



PROPRIETARY SCHOOLS

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

Highlights of [GAO-09-600](#), a report to the Chairman, Subcommittee on Higher Education, Lifelong Learning, and Competitiveness, Committee on Education and Labor, House of Representatives

Why GAO Did This Study

For-profit schools—also known as proprietary schools—received over \$16 billion in federal loans, grants, and campus-based aid under Title IV of the Higher Education Act in 2007/08. GAO was asked to determine (1) how the student loan default profile of proprietary schools compares with that of other types of schools and (2) the extent to which Education’s policies and procedures for monitoring student eligibility requirements for federal aid at proprietary schools protect students and the investment of Title IV funds. To address these objectives, GAO analyzed data and records from Education, examined Education’s policies and procedures, reviewed relevant research studies, conducted site visits and undercover investigations at proprietary schools, and interviewed officials from Education, higher education associations, and state oversight agencies.

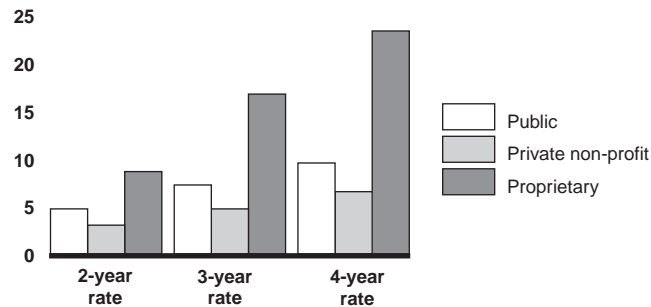
What GAO Recommends

GAO is making three recommendations for Education to strengthen its monitoring and oversight of federal aid eligibility requirements. Specifically, GAO recommends Education (1) improve its monitoring of basic skills tests and target schools for further review; (2) revise regulations to strengthen controls over basic skills tests; and (3) provide information and guidance on valid high school diplomas for use in gaining access to federal student aid. The Department of Education noted the steps it would take to address GAO’s recommendations.

What GAO Found

The Department of Education makes loans available to students to help them pay for higher education at public, private non-profit, and proprietary schools, and the students who attend proprietary schools are most likely to default on these loans, according to analysis of recent student loan data. As shown in the graph below, students from proprietary schools have higher default rates than students from other schools at 2, 3, and 4 years into repayment. Academic researchers have found that higher default rates at proprietary schools are linked to the characteristics of the students who attend these schools. Specifically, students who come from low income backgrounds and from families who lack higher education are more likely to default on their loans, and data show that students from proprietary schools are more likely to come from low income families and have parents who do not hold a college degree. Borrowers who are not successful in school and drop out also have high default rates. Ultimately, when student loan defaults occur, both taxpayers and the government, which guarantees the loans, are left with the costs.

Proprietary Schools Have Higher Default Rates than Public and Private Non-Profit Schools
Percentage of defaults



Source: GAO analysis of Education’s 2004 cohort data from the National Student Loan Data System.

Note: Education provided official 2-year default rates and modeled 3- and 4-year default rates, by sector, using December 2007 student loan data.

Although students must meet certain eligibility requirements to demonstrate that they have the ability to succeed in school before they receive federal loans, weaknesses in Education’s oversight of these requirements place students and federal funds at risk of potential fraud and abuse at proprietary schools. Students are required to pass a test of basic math and English skills or have a high school diploma or GED to qualify for federal student aid. Yet, GAO and others have found violations of these requirements. For example, when GAO analysts posing as prospective students took the basic skills test at a local proprietary school, the independent test administrator gave out answers to some of the test questions. In addition, the analysts’ test forms were tampered with—their actual answers were crossed out and changed—to ensure the individuals passed the test. GAO also identified cases in which officials at two proprietary schools helped prospective students obtain invalid high school diplomas from diploma mills in order to gain access to federal loans. GAO’s findings do not represent nor imply widespread problems at all proprietary schools. However, GAO’s work has identified significant vulnerabilities in Education’s oversight. Education’s inadequate monitoring of basic skills tests and lack of guidance on valid high school diplomas enables unqualified students to gain access to federal student aid. Unqualified students are at greater risk of dropping out of school, incurring substantial debt, and defaulting on federal loans.

View [GAO-09-600](#) or key components. For more information, contact George A. Scott at (202) 512-7215 or scottg@gaio.gov.