteria that you are looking at?

Mr. SHIREMAN. Well, we have implemented an orientation training process and then, as I mentioned, pairing new program officers with experienced program officers. Also, providing this opportunity for institutions to provide anonymous input to us, which gives us a greater opportunity to hear about situations where perhaps they are not getting clear answers but may be reluctant to raise that directly with the staff.

And I would say there is also an internal effort more broadly than this office to create a more supportive operating—it is no secret that the staff satisfaction surveys government-wide, our Office of Postsecondary Education overall comes out relatively low government-wide. And that is an issue that we have from the very beginning of the administration been taking on and trying to—doing what we can to build the kind of camaraderie and feedback and leadership that is needed so people aren't just focused on checking the boxes to get through the day, but that we are tapping into their creativity to think about how can we help these institutions improve, what are the lessons that we can share, they want to do those things.

Mrs. DAVIS. How important is that to the monitoring effort itself? I mean, do you see that as a fairly significant issue, that there should be a high enough satisfaction level? And I guess looking at whether or not people feel overwhelmed by the number of institutions that they have to be evaluating, is it a matter of not being able to have enough time with each one? Obviously, you are not getting to all of them.

Mr. SHIREMAN. And this is part of the reason for the targeting efforts and why GAO's assistance here in recommending that we use tools to help target our oversight, so that we can identify through our monitoring index, through the annual performance re-

views the institutions where our time could be used most effectively and can more easily determine the institutions that perhaps don't need that time and effort. That will also help us to identify where we might need to enhance staffing levels either temporarily or over the long term.

Mrs. DAVIS. Mr. Scott, this obviously was mentioned in your report as well, and you referenced it. How critical do you see that to the overall need to improve in this area?

Mr. SCOTT. I certainly believe that continuing to enhance the technical proficiency of the staff to conduct these reviews is very critical.

As we mentioned, we went to a school that the Department had previously gone to not too far ahead of when we went; and our staff found significant problems where the Department staff found none. And so to that extent I think it does point to the importance of continuing to develop both programmatic and fiscal review proficiency among the staff at the Department. It is critical that you not only do the visits but you do them in such a way that provides you some assurance that grant funds are being properly used.

So I believe staff training and commitment to staff training and skilling up the people at the Department is very critical to whether or not they are going to succeed in providing sufficient oversight of these grants.

Mrs. DAVIS. Are we looking to the right people to be in those positions?

Mr. SCOTT. Now, that is a questions I will hand over to Mr. Shireman.

I think it is important—strategically, it is important for the Department to, first of all, identify what the critical needs are in terms of the professional competencies that are important for the staff to have, ensure that you recruit people with those competencies, and then support them through the professional development and training.

Mr. SHIREMAN. And those are the kinds of things that we have been looking for in our recent hires, and then also providing the kind of targeting training, like the mandatory training around internal controls, so that even if they are going mostly to share best practices they can be looking for the issues that might relate to——

Mrs. DAVIS. I guess the question was, does this compensation align with the requirements that you are looking for?

Mr. SHIREMAN. I haven't looked at that specifically, but it is designed to, in terms of the kind of background that we are looking for from folks and their experience on the scale is supposed to match up.

Mrs. DAVIS. Thank you.

Chairman HINOJOSA. The gentlelady's time has expired.

At this time, I would like to recognize Mr. Roe from Tennessee.

Mr. ROE. Thank you, Mr. Chairman.

I guess the way I am going to approach this is what is the problem; and the problem, as Chairman Hinojosa pointed out, is that we need to have more minorities and Hispanics attending colleges and to support that. And the goal at present, which is to have the highest graduation—college graduation rate in the world by 2020 is a noble, tremendous goal. So those are our problems.

Chairman Hinojosa has also accurately pointed out he has supported this, and we have gone from 200 something million to over two-thirds of a billion dollars. That is a 20 percent increase per year in funding for these programs.

And I know you all are into the oversight. Mr. Scott, I know you are. But the idea I would look at is we are looking at graduation rates, and in the last 10 years has that changed for retention and graduation rates? In other words, we are putting this money in there. Has it actually worked? I haven't heard anybody mention that.

I have known that we bought T-shirts and GPS systems and all that, and rightfully so to look at that to see that we are not wasting the money. But has the goal been accomplished? And, if not, why hasn't it been accomplished?

Mr. SHIREMAN. We absolutely have not seen the kind of progress in graduation rates, retention rates that will get us to that 2020 goal. And that is a large reason why we have elevated this, the whole issue of completion and persistence. And as we continue to implement existing programs and any new programs that we do need to take a serious look at how do we help institutions learn from each other, implement best practices, improve the number of students that are being served and who actually reach graduation.

Mr. ROE. And as we have I think 511 schools that have received grant money, there have got to be some in there that are doing better than others; and I would be looking at those, I would think. And continuing to pour money at schools that are not succeeding, I would say either you get up to these practices or the money cuts off. I think that is where you really hit the nail on the head. As of right now, I don't know whether we are going up or down with this.

I would like to point out that Tennessee didn't have any deficiencies. I would like to add that, Mr. Scott. But if you are looking at that 7 out of 511, is it a systemic problem or is it just not doing the job well, not monitoring the money well?

Mr. SCOTT. The scope of our work in those financial reviews is very limited, so we can't sort of extrapolate the results of those studies to the broader pool of grantees.

I would note, however, that some of the potential abuse or misuse of funds that we did identify were rather substantial; and from our perspective that increases the importance of the Department ensuring that it has an effective oversight mechanism in place for these grantees.

Mr. ROE. Mr. Chairman, you are going to be leaving the Department soon, I hear, and will you remain on as a consultant to the Department of Education or transition into the private sector?

Mr. SHIREMAN. I have made—the big decision I made was I shouldn't make any big decisions until I am back home in California, so I will be figuring that out.

Mr. ROE. If you do—and, obviously, I know you will be glad to get home—but will there be any post-employment restrictions on what you can do outside?

Mr. SHIREMAN. There are restrictions. I would be glad to get you whatever information about that, things like lobbying the Depart-

ment of Education or things that I would not be allowed to do, as I understand the agreement.

Mr. ROE. And I think the other thing, Mr. Chairman, and I certainly appreciate your—I come from an area, rural area in Tennessee, that we certainly need to increase not only minority but everyone in college. I mean, we really have a huge challenge in America of getting our educational level up for college.

If you look at what every business will tell you, it is workforce development, workforce development, workforce development. They tell you that all the time. It is not salaries that are getting our jobs going overseas. It is the ability of our workforce to be able to do the job.

And I think the concern I have in listening to this is, is all this money we are spending achieving the goal we want? I know that wasn't your purpose here, but of those 511 schools, universities, colleges, and technical schools—I am sure they got this—there are some that I bet you are doing a pretty good job. Did you identify any of these, Mr. Shireman?

Mr. SHIREMAN. That is certainly part of our effort, for example, around the conference, was to highlight best practices at different institutions, efforts where schools have been able to improve persistence and others can learn from that.

But I would agree with the overall framing from Chairman Hinojosa about accountability. We do need to improve our accountability overall both for the use of the funds but also for the ongoing improvement that we absolutely need.

Mr. ROE. Is there a mechanism now in place to do that so we can see the institutions that are doing well? Do you know if there is a system?

Mr. SHIREMAN. We receive annual performance reports from institutions lined up against the goals that they set out for their grants. So that is one tool, that we have to identify institutions that are and aren't making progress. That helps us to then target our assistance but also identify those projects that perhaps can be shared more broadly.

Mr. ROE. Thank you, Mr. Chairman.

Chairman HINOJOSA. Before I recognize the next Member of Congress, I wanted to say to Mr. Roe that, coming from an area that is 80 percent Hispanic, an area that I had to go to court and sue the State of Texas for not investing in regions like mine and other Members who serve deep south Texas, the difference has been that, instead of putting up with three decades of double-digit unemployment by investing in colleges and universities, we have seen the enrollment triple and we have seen the results of graduates where we produced just in one college in Edinburg over 1,000 engineers. We have gone from 300 students to 1,500 students in the school of engineering. And the same thing applies in HBCUs and other HSIs throughout the country. But you have to invest if you are going to be able to raise the level of education attainment and thus attract businesses to create the jobs.

Listen, I was sworn in with a 23 percent unemployment rate. I saw it drop down to 6 percent, after 35 years of double-digit unemployment down to 6 percent in 2007.

So this is the best investment we can make in the future. And I can assure you that it is crumbs compared to how much money we are spending for all these 600 institutions who do not qualify for a designation of an HBCU or as an HSI.

Just one example. NSF, National Science Foundation, gets $7 billion. MSIs received 3 percent of that amount of money to do research. So we need to close the gap, and I think that what we are doing in this committee is outstanding.

And now I would like to call on the next person. I think it is Mr. Scott from Virginia.

Mr. SCOTT OF VIRGINIA. Thank you. Thank you, Mr. Chairman.

Mr. Scott, when you followed the money, did you follow just the Federal money, the Federal grant money and not their general budget generally, just the Federal dollars?

Mr. SCOTT. Yes. We just looked at the Federal money associated with the grants at these institutions.

Mr. SCOTT OF VIRGINIA. Now, how did they compare—how did the questionable grant expenses compare to other colleges and universities?

Mr. SCOTT. The number of institutions we conducted financial reviews at were seven. We found problems at four. It was very limited in scope.

Mr. SCOTT OF VIRGINIA. I mean, compared to what? I mean, you found no problems at three. So I mean if you had randomly selected some other colleges and gone through their books, what would it have looked like?

Mr. SCOTT. I can't speculate on that.

Mr. SCOTT OF VIRGINIA. So this might not be any worse than anywhere else?

Mr. SCOTT. Well, that is why we—as part of the scope of methodology of our report we talk about the fact that our findings at these schools are not representative of the school population at large.

Mr. SCOTT OF VIRGINIA. Or it could be that schools, all the colleges and universities, have messed up books and this doesn't reflect poorly on them. They are just like everybody else.

The gentleman from Texas mentioned NSF grants. When a college gets one of those multi-million dollar grants, isn't there a percentage kind of set aside for administration that the college can kind of do what they want to with?

Mr. SHIREMAN. I know some grants work that way. I don't know on these whether that is true.

Mr. SCOTT OF VIRGINIA. Well, on these, every little penny has to be accounted for. The administration of them is on your own dime. When you get a research grant, don't most research grants have money you are going to account for and the other just kind of gets dumped in the till for general administrative expenses?

Mr. SCOTT. I do believe that is correct. Some of the bar grants do have some set aside for administration.

Mr. SCOTT OF VIRGINIA. Now, you have all but one of the schools at questionable grant expenses less than 10 percent. If they had a 10 or 20 percent kind of administrative slush fund, they would have done better than everybody else, is that right?

Mr. SCOTT. I just want to follow up on your question about set-asides for administrative overhead. Staff just sort of let me know

that oftentimes it is based on the type of grant. It is generally grant specific as to whether or not and to what extent there is a set-aside for administration expenses.

Mr. SCOTT OF VIRGINIA. And what is that set-aside percentage?

Mr. SCOTT. It will vary by grant.

Mr. SCOTT OF VIRGINIA. What does it get up to? Twenty percent? Thirty percent?

Mr. SCOTT. I am not aware of that.

Voice. Ten percent.

Mr. SCOTT OF VIRGINIA. Ten percent? It might be 10 percent?

Mr. SCOTT. Generally, 10 percent.

Mr. SCOTT OF VIRGINIA. So if six of the seven were under 10 percent, they would be kind of in the same ball park like everybody else that got 10 percent. If we had put in there that you would get the grant and you could spend 10 percent for an administrative slush fund, all but one would have been in compliance, is that right? What are the strings attached to the Title V grants? Are we talking about what commitment did the school make as a condition of receiving a Title V grant? I guess Mr. Shireman.

Mr. SHIREMAN. The institution is required to review its academic and fiscal needs, its situation, management improvements that might be needed, develop plans for improvement, identify how they intend to use the funds from the Department of Education, and that is basically what their proposal consists of.

Mr. SCOTT OF VIRGINIA. And the grant will be to fund the proposal?

Mr. SHIREMAN. The grant is to fund the project or projects that they identified that emerge from the review that they have done.

Mr. SCOTT OF VIRGINIA. So you can measure whether or not they have complied with what they said they were going to do with the money?

Mr. SHIREMAN. We can measure whether they spent the money on the things that they said they were going to spend it on and, to some degree, the outcomes from that spending.

Mr. SCOTT OF VIRGINIA. Now, the GAO report mentions technical assistance. What help with bookkeeping and accounting does the Department of Education provide for colleges and universities that may be challenged in these areas?

Mr. SHIREMAN. I don't—I will get back to you on to what extent that is actually—to what extent we have run into issues around accounting and whether we have been provided assistance. I don't know the answer to the question.

Mr. SCOTT OF VIRGINIA. Mr. Scott, the problems you found, were they bookkeeping and accounting problems or theft problems?

Mr. SCOTT. The problems we identified ranged as we laid out both in the report and the testimony. Given that these schools, you know, as part of receiving these grants, you know, have an agreement that they will spend the money in a way that is consistent with the grant they received. The things we found—and referred in one case to the Department of Education Inspector General, in other cases, we also referred them over to the Department of Education—from our perspective were a misuse of funds. And so were not consistent with the grant application under which they have re-

ceived the grants, and so that is why we forwarded the information to the Department of Education.

Mr. SCOTT OF VIRGINIA. If you went to the Department of Education, that is one thing. If you went to the Department of Justice, I think that would suggest something else.

Thank you, Mr. Chairman.

Chairman HINOJOSA. The next congresswoman I would like to recognize is Congresswoman Biggert from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman. Thank you for holding this hearing.

My question is to Mr. Shireman. You know, I share your concern for ensuring access to higher education for minorities and low-income students. That is why I would like to address another group of institutions that disproportionately serve low-income and minority students, and that is proprietary schools.

As you know, I am very concerned about the Department's proposal to define gainful employment based on the 8 percent debt-to-income ratio. And, specifically, this definition would limit access to students who are the very subject of this hearing, because proprietary schools have a disproportionate number of low-income and minority students.

You know, I have got several of these schools in my district; and one of them, looking at the nursing, they decided that they wanted to do nursing because there is such a need for nurses. And in the last few years they have had at least 95 percent retention; 96 percent graduate, and 98 percent to 100 percent have been employed.

Now, that disclosure shows me that I think this is a school that is doing its job, and I just see that there is almost a discrimination against the proprietary schools and having a limit of 8 percent. Now, this school would not be able to teach nursing under this 8 percent rule, because you start as a nurse at a very low level. It goes up, but it doesn't work out that this would be possible.

So I was hoping that you would specifically address the 8 percent rule. From what I understand, the genesis for this came from one single study in 2006 by the college board. So could you provide the committee with a better understanding of the full impact of this proposal?

Mr. SHIREMAN. Thank you, Congresswoman.

During the negotiated rulemaking process, we put a number of ideas on the table, including some around retention and graduation and placement rates, much like the great figures you heard from the one institution. We did raise an 8 percent number that was cited in 2000 by the National Center of Educational Statistics as the common rule being used by mortgage companies in looking at student loan debt; an American Council on Education report in 2004 that named a number of prior reports as indicating 8 percent as a standard. So it was the commonly used number that we put on the table for discussion.

Since that time, we have heard much useful input from Congress, as well as from institutions around the country. We are considering that input.

The next phase of the negotiated rulemaking process is for us to have a proposed rule around all of the issues that were part of the negotiated rulemaking. There will then be further feedback and

input from the public on that proposed rule before there is any final rule.

I can assure you that we have heard the input, are analyzing the issues and the questions, and that there are further steps in the process to make sure that anything is well thought out and that the input is considered.

Mrs. BIGGERT. Meanwhile, this puts the schools in an uncertain position for what is going to happen. I know that many of us, those on this committee as well as others, met with Secretary Duncan not too long ago; and we have discussed this several times with him.

I worry about discrimination. For example, I have a school such as this, and yet the colleges don't have to follow the same rules as this. One of the colleges in my area started a law school a few years ago, and for 2 years not one person having gone to the college was able to pass the bar in Illinois. This shows there is a difference. They got their student loans without having to do something like this.

When is the notice of proposed rulemaking going out?

Mr. SHIREMAN. I can't say for sure. I expect it in the next few weeks, but it is sometimes hard to predict exactly when things get through the whole process.

Mrs. BIGGERT. Why isn't enhanced disclosure, for example, the numbers that I have from the school, combined with rigorous study to determine the full extent of any student debt problem? If people don't pass the bar, they are not going to go to that school. And that is exactly what happened. If they don't find employment when they go to a school that promises good return, why is that insufficient to meet the Department's goal?

Mr. SHIREMAN. Enhanced disclosure is among the useful suggestions that we have gotten over the past several weeks and is part of what we are considering right now.

Mrs. BIGGERT. Thank you.

I yield back the balance of my time.

Chairman HINOJOSA. At this time, I would like to recognize Congresswoman Marcia Fudge from Ohio.

Ms. FUDGE. Thank you, Mr. Chairman; and I thank both gentlemen for being here today.

Mr. Scott, you mentioned that the Department has developed monitoring plans but that some of the activities actually lack realistic or measurable performance goals. So on what do you base the success or failure of programs?

Mr. SCOTT. A couple of examples we highlight. For example, they have a goal of ensuring that 75 percent of the site visits they are planning are completed. Ideally, you would like to complete all of the site visits you are hoping to complete.

We also point to training. They are committed to providing this training. There are not clear goals as to how many staff are going to get the training and how they are going to assess the effectiveness of the training. So what we are looking for is the Department not only to have plans but to also have mechanisms in place to hold itself accountable for achieving these plans. From our perspective, that is an important part of ensuring that this long-term commitment to improving the oversight of the grantees occurs.

It is important that the Department not only hold the schools accountable for how the grant funds are being spent but also hold itself accountable in terms of the oversight of these grant funds.

Ms. FUDGE. Speaking to that latter point, I know over the years there have been many, many recommendations as to how these things could be done better. What happens to those recommendations?

Mr. SCOTT. We actually track them. We track recommendations made to agencies and completed over a number of years. At least annually, GAO goes back to agencies and asks, what progress, if any, have you made on these recommendations?

We have actually conducted a number of studies in this area. Especially over the last few weeks, we have been in a very active dialogue with the Department to understand exactly what progress they have made on the various recommendations we have put forward.

Ms. FUDGE. Mr. Chairman, I would like to yield the balance of my time to Mr. Scott.

Mr. SCOTT OF VIRGINIA. I thank the gentlelady for yielding.

Mr. Scott, the goals you have suggested are procedural within the Department of Education. Do you have any way of ascertaining whether the college is actually meeting goals of educating students and graduating them in a reasonable length of time?

Mr. SCOTT. Clearly, the Department, as part of the annual performance reports, for example, can look at those reports and determine is the school meeting the goals of the grant.

One of the concerns that we had was when we looked at some of the annual performance reports, some of them are incomplete, some of them had inaccurate information. There wasn't any indication from our perspective that the Department was regularly using these reports to help guide its oversight. I believe the Department may be doing a better job now of using those reports.

So our point is it is not enough just to have the tools at your disposal. You really have to effectively use those tools to help bolster your oversight.

Mr. SCOTT OF VIRGINIA. Did your analysis look into the fact of whether the program was effective? I think you were looking at whether the money was spent for the purpose for which it was listed, but did you go into whether or not these programs were effective in helping to educate the students?

Mr. SCOTT. No, that was beyond the scope of our study.

One of the things that it is important for the Department to do, though, is develop outcome-oriented performance measures that can help exactly answer that question.

Mr. SCOTT OF VIRGINIA. You mentioned some specific expenditures that were questionable. One was a trip to resorts and another a GPS. Mr. Shireman indicated that the proposal—I assume it is a line item budget that is being funded. How was the trip listed on the budget? What was that money supposed to be used for and what was the GPS money supposed to be used for?

Mr. SCOTT. My assumption is that the money should have been used consistent for the grants for which the school received funds.

Mr. SCOTT OF VIRGINIA. You don't have the information in front of you?

Mr. SCOTT. No, I don't. I don't have the actual grant in front of me.

Mr. SCOTT OF VIRGINIA. So in that sense it is not a fair question, but if somebody made an inappropriate expenditure, the money must have come from some line item on their own proposal.

Mr. SCOTT. The crack staff here behind me let me know that the money was supposed to be spent on leadership development.

Mr. SCOTT OF VIRGINIA. Is that what the line item said, "leadership development"?

Mr. SCOTT. There is a range of activities that the money can be used for. The money that was in question here was supposed to be designated for leadership development.

Mr. SCOTT OF VIRGINIA. Mr. Shireman, when you approve a proposal, do you let a line item be as vague as "leadership development" or do you require more specific suggestions as to exactly how the money is going to be spent?

Mr. SHIREMAN. I would have to take a look. I don't know how detailed we have been in the spending plans.

Mr. SCOTT OF VIRGINIA. Thank you.

Ms. FUDGE. Mr. Chairman, I yield back.

Chairman HINOJOSA. I believe it was you, Secretary Shireman, who mentioned commercial credit scores. I don't know how those compare with personal credit scores. I know a 700 or higher is considered good for a person and that over 800 is excellent. Tell me a little bit about commercial credit scores as they apply to our colleges.

Mr. SHIREMAN. I am definitely not an expert on commercial credit scores, but my understanding is that they get at questions of how much of a risk would it be for a lender, for example, to make a loan to that college in terms of their likelihood over the long term to be able to repay. For anything more detailed than that, I would be happy to look into that.

Chairman HINOJOSA. Would you look into that and share that with me?

Mr. SHIREMAN. Sure.

Chairman HINOJOSA. Not having any other members of the committee here to ask questions, I would like to read a statement into the record.

Without objection, I ask unanimous consent to enter into the record a brief report from Sue McMillin, President and CEO of the Texas Guaranteed Student Loan Corporation. Ranking member Guthrie has been provided a copy in advance of this request. Without objection, it will become part of the record.

[The information follows:]

Prepared Statement of Sue McMillin, President and CEO, Texas Guaranteed Student Loan Corp.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: My name is Sue McMillin; I serve as President and CEO of Texas Guaranteed Student Loan Corporation (TG). On behalf of TG and its Board of Directors, I am pleased to submit to the Subcommittee, for your consideration and entry into the record, testimony related to today's hearing on Minority-Serving Institutions (MSIs) of Higher Education.

TG's testimony does not address directly the issues outlined in the Government Accountability Office report Low-Income and Minority Serving Institutions—Management Attention to Long-standing Concerns Needed to Improve Education's Oversight of Grant Programs. Rather, TG is pleased to provide contextual data and in-

sights into the invaluable role of MSIs in serving Texas students, and especially those from low-income and first-generation college families. TG also respectfully submits its suggestions for support services and technical assistance needed to maximize the efforts of MSIs and other institutions in ensuring student success and adequate administration of the federal student aid programs.

Established in 1979, TG is a public nonprofit organization that serves institutions and students in Texas and other states. For purposes of today's hearing, I will focus my testimony on TG's role as the designated guaranty agency and administrator of the Federal Family Education Loan Program (FFELP) for the State of Texas.

TG has extensive experience working with Historically Black Colleges and Universities (HBCUs), Predominantly Black Institutions, Hispanic-Serving Institutions (HSIs), and emerging HSIs. TG believes that its story of dedication to mission and its 30-year history of service to MSIs shed a positive light on the value-added programs and services that nonprofit entities, like TG, provide to MSIs and students who are underrepresented in postsecondary education.

Background

The State of Texas benefits from a rich depth and breadth of MSIs. The state is home to an estimated 47 HSIs, nine HBCUs, one Predominantly Black Institution,[1] and an estimated 42 emerging HSIs.[2] St. Phillip's College in San Antonio has the distinction of serving as both an HBCU and an HSI. The nine HBCUs had a combined fall 2008 enrollment of 31,504 students: 62% was African American, 21% was Hispanic, 14% was White, and the remaining 3% was composed of Asian American and foreign students.

Most of the HSIs in Texas (57%) are public 2-year schools. The next largest group (23%) is public 4-year schools, followed by private not-for-profit 4-year schools (15%). The HSIs in Texas had a combined fall 2008 enrollment of 442,282 students: 9% was African American, 55% was Hispanic, 27% was White, and the remaining 9% was composed of Asian American students, foreign students, and students of unknown race. MSIs play a critical role not only in educating the next generation of leaders, but also in developing the intellectual and human capital of their communities. They are critical in preparing the local and regional workforce, and together play an important role in building a strong economic foundation for the state.

The significance of MSIs is especially evident in the state's master plan for higher education, known as the Closing the Gaps plan.[3] The Texas plan includes two notable goals: increasing student enrollments by an additional 630,000 students, and increasing certificate and degree completions by 50%, between 2000 and 2015. The state's ability to meet those goals will continue to depend largely on the capabilities of MSIs.

The graphs below (see page 5) show the target higher education enrollments compared to actual enrollments over the 15-year period of the plan, for the state overall, for African American students, and for Hispanic students.[4]

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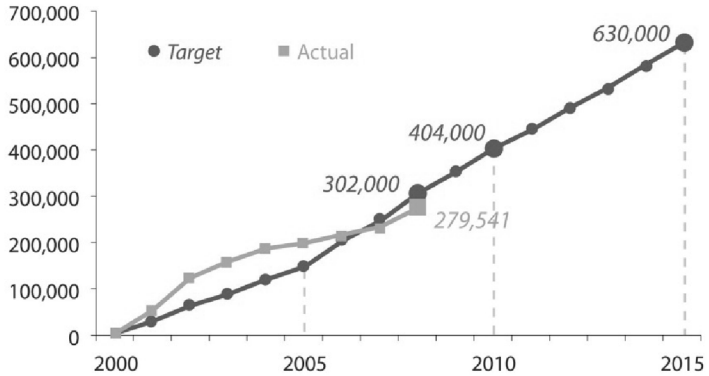
[1] A Predominantly Black Institution is a public or private nonprofit institution with an undergraduate enrollment composed of 40% or greater African-American students.

[2] Emerging Hispanic-Serving Institutions (HSIs): Serving Latino Students. Excelencia in Education, 2010. *http://www.edexcelencia.org/research/emerging-hispanic-serving-institutions-hsis-serving-latino-students*

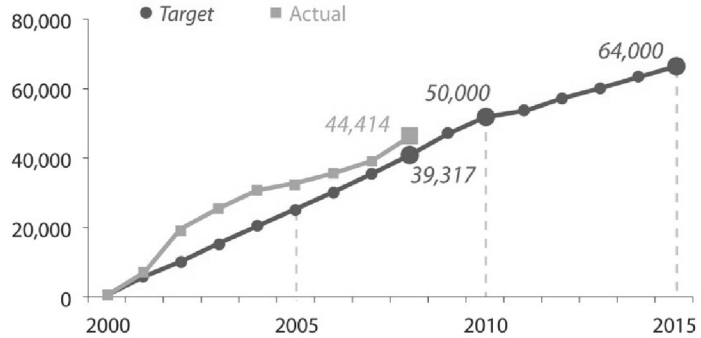
[3] Closing the Gaps: The Texas Higher Education Plan. Texas Higher Education Coordinating Board, 2005. *http://www.thecb.state.tx.us/index.cfm?objectid=858D2E7C-F5C8-97E9-0CDEB3037C1C2CA3*

[4] Closing the Gaps 2009 Progress Report. Texas Higher Education Coordinating Board, 2009. *http://www.thecb.state.tx.us/index.cfm?objectid=858D2E7C-F5C8-97E9-0CDEB3037C1C2CA3*

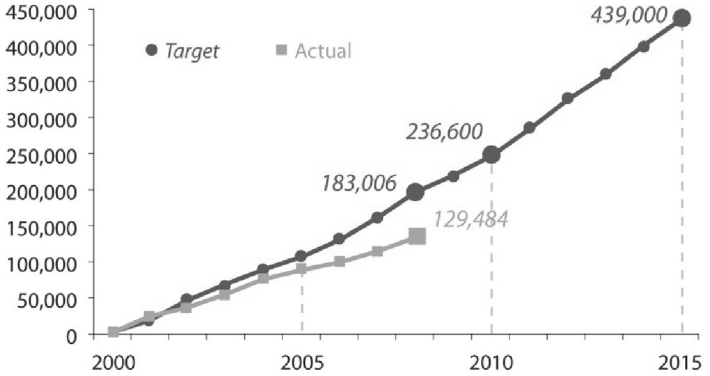
Enrollment Growth at Public and Independent Higher Education Institutions since Fall 2000



African American Enrollment Growth at Public and Independent Higher Education Institutions since Fall 2000



Hispanic Enrollment Growth at Public and Independent Higher Education Institutions since Fall 2000



The Challenge Ahead

For more than two decades, TG has conducted extensive research in the areas of college access, student financial aid, and student loan delinquencies and defaults, among other areas. Moreover, TG publishes, in collaboration with the University of Nebraska-Lincoln, a quarterly refereed journal on student access and success.[5] TG's research and experience allow it a unique window into issues and education areas that pose potential challenges for higher education in Texas and, in particular, for MSIs.

Provided below are selected findings from the February 2010 edition of TG's State of Student Aid and Higher Education in Texas, an annual report provided to education stakeholders and policymakers. TG found that:

- The Texas poverty rate is the sixth highest in the nation; about 16.5% of Texans lived in poverty in 2008, compared to 12.9% of the people in the U.S.
- The child poverty rate in Texas was 22.6%, compared to 17.3% in the U.S, in 2008.
- Texas ranks second to last in high school completion; in 2008, 20% of Texans aged 25 and older did not have a high school diploma, compared to 13% of people in the U.S.
- Nearly 3 million people in Texas aged 25 and older never completed a high school education. Hispanics, who made up more than one-third of the Texas population in 2008, are the least likely to obtain a high school diploma. Of Hispanics aged 25 and older, 41% have not finished high school.
- Economically disadvantaged high school graduates in Texas are less likely to enroll in college. Nearly 60% of Hispanic high school graduates and 50% of African American high school graduates are economically disadvantaged (as determined by students' eligibility for free or reduced lunch).
- Texas students are highly reliant on loans; in academic year (AY) 2007-08, 65% of aid in Texas came from loans (compared to 55% in the U.S.) and 34 % came from grants (compared to 44% in the U.S.), including state and institutional grants.

Loan Delinquencies and Defaults

TG continuously studies and reports its findings on student loan borrowing and repayment trends as a service to institutions and education stakeholders and as a means of informing its own efforts in delinquency and default prevention. TG has published and continues to publish studies that individually and collectively examine default rates and borrowing patterns for Texas institutions, all schools in TG's loan portfolio, MSIs, and individual institutions. TG publishes reports that examine short-term and long-term (over seven years in repayment) rates for delinquency and default for its entire portfolio and certain schools that TG serves.

One report on MSIs,[6] attached to TG's testimony, examines student loan borrowing among HBCUs and HSIs. When measured in both short-term and long-term periods, student loan delinquency and default rates at these institutions paint a picture of the continuing need to provide support services to these students.

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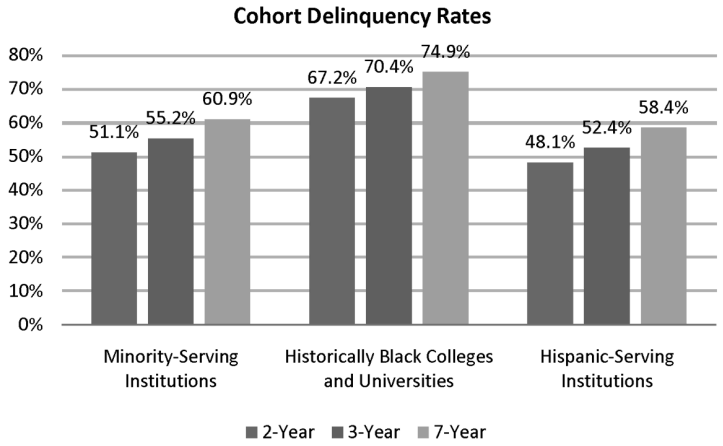
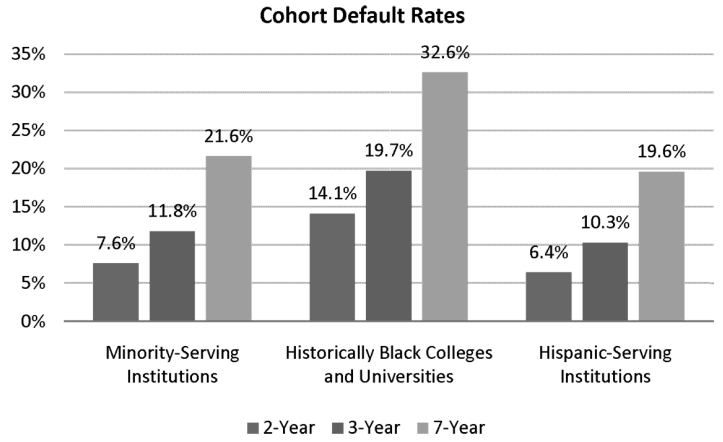
[5] Enrollment Management Journal: Student Access, Finance, and Success in Higher Education. *http://www.tgslc.org/emj/*

[6] Profile of Minority-Serving Institutions in Texas: A Study of Historically Black College and Universities and Hispanic-Serving Institutions. Texas Guaranteed Student Loan Corporation, 2010. *http://www.tgslc.org/publications/*



More than half of students who attended MSIs and went into repayment on their TG loans in FY 2002 were delinquent on those loans by the end of FY 2003. The delinquency rates at MSIs continue to increase to 55% at 3 years out and 61% at 7 years out. More than 67% of students who attended HBCUs and went into repayment on their TG loans in FY 2002 were delinquent on those loans by the end of FY 2003. This increased to 70% delinquent by the end of FY 2004 (3-year rate), then to 75% by the end of FY 2008 (7-year rate).



Almost 8% of students who attended an MSI and went into repayment on their TG loans in FY 2002 defaulted on those loans. When the analysis is extended one year, TG finds that the cohort default rate increases to 11.8%, and this jumps to 21.6% for the 7-year default rate.

Again, the default rates at HSIs are very similar to the overall MSI rates, but the rates at HBCUs are much higher than those at HSIs.

Federal Student Loan Borrowing

The chart below shows the levels of federal student loan volume among students attending MSIs during academic year 2007-2008. Students at Texas MSIs borrowed a total of $874.7 million, compared to $3.8 billion borrowed by students at all Texas institutions in FFELP and FDLP.

	FFELP AY 07-08	FDLP AY 07-08	Total AY 07-08
Texas Minority-Serving Institutions	$861,259,764	$13,485,902	$874,745,666
Texas Historically Black Colleges and Universities	$177,297,910	$0	$177,297,910
Texas Hispanic-Serving Institutions	$691,493,227	$13,485,902	$704,979,129

Median Borrower Indebtedness in Texas

Overall, the median borrower indebtedness (MBI) of students leaving MSIs in FY 2008 was $10,375. The MBI at HBCUs was $15,000 and the MBI at HSIs was $9,775. This difference is expected based on the dominant school types of each group. Most of the HBCUs are 4-year universities, mainly private not-for-profit, while most of the HSIs are 2-year public colleges. Four-year universities are more expensive than 2-year colleges, which accounts for much of the difference in MBI, and students attending 4-year universities also tend to attend for a longer time, and so end up having more years of borrowing.

Paying for College—Aid and Work

Students attending HSIs in Texas in AY 2007-08 were significantly less likely to expect help from their parents to pay for tuition and fees, compared with students attending schools not designated as HSIs. Sixty-four percent of students at non-HSIs expected help from their parents, compared to 53% of students at HSIs. The students at HSIs and HBCUs were also significantly more likely to have a Pell grant, compared to their non-HSI and non-HBCU counterparts (23% at non-HSIs and 33% at HSIs; 25% at non-HBCUs and 51% at HBCUs). In line with this finding, those students at HSIs and HBCUs had significantly lower median incomes than their non-HSI and non-HBCU counterparts ($47,844 at non-HSIs and $28,880 at HSIs; $40,793 at non-HBCUs and $26,991 at HBCUs).

Students attending HSIs in Texas in AY 2007-08 were significantly less likely to work to earn spending money compared to students attending non-HSIs (79% versus 71%). Students attending HSIs were significantly more likely to work to pay for living expenses compared to students attending non-HSIs (82% versus 76%). Students attending HBCUs in Texas were significantly more likely to work to send money home, compared to students attending non-HBCUs (12% versus 6%).

MSIs and Student Loans

HSIs and HBCUs in Texas enroll hundreds of thousands of students each year, with the majority of these being minority students. These students have more risk factors that lead them to drop out of school, compared to White students, making them more likely to default on their student loans.

These institutions, which have traditionally participated in the FFELP, have been able to rely on the support of their local, often state-based, FFELP partners for the provision of support services and programs, including delinquency and default prevention, training, financial literacy, and enrollment management. To the extent the need for these services will continue as MSIs fully transition into direct lending, TG would welcome the opportunity to work with the department to identify and address those gaps in services.

TG's experience with HBCUs shows that with concentrated efforts, TG can have a meaningful, positive impact in the form of lowering delinquency and default rates. TG invites the Subcommittee to review two reports, detailing TG's work with HBCUs beginning in 1999, immediately after Congress eliminated the exemption for HBCUs from federal cohort default rate sanctions established in the early 1990s. TG asserts that these successes among HBCUs can be replicated at other MSIs and non-MSIs.

Links to the reports are provided below:

Breaking New Ground: The Texas Historically Black Colleges and Universities Default Management Consortium. Texas Guaranteed Student Loan Corporation, 2004. *http://www.tgslc.org/pdf/HBCU.pdf*

Lowering Student Loan Default Rates: What One Consortium of Historically Black Institutions Did to Succeed. Education Sector, 2010. *http://www.educationsector.org/research/research—show.htm?doc—id=1169156*

The following excerpt from the report by the Education Sector captures adequately the challenge faced by HBCUs and the real potential for successfully addressing cohort defaults:

> But the experience of the Texas HBCUs, along with a new statistical analysis of cohort default rates, suggests that dangerously high default rates for institutions that serve at-risk students are not inevitable. From

> the initial financial aid package to providing individual counseling on loan repayment when students leave, institutions can take steps to help students avoid default. Schools can also maintain contact with students after they leave campus, communicating with them about when they need to begin repayment and where they should send their repayment checks * * *

Such 'default aversion' strategies helped a number of HBCUs significantly lower their loan default rates and avoid losing eligibility for federal financial aid the last time the federal government imposed tough new default rate standards. Their story is one of teamwork, collaboration, and relationship-building and proves that when institutions are armed with the tools, resources, support, and commitment needed to lower default rates, they can do so successfully.

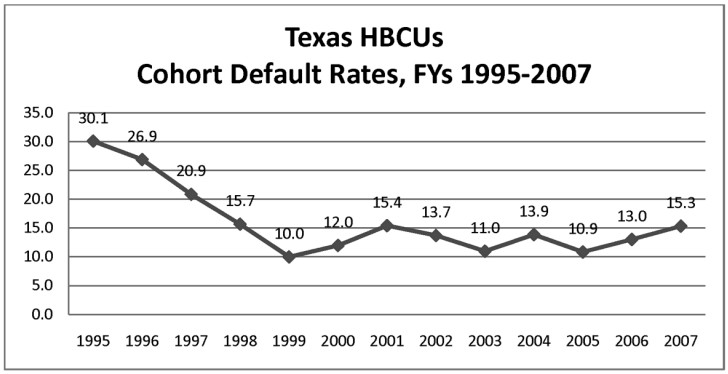
With the recent HEOA amendment and a worsening economic outlook, all colleges can learn from the efforts of these schools. Their success is not only applicable to other similar institutions, but to all schools that serve those students most at risk for default and who are committed to helping them succeed.

Default aversion strategies, moreover, are just one part of the solution. Institutions that make increasing graduation rates a priority will also help their students repay their student loans. Put simply, students who graduate are less likely to default. As institutions face the next default rate challenge, those that combine default aversion strategies with strategies for degree completion will be in the best position to not only reduce their default rates now and in the future, but to improve the overall success of their institutions and their students.

TG as a Catalyst for Success

As documented in the reports Breaking New Ground and Lowering Student Loan Default Rates, student loan delinquencies and defaults can be successfully managed if the federal government utilizes local entities with the expertise, experience, and relationships with students and schools to assist the government in administering the federal student loan program. This is especially important with respect to MSIs because of their unique and important role in educating many first-generation college students from low-income backgrounds who rely on student loans to finance their postsecondary educations.

The Texas HBCU Default Management Consortium referenced in the above reports became a reality because of TG's support and active participation. TG helped organize the consortium, served as a resource to HBCUs, and designed a holistic model for providing technical assistance and support to all institutions. At the request of the U.S. Department of Education (ED), TG created a new program, Achieving Systemic Default Aversion, and received ED's specific approval to use funds from the interest earnings on the Federal Reserve Fund, from Section 422(h) of the Higher Education Act of 1965, as amended, to implement these strategies. The program's initial focus was on Texas HBCUs. The chart below shows the progression of cohort default rates among these HBCUs from FYs 1995 -2007.[7]



TG is positioned to continue to provide these services to MSIs and other institutions under the Federal Direct Loan Program (FDLP) or in any future federal student loan environment. On March 5, 2010, TG outlined its capabilities to assist institutions and began discussions with ED's office of Federal Student Aid to identify

[7] Texas Guaranteed Student Loan Corporation.

ways in which TG can provide needed services for the immediate challenge of helping institutions effectively transition into the FDLP.

TG looks forward to its ongoing and future collaboration with ED and appropriate state agencies to ensure that intermediate and longer-term services—to include financial literacy, delinquency and default prevention, proactive assistance toward the realization of programmatic borrower benefits by student loan borrowers and technical assistance—are available to all MSIs as well as other institutions. Thank you again, Mr. Chairman, for the opportunity to submit my testimony for the subcommittee's consideration.

Chairman HINOJOSA. In my closing statement, I would like to thank our witnesses for their testimony as well as my colleagues on this committee for their questions and comments today. This has been a very productive and informative hearing.

I commend the Department of Education for taking initial steps to address the GAO recommendations. I am also glad to hear that the Department of Education has been working with Title III and Title V institutions in their transition to the direct loan program.

As we continue to increase accessibility and affordability in higher ed, I urge the Department of Education to act on the GAO's recommendations and fully implement a systematic monitoring system for Title III and Title V programs in a timely manner. We must strive for excellence and set high expectations for all of our postsecondary institutions if our Nation hopes to lead the world in college graduates by 2020.

As we continue to build the capacity of MSIs, the Department of Education must continue its effort to improve programmatic and fiscal monitoring of grantees and provide technical assistance to assist Title III and Title V institutions in achieving the highest levels of quality, accountability, and success. I cannot underscore the critical role that these institutions play in educating large proportions of low income and minority student populations. I am pleased to hear we are making progress.

As previously ordered, members will have 14 days to submit additional material for the hearing record. Any member who wishes to submit follow-up questions in writing to the witnesses should coordinate with majority staff within the requisite time.

Without objection, this hearing is adjourned.

[Question for the record to Mr. Shireman and his response follows:]

[VIA ELECTRONIC MAIL],
U.S. CONGRESS,
Washington, DC, June 4, 2010.

Mr. ROBERT SHIREMAN, *Deputy Undersecretary,*
Office of the Undersecretary, U.S. Department of Education, 400 Maryland Ave. SW, Washington, DC.

DEAR MR. SHIREMAN: Thank you for testifying at the Higher Education, Lifelong Learning, and Competitiveness Subcommittee Hearing on, "Research Examining GAO's Findings on Efforts to Improve Oversight of Low-Income and Minority Serving Institutions," on May 27, 2010.

A Committee Member has an additional question for which they would like a written response from you for the hearing record.

Representative Phil Roe (R-TN) has asked that you respond in writing to the following question:

Mr. Shireman, as we discussed during the hearing, you are leaving the Department soon with several outstanding student loan and higher education issues and rulemakings that you have had significant involvement in crafting. As you acknowledged, there are post-employment rules and restrictions that apply to Administration personnel at your level of seniority. Can you detail what rules and restrictions

apply to your situation and whether they limit your ability to discuss, and possibly influence, future policy decisions after you leave government service? Also, while you indicated you have not made any decisions on future employment, are you in conversations with the Department of Education about being kept on as a consultant after your official separation date?

Please send an electronic version of your written response to the questions to the Committee staff by close of business on June 9, 2010. If you have any questions, please do not hesitate to contact the Committee.

Sincerely,

GEORGE MILLER, *Chairman.*

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE UNDER SECRETARY

The Honorable Rubén Hinojosa
United States Congress 20515
Washington, DC

Dear Chairman Hinojosa,

This is in response to a question submitted at the Higher Education, Lifelong Learning, and Competitiveness Subcommittee Hearing on, *"Research Examining the GAO's Findings on Efforts to Improve Oversight of Low-Income and Minority Serving Institutions,"* on May 27, 2010. Following the hearing, Representative Phil Roe (R-TN) inquired about post-employment rules and restrictions for senior administrative personnel, and whether those rules will limit my ability to discuss, and possibly influence, future policy decisions after I leave government service.

To answer this question, I am and will continue to be subject to the relevant ethics commitments that are details in Executive Order 13490. I will also be subject to the post-employment restrictions applicable to all former executive branch employees, including 18 U.S.C. Section 207. I have conferred with the Department's ethics officials and understand that the post-employment restrictions do not prohibit me from personally providing consulting services to the Department once leaving my position as Deputy Under Secretary. Therefore, to ensure a smooth transition I have offered to be available to the agency in the coming months as an intermittent employee.

Thank you for your interest concerning this matter and for the opportunity to testify before the Education and Labor Committee on such an important issue. I am pleased to provide further information regarding my testimony. Once again, thank you for your time.

Sincerely,

Robert Shireman

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202
www.ed.gov

Our mission is to ensure equal access to education and to promote educational excellence throughout the nation.

[Whereupon, at 11:15 a.m., the subcommittee was adjourned.]

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