OVERSIGHT HEARING ON THE DEPARTMENT OF EDUCATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on:	
March 13, 1995	1
April 6, 1995	49
Statement of:	
Hansen, William D., former Assistant Secretary for Management and Budget, and Chief Financial Officer, U.S. Department of Education	98
Riley, Richard W., Secretary, U.S. Department of Education; Madeleine Kunin, Deputy Secretary, U.S. Department of Education; and Donald R. Wurtz, Chief Financial Officer, U.S. Department of Education	6
Van Riper, Dianne, Assistant Inspector General for Investigation Services, U.S. Department of Education, accompanied by Steven McNamara, Assistant Inspector General for Audit; and Cornelia Blanchette, Associate Director, Education and Employment Issues, U.S. General Accounting Office	52
Letters, statements, etc., submitted for the record by:	
Blanchette, Cornelia, Associate Director, Education and Employment Issues, U.S. General Accounting Office, prepared statement of	70
Collins, Hon. Cardiss, a Representative in Congress From the State of Illinois, prepared statement of	67
Green, Hon. Gene, a Representative in Congress from the State of Texas, prepared statement of	3, 85
Hansen, William D., Former Assistant Secretary for Management and Budget, and Chief Financial Officer, U.S. Department of Education, prepared statement of	103
Kunin, Madeleine, Deputy Secretary, U.S. Department of Education, dear colleague letter from Thomas E. Petri	26
Morella, Hon. Constance A., a Representative in Congress from the State of Maryland, prepared statement of	4
Riley, Richard W., Secretary, U.S. Department of Education:	
Higher Education Act of 1965	46
Prepared statement of	11
Shays, Hon. Christopher, a Representative in Congress from the State of Connecticut, prepared statement of	2, 50
Towns, Hon. Edolphus, a Representative in Congress From the State of New York, prepared statement of	66
Van Riper, Dianne, Assistant Inspector General for Investigation Services, U.S. Department of Education, prepared statement of	54

AGENCY OVERSIGHT: DEPARTMENT OF EDUCATION

MONDAY, MARCH 13, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HUMAN RESOURCES AND
INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Morella, Davis, Scarborough, and Green.

Staff present: Lawrence Halloran, staff director and counsel; Christopher Allred and Robert Newman, professional staff members; Thomas Costa, clerk; Cheryl Phelps, minority professional staff; and Elisabeth Campbell, minority staff assistant.

Mr. SHAYS. I am going to start the hearing.

I am sure Mr. Green will be here shortly.

I want to welcome our Secretary, and our Deputy Secretary. As former Governors, both of you carry that title with tremendous distinction because you were very successful and very capable and brought credit to that office.

I welcome you here today for our hearing. It is an opportunity, Mr. Secretary, for you to share with us the successes you think your Department is having, and I think there are a good number. It is also an opportunity to share with us some of the challenges you are faced with and to address the issue of consolidation of the Department. It is an interest that many of us in Congress have, I think on both sides of the aisle, but particularly on the majority side.

I am sure that is a topic with which you are very familiar. And you are also familiar with the question of the mission the Federal Government has in education. So I welcome you here and if you don't mind, we swear in everyone who comes before this committee. If I could just take care of that business and have you both rise.

[Witnesses sworn.]

Mr. SHAYS. I also want to say that we are joined by both Mrs. Morella and Mr. Scarborough. We will be joined by Mr. Green shortly, so you should not feel unprotected by just having Republicans here.

Mr. Green is here.

We consider this a very informal session, though it is on the record, and you are under oath. We just find this a very informative way for us to begin our work for the next 2 years.

At this time, I ask unanimous consent that all statements can be condensed, and the full statements be included in the record by those who are testifying. I am also going to ask unanimous consent that Members be permitted to insert opening statements for the record. And ask for unanimous consent to leave the record open for 3 days to allow Members who aren't here to submit statements for the record.

And I call on Mr. Green who is representing the ranking member and ask if he has any words he would like to say.

[The prepared statement of Hon. Christopher Shays follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER SHAYS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

We welcome our witness today, Richard W. Riley, the Secretary of Education, who will help us begin our oversight process on this department. We start by asking him to describe the department's mission, its strategy for the future, and its problems and opportunities.

As in all our oversight hearings, we will raise basic questions about the department and its programs and policies. What is its current mission? Is the mission being fulfilled? Is the current mission still appropriate in 1995? If the department and its programs did not already exist, should the federal government now go into that activity? These questions must be asked about every policy and program.

The question of the department's core mission is particularly timely. There are proposals from two former Secretaries of Education to abolish the department. There are other proposals calling for the consolidation of DoEd with the Department of Labor, and perhaps other related agencies, into a single department. From an intergovernmental perspective, the states and localities have primary responsibility for education. The federal role must be very carefully considered.

We look forward to hearing the Secretary's plans for streamlining the department, reducing costs and improving efficiency. We will pay special attention to initiatives to consolidate, coordinate and eliminate the many redundant government programs in education and training.

There are 163 federally funded programs, 61 of which are in DoEd, providing employment training assistance being administered by 15 government agencies, according to the General Accounting Office (GAO). These programs reach the same clients, share the same goals, and offer similar services. Yet, each program and agency has a separate staff to manage and oversee clearly duplicative programs.

The FY96 budget request for DoEd is $30.4 billion, down $1.4 billion or 4.4%, from the revised FY95 level of $31.8 billion. The FY96 request for discretionary budget authority, however, is $24.0 billion, an increase of $878 million or 3.8%, from the revised FY95 amount of $23.2 billion. DoEd's employment level request is for 5,060 FTE's, a decrease of 71 FTE's. In pursuing our oversight duties, we must look for administrative savings, waste, fraud and abuse in the department's budget.

Witnesses before future oversight hearings on DoEd will include: the GAO; DoEd's Office of Inspector General; Congressional Budget Office; and others from the public and private sectors familiar with DoEd and its programs.

Secretary Riley's testimony will assist this subcommittee greatly as we fulfill our oversight and reform responsibilities and we very much appreciate his presence here today.

Mr. GREEN. Just briefly, Mr. Chairman.

I want to thank the Secretary and Secretary Kunin for being here. It seems appropriate I serve also on what is now Economic and Educational Opportunities Committee, and last year, I served on the Education and Labor Committee and worked with the Secretary and the Department on the reauthorization of ESEA and came to know Secretary Riley and the staff, and worked well with them on a number of issues, Goals 2000, School to Work, and I am

looking forward to the hearing today because of the overview of the Department.

So often in my other committee, we only take it an issue at a time. And thank goodness on this committee we can look at whole departments and the scope and nature of the whole Department, so I am looking forward to it, Mr. Chairman.

I appreciate the opportunity to be here. I submit the statement.

Again, I appreciate you leaving the record open for other Members who would like to give a statement.

[The prepared statement of Hon. Gene Green follows:]

PREPARED STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman, and I am honored today to be serving as ranking member for this very important hearing on the future of the Department of Education. Let me say that last year, as a member of the Education and Labor Committee I worked closely with Secretary Riley's office to improve the Chapter I formula and bring more funding to disadvantages children in high growth states within the Elementary and Secondary Education Act. In conjunction with the Secretary's office, Congress last year produced other very important pieces of legislation to help improve education in this country: Goals 2000, School-to-Work Opportunities, and National Service.

This year, supporters of those pieces of legislation face a changed political environment. We must strongly defend the progress we have made in recent years from critics who want total elimination of the Education Department. The Education Department, like all federal agencies, do not have all the answers. However, Sec. Riley has shown how the Education Department can be a partner with states and local districts in establishing a framework in which reform can take place.

Supporters of the Education Department must also be leaders in the effort to bring efficiency and improved management of federal programs. It is not enough to say that we want to establish programs to help kids: those programs have to work and have to use the taxpayer's money wisely.

Looking ahead, I anticipate a discussion today about several issues: the Department's direct loan program; a response to legislation that would consolidate or eliminate the DoEd; how rescissions would affect Chapter I programs and School-to-Work Opportunities; and how the federal government should work with local districts to improve our schools.

In closing, I want to thank Chairman Shays for his serious and thoughtful approach toward the issues that this subcommittee has been considering. And I look forward to our discussion today with the Secretary.

Mr. SHAYS. Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman. It is a pleasure for me to be here.

I thank you for having this overview hearing, particularly because of my interest in education and having Secretary Riley and Governor Kunin here.

You are going to include my statement in the record. I just wanted to make a few points.

First of all, I want to commend you on the Blue Ribbon Award for Excellence in Education program. I say that because so many schools in my district have reaped the benefit and have used this as kind of a catalyst for moving ahead in terms of continuing with educational excellence.

I hope that you will comment on something that I think appears to be working and that is the direct student loan. I know it is probably special to you.

More than 75 percent of the students in my district go on to college, and every other year, I do a format on financing of higher education. The last one I had, there were 600 people who were all

very anxious about how they were going to finance the education of their children.

One couple sent me a plant to thank me for it, and I called them to tell them it was very nice of them to do it. I asked them how old are your children. They said we have two, 9 and 11. They are interested in financing higher education. It was symptomatic of that.

If you would address the Student Loan program, how it is moving ahead, and I know what the administration wants to do and whether or not we have had up to this point any indicators that it truly not only is working but it will work in terms of the repayments.

As somebody who Chairs the Subcommittee on Technology, I am also interested in the use of technology to excite young minds in terms of education. I have supported methods to launch a satellite dedicated to education that would connect classrooms across the country and bring equity to our educational system.

Also, this does seem what the goals are of education and as we move ahead recognizing that this is a key to competitiveness, it is a key to upward mobility, as a key to quality of life and what makes America great.

I thank you, Mr. Chairman.

[The prepared statement of Hon. Constance A. Morella follows:]

PREPARED STATEMENT OF HON. CONSTANCE A. MORELLA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

I would like to commend you, Mr. Chairman, for holding this important oversight hearing regarding the Department of Education. I also welcome Secretary Riley and extend my appreciation for his willingness to enlighten me and other members of the Subcommittee about the future role of the DOE and efforts to make this agency even more efficient and effective.

The Department of Education plays a significant role in ensuring that all Americans have access to a quality education. Well-educated and highly skilled individuals are the major resource of any modern society. The productivity of our educational system will set the pace for economic growth and the standard of living for Americans as we face the challenges of the 21st century.

I applaud the DOE for its Blue Ribbon Award for Excellence in Education Program. Every year, several schools in Montgomery County, Maryland, the district that I represent in Congress, receive an award from the Department for affording their students an outstanding quality of education. The program provides an incentive for high school standards necessary to win a blue ribbon.

I also applaud the DOE for the success of the Direct Student Loan Program. More than 75% of the students in my district go to college. More than 600 people attended the last seminar that I sponsored regarding how to finance a college education. Despite concerns that are being raised in Congress about the ability of the DOE to effectively run the program, I have heard, first-hand, good reports about the Direct Student Loan Program.

Students have told me that it is quicker and easier to borrow money under the Direct Student Loan Program, and that there is no confusion about who to contact for questions or repayment of their loans. Participating schools report that they receive tuition payments faster. It is my understanding that the Direct Student Loan Program will save over $4.3 billion by Fiscal Year 1998 according to the Congressional Budget Office (CBO).

While America has the finest higher education system in the world, during the past decade, students have been falling behind at the elementary and secondary levels. American students perform lower on international tests than students from nations with far fewer resources.

As we look at the major sectors of our economy, the educational system is the only sector that has not brought technology to bear upon its operations. In a society rich with information, we can no longer rely on skills appropriate only for the industrial age.

As the Chairwoman of the Subcommittee on Technology under the House Science Committee, and as a former teacher, I am interested in the use of technology to excite young minds. Since I have been in Congress, I have supported an effort to launch a satellite dedicated to education. A satellite-based infrastructure dedicated to education would connect classrooms across the country and bring equity to our education system.

I look forward, to discussing with Secretary Riley DOE's goals and objectives regarding technology in the classroom and plans for the Direct Student Loan Program as we pursue the role of the DOE in the future of our nation's educational system.

Mr. SHAYS. Mr. Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman.

We are honored to have you here this morning, Mr. Secretary. I have two children myself, a 7-year old and a 4-year old, and my 7-year old is in public school. I am not concerned yet about college, I am concerned about getting them out of first grade.

Because I have two children, obviously, this issue takes on critical importance for me. As I go around the district, and as I have been going around the district for the past year or so, I have heard a lot of people concerned about the Department of Education and what its mission should be on the Federal level.

Many of my constituents and others around the country have pointed to the fact that since the agency was formed in 1979, test scores haven't shot up, we still have problems with dropout rates and violence in schools, and to many Americans on all sides of the political spectrum, they are beginning to question what exactly the Department of Education's mission should be in Washington. These questions have been very pointed, as I am sure you are aware of, and they have come from all sides of the political spectrum.

We have had former Secretaries Bennett and Alexander, OMB Director Alice Rivlin, Leon Panetta, Majority Leader Dole, George Shultz, many Governors and, of course, parents across the country believing that a lot of the tax revenue and authority should return to the States. So what I am interested in hearing today, is what mission you feel the Federal Government has, and what functions can we trust back with parents and teachers and communities on the State and local level. I think we are fortunate to have former Governors here who understand the federalism questions involved in education.

And so if you could address, first of all, whether you think it is a desired goal to return education back to the communities, and then second, whether you think it is feasible. I look forward to your testimony.

Mr. SHAYS. Mr. Davis.

Mr. DAVIS. Thank you. I will be very brief.

I just want to note that as the former head of the government in Fairfax County which funded the School Fair, that we are seeing more and more students entering our school system there as the second phase of baby-boomers start to come into the public school system. And we are having tremendous expansion problems out in my district in trying to get enough school classrooms ready for the rising number of students.

In the 1970's, in the same suburbs, as they were growing, that these suburbs were growing, student population continued to decline, but you know how that is reversing itself, it is putting a tre-

mendous strain. I have three children in the public school system and am very happy with the system out there.

I saw you on C–SPAN a couple years ago when you were going through Bailey's Elementary School, which is about three blocks from my house. I was tremendously impressed. You were with another Cabinet Secretary who I wasn't as impressed with in terms of the comments made, but you looked to be a man of goodwill, not just on the party line but talking to the kids, asking them questions, trying to understand the very, very multi-ethnic population in that school, the successful programs with the county and trying to meet challenges that are presented in that area.

We have some tough issues ahead for us in the country. I think it behooves us all to put aside the party lines and try to work together and try to address what the real needs are and how we can best together address them.

I am not worried about what departments are going to be eliminated and how we can use the resources that are available and work together to accomplish the goals. I have read your testimony and am particularly interested in the long-term approach you are taking to prepare our students over the long term to compete in a world economy.

While, in fact, at the primary levels of education we are getting beat out, on higher education still we are doing very well, I think in a worldwide economy, but at the primary level we seem to be losing some ground. You have some good ideas, and I look forward to hearing from you today.

Mr. SHAYS. Mr. Secretary, it is a real privilege to have you and the Deputy Secretary here. I want to say that unlike some hearings, we want you to feel that you can give your statement in its entirety, or however you would like. This is your opportunity. We have a number of Members, but we will get you out of here by 12 as we promised.

STATEMENT OF RICHARD W. RILEY, SECRETARY, U.S. DEPARTMENT OF EDUCATION; MADELEINE KUNIN, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION; AND DONALD R. WURTZ, CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF EDUCATION

Mr. RILEY. Thank you, Mr. Chairman, and members of the committee.

It is really a pleasure for me to be here and discuss the role of the Department of Education in improving American education. And I have submitted my statement for the record, and I will have a brief statement here summarizing some of our major themes.

Former Governor Madeleine Kunin is the Deputy Secretary of Education, former Governor of Vermont, and is here, and has taken strong leadership in several key areas. One is the Department's new strategic plan, which certainly touches on matters that you are interested in, and also the direct lending initiative, and we will both certainly be happy to respond to questions at the conclusion.

I want to begin by highlighting several themes that can put our discussion in a broader context as we discuss the management and the direction of the Department.

First of all, American education, I submit to you, is not as bad as some critics think it is, and, in fact, some very good things are happening. And in your familiarity with the public schools, I am sure you see some good things happening everywhere, all around the country, not near as much as perhaps we would want to happen, but good things are happening.

We are really starting, I think, to turn the corner. We are beginning to get good, positive results from our efforts to raise academic standards, putting the country's attention on the high academic standards, hard work, discipline and learning—making excellence, as the Blue Ribbon Schools would portray, the watchword really of American education as opposed to mediocrity.

Student performance in science and math is on the rise. The number of high school students taking core academic subjects has tripled since 1983. That is a very important indicator of moving things in the right direction, we think, taking difficult subjects.

We still have a lot of problems, but overall, we think that we are moving in the right direction, and that we are in this Nation turning the corner, which has been very difficult.

Second, over 7 million additional children are going to get up in the morning to go to school within the next 10 years, many of them will be teenagers. The Congressman from Fairfax County is certainly a good example of that and you are already familiar with it, but this growth factor is out there, 7 million more children than we have in the system now over the next 10 years. We are truly going to have our hands full preparing these young people to do college-level work, to learn new skills that they are going to need to handle jobs of the future, to keep them out of harm's way, to avoid the dangers of guns, drugs, violence and helping them and their parents to finance their postsecondary education.

The third point, improving education is the most effective way I know to reduce the deficit and reduce this Nation's social costs. All of us are concerned about the deficit, and we need to be concerned about it, but we know that about 44 percent of all of the people on welfare are high school dropouts, 82 percent of all the people in this Nation's prisons are also high school dropouts.

If we want to keep people from being on welfare and being in prison and going down a road to violence and frustration, I think in this day and time, one of the big answers to those social problems has to be investing in education that works.

Fourth, the Federal Government has a long and established track record of providing access to higher education going all the way back to the 1948 GI bill. This has been a national priority for almost 50 years.

The Department of Education now provides 75 percent of all student aid. In the last 20 years, 40 million Americans have used the Federal Student Loan to finance their postsecondary education. I am sure that many of you went to college or law school with a student loan.

I know I got the GI bill when I came out of the Navy and that enabled me to go to law school. I think that is very common throughout this country, people who took advantage of those programs. Approximately, 7 million students who are currently going

to college are getting additional schooling with the help of the Federal Student Loan.

A couple things I put at your desk, and I would ask you to take a look at, one is "Preparing Your Child For College," which is a parent's handbook really, and it is a complicated time that we are in. The other is the "Student Guide," and if you would glance through those at your leisure to see the kind of thing we are trying to do to urge parents and students to make the right kind of decisions for their own benefit.

[Due to high printing costs, the information referred to above can be found in subcommittee files.]

Mr. RILEY. We also have been charged with the additional responsibility of helping millions of young people who historically were kept out of and left out of our educational system. We support the education of approximately 6 million disadvantaged children, 5 million children with disabilities, we help 3.3 million voc-ed students, and support adult literacy efforts that reach some 4 million Americans.

So let me turn from that to the specifics of managing the Department. I want to begin by telling you that I am not ready to pass, I didn't come here to save a job of a bureaucrat, that kind of thing, it wasn't my reason for coming. I have been working to improve education for over 25 years as a State representative, State senator, as Governor and now as Secretary of Education.

I came to Washington, I am sure as many of you, to change the status quo, to put in place many of the lessons that we have learned in education that were really brought to this Nation's attention in 1983, when then Secretary Terrel Bell issued the report, "A Nation At Risk."

I submit to you that we have shaken up this Department, put some solid management programs in place, and we are still not finished. We have been aggressive in streamlining our services, reducing regulations, consolidating and terminating programs and lowering the student default rate from a high of some 22 percent down to 15 percent and still going downward, we hope.

We are certainly working on it very urgently. Saving taxpayers, I might point out, by this reduction in default rates around $1 billion a year. In addition, loan collections are up from $1 billion in 1993 to $1.5 billion in 1994.

We proposed the elimination of 34 programs in last year's budget, we proposed to terminate or phaseout funding for 41 programs, saving over $700 million, as part of the fiscal year 1996 budget. Altogether, we have enacted or proposed legislation or made positive changes which would save $16.7 billion between 1996 and 2000 with the bulk of the savings coming as we expand, hopefully, our new direct lending program.

We have also applied some basic common sense to the whole business of regulation, broad waiver provisions, whole school approaches, fewer regulations, a support of charter schools are all elements of our new flexibility.

The Goals 2000: Educate America Act, we think, is a model of our new thinking. It is a whole different way of the Federal Government doing business. There are no regulations. This new piece of legislation has no regulations.

The application form is only 4 pages long. We have had 45 States apply, and all the territories and several others will be coming in very soon. Goals 2000 is what I refer to as a responsible block grant, free of regulation, and in its second year, which has already been appropriated since we are forward funded, 90 percent of all funding flows directly to the local school district.

I know Congressman Green is very much into that on the education committee. Yet we are still held accountable in that whole series of measures, and I think it is so important that you are accountable when you are spending the taxpayers' money. A total relaxation of all accountability, I think, is a problem in many ways, and I think the taxpayers also would be concerned about that. It gets to be a constitutional problem also if you have a total divorce of any accountability in terms of taxing on one level and services on another.

We have minimal regulations with a $7 billion Title I program. No regulations for Goals 2000 or School to Work initiative, none in those two programs.

I intend to use the broad waiver authority the Congress granted me last year, and we have also gone a step further and we are now conducting a Department-wide review of all of our regulations to sort out which ones are needed and which ones we can do without.

I point out our approach to regulations, and I am glad the Congress is tuned into that just as we are. Our approach to regulations is to develop principles for regulating. First of all, to look in all situations at the question of whether to regulate at all, then you have to go through those broad principles of determining that. Then you go through the question of how to regulate, and if you have noticed the first principle—when it is essential to promote quality and equality of opportunity in education.

In other words, for us to make the decision on a regulation, you go through that, and then we are going to go through all of our current regulations and put them to this same test. It is a very interesting look inwardly at yourself in terms of the Department. We are always seeking new ways to become more efficient.

Our current ceiling of about 5,100 FTEs, 5,100 is significantly less than the 7,700 FTEs when we were part of Department of HEW. In other words, since we have been out on our own, able to hone in and make a more lean, a more focused Department, we have reduced the personnel some 2,000 people and have a lot more programs and a lot more activity to do.

Here, I want to make a point that just 2 cents of every education dollar we spend goes to administrative costs. That is why I am skeptical about suggestions being made to make this Department an office once again, as it was in HEW, part of a very big bureaucratic organization. I don't see that.

Probably the most important thing we have done is to provide the Department with some stable leadership. During a 12-year period, and I think that is really important in education, during a 12-year period, there were 11 different appointees holding the important job of managing the student financial aid effort. It is awfully hard to get progress made when you have people coming in and out all the time.

We have been able to attract talented people who are making an impact. I submit to you, and certainly Madeleine Kunin is one of them, again a former Governor who has had that level of education experience, Don Wurtz who is here, our Chief Financial Officer, headed the General Accounting Office task force on the Department, and was one of the people who had gone into the Department in great depth, and as you know, some of their criticism over the past years has been rather significant. Don is with us today.

Leo Kornfeld could not be with us. He is out of State, but he is managing our direct loans and has a national reputation in that area. We have attracted people who are top education people throughout the country, and I am very pleased and proud of our top staff in Education.

We are making real progress. A new financial management system is currently being developed, and this system will be fully in place by 1998. We have done a better job of gatekeeping in order to protect the integrity of the Student Loan program.

Our research arm, OERI, has been entirely re-focused and we have already made the Department a key point on the Internet—over 15,000 visits a week. The new Direct Lending program is radically cutting the time that it takes for a college student to get a loan from 3 weeks to 1 day.

We are getting strong support and encouragement from our customers. And on the chart, you will note it is chart 8, I think in your data there, to show the difference of the streamlining of the Direct Loan program, and Governor Kunin will discuss that somewhat more.

I was at a university here recently and had a student tell me what a difference it was that they could get their loan the next day and didn't have to wait 3 weeks. I had a community college president tell me recently in Oregon that it enabled her students to proceed in the school year without having to get temporary loans, waiting until they got their permanent loans and how much better it worked and served all of them.

The community colleges did a survey, and some of the comments that came back—this was not us doing the survey, it was the community colleges—a very strong part of America's education system, by the way, and a couple of these quotes, "the Department's service has been good and timely" came out of that survey. Another quote, "many programs never reach the students as rapidly as this has. It's been bipartisan and kept the best interests of the student up front." And a final quote, "This has been the freshest breath of air in a long time. Finally, a program that the financial aid office controls. We like that and the students like it."

So we have had those kinds of responses. Direct lending is an example of a solid public-private enterprise. We have cut out the middleman to reduce costs and increase savings. The private sector is totally responsible for all the essential administrative functions from loan origination to complete loan services. The Direct Loan program is not a bunch of government clerks wearing green eye shades and shuffling papers.

I would like to suggest, then, that we are representing real change, significant change, change from the way this Department has been managed in the past. We have been doing business dif-

ferently, we can always do a better job, we know that, and we are willing certainly to try to do it.

I am open to any good, positive suggestions to find real savings. I think any discussion about improving what we do is healthy, and I welcome it. But I would urge the committee not to get sidetracked or caught up in some new organizational chart debate or lose sight of the essential core of what we are trying to do, which is to improve teaching and learning in America.

The greatest problem of American education that it faces at any level—State, local, Federal—is not having the tenacity to stay on course. We are starting to see real progress in American education because we spent the last decade learning what to improve in building a bipartisan consensus around some basic goals, which emanated, as you know, from the States. The best thing we can do for American education right now is to have some plain old-fashioned American tenacity.

Finally, Mr. Chairman, the American people have made education a national priority themselves. They believe it is a national priority. I submit to you they are not negative about education in any sense of the word, they are pro education, they want to invest in the future of their children.

Last week, the Wall Street Journal and NBC released a poll that showed that 79 percent of all Americans are opposed to any cuts in the Department of Education's programs. The American people recognize that education has to be a national priority in this new information era. They are tuned in, they have made that connection.

So I want to urge this committee to work with us in a bipartisan fashion to reflect this national priority. I think it is the right way to go.

I would welcome the opportunity to work with each of you and with the committee as we move forward together.

Let me ask Governor Kunin to say a few words, then we will be happy to respond to questions.

[The prepared statement of Mr. Riley follows:]

PREPARED STATEMENT RICHARD W. RILEY, SECRETARY, U.S. DEPARTMENT OF EDUCATION

INTRODUCTION

Mr. Chairman, I welcome the opportunity to come before this oversight Committee to explain the many reforms that we are undertaking to transform this agency into a Department of Education for the new Information Age we are now entering. I would like to submit my prepared statement for the record and make a short summary statement.

Let me begin by telling you who we serve and what we do. The purpose of this Department, the smallest cabinet agency in the Federal government, is to ensure equal access to education and to promote educational excellence throughout the nation.

I believe that in today's global economy, education has to be seen as a national priority. The knowledge and skills individuals learn in school to a large extent determine their level of economic success.

In 1992, for example, the average annual earnings for those with a bachelor's degree were 74 percent higher than those with a high school diploma, and 155 percent higher than those who had not graduated from high school (Chart 1).

TURNING THE CORNER: POSITIVE NEW TRENDS

As the Committee reviews our efforts, I want to place what we do in a larger context by telling you that it is my strong belief that American education is starting to turn the corner.

Just over a decade ago, Dr. Terrel Bell, then the U.S. Secretary of Education, released "A Nation At Risk," the report which sounded the alarm that American education was sliding toward mediocrity. Today, we are starting to see the positive results for our efforts since then to improve education.

Student performance in science and math is on the rise (Charts 2 and 3) and we have made up much of the ground we lost in the 1970s and 1980s. The number of high school students taking the core academic courses has tripled since 1983, and is still rising (Chart 4). Many more students, particularly minority students, are participating in the advanced placement process (Chart 5).

The drop out rate has declined in the last decade, and young people are getting the message that graduating from high school is only the stepping stone for more learning. There is a new seriousness and appreciation for the value of education. As a result, community colleges are filling up as never before. And our great institutions of higher learning continue to produce world class graduates.

I will be the first person to tell you that we still have many problems. Overall achievement is still too low; violence remains a destructive force in some of our schools; the gap in the performance of poor children is still too large; and too many college freshmen are in remedial classes.

I am also greatly concerned about the growing trend from state to state to deemphasize the jewel of our Nation's education system-our wonderful system of higher education. But overall, we are turning the corner and moving in the right direction. The American people are increasingly determined that our children get a first-class education. They want results.

This is why I am a strong supporter of applying ample doses of American ingenuity and creativity to our educational system. We need to encourage ideas such as charter schools and public school choice; be flexible and recognize that students learn in so many different ways; and carefully think through how we use time in the school day.

WHY WE NEED TO THINK LONG-TERM

Above all, we need to avoid the trap that has so often befallen American education, the inability to maintain a sustained drive for excellence. Too often we get distracted by the fad of the moment or change direction in mid-stream, even as the American people become more and more convinced that improving education has to be seen as a national priority.

In 1995 the link between education and our Nation's future economic competitiveness is absolutely clear. Between 1992 and the year 2000, for example, 89 percent of the jobs being created will require some postsecondary training.

This may explain why 50 percent of all 16-to-24-year-olds who lack a high school diploma are now unemployed and over 80 percent of prison inmates were high school dropouts. If we want to reduce dependency, we have to invest in education, and we need to think long-term.

We aren't going to save money in the long run if we start cutting back on education at the Federal level, and at the State level as well. If schools start producing more dropouts, all we are going to do is to produce more people who go on welfare or go down the road to crime and violence.

CROWDED CLASSROOMS: 7 MILLION ADDITIONAL CHILDREN

I want to point out to the Committee that the so-called "baby boom echo" is now beginning to hit our Nation's classrooms in full force. In the next ten years, over 7 million additional children are going to get up in the morning to go to school. Let me cite some projections that should capture your attention regarding enrollments in elementary and secondary education.

Connecticut will see a 10 percent increase in the number of young people going to school, Maryland will see a 24 percent increase, and Virginia and New Jersey are both projected to have 20 percent increases in school enrollments. California can expect a 30 percent increase at the K–12 level while Texas and Florida are projected to have 17 percent increases.

Here, I want to dig a little deeper and tell you that much of this increase will take place in our Nation's high schools. California, for example, will have a 44 percent jump in the number of high school students it will educate.

In Maryland and Virginia, high school enrollments will rise 35 percent. Florida will see a 36 percent increase. New Jersey will be up 28 percent. Connecticut projections are at 21 percent and Texas can expect a 25 percent increase.

That's a lot of teenagers. The vast majority of our young people are growing in a responsible way, but crime experts are already sounding the alarm that the sheer numbers of young people will lead to rising homicides and other youth violence. I get worried when I see a headline that reads, "Teen Bloodbath Looms." If we have any sense at all, we need to give all of these young people the hope of a good, first-class education based on high academic standards.

The surest way I know to create an angry 16-year-old illiterate dropout is to give that young person a watered down curriculum from first grade on which tells him in no uncertain terms: young student, you aren't good enough to learn anything hard, so why even try.

We are going to have our hands full as a Nation: first in raising standards so these young people can do college work and get high-skilled jobs; second, in keeping them out of trouble, away from guns and drugs; third, making sure we help middle- and lower-income families finance their children's college education or some other form of postsecondary education.

I believe the American people have a clear view of the future-that the reduction of the deficit and investing in education are two of the most important and essential ways we can secure this Nation's future economic prosperity.

EDUCATION AS A NATIONAL PRIORITY

If you look at our nation's history-going all the way back to Morrill Act in 1862 during the middle of the Civil War-the American people have always turned to the Federal government for support in education during times of great economic transition-just like the one we are going through now-or times of national emergency when our national security was at risk.

In 1917, during the middle of World War I, the Congress passed the Smith/Hughes Act to advance vocational education as the United States fully entered the industrial era.

When millions of GIs came back from World War II, we sent 2.2 million of them to college on the GI Bill and started to expand the American middle class. Between 1948 and 1973, for example, one fifth of our Nation's growth in GNP was directly related to access to higher levels of education.

When the Russians woke us up by flying Sputnik over our heads late at night-a few of you may remember that experience-Congress passed the 1958 National Defense Education Act, which sent millions of Americans to college and educated a generation of scientists who helped us to win the Cold War.

In the 1960s, this country faced up to its civil rights obligations and started helping disadvantaged and poor Americans to learn their way out of poverty. Congress passed the Elementary and Secondary Education Act in 1965, the Higher Education Act in the same year, and created Pell Grants in 1972. What was the result?

Well, one result was that the achievement gap between blacks and whites, as measured by reading and math scores, began to shrink through the mid-1980s, and the high school graduation rate for African Americans doubled over the past 20 years.

The Federal government provided the means to give millions of Americans a first opportunity to go to college. Between 1964 and 1993, college enrollment nearly tripled, from 5 million to 14 million, and the number of bachelor's degrees awarded to black and Hispanic students rose by more than 50 percent.

Today, the Department of Education provides 75 percent of all postsecondary student aid, continuing a national commitment dating back to the 1944 GI Bill. Here's another way to think about it-in the last 20 years, 40 million Americans have used a Federal student loan to finance their postsecondary education. That's a lot of people.

I want to suggest to the Committee that the American middle class is what it is today, in large part, because the American people have made access to a higher education a national priority. Approximately 7 million students are currently going to college or getting some other form of postsecondary education with our help.

The Department of Education also makes a strong effort to help parents prepare their children for college. We publish a "Preparing Your Child for College" resource book and every year we publish a very popular guide to Student Financial Aid.

The Department translates the American commitment to access, equity and excellence in other ways as well. In a given year this Department will:

- Help approximately 6 million disadvantaged children reach high standards.

• Assist States and communities in educating approximately 5 million children with disabilities.

• Train over 1 million teachers.

• Support the development of vocational skills and the transition from school to work for about 3.3 million students:

• Help 4 million adults to become literate and upgrade their skills.

We also provide easy-to-understand information that parents and schools can use every day. We have distributed 35 million copies of our "Parents Guide" on talking to children about drugs. We have just produced a new video on Attention Deficit Disorder that has received national attention.

The flip-side of this equation is what happens when this country does not invest in education, or when some of our young people get disconnected from education. We know that about 44 percent of all the people on welfare rolls are high school dropouts, and that 82 percent of all the people in this Nation's prisons and jails are also high school dropouts.

That should tell us something. If we want to end welfare-if we want to keep people from going on welfare in the first place-and keep them from going down the road to violence and spiritual numbness, we need to invest in education.

And here I mean "invest" in the broadest sense: connecting families to the learning process; making sure children know their basics; helping good teachers become better teachers; and making sure our schools are safe, disciplined, and drug-free.

If the strength of this country is the self-reliance of our citizens, if we want the "locus of power" to be the self-reliant American and not the government, then that self-reliance comes in large part because they are educated and thinking Americans.

We know, for a fact, that people at the lowest level of literacy are ten times more likely to be in poverty than persons at the highest level of literacy. We also know that the sheer drag of poverty can have a detrimental effect on even the brightest young person in a high-poverty school.

More importantly, we now know that changing our expectations of what poor and disadvantaged children can achieve is central to helping them to learn their way out of poverty. Two decades of research tells us that all children can learn to challenging standards. In the 1990s equity and excellence must be seen as one and the same. One cannot happen without the other.

THE DEPARTMENT'S GOALS

Overall, the Department's goals are defined by the eight National Education Goals, first proposed by the Nation's governors under the leadership of then-Governor Clinton and President Bush and most recently adopted by Congress in the Goals 2000 legislation.

The goals are intended to focus the Federal government, States, local communities, schools, businesses, and parents as they work together to improve the education system in the United States in such areas as achievement in core subjects, parental involvement, and school safety.

To help reach these goals, the Department has for the first time recently developed and begun implementing a strategic plan. Madeleine Kunin, the Deputy Secretary, has taken a strong leadership role in developing this plan and she is here with me today to answer any specific questions you may have.

This strategic plan reflects our efforts to restructure the Federal role in education, focus on performance, streamline and reduce the number of our programs, and improve internal Department management. Our strategic plan makes us a leader in implementing the Government Performance and Results Act.

The strategic plan establishes four key priorities. The first three focus on our programs and initiatives:

#1: To help States and communities enable all elementary and secondary students to reach challenging academic standards.

#2: To create a comprehensive school-to-work opportunities system in every State.

#3: To ensure access to high-quality postsecondary education and life-long learning.

In order to accomplish these priorities, we recognized that we had to change the way the Department does business, leading to the plan's fourth priority:

#4: To transform the Department into a customer-responsive, high-performance organization to support the three substantive priorities.

The inclusion of performance indicators in the strategic plan holds this Department accountable for results. I think we need to be held accountable if we are spending the taxpayers' money. Examples of our performance goals include:

- Between 1994 and 1998, increasing by 10 percentage points the proportion of students who meet or exceed proficiency levels in reading and math on such measures as the National Assessment of Educational Progress.
- By fall 2000, at least 50 percent of high schools and community colleges and 50,000 employers will be participating in comprehensive school-to-work programs.
- By 1996, the "one-stop" help line for information on all Department programs will be fully operational, providing access in one phone call to the full range of Department's products and services.

HOW WE ARE RADICALLY TRANSFORMING THIS DEPARTMENT TO SAVE $16 BILLION

To hold ourselves accountable we are using our new strategic plan to radically transform the way this agency does its business. When I got to Washington even the fans in my office didn't work. But we have begun to turn the Department around, and we have taken some credible first steps in reinventing the Department. I am not wedded to the past and I didn't come to Washington to save the job of a bureaucrat. We shouldn't feel compelled to hold on to 1960s thinking, just because it is the way we have done business, if the programs aren't working the way they should for the children. Here, I want to stress that just 2 cents of every "education" dollar the Department spends goes to administrative costs, and we are working hard to reduce these costs even further.

We have been aggressive in streamlining our services, reducing regulation, consolidating programs, terminating programs and lowering the student loan default rate-from 22 percent in 1990 to 15 percent in 1992, which is saving taxpayers $1 billion a year. In addition, loan collections rose from $1 billion in 1993 to $1.5 billion in 1994 (Chart 6).

We proposed the elimination of 34 programs in last year's budget and for 1996 we are proposing to terminate or phase out funding for 41 programs, saving over $700 million. All together, we have enacted or proposed legislation or made policy changes which would save $16.7 billion between fiscal year 1995 and fiscal year 2000:

- We would save $12 billion through student loan reform and direct loans.
- We would eliminate 59 education programs and consolidate 27 others for a savings of $4.6 billion.
- We will save an additional $100 million by reducing our personnel from 5,131 to 4,698 FTE.

A NEW FLEXIBLE REGULATORY PHILOSOPHY

We have also radically changed our approach to regulations. Broad waiver provisions, whole-school approaches, fewer regulations, charter schools, and investing in teams of teachers, parents, and school and community leaders to find high-quality solutions are all elements of our new flexibility.

We now ask some very basic questions when it comes to regulatory practices-whether to regulate at all, and how best to regulate to give our customers the maximum flexibility they need. This really is new thinking. You will see at the end of this testimony a one page attachment that spells out the principles of this new flexible regulatory policy (Chart 7).

In my opinion, the Goals 2000: Educate America Act is a model of our new thinking. There are no regulations for this new legislation, and the application form is only four pages long. Equally important, we have not created any new administrative structures to manage Goals 2000.

Goals 2000 is what I like to call a "responsible block grant"-the very type of creative, flexible legislation that supports local schools districts to achieve reform in their own way. Goals 2000 helps States and school districts set their own high standards and design their own programs for reaching them. In the second year of each grant, 90 percent of all funding flows directly to local school districts. Yet, Goals 2000 still holds us accountable for results, and we need to be held accountable if we are spending the taxpayers money. As of today, 44 states are participating in the program.

In addition, Goals 2000 allows me to give six states the power to waive the statutory and regulatory requirements of the Elementary and Secondary Education Act and the Perkins Vocational Education Act without having to seek my approval. Oregon, for example, has already put this "Ed-Flex" plan into place.

The School-to-Work Opportunities Act also represents a radical departure from traditional Federal and State roles. This regulation-free program provides Federal seed money over a five-year period to get school-to-work systems up and running in every State, and then the program sunsets.

Another example of our new flexible regulatory approach was demonstrated in last year's reauthorization of the Elementary and Secondary Education Act (ESEA). In totally revamping Title I-at $7 billion the largest program in the ESEA-we promoted new approaches that enable staff in individual schools to decide on the best strategies for improving teaching and learning.

The new Title I also expands the school wide option to 20,000 low income schools, enabling them to blend their Federal funds with state and local resources to upgrade entire schools, and not just target Federal funds on individual students.

We have a new management goal of eliminating 25 percent of grant regulations for fiscal year 1996 and an additional 25 percent for 1997. We are reaching these new management goals by giving grantees much earlier notification of their status, by distributing grant funds electronically, and by eliminating unnecessary negotiations affecting 6,000 grant continuations a year.

So we are making good progress. We plan on minimal regulations for the Title I program, no regulations for the Goals 2000 and School-to-Work initiatives, and a broad new waiver authority that I fully intend to use.

In addition, we have gone a step further by beginning a thorough Department-wide review of all of our regulations to sort out those that are needed and those we can do without.

GOOD MANAGEMENT PRACTICES

As we continue our work to redesign this agency, one of my chief goals has been to instill a sense of good management. As a result we are becoming a more efficient operation. Our current ceiling of about 5,100 FTE is significant reduction from the 7,700 employed in 1979 by comparable offices within HEW and six other agencies. We are making progress on a number of fronts.

A new core financial management system is currently being developed to put the Department's payment, grant and contract, and audit tracking systems in the mainstream of business practices. This system will be fully in place by 1998.

We have used sound and up-to-date management practices to implement our new direct lending program, including the competitive selection of private contractors to handle loan processing and servicing. We have cut the time it takes for a student to get a loan from three weeks to one day, and we have received strong support from our customers. As you can see from Chart 8, we have reduced and simplified the student loan process in a dramatic way.

We have combined many separate, and often duplicative, program monitoring activities into a few coordinated monitoring teams, and refocused the emphasis of monitoring from compliance to performance.

We are integrating our various educational research laboratories and technical assistance centers into a coordinated support system for states and districts.

We have brought this agency into the Information Age. Today, the Department's has become one of the prime sources of information on the Internet for information about education and technology. As "PC Computing" magazine has observed, "There may well be more K through 12 information on the Net than anything else." Each week, for example, the Department's Online Library is visited by 15,000 people.

Our "Low Hanging Apples" Team has worked hard to identify unnecessary or burdensome day-to-day procedures, practices, or conditions in the Department that could be easily corrected by quick changes to internal administrative activities. In the last three years, over 500 such changes have been made.

For the first time in its history, the Department has issued Customer Service Standards to help ensure that our staff provide the services that our customers want and need. These standards require prompt, high-quality service; timely and accurate information; easy access to services and information; and a pledge to make customer input the driving force for organizational change.

And, we are strongly committed to the idea that you cannot spend taxpayer money and operate programs without conducting objective and rigorous program evaluations. We have used evaluation findings extensively in the past to shape our efforts to improve the quality of the services we provide.

This is why I am concerned that our entire evaluation budget for the Title I program and the School-to-Work Opportunities program is now part of the rescission package that the full House will vote on this week. You cannot really open up the regulatory process unless you have a strong evaluation system that keep you accountable for results. This rescission jeopardizes our whole effort to focus on performance and implement needed reforms.

STAYING FOCUSED ON THE ESSENTIALS

In conclusion, I would like to suggest that our efforts represent real change-significant change-from the way this Department has been managed in the past. We have been doing business differently.

I will do all I can to work with the Committee and the Congress as a whole to make the Department of Education more effective. We can always do a better job and I am open to any good, positive suggestions by Committee members to find real savings. But I want to urge this Committee to support our efforts to put these reforms in place and make them stick.

The last thing we need is to get side-tracked or caught up in some new organizational chart debate that will make the American people think we aren't focused on the essentials of raising standards, improving teaching and learning, and making sure their children are safe in school.

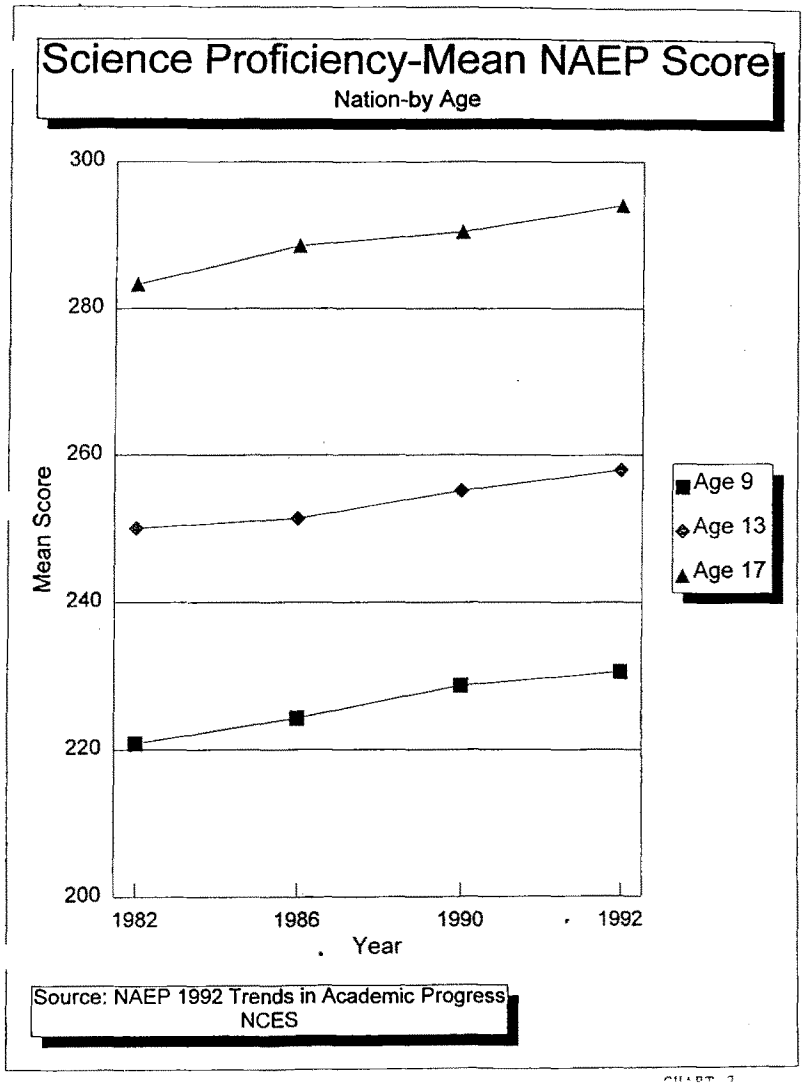
The American people have made education a national priority, and I see no diminishment of public support for investing in education. We need to be bipartisan and high-minded, to think long-term-something that the American people expect of us when it comes to educating their children. We are not educating our children as Republicans, Democrats, or Independents, but as Americans who represent the future of our great country.

I will be happy to answer any questions. Thank you.

Chart 1.—Average Annual Earnings by Level of Education: 1992

Level of Education	Average Annual Earnings
Professional	74,560
Doctorate	54,904
Master's	40,368
Bachelor's	32,629
Associate	24,398
Some College	19,666
H.S. Graduate	18,737
Not Finish H.S.	12,809

Source: U.S. Bureau of the Census (1994).


Science Proficiency-Mean NAEP Score
Nation-by Age
300
280
260
240
220
200
Mean Score
1982
1986
1990
1992
Year
Age 9
Age 13
Age 17
Source: NAEP 1992 Trends in Academic Progress
NCES

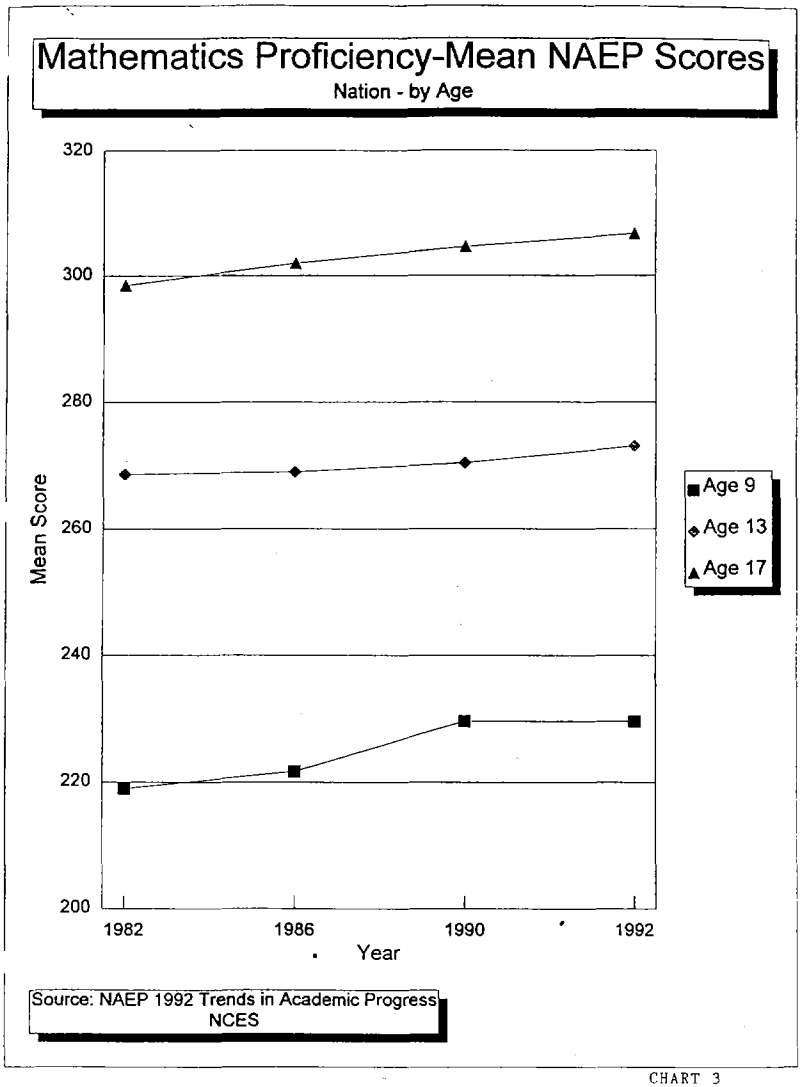

Mathematics Proficiency-Mean NAEP Scores
Nation - by Age
320
300
280
260
240
220
200
Mean Score
1982
1986
1990
1992
Year
Age 9
Age 13
Age 17
Source: NAEP 1992 Trends in Academic Progress
NCES

CHART 3

Chart 4.—Percent of High School Graduates Taking the Number of Courses Recommended for All Students by A Nation at Risk, by Race/Ethnicity: 1982 and 1992*

Race/Ethnicity	Percent 1982	Percent 1992
All	13	47
White	15	49
Black	10	44
Hispanic	6	36
Asian	21	51

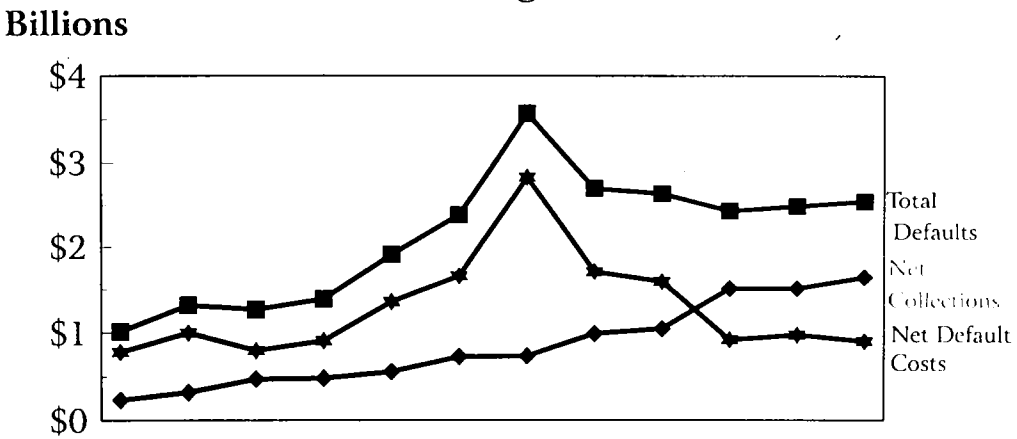
* Although A Nation at Risk included one half a unit of computer science in its recommendations, it is not included in this analysis because very few students participated in computer science classes in 1982. Its inclusion in this measure would exonerate the change in academic course taking since 1982.

Note: Courses include 4 units in English, 3 units in social studies, 3 units in science, and 3 units in math, where a unit represents a year-long course.

Source: U.S. Department of Education, National Center for Education Statistics, High School Transcript Study, 1987 and 1990 NAEP High School Transcript Studies, National Education Longitudinal Study Transcripts, 1992.

Advanced Placement Examinations
taken in all subjects, 1980-1994
Number of Tests Taken in Thousands
800
600
400
200
0
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994
Year
Source: The Condition of Education 1993 and National Summary Reports
NCES/Advanced Placement Program, The College Board
CHART 5

FFEL Default Costs by Fiscal Year
FY 1996 Budget



	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total Defaults	1.0	1.3	1.3	1.4	1.9	2.4	3.6	2.7	2.6	2.4	2.5	2.5
Net Collections	0.2	0.3	0.5	0.5	0.6	0.7	0.7	1.0	1.0	1.5	1.5	1.6
Net Default Costs	0.8	1.0	0.8	0.9	1.4	1.7	2.8	1.7	1.6	0.9	1.0	0.9

Chart 6

CHART 7.—ED'S PRINCIPLES FOR REGULATING

The Department of Education will regulate only when it improves the quality and equality of services to its customers—learners of all ages. ED will regulate only when absolutely necessary, and then in the most flexible, most equitable, and least burdensome way possible.

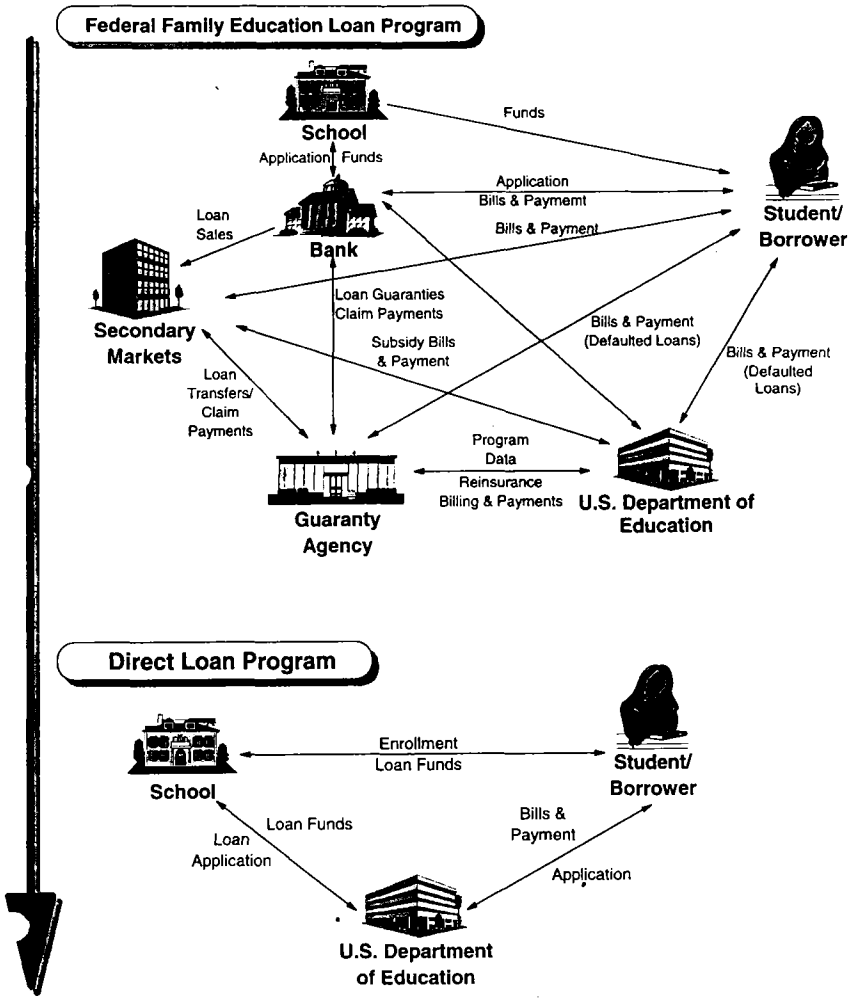
Whether to regulate:

- When essential to promote quality and equality of opportunity in education.
- When a demonstrated problem exists and cannot be resolved without regulation.
- When entities or situations to be regulated are so diverse that a uniform approach does more harm than good.
- When necessary to provide legally binding interpretation to resolve ambiguity.

How to regulate:

- Regulate no more than necessary.
- Minimize burden and promote multiple approaches to meeting statutory requirements.
- Encourage federally-funded activities to be integrated with state and local reform activities.
- Ensure that benefits justify costs of regulation.
- Establish performance objectives rather than specify compliance behavior.
- Encourage flexibility so institutional forces and incentives achieve desired results.

Structure of FFEL and Direct Loan Programs



Mr. SHAYS. Governor.

Ms. KUNIN. Thank you, Mr. Secretary, and thank you, Mr. Chairman.

As has been noted, I would like to focus on two areas. One is on management and the other is on direct lending.

As has been noted with two Governors at the helm here, we are very sensitive to the whole question of Federal intrusion into State and local affairs, since we were at the other side of this table not very long ago.

In the management area, I would point out there are two major changes. One is one of attitude, and that is the attitude of truly operating in the spirit of partnership with State and local officials. That is how Goals 2000 was developed and passed and that is how School to Work was implemented, and that is how we are proceeding. The management side is trying to match that philosophy with the daily functions of management so that we are more flexible, we are more sensitive to their needs, and we are working not to impede, but to enhance local schools' capacity to improve education.

To do that, you also have to pay attention to the specifics of management, and one of the specifics that we have developed and that never existed before is a strategic plan for the U.S. Department of Education.

This plan is interesting for a number of points. One is that it connects the strategic plan to the budget so that we are not just making budget recommendations in the abstract, we are trying to sift all of our priorities through this strategic plan, which focuses on high academic standards as the first goal, postsecondary education and lifelong learning, and also School to Work, and the fourth goal, making the Department a high-performance organization. It also has performance measures, so we are putting our own feet to the fire.

Performance measures are not yet entirely complete, but we are going to measure ourselves by things that matter, not by simply counting beans or by simply saying "Have you filled out the form right?" But by asking, "Are children actually learning more?" This is a major change in a bureaucracy.

I know it is easy to portray any bureaucracy as a musty old place that is irresponsive and recalcitrant, and certainly there is a lot of evidence to back that up, and it is easy to view the Department of Education as being probably very expert at that kind of bureaucratic behavior, but, in fact, in the last 2 years and several months, we have made a significant effort to turn that around and to revitalize our own employees, who are very, I would say, charged up about this agenda and the Secretary's leadership and vision for change.

We have done small things that also have a large impact, like having a low-hanging Apples Team, which is kind of an amusing, but quite interesting, and an effective way to change the way of doing business. So we have three teams of some 20 employees, who have made suggestions for change within the bureaucracy and have followed them through to make sure they are implemented.

Everything from how you use the Xerox machine, to travel vouchers, but the important thing is that employees see results. We have had major teams looking at personnel procedures, at the

whole grants process, and Don Wurtz has played a great role in that we have reduced the time for our grantees, gotten rid of redundant procedures, and, of course, implemented regulatory changes.

I would say the administration overall sees the Department of Education as being in the lead in how we are changing, how we regulate, and when or whether to regulate. So we are making progress.

We are not all there yet, as the Secretary indicated, but I would urge you to take a close look at us. We are not the caricature of a musty old bureaucracy that one would assume we are. We have changed, and we are going to continue to change.

In the area of direct lending, I would ask you also to take a very close look at this program and to listen to your own constituents, who have had some experience with this program. It is quite remarkable. Even we are pleasantly surprised because we have never had this kind of consumer response to a new Federal program, and it is entirely counter-intuitive in the sense that the Federal Government can reorganize something and make it work better and cost less. One of the enthusiastic quotes we got from the President of Southwest Texas State University, Jerome Supple, is typical. He says, "It is rare that the Federal Government creates a program that both saves money and improves service to its constituents," and direct lending is such a program.

What is interesting is that direct lending isn't what it seems. At first, it is cast as a private sector program being taken over by the Federal Government. That is not so. It is a totally subsidized private program that is now more competitive under direct lending, and saves tremendous amounts of money.

One of your colleagues, Tom Petri, wrote a very interesting "Dear Colleague" letter just last week which is entitled, "Cut Corporate Welfare," and it really is under the old FFEL program, a highly subsidized, no risk program for the investors for the banks and the guarantee agencies, at great cost to the taxpayer. He approaches this as a fiscal conservative.

[The information referred to follows:]

CUT CORPORATE WELFARE

Dear Colleague,

Those of us who call ourselves fiscal conservatives won't have one shred of credibility as budget cutters if we are unwilling to go after corporate welfare with the same zeal we apply to other types of waste. And in this kind of effort, liberals should be willing to join us. Please consider the following case carefully.

Suppose you were a banker and you were able to make loans that:

- were fully guaranteed by the federal government (i.e. as safe as t-bills);
- paid you interest directly from the federal government for a period of years at 2.5% more than the interest on t-bills;
- were fully as liquid as t-bills (or even more so) because you could sell them at any time at face value or even a slight premium in a large secondary market with plenty of eager buyers;
- required no credit-worthiness analysis up front; and
- required no collection effort for a period of years (you do nothing but sit back and collect your interest), after which you could still sell them or start collecting on them and receiving an extra .6% interest?

Wouldn't that be a great deal? Wouldn't you fight like Hell to keep it? You bet. And the deal exists—it's the guaranteed student loan program. But it's a lousy deal for the taxpayers. They'd be much better off selling t-bills themselves to finance the loans (rather than renting banks' capital at 2.5% more than the t-bill rate) and then

contracting for loan servicing with the current private servicers on a competitive bid basis. And guess what? That's what direct lending is. It's still a public/private partnership, but the one useful function the private sector performs—loan servicing—is priced in a market process rather than a political negotiation over interest rate premiums.

Think about it another way: what useful function are the banks providing? They don't assess risk. They take no risk. We can get cheaper capital. And we wouldn't even need their servicing if we collected these loans as income taxes through the IRS.

Make no mistake—guaranteed student loans contain an enormous bank subsidy. That's one of their four main sources of waste (the others are default costs, administrative complexity, and mistargetted subsidies for students). If we don't get rid of this corporate welfare, we'll have to cut more somewhere else.

The choice is clear—are you for the banks or for the taxpayers? True fiscal conservatives should have no doubt about whose side to take.

Sincerely,

THOMAS E. PETRI, M.C.

Ms. KUNIN. If one simply looks at this program as a fiscal conservative, one would be fairly shocked at the existing FFEL program and very pleased with Direct Lending, because we have put competition into the program. The servicer now has to compete for the business, and we are very pleased that it is working exceedingly well.

The program also provides a great service to the students. As the Secretary indicated, this program works. There are no delays, there is more accountability. As you can see from this chart, there is simplicity. There are direct lines of authority and accountability which never existed before.

The first report which we saw, the Secretary and I, when we arrived the day that President Clinton was inaugurated, was a GAO report of high risk areas. The bottom line in that red-covered report was that, in fact, this program is not manageable under the present structure, that we could not even with the best of intentions and investments make it work, because there is no accountability, no incentives to reduce defaults, no incentives to provide accurate information.

Here you have the school, the student goes to the school and gets the loan, and it is electronically conveyed by the Department of Education to the Treasury. The savings come from two sources. One, the Federal money can get capital more easily; and two, all those middlemen are eliminated. Those two facts in and of themselves cause tremendous savings. I would argue, even if there was debate over the savings, the fact that it is better service is also equally significant.

There have been questions raised, "All right, you were able to get the money out to the first 104 schools, but can you collect it?" The fact of the matter is the same people will be collecting it as are collecting it under the existing FFEL program.

We are contracting with the most expert people in the business, so as far as the mechanics of it, there is no difference. There are some advantages. One is students have an option of paying back according to the income they earn. The likelihood of defaults really decreases, so we anticipate fewer defaults in Direct Lending than in FFEL, because there are more options for repayment available to students.

There is another reason we believe collections will be improved, and that is simply the simplicity. Students will know where their

loans are, will be able to pay promptly, and won't have to go through this labyrinth. Very often, loans are bought and sold and you can't even keep track, and you may have a whole portfolio of loans. So simplicity will help, and also greater choices in repayment will help.

We are very sensitive, as you are, to the Congress' and the President's desire to find sources of savings to reduce the size of the Federal Government. We totally concur with that, and Direct Lending, once analyzed on its merits, is a very clear route to help get us to that place. So I appreciate this opportunity to go into a little more detail, and we will be happy to answer any questions you may have as we proceed.

Thank you.

Mr. SHAYS. Thank you very much.

Just a real quick question and answer. Is the Deputy Secretary in the Department of Education similar to other departments, focused more on administration? Is that the way you have it organized?

Mr. RILEY. That is the way we have organized it in the Education, and, of course, the Deputy here, so much of our work is involved out into the States and the local school districts. In order to be effective, it is very important for us to be out and have a lot of those meetings and contacts, and, of course, the Deputy being a former Governor also, it is just like having two Secretaries out making those meetings, and so forth, so it works very well for that, too.

Mr. SHAYS. When we had Secretary Reich here, he had a number of different charts. Whether he would agree with me or not, those charts built a strong case for thinking in combined terms of Labor, employment issues and education issues. Chart after chart seemed to document that.

One of the charts he had was a chart that you have given us. This chart gives us the average annual earnings by level of education from a professional at $74,000, to someone who has not finished high school at $12,800. I was thinking that the average person will have five to eight different professions in the course of their lifetime. I was thinking it is amazing, but it is only a statistic, not a reality.

Then I thought about one of my brothers, who has had five professions. I have another brother who has had six separate professions. So it gets down to this issue, why doesn't it make sense like Mr. Gunderson's proposal, to combine the Department of Education and the Department of Labor together?

They seem to be focused on the same things.

Mr. RILEY. Well, you know, you can certainly see that some of the involvement in Labor and Education is related very clearly. As you know, in School to Work Opportunities Act, we really handle that jointly with Labor, and, frankly, that works very well. And then by the same token, Early Childhood Education, all of those preschool programs we are connected with HHS and work closely with them.

The idea of moving Education, which is a small tightly focused, tightly run organization, into the large office of Labor, which has very important functions certainly to deal with all the issues in and

around labor, a lot of them very serious, regulatory-type functions, a piece of it training, but that is not the main piece, it is a very large and important Department of the government.

Now, look at our Department, and what we do. About half of our funds are in the direction of higher education, Pell grants, student loans, those programs dealing, Mr. Chairman, with some 8,000 different institutions, colleges, universities, and so forth.

The other half deals, of course, with other areas. The special targeted focus on disabled children, on disadvantaged children, children with limited English proficiency, and so forth, really puts us then in a very focused pro-education involvement, that is not just a work-force-type operation, and if we were moved there and became a part of this very big organization, Education would be a small piece of it, and it would be back again an office like it was in HEW. And as I pointed out, we have reduced the people in our Department doing the same function from 7,700 down to 5,000 as a separate Department. And we think that big is not necessarily beautiful. I have talked to Congressman Gunderson about his proposal, he is a thoughtful person, and he is really thinking some issues out. He, in creating what I would call a kind of megabureaucracy, has savings that are listed, but they are savings which really come from the same kind of thing we are doing now.

And I don't see how moving us with Labor is going to exacerbate the ability to save money. I mean we are doing consolidations. We are doing terminations. We are doing phaseouts and we plan to continue to do so. But we want to work with you all, whomever is going to do it. But moving us into Labor is not going to enable us to do any more of that.

It would be, according to his numbers, some $100 million to reduce duplicate staff offices and that is a legitimate consideration for savings. Our people have looked at all of the duplications. Like Secretary, there would just be Secretary, one Deputy, and so forth. And they come up with a $19 million figure as opposed to $100 million as far as any duplication that is out there. So we don't think there are any savings to speak of. We think it would take us off of our focus on education, an important function of this country. Now in this era of information, it has to be education and it would be a real mistake to deemphasize education at this time.

Mr. SHAYS. Thank you, Mr. Secretary. My time is up. I do want to make sure that before we leave we are able to clarify what you mean by 2 percent administrative costs. I won't ask that question now. But I do want to make sure that we deal with it, if you have someone who can document that for us.

What we are going to do since we have one minority member, is to go first to Connie Morella and then to Mr. Green. Candidly, I don't mind a little interaction between the Members if someone wants to jump in to clarify what someone else is asking.

Mrs. Morella, you may have the floor.

Mrs. MORELLA. Thanks. I just find it pretty remarkable that you can recommend that we go from 240 programs, I was looking at the list of them, down to 68. How come it is happening now and not earlier? How come all of a sudden? Is it because there is a new wave or a new climate that is making us do inventory and saying we don't need to do this and we can consolidate that? If you would

like to respond to why all of a sudden, and, second, how you made the decision.

Mr. RILEY. It is not sudden with us. Last year, we recommended termination of 34 programs. Two hundred forty is way too many and we are trying to hone that down. This year, as I indicated, 41 programs are to be terminated. A number of others would be ended through consolidation. Really 68 programs in all would be ended if you count termination and consolidation. And that—we recognize that and we came here and the whole theme of any new thing that we have put out there has been things like Goals 2000, which is not a whole lot of programs and school-to-work, which is not a whole lot of programs, not these categorical programs. They serve worthwhile purposes and so forth and we think that consolidation and termination of programs is called for and we are continuing with that process.

Now, what then do we plan to—how do we make that decision? In some cases, the function has been performed, you know. They were small categorical programs to start interest in things that have been completed. Others, the States, local folks can do it better. Others it makes more sense to consolidate them into a larger block of programs. So those are generally kind of how we look at them. And we think that should be a continuing effort and it has been an effort ever since we have been here.

Mrs. MORELLA. It must have been hard to decide because as I look at the various programs that are going to be terminated or suggested termination in 1996, those terminated by rescission in 1995 we just kind of hope that the concept of it will be carried through within the Department of Education or through the locality. In other words, ensuring it is there but I think it also has to do with what is happening now and everybody is sort of tightening and all of a sudden HUD can find ways of consolidating, the Department of Education can find ways of consolidating. Maybe that is a positive thing.

Mr. RILEY. We hope so, and we think it is consistent with the very kind of inquiries that take place now. Of course, as these programs come up for reauthorization, it really gives you a chance to go into them carefully in that regard. The main consolidations that we are requesting for this year would be in areas where we have the authorizations. In IDEA and vocational education, for example, there are significant consolidations.

Mrs. MORELLA. Do you have, Mr. Secretary, a special assistant for gender equity in the Department of Education? Maybe those of us who work in that——

Ms. KUNIN. Yes, we have a position that was created for gender equity and we are just about to finalize that. It looks like at this point we will have someone from within the Department, but there will be a position focused on gender equity issues.

Mrs. MORELLA. Do you have any concept of the timeframe on that one?

Ms. KUNIN. It should be shortly, yes, which is not very accurate in the Federal Government I realize, but I think within the next several weeks.

Mrs. MORELLA. Within the next several weeks.

Ms. KUNIN. We will be glad to notify you of that. We have been working on it and we are paying close attention to those kinds of issues.

Mrs. MORELLA. Thank you.

Just one final question. I notice that since you both have been Governors, that the Governors I read at some point have recommended a block grant for education. I don't know whether you want to comment on that. I brought the little clipping along. It says all—this is basically higher education. All Federal higher education programs including the Pell grants and the student loans would be folded into State block grants under a proposal that is being floated.

Now, they comment also that time is of the essence, so it might not materialize at this point but it is a concept that I think may come up again if it isn't—if nothing happens now. Would you like to comment on that?

Mr. RILEY. Well, you know, you can look at block grants in every area and we think it is worthy to examine all alternatives, but if you block programs of this kind, say in higher education, I think you do have the concern that States are now having very pressing needs themselves and you have to look at the short-term crisis needs that they have, welfare reform, other things that would not be looking maybe at the long run, that we would be looking at long-term improvement. And we think that those programs are in place, and again we have the relationship with 8,000 institutions of higher education and we think it would not be a wise area to block and send back to the States. States are having money troubles, too, and they need and would like funds.

The portability issue is also an issue. There is so much movement from State to State and college to college.

Mrs. MORELLA. Would that also mean that 20 percent of that if it became a block grant could be used in another way? You know, as we look at some of the block grants, there is that opportunity for the latitude for 20 percent to be used in something else that is connected but not specifically. I was just wondering if——

Mr. RILEY. You know, you can shape those things any way you want to shape them. The fact is that the Pell grant system and the student aid system work very well. And in this country, the way things move around and the way it is handled in terms of higher education, we think it would be a mistake to shift that down in that fashion.

Again, you can put it at 20 percent or 10 percent or 50. You can configure those things any way you want to do it. Why do that? What purpose does it serve? Higher education costs are a very critical matter for this country. And I think it is a national priority. You have to look at the national interest. And the national interest I think is served better by having programs handled as they are handled now as all 8,000 institutions are used to them being handled. You shift those down to the States and you will get some things that would not fit with the national priority. And it would be less functional, in my judgment.

Madeleine, you want to respond?

Ms. KUNIN. I think if it is done, it has to be done with great care and maybe a little more specificity. As we are going through the

second round of reinvention with the Vice President, we are asking some of those questions, but we are looking at the opportunities with the question: Will it really create more flexibility and more access?

And I think if we can answer that positively, I think some won't, but just to do it en masse without accountability and that is with great cuts, as you know, the block grant movement has several agendas. One is to cut the total amount. One is to create better flexibility and we are all for the greater flexibility as long as the resources aren't substantially reduced for students, and as long as there is substantial accountability.

Mrs. MORELLA. Thank you.

Mr. SHAYS. Let me now call on Mr. Green and give him a very generous 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. I did request 5 minutes every time one of the majority spoke, but thank you for the generous time.

I enjoy the testimony, I guess, because of the background on my other committee. I know I was there that day when former Secretaries Alexander and Bennett testified and I kept wondering about during their time as Secretaries, because again I see a great deal of effort in the last 3 years now on consolidation and coordination of programs and that is continuing.

And I guess the—I don't know if you have a chart that shows the proposed structure if we merged the Department of Labor and Education. Do you have that chart with you because I know I have seen it in my other committee? It is not here.

Ms. KUNIN. No, it isn't.

Mr. GREEN. If we think we don't like the system now, wait till you see the problems of a giant department and you create a larger bureaucracy that has other issues other than education itself to deal with.

But I guess the issue of coordination versus consolidation, and we are seeing a lot of coordination now already between the two, Labor and Ed, and you can make the case where we need more coordination between the Department of Defense and Department of State or maybe Department of Commerce and Department of State.

Do we really want to abolish and merge all of them into one because they are not coordinating enough or maybe they have some similar functions that they do ultimately but to get to that ultimate function there they have to have diverse places they come from, like Education or like Labor or like Department of Human Services?

Of course, I have also expressed frustration recently, I guess, because the children nutrition programs seem to be continuing under the Department of Agriculture and yet it goes to the—it deals with education. In fact, it was started as education, so I think there are lots of areas we can look at transferring and maybe dealing with instead of just abolishment.

I am glad the Secretary mentioned the Nation At-Risk report because I was in the legislature right after that report came out and it galvanized a great many States to respond to the national issue of education, not just in Texas or not just in South Carolina or not just in Tennessee with Governor Alexander, because I know early

on he was one of the leaders of education reform and setting the standards in some States, in Kentucky later on.

But that national report, it didn't come from the Department of Education in Texas or any individual State because it was a national issue and I think that is how—that's why the Department of Education is so important as a national program because even though only 6 percent of our funding for local education may come from Federal sources, it is still a national concern and it has been a national concern since the late 1950's when we realized we were behind on science and technology or science and space relation in math and that is why I think ultimately the Department was created.

When Secretaries Alexander and Bennett testified concerning the abolishment and consolidation, we were having votes all the time and I didn't get to ask them, but I was wondering during their tenure—and I don't remember and no one has ever been able to answer it—if during their tenure they individually recommended that while they were sitting as the Secretary of Education. And no one on either side, majority or minority, has been able to answer that, but again I think that we shouldn't defend a function just because it is there. We should defend it because of what they do and again these programs that you are offering, the cutting of the 30 percent of programs, even coming in with a reduction of 1.6 billion in requested revenue I think for the next fiscal year shows that—and it just didn't happen after November 8, 1994. It has been going on for a couple of years that I know of.

Let me get to some of the questions I want to talk about in relation to not only your request for the $1.6 billion less in the consolidation but some of the rescissions we are going to vote on this week and the coordination that we already see between Department of Labor and Education.

For example, the cutting of the 108 million for Tech Prep and I know there is coordination now between the two departments and how would that impact it.

And also one of the Department's major responsibilities is to safe and drug-free schools and the cut or rescission of 482 million. And granted I was in the legislature during the 1980's and I wish I could say we made our school campuses safer in Texas, but as a national trend we haven't and I don't know if we can blame it on that the Department of Education hasn't responded because our school campuses aren't as safe as we want or our test scores are not as high as we want, but I also think that sometimes we can—we are cutting off our nose to spite our face when we see that.

And so if Mr. Secretary or Madam Kunin, if you would respond to that.

Mr. RILEY. Well, of course the $1.7 billion rescission item as far as the Department is concerned comes directly out of our department and, as you know, we are forward funded and some haven't dealt with the education appropriations directly as you have.

Since the bill is finalized at the end of year, as you are well aware, it is too late to plan the education planning for the next year so education funds are forward funded, so in the 1994 budget, 1994–95, they really don't get their funds until June-July of the next year and the fact is that the money that is in the rescission

measure has $1.7 billion that has already been appropriated for education. And you mentioned a couple of the programs that are involved. One is the safe school—safe and drug-free school, the DARE program, and a number of other things, and really it is a very active program that we think is a real mistake to eliminate.

Mr. GREEN. Mr. Secretary, let me ask you now, here we are in March and that is forward funding and if we rescind that money for this current year some of our local districts have already expended that with the anticipation of receiving it in June or July?

Mr. RILEY. They probably would not have already expended it but they are in the business of contracting with teachers now and making arrangements for next fall so they are planning on it, if you see what I mean. It has already been appropriated and it is there. It is appropriated funds, and really it puts us at a little bit of a disadvantage in education because it is kind of a temptation to reach into those funds. It is the nature of education, is the reason they are out there, but we really feel that it would be very significantly felt in the local schools, especially something like Goals 2000, for example. As I indicated, 90 percent of those funds go right straight down to the school district and that is a significant cut in the rescission.

Mr. DAVIS. Would the gentleman yield for a second? I appreciate this line of questioning because most of us haven't seen the total rescission.

Mr. SHAYS. We will allow the gentleman to have some more time.

Mr. DAVIS. My understanding was that the DARE money was restored. It was not restored?

Ms. KUNIN. No.

Mr. GREEN. And just reclaiming, let me ask and I will give you back time.

Mr. DAVIS. I am just asking.

Mr. GREEN. I have the same frustration you do. I hear there has been a cut like the 482 million. I hear rumors it is going to be restored but until we actually see it Wednesday or late tomorrow night, we won't know for sure.

Mr. DAVIS. That is why I appreciate the questioning. In terms of forward funding, they have gone back and taken a lot at items that haven't been expended and this explains why.

Mr. RILEY. I do not know but I certainly hope it has been. I know a lot of those things are in discussion now and it should be. Looking at all these programs is fine but it is a right hard lick on education to take back funds that have already been appropriated in that fashion.

Mr. SHAYS. I wonder if the gentleman would yield as well? You still have time.

Mr. GREEN. I yield.

Mr. SHAYS. With forward funding before October 1 people, schools, and nonprofit organizations can request funding for this year. However, you have not yet selected those who will get the grants. My understanding of what the Appropriations Committee has done in most cases is to not provide new funds but instead maintain the level you are at this year. So if the rescissions go through, you would not award as many grants, or you would announce grants, but you wouldn't award the money.

Mr. RILEY. Well, we distribute funds on several ways. The great portion of these would be on formula grants. The one you were describing would be competitive grants. A lot of our grants are competitive grants. A lot of those are some of the more narrow programs that we have. Some of the categorical programs which we don't have nearly enough money to do what you need for the country and so we do it on competitive grants and in many cases that works very well. But the safe and drug-free schools, for example, is a formula grant. It is not a competitive grant program. So those would just go down, Mr. Chairman, according to their formula.

Mr. SHAYS. OK. Thank you. I yield back.

Mr. GREEN. Since you talked about the difference between competitive grants and formula, I know within the rescissions there is also a cut in just basic what we would in the State call minimum foundation but it is not, it is elementary, secondary, Chapter 1, Title I funding. There is where 107 million would be cut.

Ms. KUNIN. Yes.

Mr. GREEN. I haven't heard if that is going to be restored or not but again that is a formula that if you have that child in L.A. or New York or Houston or even in a smaller community, that is actually part of the rescission too, so I am glad you brought out the difference between the competitive grants and the formula driven.

Mr. RILEY. $105 million in the rescission.

Mr. SHAYS. I'm sorry. Just to put in it perspective, they are recommending a cut in the increase out of what amount?

Mr. RILEY. That is cut out of already appropriated funds. That's why I say it is kind of hard to realize how those were funds that were appropriated around $7 billion for the whole program.

Mr. SHAYS. So it is $100 million out of the whole, $7 billion?

Mr. RILEY. $105 million.

Mr. SHAYS. Out of the seven?

Mr. RILEY. Out of $7 billion.

Mr. GREEN. I know I thank the chairman for a real relaxing of the lights.

Finally, before we come back to it, how do the rescissions actually affect some of the reinventing priorities that you are seeing or you are trying to do now, the cutting of the 30 percent of programs and merging some of the programs? Secretary Reich was here last Friday or Thursday to talk about some of the things they are doing in the Department of Labor on consolidation.

Mr. RILEY. Well, when you look at what we are trying to do in terms of termination of I think 15 programs in rescissions that the President sent over, that is rescission of these current programs, we recommended to rescind 15 of them and then I think 21 programs in the 1996 budget. Those are done, as the chairman pointed out in his question, after real careful, careful analysis as to what could and couldn't and what would be best to terminate.

All of that is hard and I don't have to tell you, Congressman, because you know, and some of my Democratic friends and Republican friends give us the devil about trying to terminate programs. But we have actively tried to do it but do it in the right way, the way it would be less harmful and, in fact, more beneficial. And so to come in after we are into that process and then the consolidations primarily dealing with reauthorizations but significant con-

solidations, I mean elimination of dozens and dozens of programs. Then to come in and cut programs out from under you that have already—funds have already been appropriated when you are really pushing to try to cut back in the right way, it is kind of wrong way to do it and it kind of takes some of the momentum out of your effort to try to seriously cut and we are seriously cutting and changing.

And that is the kind of relationship we would like to have with this committee and others to really look at that and, I mean, talk about suggestions of what to cut, what to consolidate and to get off of the discussion, which we think is counterproductive in the long run to talk about making massive shifts of departments when really if you are going to reduce you got to cut. And just sticking you over in Labor or sticking you all around in HHS and Justice and Labor or wherever, that was that chart you were talking about, when you take the functions we perform and scatter it over to Labor and all around, then you are looking at the schools out there; instead of dealing with one unit, they are dealing with dozens just for our functions.

Ms. KUNIN. If I may just add a note, Mr. Chairman, and Congressman Green, you know when it was asked what proportion of Title I was cut, that seems relatively small, but Safe and Drug-Free Schools is totally eliminated and when you ask what we are trying to do, as we go around the schools and talk about improving academics, the first question we get asked is: "How can you help us make our schools safe?" Without the capacity to provide any kind of assistance in this, I think not only would the safety in and of itself be incapacitated, but the whole school reform effort would be slowed down I am sure you sense from your contacts with your own constituents that those two march in tandem: School improvement and school safety. While the Federal Government can't do it all, and shouldn't do it all, the Safe and Drug-Free Schools program is an important form of assistance.

Mr. SHAYS. Thank you. Mr. Scarborough. Thank you for your patience.

Mr. SCARBOROUGH. Do I have a generous 20, 25, 30 minutes?

Mr. SHAYS. We will be generous.

Mr. SCARBOROUGH. OK.

Mr. GREEN. We could give you more time if you wanted to sit on this side.

Mr. SCARBOROUGH. Well, if I did it in my district, I would have been sitting on that side for 2 years.

I would like to thank both of you not only for coming and testifying today before the committee but also thank you for being part of the new wave that is sweeping Washington whether you are a Democrat or a Republican or an Independent, since we have a Representative from Vermont. It certainly is a positive move in the right direction.

I do want to ask you, though, because if you look at—if you look at hard numbers, there is some justification in consolidating agencies and possibly doing away with the Department of Education. I would just like to hear how you would respond to some things people have been talking about lately.

You talked about not wanting to get into an organizational chart debate and also talked about how bigger was not better, necessarily. But let me ask you, since 1979 if you just want to look at hard numbers on test scores, drop out rates, violence in schools, haven't those figures shown that education has been in decline since 1979 since we moved away from a consolidation with HEW and set up an Education Department on its own?

Mr. RILEY. Well, let me ask you to take a look at a couple of your charts here, science proficiency, mean NAEP scores, and mathematics proficiency. I don't know where they are in your line up.

Mr. SHAYS. You have numbers on them. Is it in the new book? It is in the testimony.

Mr. RILEY. Charts two and three.

Mr. SHAYS. Excuse me just a moment.

Mr. RILEY. Anyhow, the important thing is—and let's look at that. That's a very legitimate inquiry.

Mr. SHAYS. Which chart are we looking at first?

Mr. RILEY. Two and three, I believe. Science.

Anyhow, the point being that the Nation really got its attention on science and math and some of that coming out of going to the moon and all of the other emphasis on science and math and during the eighties, that has really shown an increase and, frankly, the seventies, Congressman, were very bleak and everything in the seventies, any education numbers you looked at in the seventies were basically down.

And really in the eighties people were beginning to get tuned in. I know I was in South Carolina as Governor during that period and Florida was getting involved in it, but during that period attention was being given to it and then when "A Nation At Risk" came out that really kind of galvanized this interest. We were in the middle of an education reform measure in my State. The Education Improvement Act, and it was very comprehensive, involving business, involving people all across the State and everybody ended up being very supportive of it and we were really trying to change and improve the State.

About the time that we were getting heavily into that, "A Nation At Risk" came out and I am telling you having the national attention, national attention almost like it was patriotic to be for improving education and for children to work harder and parents to get involved in the schools and so forth, and it just lifted our whole attention factor in my State significantly. We could have hammered it and hammered it from the State and local level right on but when it became a national factor and the Nation was tuning in on it, it is amazing what a difference it made.

Mr. SCARBOROUGH. And——

Mr. RILEY. During the seventies, as these would point out, math and science increased around a grade level in test proficiency.

Mr. SCARBOROUGH. Well, so in math and science increased. What about other areas? Reading aptitude, writing, and again going to the drop out rates, can you tell me have the drop out rates, how that has been going? And violence in schools?

Mr. RILEY. Well, I think one of the important things of course is—the tremendous gap between African Americans who had not had ample opportunity in years past, unfortunately, and white stu-

dents was tremendous. There was a large gap. That gap has been significantly closed during the period of Title I, Title I of formerly Chapter 1. And there were lots of things we felt like needed to be changed in Chapter 1 and we have changed a lot of things and we are doing a more whole-school approach and away from a pull-out approach and so on. But those programs have helped. There is no question about it.

If you look at those gaps, Hispanic kids, minority kids, the gap has closed significantly. It hasn't closed completely. We still need to work on it. If you look at disabled kids, and what has happened there, it is tremendous, the percentages that now really have a significant education that formerly would have simply been put aside and not worried with. To see disabled kids working and productive and excited about their life in this country, and if you look at all the different areas that we are in, certainly higher education is kind of a model for the world and we are very much, as I pointed out earlier, in higher education and again that shifts away from moving us to Labor. I mean, the importance of higher education is not necessarily work force related and so forth.

So I think that we can make a very good argument and a lot of good things have happened. I don't have to tell you or anyone else education doesn't happen overnight and it is not a quick turnaround and it involves culture. It involves habits and it involves whether parents and communities are interested in education and so forth. And a lot of that is taking shape and we are very hopeful. As I indicated, we think we have turned the corner and we are seeing the kind of progress that—it is slow. It is not rapid, but it is moving in the right direction and we think it is making a difference.

Mr. SCARBOROUGH. I certainly hope so.

And let me say this, you mentioned talk about minorities and handicapped children. There has been a tendency to frame a lot of debates on the national level. If you are for helping minorities and handicapped children on a State or local level, there has been a tendency by some to say, well, that means you don't care about them because you don't want a Federal agency. There are a lot of people that believe that we can actually help minorities, help handicapped children, and help the truly disadvantaged more effectively in the community or State level.

And I would like to point out Alice Rivlin for one, Director of OMB for President Clinton, wrote a book in 1992. She brought up a good point, 30 years ago, 40 years ago, because of some problems on State levels, the Federal Government needed to step in and make sure there was a safety net in these areas because the State governments were not capable of handling it. Ms. Rivlin pointed out in her book, though that is correct, we now have some of our most talented and capable people at the State level, and I am sure that started about the same time that you all were Governors for your respective States, but Ms. Rivlin said——

Mr. SHAYS. Make sure you don't ask any questions that are going to take too long to answer.

Mr. SCARBOROUGH. Well, this is a yes or no answer. I am just trying to ask a question half as long as Mr. Green. It is hard piecing together all these.

Mr. GREEN. I will make my case. You can come on over here.

Mr. SHAYS. I am going to let the gentleman come back and ask another round of questions.

Mr. SCARBOROUGH. Again, I will wrap this up.

The point of the fact is Ms. Rivlin seems to say in her work, and Leon Panetta and several others have now been saying, we can trust the State governments to handle education and other areas like that, that the Federal Government can step back and let Governors and State legislators and communities once again stay a very active role and the Federal Government should be in retreat and that is an exact quote from her work.

Would you disagree with Ms. Rivlin on that point?

Mr. RILEY. Well, if you look at what we have done and analyzed Goals 2000 it would fit exactly with what Ms. Rivlin is talking about, in my judgment. And it does put the onus on the State and local school folks to decide how to reach their goals.

We don't control that. We don't tell them how to do it. To qualify through Goals 2000 funds, all they have to do is develop their own standards. What are standards? Standards are a definition of what an education is. We have always had standards. It might have come out of a textbook or some teacher's mind, whatever, but you have got to have something in terms of what are you teaching, and so standards then required not by the Federal Government but by the States and local government to define what a child should know and be able to do in algebra in the seventh or eighth grade.

And then following that through there is assessment, State assessment to those State standards. So we in the Federal Government are supplying resources, the goals which were practically all agreed to by the Governors. The two goals were added: Parent involvement and teacher development. The goals are broad goals. That is all they have to do is to be trying to reach these goals in their own way. And we think that is the perfect model for what the Federal role ought to be, a very important role in raising standards for this country and we have got to do that.

Every kid we are talking about, disabled or handicapped, also excellent students, gifted and talented, advanced placement, raising all of those standards throughout the country is going to measure the future of the country. To have the Federal Government back off of that or not be into that and say, well, that is just a State problem, it is a national priority but a State responsibility——

Mr. SHAYS. Mr. Secretary, I have to interrupt.

Mr. Davis, you have not had an opportunity to ask questions yet. After Mr. Davis I am going to be pretty strict with the 5-minute rule to see if we can get one more round of questions. Mr. Davis, you have a little bit more time.

Mr. DAVIS. I will be very real quick.

I note in Fairfax, which I am familiar with, the 10th largest school system in the country, I think 1 percent of our operating money comes from the Federal Government. We do get some mandates on the handicapped and the like but it is local effect. We wish the State would give us more leeway sometimes with the diminishing money we are getting from the State as well. This is an area where the Federal Government is not that heavily involved

when you start talking about Federal involvement the way it is in many other areas.

I am going to ask you a few questions. I am going to start with going along with some questions that the chairman asked and Mr. Scarborough asked in terms of Labor and Department of Education whether it is a consolidation.

I think there needs to be perhaps not a consolidation but there needs to be great coordination, because much of what you are doing may point to the same things that get people educated so they can join the ranks of the employed whether they exit the secondary school level, graduate level, community college or whatever. How much coordination is going on right now?

Mr. RILEY. Well, I would agree with you that there should always be more. We are working very hard to have strong coordination with Labor on those areas where we overlap and have a very clear connection. I mean a kid comes out of school and goes to work and obviously there is a linkage there and a very good one and an important one and we think that we are doing that, Congressman, in a very good way.

I know Bob Reich, and he and I worked very closely. Our staffs work together and those programs also are handled in a joint way. Students are in high school and then they are also out in the job at the same time as you well know in the way school-to-work operates, very similar to Tech Prep but much more outside the school than Tech Prep would generally offer. So we think we are doing a good job with that.

We are working with HHS, of course, on Head Start and those things with preschool. And I would say very quickly, though, that we can always do more and we will certainly try to do that and we will work with you.

Any suggestions or anything that anyone would have about better ways to do that? I know you came up in local government and are familiar with the ground rule on how that operates in a growing area, but what we would like to see, really, is a joint effort to develop these kind of relationships with other agencies and if we are looking for cutting a certain amount of money, you know, to really hunt for ways to do that. And I really cannot see two things. I don't see how merging us with Labor or disintegrating Education and moving all around in 8 or 10 different places is going to be anything but harmful in a general way to American school children.

Mr. DAVIS. Do you think we would be better off saying here is the amount of money we need to try to look at it and come up with some suggestions to look at it?

Mr. RILEY. I think to sit down together and try to work out ways to cut certainly is a much, much sounder way from a public policy standpoint of finding a reduction of cost.

Mr. DAVIS. I have got a question for Governor Kunin and since you brought up Tom Petri's cut corporate welfare letter. We have all got a copy of it.

Also, on January 30 the Post ran an editorial that Congress could, in fact, cut the present AID program essentially and leave higher education all the worse for the wear. It went on to say, for loan programs that were serious, money can be saved. To cover stu-

dent defaults on government-guaranteed loans, $2 billion a year is an outrage. The government needs to stop guaranteeing 100 percent of the loans. Expose the banks or States to even a fraction of the risk and in a twinkling the loans would be better paid.

Do you have any reaction to that?

Ms. KUNIN. Well, a few reactions. One is that in the present system and the FFEL program, the banks have no risk at all, and now the government does when we run it through direct lending. We have more control over the whole system to reduce the risk, and the part I would agree with is we shouldn't have any defaults really and any loan loss. We see on the horizon and not too far away where we will come out with no net loss, where our collections will equal our default rate, two things are happening. Defaults are going down. Collections are going up. Don, do you have those exact figures? This is Don Wurtz, who is our CFO.

Mr. WURTZ. We had $2.4 billion in defaults and we collected $1.6 billion, the highest amount we ever collected from tax refunds, offsets this year went up to $600 million. We are now instituting——

Mr. SHAYS. I'm sorry. For the recorder's purpose, we need to identify your name.

Ms. KUNIN. Sorry. This is Don Wurtz, who is the Chief——

Mr. SHAYS. I am happy to have you give the answer. I wonder if you could just step up and talk into the microphone. Just state your name again, sir.

Mr. WURTZ. My name is Don Wurtz. I am the Chief Financial Officer of the Department.

Last year, we had defaults of approximately $2.4 billion. We had collections in total of about $1.6 billion. The amount from refunds, tax refund offsets which we coordinate with the IRS, has increased to about $600 million and of that $1.6 billion—we are now instituting programs for wage garnishment which we believe will have substantial impact in the future and continue those collections.

People are under a great delusion when it comes to default. A student who defaults can no longer borrow to get a car loan, can no longer get a mortgage loan. Cannot get a job with the State or Federal Government and that loan has no statute of limitations, so it is a pretty drastic situation today and we are now sending out—we are going to have about 3 million hits this year on tax refund offsets and each of those students will get a letter explaining what they are faced with.

Mr. DAVIS. I guess my question is, you think instead of sharing the risk with the banks or the States that you can get to that goal another way; is what you are saying?

Ms. KUNIN. Yes.

Mr. DAVIS. That is what I wanted to hear.

Ms. KUNIN. Yes, I think we can and that there is less risk when the Federal Government basically makes the loan from the Federal Treasury and we don't have all these subsidies in place of the private sector. We have those built in these savings and it is a much more sound system. We have more of an incentive to collect than ever before.

Mr. SHAYS. Let me call on Mrs. Morella, unless you have one final question.

Mr. DAVIS. I did but I can wait.

Mr. SHAYS. I am going to be very strict and we are going to use the 5-minute rule. When the red light goes on, Mr. Secretary, I may interrupt you or ask you to condense your comments so we can get you out by 12 o'clock, although this has been a very interesting hearing. Mrs. Morella, I don't know if you want to use your 5 minutes.

Mrs. MORELLA. I probably won't.

I value your presentation and responses to questions. Let me ask you about something that has affected my community, the kind of money that is being spent being drained from special education programs for lawsuits. For lawsuits, indicating that we are not actually educating these students with special needs.

Now, part of the IDEA bill, individuals with disabilities is going to be coming up for reauthorization. In order to address the problems, I think you have probably heard about them, what would you do to change it or to alter it or what suggestions would you have?

Mr. RILEY. Well, as you point out, Congresswoman, the IDEA is up for reauthorization. That will be a very interesting but very important reauthorization and the chances are that as I understand the timing now that you are looking at more or less at the fall for really getting into it and probably it will be next year before it is completed.

There are a number of suggestions that my staff is working with staff and the Congress in planning for that reauthorization. One of the important areas is that of mediation. Of course we are seeing that in courts all across the country now as a savings in terms of court time and resources. But that will be one mechanism that will be discussed quite a bit I am sure as to how to work that out so that we can have a lot quicker and better decisionmaking being fair to disabled children and to all children. So that is one of the important things that is going to take place and also a number, we have already recommended a number of consolidations in that whole program really instead of lots of programs having it narrowed down to just a couple.

Mrs. MORELLA. Will you let my office know what some of the suggestions are?

Mr. RILEY. Absolutely.

Mrs. MORELLA. Mediation and consolidation you are saying?

Mr. RILEY. Absolutely. And we will share with you where we are at this point in time in that and we have done an awful lot of work on it all last year and this year.

Mrs. MORELLA. Thank you.

Mr. SHAYS. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Secretary, let me respond, and similar to the questions earlier and I guess to reiterate 94 percent of the funding for public education is now State or local although in Congressman Davis's district, it is only 1 percent Federal, and I can relate to the problems of the State mandates.

When I was elected to Congress in 1992, when I left the legislature after 20 years, my Lieutenant Governor, he said, I have only one thing to tell you, don't send me any more mandates, because he had been a Governor in position in the State many, many more years than I have, and I said, that is what my local school board

told me as State senator, and he said, that is true, and they are in session as we speak probably mandating on local school districts although we have passed the unfunded mandates at least in the House.

Let me go back to Nation At-Risk because that was the biggest issue I think in the early to mid-1980's in legislatures, because I had served during the 1970's and we had continued to just provide additional funding for education, but what happened in the State of Texas in 1984 because of the Nation At-Risk, it was released and I know it galvanized opinion all over the country. And, again, that wasn't a State initiative originally. We had been under court order like I think we had on funding our schools for many years, although as I sit here today we finally have a constitutionally permissive funding system in the State of Texas the first time in 24 years.

But the Nation At-Risk was released in States all over the country in responding to a national crisis on education. That crisis just didn't develop because of Nation At-Risk. It was identified by a national—by the Department of Education. And the States responded because again the 94 percent on the average of funding and response for funding will be State and local money.

And I know, and you just touched on it a little built on Goals 2000, the actual end result I believe of what the original Nation At-Risk 10 years later we actually did, the States because of the primary responsibility responded to it but Goals 2000, President Bush many times tried to pass to respond to a national issue of education.

And you mentioned today and I don't know if you picked up but Goals 2000 as it is now in the law will not have any mandates or any regulations going back to the States.

Mr. RILEY. That's right.

Mr. GREEN. So I go back to my Lieutenant Governor, we are going to send you some money for you to do these better things with education trying to respond to quality, respond to the violence in schools, and we are not telling you how to do it. We are just saying, here is what you get and you develop the programs.

Mr. RILEY. That's exactly right. All we are saying is that you have to have your own State and local improvement process. And then these funds go to that. They do it. It is their way. Now they have to have that. That's why I called it a responsible block grant because you have got the goals, you know, that really emanated out of the Governors and then you have got Federal funds, national purpose. Raising the standards for children all over America but you have then what's the State have to do. They have their own identification of what those standards are that they are going for. And then they develop their State planning and then the local school districts develop their plan to reach the goals. We do not have anything to do with that, and people have said, you know, that it is pro-OBE which is kind of a curriculum and without saying whether OBE is good, bad, or indifferent in a particular area. We have nothing to do with that and if a local school district wants the goal and the State and local working together naturally whatever their process is is fine. And under the law that's just the way it is. And, as you know, there is a provision in there that says

there can be no mandates and the national standards which there have been a lot of discussion about were a process developed for them really to be a help to the States if they wanted to use them.

These are world class standards, they are high standards, and the State can say we don't want to touch those. We don't want anything to do with standards that were developed through this consensus process—these national standards. And so that's perfectly all right. That is up to them. They set their own standards and hope the State will set higher challenging standards.

Mr. GREEN. Let me also compare Goals 2000 with the Title I for the last reauthorization. Because we removed a great many of the requirements under Title I and if you can just briefly talk about that, that you actually push that money down for the classroom into the district instead of saying, well, in Washington this is how we know you need to do it.

Mr. RILEY. Absolutely. In the reauthorization and again that could take a lengthy answer but we have Title I. That whole program is built into the standards process. In other words, if you qualify and are involved in the Goals 2000 process, that pretty well covers your Title I.

It used to be a separate substandard. It used to be a watered down standard, a watered down curriculum, watered down testing for disadvantaged kids. There was a terrible disadvantage to them and they now have the same high standards. All kids do. And Title I now is loaded with waiver flexibility.

I should mention Ed Flex, which I don't think we mentioned. That came out of that process. Six States will handle their own waivers. In other words, all of the waiver process in Title I and other programs is under Ed Flex, a pilot program. If it works well, we would like to see it expanded maybe to all States at some point in time, but six States will now have it. Oregon has already been approved to be one of the Ed Flex States. Oregon will have their own waivers and that is a radical change.

Mr. GREEN. Thank you, Mr. Secretary.

Mr. SHAYS. Mr. Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman.

I want to focus briefly on the deficit. You had talked about it before in your opening remarks, about how important it was that we address the deficit. And obviously you don't believe that consolidation or elimination of the Department of Education would have a positive effect on the deficit.

Let me ask you this: You talked about $16.7 billion in cuts through the year 2000 that the Department was undertaking. But yet I noticed in your budget actually over the next year two spending increases. Is there any way at all that we could hold the line on spending and spend the same next year as we are spending this year in real dollars and I am not talking about the increase. I am just talking draw a straight line across considering that we do have a deficit that is causing great concerns and if you do not believe we can—if you do not believe we can do that, if you can tell me briefly what areas would be hurt the most by just freezing spending?

Mr. RILEY. Well, first of all, the States that would be hurt the most would be States like Florida where there is large growth. The fact——

Mr. SCARBOROUGH. I am from Florida.

Mr. RILEY. That is the truth.

Mr. SCARBOROUGH. Which programs specifically when you say large growth States?

Mr. RILEY. Well, of course, it would be those formula programs like Title I, the Safe and Drug-Free Schools, of course, is an example, School-to-Work. The programs like Voc Ed. Those programs—lots of our programs are formula driven. I mentioned the 7 million additional students that are coming in over the next 10 years, and we now have 45, 46 million. I see what you are seeking to do and it makes good sense to try to get some clear, understandable way to try to reduce growth and get a control on the growth of government.

If you do that in education, it really is harmful to those programs that we are most into, like Pell grants, which are college grants, as you know, for poor, moderately poor young people to give them a chance to go to college. You have got to let those programs grow as the numbers grow and the needs grow, and as kids come through school; with better education, higher standards, more kids are going to be going to college. Community colleges, I think, are going to have a tremendous number of increases. So a straight line approach like that would be very harmful to what we are trying to do, which is really get more education, more kids staying in school longer, doing more, being more involved.

But that doesn't mean that we can't deal in cuts. As I say in this $16.7 billion, some $12 of it is direct lending and the other is close to a billion a year or a little over a billion a year in terminations and cuts and whatever. Some money that is not counted is the reduction in defaults. That is $1 billion a year that we are saving. That is eliminating 600 institutions, and you think that is not hard, I mean every one of them, and it is very, very difficult. But they under the 1992 higher education reauthorizations, they didn't meet the test, and we think by just pushing in those sensical ways, managing carefully that we can make significant cuts.

Ms. KUNIN. Also, if I might just add, we plan to further reduce the bureaucracy, and that will create some savings, but we plan to reduce the number of positions by the year 2000 by 8.4 percent and de-layer, and have less chains of command within that system.

Mr. SCARBOROUGH. Great.

Coming from a large growth State, if I still advocated that, that would show a lot of courage on my part.

Mr. RILEY. Really. You can call it courage or something else.

Mr. SCARBOROUGH. I do want to thank you all for the work you have been doing, and I feel that it is our responsibility to push all agencies in the direction that we are pushing them, and I think that what you all have done in the past 2 years appears from your testimony and everything else, appears to be extremely positive, would encourage that you keep moving in that direction.

Mr. RILEY. Thank you.

Mr. SHAYS. Thank you. Mr. Davis.

Mr. DAVIS. I had a question on the Pell grants and the Stafford loans. A report from the Office of Inspector General, the Pell grant recipients who claimed U.S. citizenship for award year 1992–1993, over 45,000 of those recipients were not U.S. citizens. That accounts for over $70 million in Pell grants, $45 million in Stafford loans. Any thoughts on that? Are we tightening up on that?

Ms. KUNIN. We are going to continue to crack down on that, and make every effort to make sure that anyone who receives a Pell grant is qualified to receive it. I don't have any earthshaking news in that regard, but those figures are disturbing, and we are concerned, and one thing we are doing is matching with INS records for Pell grants, so that we can filter those out.

Mr. DAVIS. I just have one other question.

Mr. RILEY. Congressman, why don't we give you some information later on that. This computer match is taking place, and as we get information, we will certainly share it with you.

[The information referred to follows:]

HIGHER EDUCATION ACT OF 1965

SEC. 484. STUDENT ELIGIBILITY.

(a) IN GENERAL.—In order to receive any grant, loan, or work assistance under this title, a student must—

(1) be enrolled or accepted for enrollment in a degree, certificate, or other program (including a program of study abroad approved for credit by the eligible institution at which such student is enrolled) leading to a recognized educational credential at an institution of higher education that is an eligible institution in accordance with the provisions of section 487, except as provided in subsections (b)(3) and (b)(4), and not be enrolled in an elementary or secondary school;

(2) if the student is presently enrolled at an institution, be maintaining satisfactory progress in the course of study the student is pursuing in accordance with the provisions of subsection (c);

(3) not owe a refund on grants previously received at any institution under this title, or be in default on any loan from a student loan fund at any institution provided for in part E, or a loan made, insured, or guaranteed by the Secretary under this title for attendance at any institution;

(4) file with the institution of higher education which the student intends to attend, or is attending (or in the case of a loan or loan guarantee with the lender), a document, which need not be notarized, but which shall include—

(A) a statement of educational purpose stating that the money attributable to such grant, loan, or loan guarantee will be used solely for expenses related to attendance or continued attendance at such institution; and

(B) such student's social security number, except that the provisions of this subparagraph shall not apply to a student from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau;

(5) be a citizen or national of the United States, a permanent resident of the United States, able to provide evidence from the Immigration and Naturalization Service that he or she is in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident, or a permanent resident of the Trust Territory of the Pacific Islands, Guam, or the Northern Mariana Islands.

(b) ELIGIBILITY FOR STUDENT LOANS.—(1) In order to be eligible to receive any loan under this title (other than a loan under section 428B or 428C) for any period of enrollment, a student who is not a graduate or professional student (as defined in regulations of the Secretary), and who is enrolled in a program at an institution which has a participation agreement with the Secretary to make awards under subpart 1 of part A of this title, shall—

(A)(i) have received a determination of eligibility or ineligibility for a Pell Grant under such subpart 1 for such period of enrollment; and (ii) if determined to be eligible, have filed an application for a Pell Grant for such enrollment period; or

(B) have (A) filed an application with the Pell Grant processor for such institution for such enrollment period, and (B) received from the financial aid administrator of the institution a preliminary determination of the student's eligibility or ineligibility for grant under such subpart 1.

(2) In order to be eligible to receive any loan under section 428A for any period of enrollment, a student shall—

(A) have received a determination of need for a loan under section 428(a)(2)(B) of this title;

(B) if determined to have need for a loan under section 428, have applied for such a loan; and

(C) has applied for a loan under section 428H, if such student is eligible to apply for such a loan.

(3) A student who—

(A) is carrying at least one-half the normal full-time work load for the course of study that the student is pursuing, as determined by an eligible institution, and

(B) is enrolled in a course of study necessary for enrollment in a program leading to a degree or certificate,

shall be, notwithstanding paragraph (1) of subsection (a), eligible to apply for loans under part B or D of this title. The eligibility described in this paragraph shall be restricted to one 12-month period.

(4) A student who—

(A) is carrying at least one-half the normal full-time work load for the course of study the student is pursuing, as determined by the institution, and

(B) is enrolled or accepted for enrollment in a program at an eligible institution necessary for a professional credential or certification from a State that is required for employment as a teacher in an elementary or secondary school in that State,

shall be, notwithstanding paragraph (1) of subsection (a), eligible to apply for loans under part B, D, or E or work-study assistance under part C of this title.

Mr. DAVIS. It looks like a great need across this country over the next few years to build more schools and expand existing schools, I am talking about the physical structure. It is not just our district. You have come out with the numbers in terms of this second wave of baby boomers, the echo I think you called it of the baby boomers, as they have their children later and they now come into the public school system.

Any Federal strategies for helping localities on that? A number of the localities are really strapped in terms of their bonding capacity and what they can do at the local level to finance that, and sometimes with infrastructure we can do better in terms of what you can do.

Mr. GREEN. Mr. Chairman, if the gentleman would yield, typically on the Federal level we don't do for infrastructure, but we have $100 million. It was authorized last year, but that was even from the administration, it was part of the rescission suggestion, well, the current administration, I think. A part of the President's rescission package included rescinding the authority for the $100 million for structure.

Mr. RILEY. It is 35 now.

Mr. DAVIS. $100 million, we could do $100 million a year——

Mr. GREEN. $100 million a year, we could do it in the State and it would be just a burp instead of an echo.

Mr. DAVIS. It wouldn't even have to be direct dollars. I don't know if there are other innovative ideas in terms of—there are tax free bonds, but that seems to be, as I look at school districts across our State, one of the great concerns in meeting the need is the cost of the infrastructure.

Mr. RILEY. No question about that. And there was a GAO report that showed what some $105 billion or real big numbers, and it is enormous, New York had a study recently, their cost of getting their infrastructure back in place would just be enormous.

Mr. DAVIS. You can block grant in jails, but you can't use it for education facilities. I guess that is it.

Mr. RILEY. Well, Connie Lee is a program that we are looking at and we talked about, and as we are developing the information I am sure we will share that with you as well as the other. That is an approach that perhaps the Federal Government could be involved in, and that is to help with the borrowing process, and the idea of funding at the Federal level that is debated back and forth. No question about the tremendous need, but it is a real growth area.

Mr. DAVIS. Thank you both for coming today. I appreciate and look forward to working with you.

Mr. SHAYS. Mr. Secretary, we are going to let you go in just a few minutes. I just will point out that I asked about the department's 2 percent administration cost. Evidently one of your people told my staff that your budget is, $33 billion, and your staff and equipment costs are $521 million. The math comes out to 1.6 percent. Is that pretty close to what your understanding is?

Mr. RILEY. I am sure those numbers are basically accurate. Of course you realize a lot of our funds, like Pell grants and so forth, are pass-through funds, but as far as our Department is concerned, I think we handle more money, we think in a very responsible way per employee, I think, than perhaps any other department in the Federal Government.

Mr. SHAYS. Well, on that note I will just say you have good staff working for you. Thank you very much for your time here. We appreciate your testimony. Thank you.

Mr. RILEY. Thank you.

Ms. KUNIN. Thank you very much.

Mr. SHAYS. This hearing is adjourned.

[Whereupon, at 12 p.m., the subcommittee was adjourned.]

OVERSIGHT HEARING ON THE DEPARTMENT OF EDUCATION

THURSDAY, APRIL 6, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HUMAN RESOURCES AND
INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Souder, Morella, Scarborough, Towns, and Green.

Staff present: Lawrence J. Halloran, staff director and counsel; Christopher Allred, Kate Hickey, and Robert Newman, professional staff members; Thomas M. Costa, clerk; Cheryl Phelps, minority professional staff, and Liz Campbell, minority staff assistant.

Mr. SHAYS. We are going to start this hearing and out of respect for the minority we will not say anything controversial until they get here.

I welcome the witnesses to this oversight hearing. Today's oversight hearing will discuss opportunities for cost savings in the Department of Education. I believe significant savings can be achieved through a consolidation or elimination of duplicative programs. The Department seems to agree. At our March 13 hearing Secretary Riley indicated that the Department's $30.4 billion fiscal year 1996 budget request called for termination or consolidation of 68 of 240 programs for an estimated savings of $800 million.

In today's hearing experts from both the public and private sectors will testify: The Department of Ed's Office of Inspector General, the General Accounting Office, and a former Department of Education Assistant Secretary for Management and Budget. We look forward to their views and recommendations on how additional cost reductions can be achieved.

From a broader perspective, increased efficiency and program consolidation may not be enough. The accumulation of education and training programs is wasting sacred resources and is obscuring the fundamental Federal mission in education. That mission lies in the development of a literate, technically competent citizenry capable of performing productively in the global workplace.

In recent hearings before this subcommittee Education Secretary Riley and Labor Secretary Reich both testified that education is the most important factor in determining future earning capacity. That testimony leads me to the conclusion that the national interest in

education and labor has already merged. Now we need to change the Federal Government to reflect that fact. As we proceed with that important debate we welcome our witnesses here today.

[The prepared statement of Hon. Christopher Shays follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER SHAYS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Today's oversight hearing will discuss opportunities for cost savings in the Department of Education. I believe that significant savings can be achieved through a consolidation or elimination of duplicative programs and improved efficiencies in program administration.

The Department seems to agree. At our March 13 hearing, Secretary Riley indicated that the department's $30.4 billion FY96 budget request called for terminating or consolidating 68 of 240 programs, for an estimated savings of $800 million. The Subcommittee hopes to identify additional opportunities for cost reduction in DoEd programs and in the large number of administrative offices that manage them.

In today's hearing, experts from both the public and private sectors will testify: DoEd's Office of Inspector General, General Accounting Office, and a former DoEd Assistant Secretary for Management and Budget. We look forward to their views and recommendations on how additional cost reductions can be achieved.

The DoEd Inspector General is expected to report today that the Student Financial Aid (SFA) programs, which constitute a large portion of DoEd's operations and funding, are vulnerable to fraud and abuse. These problems, according to the IG, are due mainly to the complexity and design of the programs, and to the multitude of entities administering them.

The IG will call for an improved DoEd "gatekeeping" process, to prevent weak and unscrupulous schools from participating in SFA programs. The department has made some strides to improve the process as a result of legislation in 1992, according to the IG, but many improvements have yet to be made.

Gatekeeping is particularly important in the area of vocational training. The IG recommended in 1993 that labor market needs and the performance of schools in graduating and placing their students should be considered in SFA funding for vocational training. The IG is expected to report in today's hearing that while the department took some action on that report, many problems remain.

Savings should also be possible through a reduction in student and family loan defaults. The IG reports that since 1965, the Federal Family Education Loan program has suffered $57 billion in defaults, with $4.7 billion in 1993 alone. Moreover, there are estimates that future default liabilities are between $11 and $13 billion. Congress enacted a number of legislative provisions in 1992 to improve default prevention and loan collections but the Subcommittee would like to know from today's witnesses if further action is needed.

The performance of other loan programs could also be improved. In a 1994 report, the IG found that in the 1992-93 award year, ineligible recipients received $70 million in Pell Grants and $45 million in Stafford Loans. Also in a 1994 IG report, it was found that over half of the 6,700 participating Pell Grant institutions in the 1991-1992 award year submitted expenditure reports with discrepancies totaling over $356 million. The Subcommittee needs to know the status of measures being taken by the department to correct these abuses.

Still, from a broader perspective, increased efficiency and program consolidations may not be enough. However well intentioned, the accumulation of education and training programs aimed at overlapping constituencies is wasting scarce resources and obscuring the fundamental federal mission in education.

That mission lies in the development of a literate, technically competent citizenry capable of performing productively in the global workplace. In recent hearings before this Subcommittee, Education Secretary Riley and Labor Secretary Reich both testified that education is the most important factor in determining future earning capacity. That testimony leads me to the conclusion that the national interest in education and labor has already merged. Now we need to reform the federal government to reflect that fact.

As we proceed with that important debate, we welcome our witnesses here today.

Mr. SHAYS. For the record, we might interrupt your testimony when the ranking member shows so that he can put his testimony in the record. At this time I would call on Connie Morella to see if she has an opening statement.

Mrs. MORELLA. Thank you. Thank you, Mr. Chairman. I appreciate also your holding the hearing to examine ways that we can cut spending at the Department of Education. I think these hearings of oversight and then looking closely at what we can do to consolidate and have high efficiency are very, very valuable.

When Secretary Riley testified before this subcommittee last month, he talked about consolidating programs. It is my understanding that many of the programs that were under the Department of Ed target, the same population and provide the same services. The Inspector General points out that there are 19 programs at the Department of Ed that address early childhood education. Three other Federal agencies oversee 22 programs that also address early childhood education. The General Accounting Office has identified 86 teacher training programs at nine separate Federal agencies, and clearly the consolidation of overlapping programs is appropriate as we strive to make government more efficient and cost effective.

There has been a great deal of skepticism about the new Direct Student Loan Program which was started last year. Education Daily went to the source and surveyed the 104 schools currently participating in the program. They found that, "the vast majority of schools in the direct lending program rate it exceptional, and would recommend it to other schools."

Financial aid officers reported that under the Direct Student Loan Programs students receive their loans faster, which streamlines the administrative work. Students report that they understand the DSL program more easily than the Family Education Loan Program. The Department of Ed hopes that the DSL program will replace the FEL program by 1998, and it has been estimated that the DSL will generate $4.3 billion in savings over the next 5 years. I would be interested in your comments on that.

Not all students want to pursue a higher education, and I'm concerned that students who want to get a job after high school are not prepared for the dramatic changes in the marketplace. If we are to be competitive and productive we must train and educate workers to most employers' needs, and as we face the challenges of rapidly changing technologies the role of the Federal Government in education and employment will be important. One recommendation that you know full well by Congressman Steve Gunderson is to merge the Department of Education and the Department of Labor, and I look forward to exploring this issue with the expert witnesses who are here today, Mr. Chairman, and I appreciate their willingness to share their expertise on streamlining the many worthwhile programs within the Department of Education.

I thank you.

Mr. SHAYS. I thank the gentlewoman, and if at this time we could do what we do with every witness, and that is to swear them in. My understanding is, Ms. Blanchette, you have some others who have accompanied you and I would ask them to stand at the same time so we wouldn't have to swear in twice. Would you raise your right hands, please.

[Witnesses sworn.]

Mr. SHAYS. For the record, the witnesses all have answered in the affirmative. I would invite our first witness to testify, the As-

sistant Inspector General for Investigation Services in the Department of Education, Dianne Van Riper.

Let me say also for the record since I'm asking for unanimous consent, I will wait until the minority member is here, but it is my expectation that there won't be a problem with your statements being fully put into the record, so you are free to summarize and highlight the points that you want to make. I would also say to you that my general attitude is that we are all Americans. We are trying to have a better government, and we all are working on the same side. I understand that as the Inspector General and GAO, you have your independence as we have our independence, but we are all on the same ship and we want to head in the same direction, so I welcome your testimony.

STATEMENT OF DIANNE VAN RIPER, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATION SERVICES, U.S. DEPARTMENT OF EDUCATION, ACCOMPANIED BY STEVEN McNAMARA, ASSISTANT INSPECTOR GENERAL FOR AUDIT; AND CORNELIA BLANCHETTE, ASSOCIATE DIRECTOR, EDUCATION AND EMPLOYMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Ms. VAN RIPER. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you today to discuss the mission of and the challenges facing the Department of Education.

You have asked that my testimony today focus on the Department's successes, remaining challenges, and ongoing efforts to improve efficiency and accountability in departmental programs. I can best respond to this request by offering our views of these topics in three areas—program design, operation, and accountability—and then deal separately with these areas as they apply to the Department's student aid programs.

Before proceeding, I should note our belief that while the Department has achieved much recent success in improving the areas of program design, operation, and accountability, much work lies ahead to solve identified problems and achieve operating efficiency and this work cannot be completed quickly.

Much attention is being paid today to achieving cost savings and reinvention through such means as program elimination or consolidation, block grants, deregulation, or even consolidation of Federal departments. The challenges facing the Department that I will discussed today, however, must be addressed regardless of what other restructuring or reinvention actions are taken.

In recent years the Department has made progress in meeting significant program design challenges related to program duplication and fragmentation and in developing and instituting program performance standards for major ed programs. The passage of the Goals 2000, Educate America Act, and the Improving America's School Act, along with increased departmental efforts to coordinate services with other Federal departments help to address the duplication, but more is needed.

The Department's 1996 budget request seeks to continue improvement by recommending the elimination or consolidation of 68 programs. Central to improving program efficiency and in edu-

cation is the existence of performance standards for departmental programs. While Education is working toward implementing such standards in some areas, many programs are without such standards by which their success can be determined. This situation will become more critical if regulations are relaxed and there is no means of evaluating program activities.

For several years we have noted serious problems with education program operations related to deficient or nonexistent systems for financial management. Education is currently working to put in place a modern core financial system to improve service delivery and provide more timely and complete information needed to ensure improved financial management and evaluation. While we are encouraged by the current progress in this area, the job is not finished.

Like the areas of program design and program operations, successes and challenges exist related to achieving accountability. In redesigning programs we believe that Congress must include clear standards and performance outcomes to ensure that only those entities that achieve stated objectives can participate in education programs. Our experience suggests that the lack of such clear standards have allowed low quality programs to continue receiving Federal financial support.

As is the case with education programs generally, there are many successes and challenges related to the design, operation, and accountability of the Department's student aid programs. One of the most significant program design issues relates to the usefulness of vocational training funded under education student aid programs.

In reviews conducted in 1987 and 1993, we noted that under these programs individuals were being trained with a heavy investment of Federal funds for nonexistent jobs. Our 1993 report pointed out that student aid programs are structured to make funds available to students without regard to labor market needs or to the performance records of schools. This problem continues.

Currently our greatest area of interest related to the design of education programs is the new Direct Loan Program. Our view is that the Department's design and implementation efforts have progressed well so far. However, system problems have been identified during startup which need to be corrected to ensure effective control over the program as it expands from 5 to 40 percent of total loan volume in the second year of operation.

We would note several opportunities for increased efficiency and cost savings related to SFA program operations. Notable among these concerns is what is termed the gatekeeping process by which the suitability of schools seeking to participate in the SFA programs is determined.

The Higher Education Amendments of 1992 put in place many new controls designed to ensure that only quality institutions were admitted to SFA program participation, and the Department has worked diligently to implement these new provisions. A weakness continues, however, regarding new performance standard requirements that are to be administered by accrediting agencies responsible for ensuring the quality of programs or schools seeking SFA program participation.

The 1992 HEA amendments also call for establishment of State postsecondary review entities, or SPRE's, in each State to provide additional assurance regarding the suitability of schools participating in the SFA programs. It is our understanding, however, that funding for these entities is now in question because of recision proposals. We believe that elimination of SPRE funding will further weaken the gatekeeping process.

A further program operations challenge facing Education concerns the financial condition of the Federal Family Education Loan Program and potential program losses. In audits we issued in 1993 and 1994, we could not express an opinion concerning the financial condition of this major program due to the unavailability of reliable data. Further, we are concerned over potential losses in the program due to guaranty agency conflicts of interest and the weakened condition of some guaranty agencies resulting from the increase in direct lending. The Department has a number of corrective actions under way to address these issues.

The Department also faces major challenges in the Pell Grant Program. In 1993, we testified that Pell is basically an honor system in which Ed must rely on the integrity of program participants to ensure that the Federal interest is protected. Since 1993, we have identified additional Pell problems including weaknesses in the citizens verification process with potential losses exceeding $100 million per year and annual discrepancies in institutional expenditure reports totaling over $356 million. We have an additional concern about the use of Pell funds for English as a second language.

The Department has made much progress in improving accountability in the programs. There are remaining issues. The Department's success in improving its monitoring of schools lenders, guaranty agencies, and other SFA program participants is critical to the integrity of the programs.

Mr. Chairman, many of the changes being undertaken by the Education Department will over time help to address the problems that I have outlined today, but they are not quick fixes. Unless we are all willing to stay the course to see that corrective efforts are completed we will not see resolution of current problems. Rather, they will continue in their present form or in a new redesigned form that will still victimize the individuals that we are supposed to help and cost more of the dollars, the trust, and the confidence of the public.

Thank you.

[The prepared statement of Ms. Van Riper follows:]

PREPARED STATEMENT OF DIANNE VAN RIPER, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATION SERVICES, U.S. DEPARTMENT OF EDUCATION

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you today to discuss the mission of and challenges facing the Department of Education. I am encouraged by the active role being taken by this subcommittee in overseeing the Department's activities. I believe that the challenges facing all of us in providing quality education for America's citizens in an effective and efficient manner can be met only with the full, active and cooperative participation of all concerned parties.

In this period of streamlining and reducing the size of government, we continue to recognize our responsibility to assist Congress and the Department in assuring the accountability for billions of Federal education dollars. The views I will offer

today are based on our years of effort in fulfilling our statutory mandate to provide independent and objective recommendations to the Department and the Congress concerning prevention and detection of fraud, waste and abuse in and improving the economy, efficiency and effectiveness of ED programs and operations.

Mr. Chairman, you have asked that my testimony today focus on the Department's successes, remaining challenges and on-going efforts to improve efficiency and accountability in Departmental programs. I can best respond to this request by offering our views of these topics in three areas; program design, program operation, and program accountability. I will first discuss these three areas as they apply generally across all ED programs. I will then deal separately with these areas as they apply to the Department's student aid programs which, as you realize, constitute a major portion of ED's activity and which have been a primary focus of our audit and investigative work for several years.

SUCCESSES & CHALLENGES IN DESIGN OF ED PROGRAMS

Since early 1993, we have reported on and testified regarding the issue of program design and have identified program fragmentation and duplication and the lack of program performance standards as concerns. We have also identified the need for more equitable funding formulas for some major ED programs. While much progress has been made in certain areas, challenges still remain in others.

Program Fragmentation / Duplication

Fragmentation in the way ED's programs were created and administered has been a hindrance in carrying out its mission and working toward attaining the National Education Goals. As new initiatives have arisen, new programs have been created or amendments added to existing programs. Programs targeting similar initiatives have sometimes been administered by different principal offices in the Department, creating overlap and coordination problems.

For instance, there has been a need for an overall strategy to coordinate the funding for provision of technical assistance, information dissemination, and related services of the Department. Our 1991 report on this issue pointed out that a lack of coordination in the creation of program-specific legislation authorizing the creation of clearinghouses and technical assistance centers contributed to the existence of services that may have been duplicative or unnecessary. The recently enacted Improving America's Schools Act (IASA) requires the consolidation of technical assistance into 15 comprehensive centers that will provide technical assistance for elementary and secondary programs administered by the Department. These cross-cutting centers should enhance collaborative efforts among programs to ensure customers' requests are responded to in an effective and efficient manner so that the service is no longer fragmented or duplicated.

In a recent review, we reported that there were many programs at the Department that address early childhood education with little or no collaboration. We found that there were at least 19 different programs at the Department that address early childhood education. In addition, we estimated that three other Federal agencies operated another 22 programs dealing with this area. We suggested that the Secretary develop a national policy to focus all resources toward the most effective early childhood strategy.

In the past year, several pieces of education legislation were enacted that should help to assure better coordination. Goals 2000: Educate America Act (Goals 2000) and IASA strengthened the requirements for collaboration among programs administered by the Department. These requirements extend beyond programs administered by the Department to include programs administered by other Federal, state, and local agencies. For example, Title 1 legislation under IASA requires activities that will increase coordination between the local educational agency and the Head Start agency, and if feasible, other early childhood development programs.

Also, the Department's efforts to increase coordination within programs and with other agencies has increased significantly. The Department created cross-program groups within Education, as well as other Federal agencies, to foster coordination. Examples include coordination between the Department of Health and Human Services and ED on Head Start, and the Department of Labor and ED on School-to-Work.

In previous budget submissions, the Department recommended that certain programs be eliminated or combined. However, the majority of these programs were continued pending resolution of the FY 95 recessions. As a result, ED continues to administer approximately 240 separate programs. In its FY 1996 budget request, the Department has proposed eliminating or consolidating 68 programs totaling about $756 million. We believe this proposal, if enacted, will be a first and major step toward correcting program duplication/fragmentation in ED.

Performance Standards and Measures

A second program design challenge facing the Department relates to the need for program performance standards and measures. To ensure that money spent on Federal education programs brings about desired changes, it is critical to clearly stale the outcomes expected. Thus, the establishment of program performance standards should be the cornerstone of an effective program oversight system. Until recently, few programs in the Department had requirements for performance standards in statute.

In August 1993, Congress enacted the GPRA which requires Federal agencies to develop outcome measures for all Federal programs. Strategic plans for program activities are required by fiscal year 1997 and beginning with fiscal year 1999, performance planning for the overall budget is required.

Further, recently enacted legislation for some Departmental programs provides a framework for standards and measures. For example, the enactment of the Goals 2000: Educate America Act marked the beginning of a new approach toward school reform. Goals 2000 provides a framework for meeting the National Education Goals and asks states and communities to reform their education systems through the development and implementation of comprehensive improvement plans based on standards and high expectations for all students. In addition, the IASA also requires the Department's grantees to develop standards and program assessments. While states and communities will have maximum flexibility to develop standards, they will also be held accountable to meet their stated standards.

For instance, schools participating in the $7 billion Title I program (formerly Chapter 1) will be required to demonstrate, based on the State assessment and other measures adequate yearly progress toward attaining the high State performance standards. Schools failing to make adequate progress will be identified for improvement and receive technical assistance. If, after two years in school improvement, the schools still fail to make adequate progress, the Local Education Agency (LEA) must, in most instances, take corrective actions, such as instituting alternative governance arrangements or authorizing student transfers to other schools. The LEA, however, could take such actions anytime after schools are identified for improvement.

In 1994, during the deliberation of the IASA, we provided our assessment on the feasibility of providing incentives in the Title I program that would help motivate LEAs to find ways to improve the academic success of educationally deprived students. We concluded that Congress needed to establish performance based techniques in statute to reward LEAs and schools that succeeded in accomplishing their goals under the Title 1 program. A similar idea was included in the Department's proposal for IASA and eventually was included in the legislation.

The Department recently issued its strategic plan which contains performance indicators for its four priority areas. The priorities include: 1) helping students reach challenging academic standards; 2) school to work; 3) postsecondary education and lifelong learning; and 4) transforming the Department into a high performance organization. The Department is also developing program performance measures for its largest programs consistent with the programmatic priorities in strategic plan.

The Department is progressing in a positive direction towards implementing performance based measures. However, this is an extremely large undertaking and will not be completed overnight. Further, we are concerned that deregulation initiatives that could affect record keeping requirements are being considered by the Department and Congress that may have detrimental effects on the ability of the Department to measure programs efficiently and effectively. Without adequate record keeping requirements, we are concerned that the necessary data to make performance assessments may not be available. Further, without minimum requirements to collect performance data, it is questionable whether data that might be collected by program recipients (e.g., State and local education agencies, etc.) would be consistent or useful.

Performance standards and measures are critical to determining and assuring the success of Department programs. This is an important initiative and we will continue to work with the Department to assist in this process.

More Equitable Funding

Improving the manner in which ED programs are funded remains a challenge. Many of the Department's largest grant programs are funded based on formulas that use numbers of students multiplied by an adjusted per pupil expenditure figure. The "numbers of students" part of the formula is often developed through some form of child count. The expenditure part of the formula is based on cost information and attendance data kept by State and local educational agencies. Over the

years, our audit work evidenced over counts of students and improper expenditure figures.

We recently focused on this issue again in our September 1994 report entitled, "ED Can Allocate Special Education Funds More Equitably." This report pointed out that currently, ED bases its allocation of Special Education funds on the count of students receiving Special Education in each state. There are a number of indications that this count is unreliable. We concluded that a more appropriate allocation base would be total population age 3 through 21, weighted by poverty measures, which correlate with special education needs. The use of such objective data to distribute funds would provide each state an equitable share of the Special Education funds and eliminate any incentive for states to manipulate the count or to retain students in the program longer than necessary.

We are continuing to work with the Department where these issues arise.

SUCCESSES & CHALLENGES IN ED PROGRAM OPERATIONS

Over a period of several years, our office has reported on a number of areas in which the Department's program operations could be improved, including the areas of customer focus, program monitoring, and core financial systems. Progress has been made in each of these areas, but they remain a concern.

Customer Focus

In early 1993, we noted that in order to accomplish its mission, the Department would need a clear understanding of the identity of its customer, which we saw as the student.

The Department's Strategic Plan has since clearly stated that ED views learners of all ages as its most important customer. This acknowledgment can help the Department focus on how it can best deal with the many participants in its programs with the primary goal of serving the learner as the basis for program activities. However, we believe that identifying learners as the most important customer will be meaningful only if it is effectively translated into the day-to-day decisions of Department managers as they go about their business. We also believe that Department managers' decisions must reflect critical responsibilities to the taxpayer.

In December 1994, the Department issued guidance to all offices designed to assist in making customer service an integral part of the Department. During 1995, all offices are to identify core processes and the customer served by those processes, and to begin improvement of those core processes.

Program Monitoring

One key element of effective program operation is effective program monitoring. We reported in 1992 that little had been done to monitor formula and discretionary grants to ensure that recipients were complying with grant terms and conditions, properly accounting for the billions of dollars of financial assistance, and focusing on performance of programs against planned objectives. We also noted that the Department lacked a strategy and standards for monitoring and that data retrieval and documentation efforts were not adequate.

For the past several years, we have assisted the Department on two teams that were established to improve monitoring—the Performance Management Reinvention Team (PMRT) and the Achieving Reform by Monitoring Team (ARM). Our objective is to assist the Department up-front, as we have with other ED improvement teams, by providing our advice as the new monitoring processes are considered and eventually implemented.

One of the PMRT's objectives was to develop strategies for monitoring and performance measurement. As a result of the PMRT's efforts, the Department issued a discretionary grant monitoring directive in 1994 that established standards and gave guidance to principal offices in the Department for preparing monitoring plans and reports. However, the Department has yet to issue similar guidance for monitoring formula grants.

The ARM team is identifying strategies and developing a monitoring system that could result in needed reforms. In addition, integrated review teams are being piloted that include team members from various program offices in the Department. The main purposes of these reviews are to strengthen collaboration, across programs and to help decrease the burden on State and local entities that traditionally are visited by different ED monitoring staff at different times throughout the year. A more integrated approach should result in less federal intrusion, while improving the efficiency and effectiveness of monitoring visits and resulting reports.

While integrated reviews are currently being piloted in the elementary and secondary education programs, this concept has not been implemented for all Depart-

ment programs. Further, while the Department is making strides to improve the current monitoring process, effective monitoring is an issue that remains of concern.

Program Evaluation

We conducted a performance audit of the Department's Planning and Evaluation Service (PES) to identify where improvements could be made. PES evaluations are used both externally (Congress, OMB, educators, and others) and internally (senior program officials) to make decisions concerning program direction and outcomes. We found PES to be a highly successful and respected office by external customers and other Federal evaluators.

Our report included 21 recommendations for improvement. Generally, our recommendations were focused in the areas of report utilization, timeliness, and dissemination. We recommended that program officials be identified as a primary audience for evaluation reports and that these reports be used for program improvement. In addition, we recommended that ED pilot a new contract administration process using teams to more effectively manage evaluation procurement. We believed that this would enhance communication and coordination. These teams would cross organizational lines and would include contract specialists, PES evaluators, program officials, and others. In addition, we recommended development of a system that accumulates data on timeliness and utilization, and requires the reporting of this information to senior management and program officials. We also recommended the development of a dissemination process that focused on innovative and state of the art technology, which would improve report dissemination and hence its effectiveness to the customer. We are committed to working with PES to implement these improvements.

Data Systems for Financial Management

For several years our work has identified what we believed were serious problems with program operations related to deficient or nonexistent data systems for financial management, monitoring and policy analyses within ED. Among these problems were deficiencies in the Department's financial management system that prevented ED from balancing its books or generating meaningful financial reports. (We also identified delays in implementation of the National Student Loan Data System, which I will discuss when I deal with the Student Aid programs.)

Recently, the Department has made significant progress, but much remains to be done to fully address earlier systems weaknesses and creation of the Direct Loan Program has meant additional demands for financial management and information systems. (I will also discuss these later when I discuss the Student Aid programs.)

In terms of an overall system, the Department is working to put in place a modern core financial system which will replace the current Grants and Contracts Management System, the Primary Accounting System, the Payment Management System, and the Central Registry System as well as add new capabilities. This system is designed to improve service delivery, provide more timely and complete information to respond to managers, and increase accountability through improved financial management and evaluation. This system should be able to produce audit able financial statements.

The project is scheduled to begin implementing Phase I in October 1995, and is expected to be fully functional by December 1997.

In addition, the Department is continuing to perform reviews for several of its larger financial systems to identify and document existing controls and to implement new controls designed to prevent errors in the future.

We will continue to assess the Department's progress in improving its financial management systems.

Block Grants

We understand that Congress is considering block grant options. While we have not performed any audits to consider whether block grants would be an effective vehicle for Federal education programs, we recently reviewed the 1995 GAO report entitled "Block Grants: Characteristics, Experience, and Lessons Learned," and the 1994 Department report on the Chapter 2 block grant entitled, "How Chapter 2 Operates at the Federal, State, and Local Levels." Based on our review of the two reports, we believe that as Congress considers the block grant concept for other programs it should carefully consider GAO's conclusions and cautions.

GAO concluded that there were three lessons that could be drawn from the 1981 experience with block grants: (1) there is clearly a need for accountability for results and GPRA may provide such a framework; (2) funding allocations based on distributions under prior categorical programs may be inequitable because they do not reflect need, ability to pay, and variations in the cost of providing services; and (3) states handled the 1981 transitions, but today's challenges are likely to be greater

since programs being considered for inclusion in block grants not only are much larger but also, in some cases are fundamentally different from those programs included in the 1981 block grants.

Also, ED's study of its Chapter 2 block grants noted findings similar to GAO's. The report noted that while there needs to be increased flexibility for programs, the history of Chapter 2 indicates that Chapter 2 funds were not spent to initiate education reform, as was the intent of the program. For example, ED's report indicated that a large percentage of Chapter 2 funds were spent for the purchase of computers, often with no related program objectives established before these purchases were made.

Based on our review of the Department's recent Chapter 2 study and GAO's report, we believe that Congress should consider GAO's conclusions and cautions before block granting additional Education programs.

SUCCESSES & CHALLENGES IN ED PROGRAM ACCOUNTABILITY

Ensuring accountability for Federal education funds is central to any effort to increase the effectiveness and efficiency of Education Department programs and operations. Achieving such accountability is dependent first upon the existence of clear and enforceable program regulations and secondly upon possessing the tools needed enforce program regulations. We believe the Department and the Congress face challenges in each of these areas.

In redesigning programs, we recommend that Congress include self-enforcing mechanisms, clear standards and performance measures as discussed above. Currently, we are often faced with complex statutes requiring complex regulations that are difficult and resource intensive to enforce and/or narrow technical specifications as criteria by which to perform oversight. The result of this is that everyone ends up dissatisfied - Congress, the Department, students, taxpayers and schools.

An example of a clear-cut self enforcing mechanism is the so-called "85-15 Rule" for proprietary trade schools. This provision was passed by Congress in the 1992 reauthoriztion of the Higher Education Act and it required that such institutions be able to attract 15 percent of their revenue from non-Title IV Federal student financial aid sources. This mechanism uses the market place rather than direct Federal regulation as a means to ensure to some degree that the training offered is valuable and that the price charged Federal taxpayers is reasonable. (The Congress has postponed the effective date of this provision as part of Appropriation legislation.)

We must also maximize the use and effectiveness of available federal enforcement resources by Congressional action to grant OIG criminal investigators full law enforcement authority and forfeiture authority. Full law enforcement authority will put our agents on an equal footing with other federal law enforcement officers and, more importantly, provide a greater measure of safety for them.

Work performed by OIG investigators closely resembles that of other Federal law enforcement personnel who possess full law enforcement authority. OIG agents are often in danger. Many of our cases take our agents into the inner cities and high-crime neighborhoods where they must deal with dangerous situations and individuals with felony convictions. Currently, we must request from the Department of Justice deputation on an individual case-by-case basis. In instances where approval has been slow in coming OIG agents have had to locate other willing Federal agents who have full law enforcement authority, which is wasteful of scarce law-enforcement resources. The lack of full law enforcement authority also delays and impedes time-sensitive investigative activity such as the obtaining and serving of search and seizure warrants and forfeiture instruments.

In addition to maximizing our agents' effectiveness and productivity, statutory forfeiture authority would give the OIG access to an additional source of revenue, that is, an asset forfeiture, to defray certain criminal investigative costs through reimbursement. Forfeiture authority which is the authority to seize and dispose of assets that are the proceeds of certain unlawful activity would allow for OIG agents to independently prepare cases for asset forfeiture. Currently, OIG has to enlist the aid of law enforcement agencies that have forfeiture authority. This is not a good use of other Federal law enforcement resources and can cause delays that allow hiding or disposing of assets. OIG needs the authority to share equitably in the proceeds of the assets seized. Forfeited assets now go into the asset forfeiture funds of other agencies (e.g., Department of Justice, Treasury, Postal Service), and OIG cannot share in the cash proceeds of the assets forfeited as a result of its efforts on educational fraud cases. OIG would like to be placed in at least the same position as state law enforcement agencies that can, under Federal law, claim and receive an equitable share of the cash proceeds of forfeited assets to offset the costs of their

assistance with asset forfeiture cases. These cases are resource intensive and require highly trained staff; they require extraordinary expenditures, such as for title searches and asset locating data bases. Not only does asset forfeiture remove the financial incentive from financial crime, but it potentially provides an additional source of funds for our resource-intensive financial fraud cases.

STUDENT FINANCIAL AID ISSUES

Mr. Chairman, I have discussed so far issues which apply to ED programs and operations generally. The challenges I have identified need to be considered for the redesign and operation of existing ED programs as well as in formulation of any future program or activity.

Because the Student Financial Aid (SFA) programs constitute such a large portion of ED operations and funding, and because of our significant work in this vulnerable area, I would like to focus now on what we view as the key opportunities for improving the design, operation and accountability of the Student Aid programs.

The Student Financial Assistance programs, authorized under Title IV of the Higher Education Act of 1965, as amended, are designed to provide access to postsecondary education and training to financially needy students through Federal assistance. This assistance is in the form of Federally guaranteed loans, grants and work study programs. These programs, however, have been those most vulnerable to fraud, waste and abuse. Beginning in 1993, the Department was presented a new challenge which was to design and implement a new Federal Direct Student Loan program.

The significant problem the department has experienced in the administration of the SFA programs can be attributed, in part, to the complexity and design of the programs and the multitude of entities the Department has had to rely on to assist it in administering the programs. These include approximately 8,000 postsecondary institutions, 80 accrediting agencies, numerous state licensing boards, 40 guaranty agencies, 7,000 private lenders, many private contractors, various secondary markets, and numerous third-party services.

Although we have reported on deficiencies in the administration of, and abuses by participants in SFA programs since 1980, these programs continue as the number one high-risk area for the Department. Discussed below are the issues that we consider most vital to the efficient and effective use of the SFA funds. As with issues discussed previously, the following concerns are presented as they related to program design, program operations and program accountability.

SUCCESSES & CHALLENGES IN SFA PROGRAM DESIGN

Usefulness of Vocational Training

As currently designed, the system of Title IV funding for vocational training affords little assurance that the training provided to students is helping them obtain gainful employment. Reports issued in 1987 and in 1993 noted that individuals were being trained, with a heavy investment of Federal funding, for nonexistent jobs. Our 1993 report pointed out that student aid programs are structured to make funds available to students without regard to labor market needs or to the performance records of schools. We believe that the statutory purpose of preparing students for gainful employment in a recognized occupation could be better accomplished and limited Federal vocational training finds more effectively utilized with a revision of the current funding system.

Under the current method of funding vocational training, a participating school can enroll as many students as possible and disburse as much student financial aid funding as is available. Because there are no performance standards for student achievement, there is little incentive for a school to be overly concerned about how many of its students graduate and find jobs. School recruiters can promise glamorous, high-paying careers to prospective students, but graduates often receive much less than was promised.

Many students enroll in vocational training programs, incur significant debts, and then are unable to find work because they have been trained in fields where jobs are unavailable. These students often feel victimized and default on their student loans. They are ineligible for additional aid by virtue of their defaults and are thereby hindered in their pursuit of other education and career options. Students and taxpayers lose under this system. Our 1993 report pointed out that it is time for funding approaches that would maximize the return on the SFA funds invested and provide incentives for schools to do better. It is not unreasonable to expect an adequate return on the billions of dollars in SFA funds invested in vocational training.

Specifically, our 1993 report recommended that labor market needs and the performance of schools in graduating and placing their students be considered in SFA

funding for vocational training. We also recommended that the department take the lead in convening an interagency task force to study different funding approaches for vocational training. While the Department agreed initially with our recommendations, and we believe some action was taken in response to our report, it is unclear at this time what further action the Department plans to address problems identified in the report.

William D. Ford Federal Direct Student Loan Program

The William D. Ford Federal Direct Student Loan Program (FDSLP) was authorized by the Omnibus Reconciliation Act of 1993, under the subtitle "Student Loan Reform Act of 1993." It replaced the Federal Direct Student Loan Demonstration Program provided for in the Higher Education Amendments of 1992. The goals of the new program are:

- to make college more affordable through flexible repayment options
- to save substantial sums of money by using federal borrowing, and
- to streamline the student loan system.

Under the FDSLP the Federal Government provides loan capital to student and parent borrowers. This program simplifies the loan processes by eliminating the services of guaranty agencies, lenders, and secondary markets.

To date, our work related to the Direct Loan program has consisted primarily of providing independent advice and assistance to the Department in the design of program systems and overseeing the performance of the recently issued financial statement audit conducted by an independent public accounting firm, in accordance with requirements of the Chief Financial Officers Act. In summary, these activities have shaped our view that the Department's design and implementation efforts have progressed well so far, particularly considering the short time frames involved. However, system problems have been identified during start up which need to be corrected to ensure effective control over the program as it expands from 5 percent to 40 percent of total new loan volume.

Presented below is a discussion of the results of the first audit of the financial statements for the Direct Loan program.

Financial Audit of the Federal Direct Loan Program

Last month an independent public accounting (IPA) firm under contract to the OIG completed an audit of the Direct Loan program's financial statements for the year ended September 30, 1994. The IPA issued an unqualified (clean) opinion on the program's financial statements and noted that nothing had come to their attention that caused them to believe that the Direct Loan program had not complied with applicable laws and regulations which could have a material effect on those statements.

Regarding the program's internal control structure, the IPA determined that controls within its loan origination, servicing and reporting systems needed imposement and provided recommendations for improvements in three areas: reconciliation and reporting efforts, ability to monitor cash management, and school level controls.

The IPA did not consider the conditions referred to above to be material weaknesses and also recognized that there were significant time constraints on the Department to develop and implement the Direct Loan program.

Implementing the IPA's recommendations could substantially eliminate the difficulties and delays currently encountered in the process and result in improvements in reconciliation and reporting, cash management, and school level controls. Department management was in general agreement with the need to improve control issues that were discussed in the auditor's report. They recognized that there would be start-up issues identified while implementing this program due to the short period of time they had to make the program fully operational and have identified and already started implementing activities to improve controls for the issues raised.

The new program became operational on July 1, 1994 and had three months of loan activity by fiscal year end. We agree with the IPA that as the program expands from five percent to approximately 40 percent (a direct loan volume increase of 700 percent) of the existing Federal Family Education Loan program volume, it is important that management focus on improving the controls addressed by the recommendations in order to ensure accountability and control over program operations.

The Department is currently developing an action plan to address the specific issues on which the recommendations focus. During regular audit status briefings where the issues were first raised, Department managers said that they were aware of many of the issues such as reconciliation and school software problems, and were already working to resolve the identified issues. In our opinion, the Department is

committed to making necessary improvements, including correcting issues addressed in the audit report.

Increased Student Aid Borrowing

I would also like to bring to your attention the changes made in the Higher Education Amendments of 1992 and in the Student Loan Reform Act of 1993 that have made more Federal aid available to postsecondary education borrowers. Early returns indicate that, nationally, students borrowed $7.8 billion from last October through March of 1994, a 44 percent increase in loan volume over the same period last year. The effect of more available Federal money may be tuition increases. That, in turn, would cause more borrowing on the part of students and parents. With the increase in loan availability and increased educational costs, the new loan programs particularly the PLUS and the unsubsidized loan programs—appear, at least in the short term, to make college more affordable. However, repayment of these loans may cripple borrowers for years to come. And, as we have seen in the FFEL Program, the borrowers ability to repay their loans has serious, long-term effects on program integrity.

Funding for English as a Second Language

In August 1994, we issued our report that asked the question, "Why Use Pell Grants For Instruction In English As A Second Language? Taxpayers Pay More and Students Get Less." Our review determined that the Department provides Federal funds for instruction in English as a Second Language (ESL) to adults under the Pell Grant program and various Adult Education programs.

When Pell Grants are used for ESL the education is provided by proprietary institutions that charge between $4.77 and $10.00 per hour of instruction, and provide between 240 and 600 hours of instruction. ESL instruction funded by Adult Education programs are typically provided for by local educational agencies and nonprofit organizations. The costs per hour of ESL instruction in those programs are significantly lower and the hours of instruction significantly higher.

In addition, to lower costs and more instructional hours, Adult Education programs expect students to achieve higher levels of English proficiency and have higher standards for instructor qualifications. We recommended the Department ask Congress to eliminate ESL instruction courses from eligibility under the Pell Grant program, and if needed, request additional funding under the Adult Education programs.

SUCCESSES & CHALLENGES IN SFA PROGRAM OPERATIONS

Gatekeeping

The suitability of approximately 8,000 public, private, and for-profit institutions participating or seeking to participate in the SFA programs, including Direct Loan program, is determined by the State licensure, accreditation, eligibility, and certification procedures commonly referred to as the "Gatekeeping" process. As we have reported and testified to on many previous occasions, this Gatekeeping process has proven insufficient in keeping weak and unscrupulous schools out of the SFA programs. While the Department has made significant strides to improve the process, all corrective actions have not been consistently implemented. In 1992 the Congress enacted many provisions aimed at correcting Gatekeeping deficiencies and, although the Department has worked diligently to publish final regulations in 1994, many of these improvements are yet untested.

The Higher Education Amendments of 1992 require that in order for an accrediting agency to be recognized by the Secretary of Education as a reliable authority as to the quality of education, the agency must develop measures for student achievement including, as appropriate, student course completion, State licensing examination pass rates, and job placement rates.

We recently visited five accrediting agencies that accredit institutions providing vocational education training programs to assess their progress in developing performance measures for student achievement. These agencies were selected for review because vocational training programs they accredit are, by statute, eligible for student aid for the purpose of providing students the skills necessary to obtain gainful employment.

Overall, our reviews concluded that the accrediting agencies have made little progress in developing and implementing performance based systems focusing on student achievement as a measure to assess the quality of education provided by schools they accredit. While there were some reasons for the slow progress, including that the regulations were not published in final until 1994, the most compelling barrier was that the accrediting agencies were reluctant to use performance data

to assess the effectiveness of schools' job training programs because they do not view their role as government regulators.

The Higher Education Amendments of 1992 also provided for new State Postsecondary Review Entities. In addition to being responsible for monitoring postsecondary schools in their States, these entities would also be responsible for establishing acceptable measures for student achievement for schools operating in their State. The Department was in the process of working with these entities to establish their standards. However, because of possible budget reductions, the future of these review entities is in question. We believe that the efficiency and effectiveness of the SFA programs requires some sort of State/Federal collaboration in the review of schools.

It should be noted here that, because the Department was selective in choosing schools for initial Federal Direct Student Loan Program participation, these Gatekeeping weaknesses might not surface in that program until two or more years out when the remaining schools enter direct lending.

Current Financial Condition of the FFEL Program

On June 30, 1994, the OIG and the General Accounting Office (GAO) issued a joint audit report on the Federal Family Education Loan Program's fiscal year 1993 financial statements. In that report we indicated that, "Due to the limited amount of time between fiscal years 1993 and 1992 audits and the severity of the long standing financial management problems, many of the financial management problems identified during the prior year's audit still exist."

The audit report issued to Congress and the Secretary of Education contained the following conclusions:

- We could not express an opinion on three of the four financial statements because reliable student loan data was not available to reasonably estimate the program's liabilities for loan guarantees and other related line items.
- We were able to express an opinion on the statement of cash flows. This opinion indicated that the department accounted for and fairly reported actual sources and uses of cash. However, due to internal control weaknesses we could not determine if the Department received or disbursed proper amounts to lenders and guaranty agencies.
- In our opinion, the Department's internal controls were not properly designed and implemented to effectively safeguard assets and assure that there were no material misstatements in the Principal Statements. Specifically, we found that the Department had material weaknesses in internal controls over: 1) estimating costs to be incurred on outstanding guaranteed loans, 2) assuring that billing reports from guaranty agencies and lenders were accurate and reported all default collections and origination fees owed to the Department, and 3) preparing accurate financial statements.

The OIG is conducting an audit of the FFELP Program's fiscal year 1994 financial statements. In unaudited statements received by OIG, the Department has reported liabilities for loan guarantees at September 30, 1994 of $15.2 billion. This amount is the Department's estimate of the net present value of cash flows that are likely to be paid on approximately $77 billion in loan guarantees the Department reports as outstanding at September 30, 1994. Additionally, the Department reports that $8.3 billion of its liabilities will require future finding from Congress. As previously stated, these balances are unaudited and based on data that we found to be unreliable in prior audits. Previous problems with the lack of reliable data to estimate the programs' liabilities for loan guarantees still persist given the past restrictions on the Department with regard to the guarantee agencies who provided that data.

FFEL Program Losses and Potential Liability to the Government

The Department has indicated that since the inception of the Title IV programs in 1965, that it has paid $57 billion in FFEL Program defaults, additional interest and special allowance. These payments include $4.7 billion for 1993. The Department estimated future liabilities at present value on this portfolio of $13.6 billion on loans outstanding as of September 30, 1993. As just discussed, we were unable to determine the reasonableness of this estimate because of unreliable data.

We believe that what happens in the future relative to guaranty agencies will affect potential liabilities because guaranty agencies have had a significant role in the administration and oversight of the FFEL Programs. This role has included guaranteeing student loans, paying claims and collecting on defaulted loans, as well as monitoring and enforcing school and lender compliance with program requirements. These activities impact losses and potential liabilities of the FFEL programs. In addition, some guaranty agencies have developed financial and/or contractual affiliations with lenders, secondary markets and servicing agent, arrangements we view

to be conflicts of interest since the guarantee agencies are responsible for oversight of these entities. We estimated that $11 trillion of the loan portfolio was at risk because of these conflicts. During the phase-in of the Direct Loan Program, the stability of these agencies under the FFEL Program will be significantly affected.

As the transition to direct lending proceeds, the Department must ensure that the interests of students and taxpayers under the FFEL Program continue to be protected. The gradual reduction in their share of the loan market may conceivably lessen the incentive for these guaranty agencies to continue to perform their FFEL Program responsibilities. Thus, the Department may be required to assume more direct responsibility for the administration and oversight of the FFEL Program. For example, if guaranteed agencies and lenders leave the program precipitously, proper servicing and record keeping for the loans they have made and guaranteed may be jeopardized, and student access to FFEL loans may suddenly be severely restricted.

The statute has provided a lender of Last Resort Program to address the potential problem of student access to loans. Also, the Transitional Guarantee Agency, in St. Paul, Minnesota, was established to act as guarantor of last resort during transition from the FFEL Program to Direct Loans. The effectiveness of these provisions is yet to be tested.

With the increasing reliance on the Federal Direct Student Loan Program, the Department must try to minimize the risk of loss to students and taxpayers in the FFELP Program. Losses to students and taxpayers could occur if a rapid decline in revenues causes a guaranty agency to fail to properly monitor due diligence of lenders in their collection efforts; if a guaranty agency intentionally or inadvertently takes steps to misuse or abuse Department assets and reserve funds which the agency is holding; and/or if a guaranty agency abruptly ceases operation, leaving lenders of schools without critical sources of loans or servicing. If the Department is not able to address these problems promptly, losses could result, with potentially significant liability to the government. This means that the department is held responsible for maintaining the integrity of the FFEL Program loans and for protecting the Federal interest in the guaranty agency reserve funds and assets, while keeping guaranty agency operating costs down.

Efforts Being Made to Reduce FFEL Program Losses

The Department of Education faces many challenges in addressing its long-standing financial management problems, the most important of which is correcting the numerous data integrity problems. The problems are not ones that lend themselves to "quick fixes" but rather require comprehensive efforts to correct root causes.

Department officials have expressed their commitment to developing better financial management information for the FFEL Program and the Federal Direct Student Loan Program. A number of corrective actions are underway, including the development of the National Student Loan Data System (NSLDS) the first national database of loan-by-loan information. The NSLDS will be an on-line database for users to obtain loan information to determine student eligibility. The OIG originally recommended this student loan data system in 1987. This system will help prevent ineligible loans to previous defaulters or duplicate loans from different guaranty agencies or from different direct loan service. When NSLDS is successfully implemented, we believe it will be a significant step toward reducing the number of ineligible loans and reducing defaults. The first phase of the NSLDS went on-line in November 1994, and the Department is in the process of training staff in its use.

Federal Pell Grant Program

While our overall concerns with the Federal Pell Grant Program were included in testimony before the Senate Permanent Subcommittee on Investigations in late 1993, we have several additional concerns that have surfaced more recently. In summary, our earlier testimony explained that the program is basically an honor system. It is designed for the Department to rely on the integrity of the participants to assure that awards are only for eligible students in attendance, Federal funds are administered properly, required refunds are made, and expenditures are accurately reported to the Department.

The Pell Grant Financial Management System authorizes and tracks Pell Grants of over 6.2 billion at approximately 6,700 participating institutions. Since our earlier testimony, we completed our survey of the Pell Grant system and identified several areas with potentially serious control weaknesses.

In September 1994, we issued an audit report that addressed the control structure over the citizen verification process that would prevent ineligible, non-U.S. citizens from participating in the Pell Grant program. For award year 1992-93, we confirmed the citizenship status of all Pell Grant recipients that had claimed U.S. citizenship with the Social Security Administration's (SSA's) computer database and found over

45,000 were not U.S. citizens. These ineligible recipients were awarded over $70 million in Pell Grants and another $45 million in Stafford Loans. We recommended that the Department strengthen its existing citizenship verification process.

Also in September 1994, we issued a report on the Pell Grant closeout practices and procedures. For award year 1991-92, over half of the approximately 6,700 participating institutions submitted expenditure reports that contained discrepancies totaling over $356 million. To address these reporting errors, the Department made some basic assumptions to close accounts which were inconsistently applied and which did not correct the underlying problem of inaccurate, untimely reporting practices by participating institutions. We made specific recommendation which, if implemented, should strengthen the closeout policies and procedures and safeguard millions of dollars from possible misuse.

SUCCESSES & CHALLENGES IN SFA PROGRAM ACCOUNTABILITY

Program Monitoring

Monitoring of program participants has been a weakness in the Department. In December 1993 and January 1994, we issued reports on the effectiveness of the Department's regional oversight and monitoring of the institutional, lender and guaranty agency functions in the SFA programs. We made many recommendations to improve significant deficiencies regarding organizational structure, effective management information systems, hiring practices and training, reporting and resolution standards, performance standards, and targeting entities for review.

We have been advised of many improvements the Department has implemented or plans to implement to strengthen monitoring of schools after they begin participation in the SFA programs. While efforts to improve institutional monitoring are encouraging, our experience suggests that unless weak or unscrupulous schools are screened out by the Gatekeeping process, significant harm occurs to the student and the taxpayer before the school can be terminated from program participation.

We have also been advised that the Department has been developing a strategy to monitor the financial condition and other aspects of the guaranty agencies, which is crucial with the advent of the Federal Direct Student Loan Program. Several guaranty agencies have decided to cease participation in the Federal Family Education Loan Program, and it is anticipated that others will do the same. Emphasis on the protection of Federal assets and continued student access to Federal loans is imperative.

In additional to the Department's regional oversight function, our office is in the process of developing new, or revising our existing audit guides for guidance to the non-Federal auditors to conduct their independent audits required of the SFA program participants: schools, lenders, guaranty agencies, and third-party services. The audit guides are being drafted with the intent of making the audits more effective by focusing on areas of high risk.

Failure to Pay Refunds

Another area of concern regarding program accountability relates to failure on the part of institutions participating in the current loan programs to pay loan refunds when students withdraw from school during the periods for which the loans were made. As we testified before a Senate subcommittee in May of 1994, students are being victimized by schools' failure to pay refunds; and when loan defaults result, the taxpayer is victimized as well. By failing to pay loan refunds, schools are keeping money they have not earned for services they have not rendered and, when done intentionally, this amounts theft of public funds. While it is not possible to accurately quantify the magnitude of this problem, it is among the most frequently recognized problems in our audits and investigations of schools, Departmental program reviews of schools, and in non-Federal audits of schools required by the Higher Education Act (HEA).

Several amendments to the Higher Education Act enacted in 1992 will help in addressing the refund problem but will not solve it. In our Senate testimony last year we offered several recommendations for changes in statute to help reduce the refund problem. These included requiring schools to report regularly to the Department the status of their refund liabilities, enacting changes to program fraud provisions to counter a recent court decision that weakens the ability to prosecute refund fraud cases, and enacting legislation facilitating our use of asset forfeiture as a means of recovering Federal funds stolen by school owners via their failure to repay loan refunds.

We have also testified concerning a remedy that we believe would significantly affect this situation. It is one that we recommended as part of the 1992 reauthorization of the HEA: the Department should be authorized to obtain personal guaran-

tees for Title IV liabilities from school owners or other appropriate persons as a condition for participating in Title IV programs. Both the House and Senate reauthorization bills contained such a provision. However, the Conference Committee amended the provision to effectively nullify this authority. Section 498(e)(4) of the new law bars the Secretary from imposing personal liability unless the school meets all four of the following conditions: it has been subject to limitation, suspension, or termination action within the last 5 years; it has had recent audit findings that required it to make substantial repayment; it is not financially responsible; and it is not current in submission of required audit reports. It is extremely unlikely that a school would meet all of these conditions, since, long before doing so, it would certainly have been closed and gone into bankruptcy, and its owners taken off with the money.

We are aware of nothing presently in the direct lending system that will address the problem of unpaid loan refunds at the institutional level. However, we have been and will be working with the Department to develop methods to identify schools that may not be paying required direct loan refunds.

CONCLUSION

Mr. Chairman, we have attempted today to outline what we view as the major successes and remaining challenges facing the Education Department as Education attempts to reduce cost and increase program efficiency and effectiveness. The Department has accomplished much in this regard particularly in the areas of strategic planning program coordination, financial systems redesign and implementation of direct lending. Much work remains, however. Financial systems are costly and time consuming to implements. Program fragmentation still exists and legislative changes are needed to correct inefficiencies of duplication. Direct lending has begun well, but the real stress testing of management controls is far from complete. Efforts are underway to increase accountability through establishment of performance standards and measures, but questions exist regarding the effects that deregulation and inadequate enforcement authorities will have on such efforts.

Over the last year, we have concluded many audits and investigations involving Education programs—in the areas of Student Financial Aid, elementary and secondary education, vocational education, and the College Facilities Loan Program—which have highlighted the vulnerability of these programs to waste and abuse and to embezzlement and/or theft of program funds by high-level employees or officials of State education agencies, grantee or recipient institutions and Student Aid program participants. Many of the changes being undertaken by the Department will, over time, help to address these problems, but there are no quick fixes. Unless we are all willing to stay the course to see that corrective efforts are completed, we will not see the resolution of current problems. Rather, they will continue in their present form or in a new, redesigned form that will still victimize the individuals we're supposed to help and cost more of the dollars, trust, and confidence of the public.

Mr. SHAYS. I thank you for your statement.

We have been joined by our ranking member, Ed Towns. Before we call on you, Ms. Blanchette, I welcome the gentleman to make a statement if he would like to.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me apologize for being late. I would like to ask unanimous consent to include my statement in the record.

Mr. SHAYS. I thank the gentleman. I would ask unanimous consent that the written statement of any witness and any Member be included in the record, and, without objection, so ordered.

[The prepared statements of Hon. Edolphus Towns and Hon. Cardiss Collins follow:]

PREPARED STATEMENT OF HON. EDOLPHUS TOWNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Chairman Shays, thank you for providing this committee the occasion to consider opportunities for cost savings and improved efficiency at the Department of Education.

I am especially appreciative of this hearing in light of a GAO report released on Tuesday that finds, among other things, that many of America's children, even chil-

dren attending schools in the same district, do not have equal access to facilities that support education into the 21st century. And overall, inner city schools and schools with 50 percent or more minority population are more likely to be without sufficient technological support or facilities for proper instruction.

Clearly, the time has long past for a serious evaluation of the department's budget and program priorities, and a new understanding of the Federal role in education. The administration's 1996 budget request proposes reform initiatives to improve the department's operations and simplify its mandates. However, other solutions may exist and some may merit our attention.

I am open to discussing alternatives to the President's streamlining and reinvention principles. However, I am troubled by several initiatives, underway without input from this committee, that seek to eliminate the Federal presence in education, cut significant and successful education programs for the disadvantaged, and generally decentralize this national priority.

If cutting the Federal bureaucracy is the primary goal, then the 5,100 employee Department of Education should not be the target. It is by far the smallest cabinet agency in staff size, and its budget is in the middle range. If de-emphasizing the federal role in education is the goal. Then I have questions about accountability and quality standards that must be resolved.

And, if reducing the level of funding for critical education programs for disadvantaged children and youth is how we intend to finance a tax break, then we may be committing ourselves to a future of increased joblessness, lower incomes and decreased global competitiveness.

Mr. Chairman, I believe that education improvement and reform are valid and vital concerns for this Congress. I also believe that the Congress and Federal Government must provide the national leadership for this effort if we are to see positive results that transcend geographic, economic, and political boundaries.

Just as we needed Public Law 94–142 to establish Federal standards for the education of the handicapped, I believe we need a federal presence in education to set and support achievement standards that are national in scope and of equal benefit to all students.

Mr. Chairman, I join you in welcoming today's witnesses; and look forward to a constructive discussion of our priorities and ideals for a new Department of Education.

PREPARED STATEMENT OF HON. CARDISS COLLINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. Chairman, I commend your leadership in convening this hearing to consider opportunities for cost savings and improved efficiency at the Department of Education. The time has long past for a serious evaluation of the budget and program priorities of this agency. I am pleased to join you and the ranking Minority Member of the Subcommittee in your examination of these issues.

America's ability to prepare its citizens, especially the children, to meet the challenges of today's high-tech, highly competitive global economy is critical to our economic prosperity and our national security. Without question, education is our most important national priority. For this reason, although reform is critical, we must not de-emphasize or devolve Federal authority ensuring equal access to education and promoting educational excellence nationwide.

Reform initiatives underway in the Congress to dismantle or scatter the authority of the Department of Education are shortsighted and counterproductive. The most immediate and alarming example is the $1.7 billion in rescissions imposed on the 1995 Department of Education budget; a particularly harsh measure when coupled with the Republican welfare reform plan.

The first terminates funding for programs like Tech-Prep Education, one of the most promising methods of linking academic and vocational instruction across secondary and post-secondary education and facilitating the school-to-work transition. The other imposes mandatory work requirements and cuts off cash welfare benefits after five years whether or not employment is found. Mr. Chairman, it is shortsighted and counterproductive to cut back on our investment in education while seeking to move people off welfare and into jobs.

We can find other solutions. Solutions that do not inflict greater hardship on those with the least to gain and the most to lose from Federal budget and program cuts. I hope we can find them here today. If we don't, I suggest we keep looking.

Mr. TOWNS. And I yield back.

Mr. SHAYS. Thank you.

Ms. Blanchette.

Ms. BLANCHETTE. Thank you. Mr. Chairman and members of the subcommittee, I'm pleased to be here today to discuss Department of Education and other Federal education programs.

In recent months much attention has been devoted to making the Federal Government more efficient. This subcommittee in particular has been concerned about program duplication, the need for cost saving measures, and weaknesses in the Federal oversight of programs. In this regard you asked us to discuss potential opportunities to consolidate education programs, potential cost savings attributable to the Department's proposal to accelerate direct lending, and the Department's efforts to improve procedures for approving schools for participation in student aid programs.

Federal education programs extend well beyond the Department. According to OMB data, fiscal year 1995 spending on education is estimated to be about $70 million. The Department has the largest share, about $33 billion, to administer 244 programs. The remaining funds finance 308 education programs in 30 other Federal agencies.

We believe the Department should be applauded for its streamlining efforts. It has identified 41 of its programs for recision, elimination, or phaseout. In addition, the Department has proposed another 39 of its programs be consolidated into 12 broader programs. In addition to the programs recommended by the Department for consolidation, another 36 programs within the Department, 23 vocational rehabilitation programs, and 13 small specifically targeted postsecondary programs appear to us to be potential candidates for consolidation.

We consider the Department's vocational rehabilitation programs to be potential candidates because States are already providing services for a number of these programs. The 13 small, specifically targeted postsecondary programs appear to have overlapping target populations or provide similar services.

We also found programs in other Federal agencies that may overlap with Department programs. For example, we have identified 86 federally supported teacher training programs in nine agencies. About a third were administered out of the Department. We have also identified 24 programs administered by the Department and another 19 administered by three other Federal agencies that provide education or education-related support to the poor and disadvantaged.

Now let's shift gears to direct lending. The Congress established the Direct Student Loan Program to simplify the problem-laden guaranteed student loan process. Under current legislation direct lending is to be gradually phased in over 5 years beginning with the current academic year. However, to achieve additional cost savings the Department proposed in its 1996 budget request that direct loans constitute 80 percent of student loan volume in the 1996/97 academic year and 100 percent in the 1997/98 academic year.

The Department maintains the full implementation of direct lending combined with other previous legislative changes would reduce Student Loan Program costs by $12 billion in fiscal years 1995 through 2000. According to the Department, about $4.1 billion of the $12 billion would result from the full implementation of di-

rect lending by the 1997/98 academic year. It is the $4.1 billion that you asked us to discuss.

First, we must point out that application of requirements of the Federal Credit Reform Act of 1995 may have distorted the cost comparison between direct lending and the Guaranteed Loan Program in favor of direct lending. We must also point out that the Department had to follow these requirements just as any other Federal agency would have to do in doing a similar cost comparison.

Under the act, administrative costs are excluded in estimating the net Federal cost of making or guaranteeing loans. According to Department analysts, including administrative costs for both guaranteed and direct loans in the cost comparison would reduce the $4.1 billion direct loan savings estimate to about $2 billion, but, again, let me emphasize that that would not be in accordance with current law. However, the actual savings from accelerating direct lending could be considerably more or less than $2 billion.

Student loan cost estimates are highly dependent on forecasts of variables such as interest rates, inflation rates, and student loan default rates. These are difficult to predict. Changes in all or some of these variables can result in significant variations in cost and savings estimates. Finally, direct loans have only existed since July 1994. Estimating the cost and savings of direct lending is especially difficult and less precise because of the limited experience.

Now let's shift gears once again to a related student aid program. The Department's procedures for determining which schools can participate in student aid programs are referred to as gatekeeping. In response to numerous problems related to poor gatekeeping practices, the Department and the Congress have made a number of changes to strengthen the Department's gatekeeping ability. For example, the Higher Education Amendments of 1992 included provisions that require provisional certification of schools until they demonstrate administrative and financial responsibility, establish the State postsecondary review entities to conduct comprehensive reviews of schools, and require crediting organizations to include among their criteria such factors as maximum student loan default and dropout rates and minimal job placement rates.

The legislative and administrative changes made to the gatekeeping process should, if properly implemented, help address many of the problems in the Federal student aid programs. However, because most of these changes were recently implemented it is too soon for us to determine their effect.

In conclusion, the Department of Education has been proactive in identifying ways to streamline its operations. However, it appears that there may be further opportunities to streamline beyond what the Department has proposed by consolidating additional programs within the Department and in other Federal agencies.

With respect to the Direct Loan Program which is still—much is still uncertain. The Clinton administration has proposed a major change, moving it from limited voluntary participation to full mandatory participation by the 1997/98 academic year. While the cost savings cited in the Department's budget proposal may be overstated because the Department has to exclude administrative costs

from its cost comparison, expediting direct lending could still save money.

Mr. Chairman, this concludes my testimony. I will be happy to answer any questions.

[The prepared statement of Ms. Blanchette follows:]

PREPARED STATEMENT OF CORNELIA BLANCHETTE, ASSOCIATE DIRECTOR, EDUCATION AND EMPLOYMENT ISSUES, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to present information on U.S. Department of Education and other federally supported education programs. In recent months, much attention has been given to streamlining government. This Subcommittee, in particular, has been concerned with eliminating program duplication and improving management weaknesses in the federal oversight of education programs. Because of your concerns, you asked us to discuss (1) potential opportunities to consolidate overlapping education programs; (2) potential cost savings attributed to the Department's proposal to accelerate and fully implement the direct student loan program;[1] and (3) the Department's efforts to strengthen its "gatekeeping"[2] over schools participating in federal student financial aid programs.

In developing this information, we analyzed education program data from the Catalog of Federal Domestic Assistance (CFDA), past GAO reports, and information provided by the Department. With respect to direct lending and gatekeeping, our comments stem from our initial reaction to the Department's proposal and recent modifications to its gatekeeping efforts.

In summary, the Department of Education's budget, in fiscal year 1995, accounts for about $33 billion of the estimated $70 billion in federal education assistance. The Department administers 244 education programs, and 30 other federal agencies administer another 308. The Department has already proposed several programs as candidates for consolidation or elimination. In addition, another 36 programs totaling about $3.4 billion within the Department appear to us to be potential candidates for consolidation. Some portion of an additional 151 programs administered by both the Department and other federal agencies may also present an opportunity to streamline federal education spending. However, while the work we present today constitutes a necessary first step, additional factors need to be considered in determining how to achieve maximum efficiency from consolidation.

Concerning the Department's projected $12 billion cost savings, the Department's budget proposal may overstate the cost savings associated with fully implementing direct lending under credit reform rules, but substantial savings could still accrue. Analyses made under the Federal Credit Reform Act of 1990 (P.L. 101-508)—which was used in the Department's cost estimates—require the exclusion of long-term administrative costs. If these costs were taken into account, the Department's estimated savings would be less.[3]

To deal with numerous problems in its oversight of federal student aid programs, the Department has recently taken several steps to improve its gatekeeping abilities. But it is too early to tell whether they will be effective in weeding out schools that, for example, are likely to carry unacceptably high default rates.

BACKGROUND

The Department of Education is charged with managing the federal investment in education and leading the long-term effort to improve education. Established in 1980, the Department's stated purpose is to ensure access to education and to promote improvements in the quality and usefulness of education. Many recent congressional hearings have highlighted the need to improve the federal government's role in education.

[1] Under the direct student loan program, the federal government provides loan capital directly to schools through Treasury borrowing.

[2] "Gatekeeping" generally refers to the Department's procedures for determining which schools can participate—and whether they should continue participating—in federal student aid programs.

[3] Under credit reform rules, the budgetary cost of loans is the net present value of costs incurred over the life of the loans, excluding discretionary administrative costs, which continue to be treated on a cash basis. A guaranteed loan's cost is the discounted value of all interest subsidy and default costs, while a direct loan's cost is the initial outlay less the discounted stream of expected payments, including the borrowers' principal and interest payments.

Streamlining Federal Education Programs

Recently, the Department of Education has made progress in its effort to streamline operations and reduce costs. For example, in its fiscal year 1996 budget proposal, the Department identified 41 programs—such as Dropout Prevention Demonstrations and Teacher Corps—for rescission, elimination, or phase-out. In addition, the Department proposed consolidating another 39 categorical programs—such as adult education and family literacy programs—into 12 broader programs. (See app. I.) Past hearings on the Department have focused on achieving additional savings and efficiencies by consolidating, coordinating, or eliminating redundant education programs throughout the government. The need to look beyond Department of Education programs for opportunities to achieve cost savings through consolidation is supported by our past analysis of multiple employment training programs.[4] For that body of work, we classified programs as potential consolidation candidates because they served the same clients, shared similar goals, or offered similar services.

Direct Lending

The guaranteed student loan program—now entitled the Federal Family Education Loan Program (FFELP)—has provided billions of dollars in student loans to postsecondary education students over the last 25 years. But problems have continually plagued the program, such as high student loan defaults and the lack of accurate and timely information required for sound management decisions. These problems are attributed partly to a complex and multilayered delivery system involving thousands of schools and lenders, about 40 guaranty agencies, and other participants. The Federal Direct Student Loan Program (FDSLP), originally authorized by the Higher Education Amendments of 1992, was established in part because of problems with FFELP.

FDSLP is in part an effort to simplify the student loan process by eliminating private sector lenders and guaranty agencies, and to reduce federal costs mainly by eliminating interest subsidy payments to lenders. Under the direct loan program, the government makes the loans, but the schools actually disburse the funds on behalf of the government.

The direct loan program, as originally authorized, was to operate as a 4-year pilot program. The Department was to select schools, which were to represent 5 percent of the student loan volume, to participate in the program over the 4 years. But that changed with the Student Loan Reform Act of 1993. Under that legislation, the direct loan program is to be gradually phased in over 5 years, beginning with the 1994-95 academic year. In the first year, direct loan volume is to represent 5 percent of new student loan volume; in the second year, 40 percent; in the third and fourth years, 50 percent; and by the fifth year (the 1998-99 academic year), 60 percent. The Department can exceed the goals for years 3 through 5 if more schools want to participate. However, in the Department's 1996 budget, FDSLP loans would constitute 80 percent of student loan volume in the 1996-97 academic year and 100 percent in 1997-98.

To achieve additional cost savings, the Department proposes an accelerated and full implementation of FDSLP. In its fiscal year 1996 budget, the Department maintains that full implementation of direct lending, combined with other legislative changes,[5] would reduce student loan program costs by $12 billion during fiscal years 1995 through 2000. The Department estimated that fully implementing FDSLP by academic year 1997-98 would save about $4.1 billion.

Critics have challenged the assumptions that underlie the Department's cost-savings estimate for FDSLP, indicating that actual savings could be considerably less. One frequently cited concern stems from the exclusion of administrative costs—mostly the costs to service direct loans—from cost comparisons between FFELP and FDSLP because of Federal Credit Reform Act requirements.

Gatekeeping

Department gatekeeping practices have been subject to criticism for several years. Congressional oversight, both through hearings and reports; our reports; and the Department's Office of Inspector General's reports have detailed a series of problems and called for legislative changes and administrative reform. These problems included instances of the Department (1) allowing schools that failed to meet federal requirements to participate in federal student aid programs and (2) failing to iden-

[4] Multiple Employment Training Programs: Overlap Among Programs Raises Questions About Efficiency (GAO/HEHS-94-193, July 11, 1994).

[5] For example, the Student Loan Reform Act of 1993 reduced lenders' reimbursements for defaulted loans from 100 percent to 98 percent.

tify schools that were receiving federal funds for students who either never attended the schools or attended but never applied for aid.

These gatekeeping problems have been costly. Some students have been reluctant or unable to repay their loans because they were pressured, by the lure of plentiful financial aid, to enroll in proprietary schools,[6] some of which provided a poor-quality education and a bleak employment outlook. These students failed to get value for their money. Some schools, particularly proprietary schools, have been driven by a strong profit motive, with little concern for student needs—such as completing their education or obtaining employment—or for the frequency with which students default on their loans.

Other Federal Education-Related Programs

The federal government provides a range of support for education well beyond programs funded through the Department of Education. According to Office of Management and Budget data, fiscal year 1995 spending on education is estimated to be about $70 billion.[7] The Department of Education has the largest allotment—about $33 billion, or a little less than half—to administer 244 programs.[8] The remaining funds finance 308 education-related programs being administered by 30 other federal departments and independent agencies (see fig. 1).[9]

Figure 1: Federal Agency Spending on Education Programs, Fiscal Year 1995

Agency	Percent	Amount
Department of Veterans Affairs	1.8	1.3 Billion
Department of Defense	4.5	3.2 Billion
Other Federal Agencies	5.0	3.5 Billion
National Science Foundation	3.4	2.4 Billion
Department of Agriculture	11.9	8.3 Billion
Department of Health and Human Services	17.7	12.4 Billion
Department of Labor	7.9	5.5 Billion
Department of Education	47.8	33.4 Billion

Although the Department of Education administers the greatest number of education programs, other federal agencies also manage numerous education-related programs: the Department of Health and Human Services oversees at least 129 programs; the National Endowment for the Arts and the Humanities is responsible for 27; and the Department of Agriculture manages approximately 26. In fact, some of the largest and most significant federal education related programs—excluding research and development programs—operate outside the Department of Education.

IDENTIFYING POTENTIAL EDUCATION PROGRAM CONSOLIDATION OPPORTUNITIES

Besides the program consolidation proposed by the Department, we identified two additional streamlining opportunities—vocational rehabilitation and small, specifically targeted postsecondary programs.[10] We consider the Department's vocational rehabilitation programs to be potential candidates because states are already direct service providers for a number of these programs. For example, in fiscal year 1995, states are managing 16 ($1 billion) of the 23 ($2.4 billion) vocational rehabilitation programs under formula and project grants. For six of the remaining seven programs, the Department provides project demonstration funds to other entities to provide, for example, independent living services or to train deaf-blind interpreters.

In the case of small, specifically targeted postsecondary programs, such as Aid for Institutional Development and Faculty Development Fellowships, we consider them potential candidates because they appear to have overlapping target populations or provide similar services. These small programs are costly to implement and oversee, and evaluating their effectiveness is difficult.[11] Program consolidation could reduce

[6] Proprietary schools are for-profit trade and technical schools.

[7] The total excludes military service academies and some programs smaller than $1 million.

[8] See appendix II for a listing of federal education spending by agency.

[9] While many of these programs have broad education missions, such as supporting research and development in a particular field or offering public information or technical assistance, others provide direct support to education, such as curriculum development or faculty training.

[10] See appendix III for a listing of these programs, along with funding information and program goals.

[11] Our previous work on multiple employment training programs pointed out that extensive overlap among programs raises questions about the efficiency of having individual administrative structures for each program. Eliminating separate staffs to administer, monitor, and evaluate programs at the state and local levels could also save resources. See Multiple Employment

program administrative costs, and the Department could better focus its management resources on evaluating these programs. For 13 such programs ($1 billion in fiscal year 1995) that we identified,[12] 5 provided assistance for minority and disadvantaged students, another 6 helped attract students to specific professions, and 2 addressed the quality of postsecondary education.

Consolidation Programs Outside the Department

In reviewing the federal education network, we found programs administered in other federal agencies that may overlap with Department programs.[13] For our purposes, programs overlapped if they (1) served similar functions, such as providing teacher training, or (2) targeted similar populations, such as the economically disadvantaged.[14] Mathematics and science education is a noteworthy example of program function overlap. Along with the Department of Education's 6 programs—such as Eisenhower Professional Development Federal Activities and Minority Science Improvement—10 other federal agencies administer an additional 37 mathematics and science education programs.[15] Twenty-one of these programs provide instructional support (such as the National Science Foundation's Education and Human Resources program), at least 8 support faculty development, and 2 steer students into mathematics and science fields. Teacher training provides another example of programs performing the same function. In previous work, we identified 86 federally supported teacher training programs in 9 federal agencies and offices; about one-third of these were administered outside the Department of Education.[16] Although the target groups varied widely, the services provided appear similar for many teacher training programs. Of the 42 programs for which we received detailed program information, 27 funded conferences, 28 funded teacher salaries, 32 funded travel, 32 funded materials, and 30 funded other services, such as master teacher salaries or college course tuition.

We also found programs administered outside the Department that targeted groups served by Department programs. We consider these potential candidates for consolidation. One example is programs that serve the poor and disadvantaged. We identified 24 programs administered by the Department—such as Star Schools and Inexpensive Book Distribution—and another 19 administered by 3 other federal agencies that also provided education and education related support to the poor and disadvantaged. The services these programs provided varied: 12 provided direct instructional support or special instructional services; 8 programs aimed to encourage poor and disadvantaged students to pursue a particular career; 14 provided social service support; and at least 8 programs provided vocational and adult education services.

DEPARTMENT'S ESTIMATE MAY OVERSTATE ACHIEVABLE COST SAVINGS

In its fiscal year 1996 budget request, the Department proposed a number of initiatives to realize a $12 billion cost savings over fiscal years 1995-2000. One part of this cost savings, estimated at $4.1 billion, is attributed to the Department's proposal to fully implement direct lending by 1997-98. In effect, the Department is proposing to set aside the 5-year phase-in goal of 60 percent of new loans in favor of a mandatory 100-percent implementation of FDSLP by 1997-98. Other components of the Department's proposed $12 billion cost savings were (1) $6.8 billion in savings attributed to changes made to both loan programs through the Student Loan Re-

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Training Programs: Major Overhaul Needed to Reduce Costs, Streamline the Bureaucracy and Improve Results (GAO/T-HEHS-95-53, Jan. 10, 1995).

[12] Department of Education: Opportunities to Realize Savings (GAO/T-HEHS-95-56, Jan. 18, 1995). We identified 22 postsecondary programs for potential consolidation in this earlier testimony; however, 9 of these are now proposed by the Department for termination or rescission.

[13] To identify program overlap, we placed each program—both those administered by the Department and those administered by other federal agencies—into education function and target group categories we developed based on our review of CFDA's function and beneficiary classifications, description of the program's objectives, and other program information provided by CFDA, such as previously funded projects. We did not include programs that were not in CFDA, such as national laboratories, military academies, sole source programs, or others identified through other sources for which we had no program data. We also included programs that are currently on the Department's list for consolidation, termination, or elimination.

[14] See appendix IV for a listing of education program consolidation candidates currently administered outside the Department of Education. Brief program descriptions and budget information are included.

[15] We did not include programs that support school facilities development, research and development only, or public education or information.

[16] Multiple Teacher Training Programs: Information on Budgets. Services, and Target Groups (GAO/HEHS-95-71FS, Feb. 22, 1995).

form Act of 1993 and (2) $1.1 billion generated by recovering reserve funds for guaranty agencies participating in FFELP.

You asked us to take a preliminary look at how realistic the Department's estimate is for accruing a $4.1 billion cost savings from fully implementing FDSLP. We have not had the opportunity to fully evaluate the estimate; we have some observations.

Department May Overstate Savings, but Substantial Cost Reduction Potential Exists

The application of credit reform rules may distort cost comparisons between direct and guaranteed loans in favor of direct lending. Under the Federal Credit Reform Act of 1990, only subsidy costs[17] are considered in estimating the net federal cost of making or guaranteeing loans; long-term administrative costs are recognized separately. According to Department analysts, including the present value of administrative costs for both guaranteed and direct loans would reduce the $4.1 billion direct loan savings estimate to about $2 billion.

However, the actual savings from fully implementing FDSLP could be considerably more or less than $2 billion. Costs of student loans are highly dependent upon forecasts for variables that are difficult to accurately predict—such as interest rates, inflation rates, and student loan default rates. Changes in all or some of these factors can result in significant variations in cost and savings estimates. For example, in November 1992 we reported on the effect of interest rate changes on savings that could result if direct loans replaced guaranteed loans over 5 years.[18] We estimated that an increase of one-half percentage point in Treasury bill interest rates over the life of the loans (assuming no change in the government's cost of borrowing) could increase direct loan savings by $1.6 billion over 5 years. We have not had the opportunity to update these sensitivity estimates to reflect changes in the programs resulting from the Student Loan Reform Act of 1993; however, Department and Congressional Budget Office analysts believe that their current models remain very sensitive to changes in assumptions such as interest rates.

Finally, FDSLP loans have been made only since July 1994. Therefore, estimating the cost and savings of FDSLP is especially difficult because of the few months of experience and because only a small proportion of borrowers have left school and completed the 6-month grace period before their loan repayments begin. With little past experience on which to base them, FDSLP cost and savings estimates are necessarily imprecise.

The Department's proposal to fully implement FDSLP is being made without the benefit of knowing if FDSLP has been operating successfully during its short life. During FDSLP's first year (the first loan was made on July 1, 1994), the Department appears to be meeting its legislative goal to have direct loans represent 5 percent of student loan volume. Also, the schools participating during this first year are very satisfied with the Department's performance in implementing the program and responding to problems as they surface.

However, in our testimony before the Senate Labor and Human Resources Committee last week, we reported that as of March 21, 1995, the Department has not selected enough schools to meet the legislative goal that direct student loans constitute 40 percent of student loan volume in FDSLP's second year.[19] Part of this shortfall is due to the withdrawal of schools that the Department originally selected to participate in the second year. These schools' stated principal reason for withdrawing was insufficient resources to implement direct lending. However, our work suggests that the schools might be more concerned about the uncertainty surrounding the future of FDSLP.

The uncertainty about the number of schools planning to participate in FDSLP, coupled with the unknowns about the cost savings, leaves us uncertain as to the level of cost savings that the Department attributed to the full implementation of FDSLP by 1997-98.

ACTIONS TO STRENGTHEN GATEKEEPING

Over the past several years, we have reported—most recently in our High-Risk Series report on student financial aid—on the costs attributed to high student loan default rates and abusive practices of some schools, and on the nature of the inad-

[17] Subsidy estimates include, among other things, default costs, special allowances, and interest subsidies to private lenders as an incentive to participate.

[18] Student Loans: Direct Loans Could Save Billions in First 5 Years With Proper Implementation (GAO/HRD-93-27, Nov. 25, 1992).

[19] Direct Student Loans: Selected Characteristics of Participating Schools (GAO/T-HEHS-95-123, Mar. 30, 1995).

equacies in the Department's gatekeeping practices.[20] For example, we reported that federal financial aid was provided to students attending schools that were not currently approved to participate in FFELP and other federal student aid programs. In response to these kinds of problems, the Higher Education Amendments of 1992 made a number of changes to strengthen controls over schools. Some of the provisions, especially those establishing federally funded state postsecondary review entities (SPRE) and more stringent responsibilities for organizations that accredit schools, are controversial because they may greatly expand the federal role.

Department Initiatives

The Department has been criticized for conducting program reviews that were limited in scope and performed by poorly skilled staff. The Department has undertaken several initiatives aimed at improving these conditions. First, the Department has established two types of program reviews—a standard survey review and a concentrated team review. Schools are selected for standard reviews on the basis of certain "red-flag" conditions, such as (1) having students who receive multiple Pell grant awards during the same payment period or (2) having their number of loans increase significantly during a 12-month period. If a survey review discloses significant systemic violations, a concentrated team review may follow. Concentrated reviews focus on specific problem areas and should be completed within 30 days. Under the previous system, program reviews were undifferentiated by type, much broader in scope and coverage, and could take 2 years to complete. Also, the Department now provides a 23-week training program for new reviewers and refresher training for existing personnel.

The Higher Education Amendments of 1992

Provisions of the 1992 amendments provided the framework for strengthening the Departments gatekeeping responsibilities. The amendments included a program integrity provision that (1) requires provisional certification of schools, (2) establishes SPREs, and (3) modifies requirements for accrediting organizations:

- Provisional certification: The 1992 amendments empower the Department to provisionally certify postsecondary schools to participate in federal student aid programs. Provisional certification limits the time—usually 2 years—a new program entrant can participate until it demonstrates administrative and financial responsibility. Provisional certification should permit stricter oversight of schools' activities prior to granting final program participation approval and allow early identification of those with particularly weak management structures.
- State Postsecondary Review Entities: The 1992 amendments also established federally funded SPREs. The Department determines the eligibility of schools that want to participate in federal student aid programs. It conducts an initial review of the school and determines if the school meets the statutory criteria and whether a more comprehensive review by a SPRE is needed. Potentially, SPREs are valuable tools for helping to approve new applicants and for reviewing participating schools. However, funding for SPREs may be terminated, in part to achieve budget reductions. During fiscal year 1995 their funding ($20 million) is subject to proposed rescission.
- Accrediting organizations: Accrediting organizations typically review and approve schools for their educational quality—instructor qualifications, materials and equipment, curriculum, and student achievement. The law requires that accreditation occur before the Department certifies schools for participation in federal student aid programs. The 1992 amendments strengthened the Department's influence over school accreditation. Now accrediting organizations, in conducting their reviews, must include among their approval criteria several Department-established priorities, such as minimizing loan defaults, lowering student dropout rates, and increasing placement rates for students who complete their courses.

The legislative and administrative revisions made to the gatekeeping process should, if properly implemented, help address the risks in federal student loan programs. However, because these improvements were recently implemented, it is too soon for us to determine their effect.

CONCLUSIONS

The Congress is grappling with a large budget deficit and examining the federal government's role in providing services. Today the federal government invests more than $70 billion in education support. The Department of Education has been

[20] High-Risk Series: Student Financial Aid (GAO/HR-95-10, Feb. 1995).

proactive in identifying ways to streamline through program consolidation or elimination. However, it appears that there may be further opportunities to streamline beyond what the Department has proposed by consolidating or eliminating some of the programs that serve the same copulation or that provide the same services.

However, additional factors need to be considered. For example, because the host of uncoordinated overlapping federal programs has resulted in a patchwork service delivery system, how to achieve coordinated delivery of services at the local level needs to be considered.

In the area of the direct lending program, much is still uncertain. The Clinton administration has proposed a major adjustment to the program, moving it from limited voluntary participation to full mandatory participation by 1997-98. While the cost savings cited in the Department's budget proposal reflects an understatement of the administrative costs associated with direct lending, expediting FDSLP could still save $2 billion over the next 5 years. However, this kind of savings estimate is inherently sensitive to future macroeconomic conditions, such as interest rates and inflation levels, which precludes a precise measure of the actual budget implications.

Mr. Chairman, this concludes my testimony. I will be happy to answer any questions that you or members of the Subcommittee may have.

Mr. SHAYS. Thank you for your testimony, and we will begin with Mrs. Morella.

Mrs. MORELLA. Thank you.

I thank you both for your testimony, lengthy in terms of what we have before us and very succinct in presentation and shows a lot of areas where we can do follow-through after oversight.

I was interested in the testimony by the Inspector General about financial aid and vocational training and a statement you made. I don't know what page it was on. You said that we are training for nonexistent jobs. I just wondered if you might follow through with explaining how you determine that, what it is about, and of course we can figure out what we can do about it.

Ms. VAN RIPER. My associate, Steven McNamara, is here too to answer questions. Steve is the Assistant Inspector General for Audit, and it is actually his area that conducted the audit in that area. He can give you some information.

Mrs. MORELLA. Excellent.

Mr. McNamara, thank you.

Mr. MCNAMARA. We did a review of the cosmetology industry, and in doing that we gathered information nationally from the Bureau of Labor Statistics and also from five States. We visited employment commissions, the cosmetology commissions, we visited five cosmetology schools in each of the five States that we looked at.

What we concluded was that student aid did not take into consideration whether there was a job available for the person when they came out of the training, and it didn't take into consideration how well the school did in preparing them for an eventual job. In looking at the statistics, we found that we were training far more people in this particular industry than there were going to be jobs available according to Bureau of Labor Statistics and other sources.

For example, in one State—I believe it was Louisiana—we were training something like 2,400 cosmetologists a year when the forecasts for jobs available from Bureau of Labor Statistics was 400.

As a result of training people for nonexistent jobs and in some cases in providing training that doesn't equip them to get a job, what we found is that people tend to default more and they don't pay taxes. In fact, in looking at the statistics in this particular case

we found that in 1 year for the cosmetology industry about 40-plus percent of the people who had been through this training had defaulted on their loans.

So we concluded that unless we can restructure the Title IV delivery of funds to consider job market opportunities, which is currently the case in the Perkins Voc-Ed Act, and unless we can introduce performance measures to assure that quality training is provided, both the taxpayers and the students lose.

Mrs. MORELLA. I would think that would be the case, and you used cosmetology as your example. Did you look at more than one area? I mean are there schools where people are getting loans to learn how to do license plates beyond what we do in prisons?

Mr. MCNAMARA. Yes, ma'am, I believe we thought we could have picked just about any other training industry, such as truck driving or any other. We have done many, many audits and investigations of vocational education schools and have found many instances where students didn't receive a good education, where they were due refunds, where their money wasn't refunded, and schools were closed.

We made a lot of suggestions in HEA reauthorization to try to close a lot of these loopholes, and a lot of good work has been done, but, as Ms. Blanchette said, the regulations are very recent and they have yet to take hold.

Ms. Van Riper has a lot of experience in investigations of many large proprietary schools as well.

Ms. VAN RIPER. In giving you an example of an investigation that we conducted in the Midwest, it involved a cosmetology school. The completion rate for students who enrolled and received Title IV funds at that school was approximately 12 percent. Of those individuals who completed, only a very small portion went on to take the State board license and exam, and the successful completion rate on the State board exam was 11 percent of the total financial aid recipients who attended that school in a 5-year period.

We costed that information out for trial purposes and found that if we took the total amount of financial aid that went into the institution for a 5-year period and divided it by the number of successful licensed recipients, it cost the Federal taxpayers $500,000 per license.

Mrs. MORELLA. Incredible.

I remember a couple of years ago when we were looking into the default rate in proprietary schools and the fact that some of them were soliciting people on the phone—come and take our course, and you can get financial aid. I thought we did try in the regulations to close some of those loopholes, and obviously there are some other areas where we need to tighten up in terms of coordinating with the Bureau of Labor Statistics, the job market. I would think getting employers involved in some way would be very helpful too in terms of the loans.

Finally, if I might, Mr. Chairman, during the consideration of the Higher Education reauthorization I made a change in the Douglas Scholarship Program which was for future teachers to require counselors to advise scholarship recipients about the outlook on jobs, and this was in response to a constituent who accepted the Douglas scholarship and after 4 years in college couldn't find a job

as a social studies teacher. So I understand that Douglas scholarship participants must find a job in the field of teaching. Otherwise they have to pay back the scholarship money. Are you familiar with that?

Ms. VAN RIPER. Yes.

Mrs. MORELLA. Kind of an interesting sort of touch to it.

I think I should probably yield back and wait for the second round. Thank you, Mr. Chairman.

I thought the GAO report was excellent, to sort of pick up on the gatekeeping and some of those other areas.

Ms. BLANCHETTE. Thank you.

Mr. SHAYS. We are going to do it in small segments and come back for additional questions.

Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me thank all three of you for your comments and testimony.

You mentioned—I think it was Ms. Van Riper—that vocational programs—you mentioned the training program, some of the training programs, that people are being trained for jobs that don't really exist. Was that you who made the comment?

Ms. VAN RIPER. That is correct.

Mr. TOWNS. Has the Department acted on your recommendations at all?

Mr. MCNAMARA. To date we don't have any real significant progress made. This would require legislative changes.

I would note that the one area that does address this is the current move toward skill grants that would be coordinated with the Department of Labor. That is new, and it is on ongoing. Other than that, no, no significant action to address these.

Mr. TOWNS. Last month the Secretary of Education shared with this committee his strategy in terms of his plans, and of course he talked about his priority areas and all of that. What is your opinion on the Department's strategy, Ms. Van Riper?

Ms. VAN RIPER. The Department's strategic plan covers four main areas. One is to help the States and the communities enable all of its students to reach challenging academic standards; the second is to create a comprehensive school-to-work opportunity in each State, the third is to ensure access to high quality postsecondary education and lifelong learning; and the fourth is to turn the Department into a high performance organization.

I think that Goals 2000, Educate America Act, as well as other changes that have been made in legislation and some of the activities and the efforts that have been made in the Department go a long way in correcting past problems in our programs. It goes a long way in terms of the coordination between the Federal and the State and the local education entities.

Again, as I stated previously, I think that much work needs to be done. But for the first time what I see is unified and focused effort to address problems and address what it is we want the Department to be doing in the area of education.

Mr. TOWNS. Fine. I think when we look at Goals 2000, which is the linchpin, of course, in terms of this whole process that the Department is putting forth, what impact would the proposed

recisions of funds for this program have on the administration's education reform agenda?

Ms. VAN RIPER. I think that is a policy decision that will have to be made in terms of the recisions and their impact and what the Department can do in terms of dealing with the reduced funding. I know that a great deal of thought went into that budget formulation.

Goals 2000 is what the Secretary called a responsible block grant to support the local school districts to achieve reform in their own way. It helps the States and the districts set up their own high standards and then design programs for reaching them. It was a well designed and well thought out program. I think that what will happen is, as a result of the recisions there will be cutbacks in those efforts.

Mr. TOWNS. Yes.

Let me move very quickly. What are the likely results—Ms. Blanchette, I want to address this to you first—what are the likely results of eliminating a Federal presence in education altogether? Are we likely to see a greater burden on metropolitan areas in particular, or would there be additional impacts on disadvantaged children?

Ms. BLANCHETTE. Well, this is not—this is not anything that of course we have done any study of. I can give you a—it would have to be a hypothetical response because I know of no one that is proposing such a thing.

Currently in terms of elementary and secondary education, the Federal investment is around 6 percent of the total cost, the rest being borne by States and local jurisdictions, local school districts. A good deal of the Federal funds do go to help poor and disadvantaged children, and of course to the extent those funds were not available they would either have to be supported by State and local efforts or they would, of course, not have the same level of support they currently have.

Most of the Federal effort in education goes for higher education and the student financial assistance programs, and over the last 25 or more years billions of dollars have gone to help students achieve higher education, and I think many of us—probably many of us here in this room from personal situations could attest to how devastating it would be not to have that money.

Mr. TOWNS. Let me just say that that has been proposed, what I asked you. I mean I think it was Secretary Lamar, and I think Bennett also suggested it, and of course I think that our next witness also—and not only that, the pattern of what we see around here, that is next, based on some of the other moves.

But anyway, I don't want to spend any more time on it. I see the red light is on. Let me just yield back until the next round.

Mr. Chairman, I yield back.

Mr. SHAYS. Thank you.

Ms. Van Riper, before I ask my specific questions, in your testimony would you identify what you think is the most outrageous and most serious challenge facing the Department.

Ms. VAN RIPER. I think probably the most serious violation that we see and abuse that we see in the programs is involved in the student aid programs, and it involves the failure to make refunds.

Mr. SHAYS. Can you make reference to your testimony, your concern with that specific area right now?

Ms. VAN RIPER. Page 24.

Mr. SHAYS. Tell me what you think is the most serious. I want something specific, I want something tangible, not that there are inefficiencies. I want some specific statement or data that gives you the feeling this is the biggest concern. While you are thinking about that, I welcome Mr. Souder and Mr. Scarborough, who are distinguished members of this subcommittee. We will be calling on them for questions in a second but note for the record that they are here.

Ms. VAN RIPER. The failure to make refunds affects all of the Title IV programs, but it particularly impacts on students who borrow funds through the loan programs. The schools are required under current regulation to refund that portion of the tuition back to lenders in the area, when the students have received guaranteed student loans, for that portion of the division that has been unearned because a student has withdrawn during the refund period. We have had many, many cases where schools have failed to make those refunds back to the lenders for students who have withdrawn during the refund period.

Mr. SHAYS. That is a general statement. Give me some specific data to back that up.

Ms. VAN RIPER. It is the most common finding in program reviews and in audits of postsecondary institutions.

Mr. SHAYS. I'm just trying to have a sense of how I wade through what, to me, were very important statements from both of you. To say there are inefficiencies has already been accepted, so it goes in one ear and out the other. I want you to give me a number. Give me a sense of proportions here and then show it to me in your statement. If you think this is the most serious challenge, I would like to see how you portray that in your statement?

Ms. VAN RIPER. On page 24, I indicated here that it is, again, the most common finding, although we are not able to accurately quantify the magnitude of the problem because of the way that program reviews and audits are conducted, they do it on a sample basis, but we do know that it is the most frequently cited finding in institutional reviews.

Mr. SHAYS. I'm a Member of Congress listening to a report from the Inspector General. I have asked you what you think is the most serious problem. Tell me in your statement how I would learn that that is the most serious problem? Give me a specific sentence, or statements, that would alert me to that fact.

Ms. VAN RIPER. I think it is a statement that says first of all that students——

Mr. SHAYS. What line are you on?

Ms. VAN RIPER. I'm on the fifth line.

Mr. SHAYS. Of page 24?

Ms. VAN RIPER. Yes, that the students are being victimized by the schools' failure to make them, and when the defaults result as a matter of course after that, that the taxpayer is victimized as well.

We did not quantify in the statement the magnitude of the problem.

Mr. SHAYS. Why not?

Ms. VAN RIPER. Because there is no way at this point to tell what the magnitude of the problem is except to say that it is common——

Mr. SHAYS. Think about this for a second. Are you telling me that you think that this is the most serious problem?

Ms. VAN RIPER. Yes.

Mr. SHAYS. And you have just given me, in my judgment, a very general statement. Now I'm going to illustrate the type of specific information I'm interested in. In a statement from your office on March 12 regarding the training of cosmetologists, the Inspector General's Office said in 1990, over 96,000 individuals nationwide became newly licensed cosmetologists. That begs the questions, how much did it cost to train these individuals, and what are their job prospects? And then the report goes on, "We estimate that over $725 million in Title IV funds were expended to produce the 96,000 licensed cosmetologists in 1990."

It just boggles my mind that we are spending nearly three-quarters of a billion dollars on cosmetology. Then it goes on, "Considering all funded sources, we believe taxpayers and students may be spending over $1 billion annually for cosmetology training. Job prospects for the 96,000 cosmetologists training each year are dismal. The current supply of cosmetologists already far exceeds the demand."

Has that problem been taken care of?

Mr. MCNAMARA. No, sir. Mr. Chairman, I think we probably misinterpreted the point of your question having just spoken to the report that you mentioned.

Mr. SHAYS. Right.

Mr. MCNAMARA. I think what we interpreted your last question to be, was, is there one abusive issue that the current reauthorization hasn't fixed, or one thing you can put your finger on; we responded, refunds. I think clearly you are right. If you think of it from the very big picture, we are spending millions to train people in occupations that might not——

Mr. SHAYS. This is going to be a lesson for both of us, and it is not meant to be unfriendly, it is just meant to make us both more effective.

This subcommittee is constantly told of inefficiencies. I just make the assumption that all government is inefficient. I have come to that assumption. So now I have to get to another level. And the other level is, well, what are we going to do it about it?

I'm just telling you, that this report caught my attention. In your testimony, how would I have known about it? This is a serious problem. This is almost $1 billion of absurdity.

But let me give you another example of how my mind is working. In another part of your testimony you are giving me, I think, very specific type of comments. I'm on page 22 of your statement, on the Federal Pell Grant Program. It says, "The Pell grant financial management system authorizes and tracks Pell grants of over $6.2 billion at approximately 6,700 participating institutions. Since our earlier testimony, we completed our survey of the Pell grant system and identified several areas with potential serious control weaknesses. In September 1994, we issued an audit report that ad-

dressed the control structure over the citizens verification process that would prevent ineligible non-U.S. citizens from participating in the Pell Grant Program. For award year 1992/93, we confirmed the citizenship status of all Pell grant recipients that had claimed U.S. citizenship with the Social Security Administration's computer data base and found over 45,000 were not U.S. citizens." Forty-five thousand people in this country who are not U.S. citizens are getting Pell grants. Are they supposed to get Pell grants?

Ms. VAN RIPER. In most cases they are not supposed to. You would have to go further and check to see if their citizenship status is changed, but our audit indicated that they are not supposed to.

Mr. SHAYS. Let me ask the question this way. Are non-U.S. citizens to get Pell grants?

Ms. VAN RIPER. The regulations specify that you are either a U.S. citizen or a noncitizen in the country for other than a temporary purpose. In some cases you can get a Pell grant if you are a noncitizen, but you must be an eligible noncitizen.

Mr. SHAYS. Continuing in your statement, you say, "These ineligible recipients were awarded over $70 million in Pell grants, another $45 million in Stafford loans. Now we recommend that the Department strengthen its existing citizenship verification process." Tell me specifically what the Department has done.

Mr. MCNAMARA. Mr. Chairman, we recommended that they improve the edits because if you said you were a U.S. citizen, they didn't check to see if you weren't. We went with the Department up to the Social Security Administration in Baltimore, and they have assured us that they are going to take action to improve the edits.

We got the information from Social Security and we sent our auditors back to Social Security with the departmental officials to try to facilitate improving their matching and their edits to prevent this in the future. It is fairly recent, it is happening as we talk, but they have indicated they are going to take action.

Mr. SHAYS. Let me just say for the record, this is not an indictment of the present administration, at least not in terms of the report. The report on non-U.S. citizens receiving Pell grants was for the year 1991/92. But I'm just trying to make a point to you that in your testimony the issue you think is the most important you are not even quantifying. There is no way in hell that I would have known you think that is the most important issue unless I had asked the question. In my mind, I wonder why we are not able to quantify it?

There is no way from your statement that I'm going to really know much about training cosmetologists, and yet we are spending nearly three-quarters of a billion dollars on it. The reason it concerns me is that we are cutting, eliminating, or reducing Government programs that are in some cases somewhat beneficial but don't justify their cost. Yet I'm looking at this and saying wow, and I have a feeling that there is a lot more here that we need to take a look at.

I'm going to ask all our Inspectors General in the future to come before this committee and tell me what they think is our No. 1 problem, No. 2 problem, and No. 3 problem, and then I'm going to

ask them to quantify them. If they can't quantify them, I'm going to ask them why they can't.

I have gone over my time, and I will call on Mr. Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman.

Mr. SHAYS. I'm sorry, if you don't mind—Mr. Green, I welcome you. If you just walked in, I would be happy to call on——

Mr. GREEN. If you would call on Mr. Scarborough.

Mr. SHAYS. OK, Mr. Scarborough, and then we will come to you. Thank you.

Mr. SCARBOROUGH. Thank you, Mr. Chairman. I certainly appreciate your holding this important hearing and also asking questions that need to be asked.

I share with you the shock and outrage that we are spending almost three-quarters of a billion dollars on cosmetology in this country and I still can't get a good haircut. [Laughter.]

But that being said, I think the chairman's pointed questions do serve a very valid purpose because any time you try to hold huge bureaucracies like the Department of Education under scrutiny you hear a chorus of attacks from those who want to protect the large bureaucracy like this saying you can't cut program X or program Y or program Z, don't you love children, don't you love higher education, don't you love all things that are right and just? Then as long as we are staying in generalities and just saying education is good, then we are not going to be able to move forward in the direction we need to be able to move forward and hold these institutions accountable.

One such example of what I'm talking about has to do with the Student Loan Program. I think everybody in here would agree that the Student Loan Program has some very good points to it, but at the same time it hasn't been held up to the type scrutiny that it needs to be held up to, and you mentioned about problems with gatekeeping, and I would like to ask each of you to expand on that, where we need to go in the future to make sure that schools that fail to meet Federal requirements to participate in the student aid program don't continue to receive these loans, and how can we identify the schools that are bad risks?

Mr. MCNAMARA. Mr. Scarborough, in considering the chairman's previous statement of the very important areas, obviously you don't want to train people for jobs that don't exist. The next thing you don't want to do is let schools into your program that don't provide quality training. That makes gatekeeping very important.

There's a number of changes in reauthorization that are meant to improve gatekeeping. There is one important one that I think you might be interested in that is not there. It was called the 85-15 rule. What this rule was intended to do was to let the marketplace dictate as a very good economic performance indicator whether schools should be in the program. Very simply put, they had to make 15 percent of their revenue from nongovernment types of sources. This would indicate that they really are a school and not simply a student aid mill that is pulling people in and then not giving them any training. That would be one example. That, I think, went through committee and didn't make it through conference.

Ms. VAN RIPER. Another area of gatekeeping that is a problem is a little further down than that, and that is in the area of licens-

ing and accreditation. Under the amendments, the accrediting associations were given the authority to set standards in the area of retention and placement and student achievement.

We have done some preliminary work in terms of assessing five accrediting agencies and what they have done in those areas, and what we have found is that there hasn't been a great deal of progress in terms of setting those standards primarily because the accrediting agencies feel that that is a Federal role and not an accrediting agency role. We have one notable success with one accrediting agency that has set some standards in terms of retention and placement and actually verifies the data that the schools report.

Ms. BLANCHETTE. Several years ago GAO identified a list of areas throughout the Federal Government that we call our high risk list, and these were areas where we recognized that the Federal Government was in jeopardy of losing large sums of money through fraud, waste, abuse, inefficiencies, and so forth. The Student Financial Aid Program was one of those areas.

As we have discussed here and numerous other times, there are a number of problems with the current Student Financial Loan Program—high loan default rates, inaccurate data, and a number of other things.

Gatekeeping has also been mentioned this morning, does relate perhaps to the high default rates. If schools are allowed in the program that do not provide an adequate education that do not—in some instances students don't attend the schools at all—they are certainly going to be reluctant to repay the loans even if they have the capability of repaying them, and quite often if they have not been trained properly, they don't have that capability.

So gatekeeping is very important from our perspective in terms of the whole student financial aid being a high-risk area.

As I said earlier in my oral statement, we applaud the Department's efforts and the legislative mandates that exist currently. We cannot go a step further and say whether or not they will be totally effective because it is just too soon, but the review entities that have been established and the fact that the Department can now force accrediting agencies to consider certain criteria in approving schools that are important to the Department, such as looking at the default rates, student loan default rates, and looking at the job placement rates, we think they are very important and things that can be valuable in the future.

Mr. SCARBOROUGH. I see my time is up. I look forward to asking questions the next round.

Thank you.

Mr. SHAYS. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. I have a statement I would like to ask permission to place in the record.

Mr. SHAYS. It will be inserted in the record, and may I also use this as an opportunity. I would ask unanimous consent that the record remain open for 3 days to permit Members to submit their statements.

Without objection, so ordered.

Mr. Green.

[The prepared statement of Hon. Gene Green follows:]

PREPARED STATEMENT OF HON. GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman. As we begin the process of consolidation of Department of Education programs, we must consider the effects on education for disadvantaged students and on the increased financial burden that students will have to face if they want to go to college. Cutting funding will most significantly affect those who can now barely afford to attend college. And if we believe, as I believe we do, that education is the key to upward mobility, then we must find ways to prevent or limit the damage to less affluent students.

I would like to explore these issues as well as the Department's direct student loan program. Thus far, the reviews are good: students and administrators are both pleased with the speed and ease with which they are receiving their loans. Of course, the key is to get the money back when the time comes. Nevertheless, the Administration's program seems to be off to a good start. I would also like to explore this subject with the panel. Thank you, Mr. Chairman.

Mr. GREEN. Mr. Chairman, I have a question I want to ask, but let me preface it first with not only serving in Congress but serving in a legislature and the Guaranteed Student Loan Program, and it is almost like we are—it is a Catch-22.

The Guaranteed Student Loan Program is something that all of us support, and yet when it was created we let literally free enterprise take its course and, you know, entrepreneurship. We had truck driving schools and everything else out there that actually—I have students who are now getting their tax refund taken from them because they signed up for a course 10 years ago, and that course was abolished, that school disappeared on them, and yet that student is still on the hook for that.

So in response to it the Federal Government and State governments came back in and said OK, we are going to require, as you said, placement, we are going to require student achievement and things like that, so we created more bureaucracy to have accountability, which is another great word we want to use, and we still haven't gone as far as we would like.

But then I think as my colleague, Mr. Scarborough, said, you know, the Student Loan Program, a lot of us support it and want to continue to support it, but we also recognize that we can't continue both with the defaults that we have, and I know we have tried, and whether it be—and I say the truck driving schools; I can take you to some community colleges that have some of the most atrocious repayment records that we have, and these are public—you know, community colleges.

So we always have to continue to do better, but I also know that as soon as we do more accountability we will have some of those schools contact us and say we are trying to train workers and students and yet we have these—all this paperwork that we are having to keep up with. Well, the reason it is there is that we have been burned by, again, people who took advantage of the flexibility that was given 10 years ago that we are still having to pay for it, and it is frustrating not only as a legislator in Texas but now as a Member of Congress to see how we can do it, and we have to keep going as much as we can.

I serve on the—now it is called the Economic and Educational Opportunities Committee, and so I'm glad you are here because we also have experience on the other committee, and there are some good things that the Department of Education has been doing, and I have watched them and tried to participate as much as I can over

the last 2 years. That doesn't mean we need to say well, we're home free.

I think the Secretary, in his suggestion on the combining of the programs that our chairman has talked about, we can do that, and we can do even more things, and I think the Goals 2000 is the best example of a program that is in response to a report that was a Federal program 10 years ago or 12 years ago, but it took Congress up until 1993 to respond to "A Nation At Risk" that was issued in the early eighties.

The States responded more quickly, and yet because of, whether it be partisan politics, President Bush tried and it didn't work, so now under President Clinton we pass something and even it is under attack even though there is not one regulation that I know of that is part of the Goals 2000 that has come from Washington to our local States. But, again, when you only provide 6 percent of the money you can't expect to say a lot about what is going on in our local communities because most of the funding for education comes from local and State levels.

Let me talk about school facilities and a recent released GAO report entitled "School Facilities: America's Schools Were Not Designed Or Equipped For The 20th Century" and found that schools in inner cities and schools with 50 percent or more minority population were more likely to have unsatisfactory environmental conditions such as lighting, physical security, and less likely to have technology elements.

Last year during the Elementary and Secondary Education Reauthorization Act on a small level we put in authorization for, I believe, $100 million for facilities; $100 million wouldn't help that much even in the State of Texas, much less New York or an urban State, and under our recision, both the Democrat and Republican recision plans, we took that away.

So in light of that GAO report and knowing that we are not going to be that involved even on a small amount on facilities, what can we do except say OK, local governments and even State governments oftentimes don't get involved in facilities construction? What can we do? because it is a national problem and not just a State and local, because it affects not only Houston, TX, but New York and California and other places in response to that.

Mr. Chairman, my question and comments took my whole minute.

Mr. SHAYS. We are going to give you a special dispensation because you serve on that committee.

Mr. GREEN. OK, and again I'll be around, I guess, for the next round of questioning.

Mr. SHAYS. Would you all like to respond?

Ms. BLANCHETTE. Well, in addition to the report you mentioned the condition of school facilities. We just issued a report a couple of days ago commenting on technology in our schools, and the situation there is as bleak as——

Mr. GREEN. And the article in yesterday's Washington Times, I believe, said the same thing about we have computers in our rooms but the wiring in these schools isn't set up to handle the load.

Ms. BLANCHETTE. Right, and the computers aren't linked, so you can't take advantage of the information superhighway.

These are not—there are no easy answers to these questions. We are talking about the need for billions of dollars, and I have visited some of the schools, and I remember specifically a school district—a school in New Orleans, and I believe it is cited in our report, where literally there were termites crawling along the windowsills and the wood was eaten away, and I also remember looking into the faces of the students there, and mostly black students, who I think probably interpreted their environment as a comment on how society looked upon them and their future, and it was rather devastating and rather depressing. So the situation is bleak.

Money is there. It is not there necessarily in the Federal coffers or even in State or local governments, but in terms of our economy and businesses, we as a society, money is available. Somehow we have got to figure out how to channel it in the right directions, and it is not an easy—not an easy question.

Mr. SHAYS. Mr. Souder.

Mr. SOUDER. Thank you.

There were a number of comments. I apologize, I was over at an anti-drug hearing and then came over here. That is why I was late. But there were a number of comments in your testimony about the block grants and how we would do performance standards, and there is a reference to a previous report on block grants. Could you address the question of block granting and what you have seen in the past as some of the disadvantages and how we would put performance standards in?

Ms. BLANCHETTE. The IG cited our report on lessons learned in block granting. We issued a report and had testimony recently where we talked about just that, and we referred to the experience in the early eighties. In that instance a number of programs were not block granted, and that was part of the difficulty in having efficient programs, and considerations in block granting are of course accountability. That is something that audit organizations like IG's and the GAO talks about all the time, but it is important because we want the objectives of Federal funding to be achieved. And if we simply give money to States and don't set up an accountability system there is no guarantee that is going to occur. So one of the things that we do need is standards and measures that we can look at and provide accountability, and we referred to GPRA as perhaps being a means of achieving that.

I can't think of anything else offhand that would be relevant.

Ms. VAN RIPER. We have done limited work in this area, and we have reviewed the GAO report on block grants.

One of the other issues that GAO discussed was the question of capacity, capacity today as opposed to capacity in 1981 when other programs were block granted, and they pointed out that the programs of 1981 are not the programs of today, they are very large now, they are fundamentally different, and we are talking about major block grants in a large number of areas and in a short timeframe.

And the other concern was the funding allocation. Funding allocations that were based on prior categorical programs could be inequitable because they don't reflect need, they don't reflect the ability to pay, and they don't reflect variations in the cost of providing services.

Ms. BLANCHETTE. And if I may add, I did think of one other thing. In block granting, consideration has to be given to how services are delivered at the local level, and in the most successful instances in the early eighties it was situations where the local jurisdictions has experience operating the programs, not just being conduits of money, and that is a very important criteria for success.

Mr. SOUDER. I personally am very conservative and believe that the Constitution explicitly gives the power of education back at the local levels. The types of studies you have here are a devastating analysis of when you go through program by program by program saying they don't have enough data here, they don't quite know what they are doing here, they have 18 million things overlapping between multiple different agencies there.

It seems to me that while—that there is a certain amount of sense in block granting, eliminating a lot of the overlapping agencies, the Federal bureaucracies out here, and focusing. And I realize you two at IG and GAO may not be the people to ask this, but our role at the Federal Government ought to be to have inspectors and auditors that, as we put the money to the State level, we set some standards of performance and then we audit. If we are going to raise the taxes and transfer it to States, we need to know what they are doing and that they are reaching minimum goals, that our focus ought to be to look at those minimum goals and have people then double checking that, not micromanaging a local school board.

Part of the reason we are seeing referendums defeated at the local level, Goals 2000 may not have specific things, but there is a feeling that it was laid on top of the local school boards, laid on top of those parents, they feel no investment in their local schools, think the Federal Government is going to bail them out, who is broke, and all of a sudden you have a really devastating anti-education reaction at the local level.

In fact, you have been reported here that 50 percent of the education programs currently aren't in the Department of Education. Is that correct?

Ms. BLANCHETTE. In terms of numbers, I'll have to refer back to my statement.

Mr. SOUDER. That makes it a lot easier to eliminate the Department if half the education functions aren't there.

Ms. BLANCHETTE. Most of the money—more money is spent by the Department of Education than by any other Federal agency, but in terms——

Mr. SOUDER. Does that count the Pell grants though, which really are a transfer—cash transfer?

Ms. BLANCHETTE. That is in terms of the actual funding for education programs, yes, which would include funding for Pell grants.

In terms of the number of programs, there are more programs outside of the Department, 308 versus 244—308 programs outside of the Department and 244 within the Department.

Mr. SOUDER. OK. I will have some more questions.

Mr. SHAYS. Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

I'm trying to keep from getting depressed, so let me try to go in a different direction. Maybe you can help me a little bit. In the consolidation plan, do you think that a lot of the problems that you

describe will be addressed? Because if you eliminate some of the duplication, I know you have Pell grants now under the Department of Labor, you have Pell grants in education, and if the plan moves forward, as is being described, will this sort of solve some of these problems that we are talking about, or will it further exacerbate them?

Ms. VAN RIPER. I think the plan for consolidation is going to solve some of the problems, but it won't solve all of the problems. It solves some of the problems within the Department in terms of duplication and fragmentation of delivery of education services, but it doesn't address the issue of cross-departmental or cross-agency duplication and fragmentation, and that is an additional effort that has to be made.

Mr. TOWNS. We talked about the gatekeeper. What would be the role of this gatekeeper? Let me tell you why I ask this question. Because I envision a gatekeeper as being someone that would look at where the jobs are, where we are going, and then at the same time trying to make certain that people are trained for those jobs. I can't get excited about the cosmetologists because you can look at my head and see I don't need one. I mean I can't get excited about that. But I don't want you to think I'm against them in any way. [Laughter.]

But on a serious note, when you look at something that, you know, there is no market for jobs, why would you continue to train? It seems to me that this person would say all right, now let's look in terms of what will happen 5, 7, 9 years from now.

So we need to begin to get people to go into this area to put them in terms of this particular track, this area, and as a result there will be jobs available and they will be able to be gainfully employed rather than to get these dismal kinds of statistics that are coming back. The gatekeeper, is that a concept—what are we talking about? Let me ask it that way.

Ms. VAN RIPER. We don't disagree with your statement that the job market ought to have something to do with the money we spend in training. In the same way that we have talked about the cosmetology industry, I guess we can ask the question, why do we want to train truck drivers through correspondence when most unions train their own truck drivers? Why do we want to train bricklayers and card dealers? There is any number of vocational areas that need to be reviewed.

The gatekeeping process is also designed, though, to keep or to review institutions trying to come into the programs and get an assessment of their administrative and financial capability to handle the programs and deliver the services, and that has to be a responsibility of the State licensing agencies and the accrediting agencies and then responsibilities at the Federal level through the eligibility and certification process, and it requires the responsibility and the—and the actions of all three of those entities.

Mr. TOWNS. Thank you very much.

Let me just sort of keep moving. I want to make certain that I find some positives here to keep from getting depressed.

You know, GAO, the definition of what constitutes a program may give us a distorted, an inflated sense of the problem. Is GAO really counting programs or just identifying funding streams? How

have you defined these terms? Because I think that we might be getting a little confused here.

Ms. BLANCHETTE. Well, we are trying real hard to identify programs, but it is not a science, it is indeed an art. We have now been involved in looking at multiple programs in a number of arenas. Last week my fellow associate director, Clarence Crawford, testified on employment training programs. We have mentioned this morning multiple teacher preparation programs, teacher training programs. We are now doing work looking at multiple use programs. In all instances it is very difficult.

Basically what we have is information either from something such as at the catalogue of domestic assistance programs, or we have some printed or automated information about programs in terms of their target populations, their objectives, their authorizations, funding, and so forth, and from that we try to identify what we would consider programs, not funding streams, not activities, programs.

As I said, it is not a science. Even working among ourselves and discussing among our evaluation teams in a given instance whether something is a program, you might have a disagreement. The one thing that all of our work shows is that there are hundreds of related, quote, programs in various aspects of Federal operations. In the case of the Department of Education perhaps there is something less than 244, but it is a large number, and we may not be exact, and if you looked at the same things we looked at you might come up with a different number, but the number is large, and even with employment, the 163 employment training programs that we now often refer to, we are willing to grant that there is argument that maybe there is a different number, but there are a whole lot of them, and the issue is the same.

Mr. TOWNS. Thank you. All right.

Let me just add very quickly——

Mr. SHAYS. Go ahead.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Moving to another area that is becoming more and more of a feeling among of Members of Congress, I'm getting a sense that: Push it back to the State, push it back to the States, and I must admit that I have some problems with that concept when I know for a fact that in the same district in many areas that schools are treated differently. So I sort of see that the Federal Government has a role and a responsibility in all of this. So could I get your comment on that. Maybe if I'm wrong I'd like to know. Just say that I'm wrong, because I'm looking for help.

Ms. BLANCHETTE. Well, you referred to different schools being treated differently, and I guess there you are talking about finance and equity, and you are right. Even within States, different school districts have different amounts of funding, and certainly across States, and that is not the desirable situation. The desire, I believe, from a Federal standpoint, or from a national well-being standpoint, is that every child has equal opportunity and so forth.

I don't—I can't really answer your question. I can agree with you in terms of your assessment of the situation. I don't know the answer however, whether there is something the Federal Government can do that States can't. I don't know.

Mr. TOWNS. Ms. Van Riper.

Ms. VAN RIPER. I think the underlying premise as far as the Federal presence in education is to assure the equity and the parity, and I also can't answer your question as to whether you can assure those if the funding and the responsibilities are vested totally in the States.

Ms. BLANCHETTE. One comes to mind. One thing that perhaps the Federal Government can do is point out the inequities, that if you are within a State—well, if you are in a State government, State education agency, you probably can see the inequities or a lack or parity in your own State, but you wouldn't necessarily know about it across State. So a potential Federal role would be educating decisionmakers at the State and local levels as to what the situation is.

Mr. TOWNS. So I think that, based on what you are saying, even though you said that you did not have the total answer, but based on what you are saying it seems to me that the Federal Government has a serious role in terms of some of the thinking that is going on. It seems to me you are saying that based on some of the problems. Well, you are saying that the problems do exist.

Ms. BLANCHETTE. The problems exist.

Currently we are doing work looking at education financing, and we haven't completed that, but preliminary results, yes, there are differences, and we are looking at some of the systems within States to reduce those differences, and we will be reporting on those by fall.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. SHAYS. I thank the gentleman.

Mr. Scarborough.

Mr. SCARBOROUGH. Thank you, Mr. Chairman.

I wanted to really follow up on some questions that were asked of you regarding the Department of Education overall and whether it is handled better on a local or State or Federal level. We are spending right now approximately $33 billion on the Federal Department of Education bureaucracy, and according to your testimony it says the Department of Education is charged with managing the Federal investment in education and leading the long-term effort to improve education. Established in 1980, the Department's stated purpose is to ensure access to education and to promote improvements in the quality and usefulness of education.

Now we have heard testimony today about spending almost a billion dollars on educating cosmetologists, and only one member on the panel has a good haircut—and it is a nice haircut—and we also hear horror stories from all of you who are saying that the Federal Government is not managing its resources well, and I was struck by, when you were asked a question about block grants, you said we have to look into how services are delivered at the local level, and I would like to pose that question to you. How are services being delivered on the Federal level, and how have they been delivered since this education bureaucracy was set up in 1980?

Ms. BLANCHETTE. In terms of services? You are talking about in terms of the mandate for the Department?

Mr. SCARBOROUGH. Right.

Ms. BLANCHETTE. Well, that's a broad mandate and a broad question.

Mr. SCARBOROUGH. I could make it more specific if you would like.

Ms. BLANCHETTE. It would help.

Mr. SCARBOROUGH. Of course I would have to lead you a little bit.

But if we are spending $33 billion a year on a Federal education bureaucracy that was established in 1980 to improve the quality and usefulness of education and yet we have seen since 1980 test scores go down, violence in schools go up, dropout rates go up, would you characterize that as the Department of Education fulfilling its mission on a Federal level? Is that more specific?

Ms. BLANCHETTE. It is more specific, but I'm afraid it's a trick question. As we said earlier, most spending on the local level is from local sources or State sources, not Federal sources, so I don't know that you can attribute failures to the lack of the Federal effort. At the same time, as we have been talking this morning, there are a number of problems in the Federal implementation of education programs.

Mr. SCARBOROUGH. Could I ask the other two of you to respond?

Mr. MCNAMARA. Mr. Scarborough, I think the point about the spending should be that the bulk of the spending is in the form of elementary and secondary formula grants, large grants to the States, and in postsecondary it would be for guaranteed loans or Pell grants.

I have heard—I think the Secretary testified that about 2 percent of our budget is actually for people that work at the Department; the rest is going out to one of the 240 programs on the one side or student aid on the other.

In terms of services, the services to the students are being rendered ultimately by the schools that they are attending if they are going to higher education, and the largest part of the money funding elementary and secondary comes from local, not the Federal level.

Mr. SCARBOROUGH. Would you like to respond, or did they do a good job for you?

Ms. VAN RIPER. They did.

Mr. SCARBOROUGH. OK. Fantastic.

What it sounds like you all are saying is, we are raising $33 billion in education revenue from local communities comes up to Washington, and, let's face it, that's $33 billion on education revenue that is coming to Washington before it gets sent back out to the States. And it appears that you all are saying well, it is only a small percentage of the money that is spent on the local level, and if there are problems the problems may come from the local level, and I think that you said that the Department of Education only spends a little bit of money up in Washington. But I haven't seen any reference to a report I saw in a newspaper about a month ago that I think vividly illustrates a lot of people's concerns with the Federal education bureaucracy beyond the cosmetology example, and that is, this next year the Federal Department of Education is going to slash $100 million in upkeep of local schools infrastructure.

You mentioned the termite infestation of that New Orleans school where minorities are, and that is certainly horrible and it is something that we need to take care of if at all possible, but yet while they are slashing $100 million to take care of problems like you mentioned in these inner city New Orleans schools, they are spending $20 million to upgrade their own bureaucracy right down the street. That certainly causes me a lot of concern, and I certainly would like for you all, if you could, to look into that situation and see why they are taking tax dollars away from local communities, away from local schools, and pouring it into a bureaucracy up here in Washington, DC.

Mr. SHAYS. Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Let me get the percentages correct now, and I know 6 percent is the average local funds; in some districts it is higher, in some it is lower. Of that $33 billion, the expense here in Washington is 2 percent.

Mr. MCNAMARA. That is my understanding, Mr. Green, yes.

Mr. GREEN. OK. So everything but 2 percent. Has that 2 percent grown as a percentage of the revenue? Was it 1 percent in 1980, or was it 5 percent in 1980? Do you have any of those numbers that we can look at? Again, 2 percent of that $33 billion that is taken in revenue, everything is sent back to the local communities except 2 percent?

Mr. MCNAMARA. The 2 percent is in testimony that the Department gave recently, within the last couple of weeks. Other than that, the money going back would be either Pell grants, guaranteed loans, direct loans, and all of the formula grants.

Mr. GREEN. And also Chapter 1 funding. So that is all the Department of Education, and, frankly, I share Representative Scarborough's concern, but, again, if we are only keeping 2 percent here in overhead and the rest of that, 98 percent, is going back to the community, it sounds like it is a pretty good program now if we are going to have a Department of Education, and I know there are some folks who don't want to have a Department of Education.

But, again, I have some concern that that school in New Orleans—I can take you to the same school in Houston or New York City or even in our rural communities, and education is a national concern. Even though we don't put any more than 6 percent of the funding locally, it is still a national concern.

If we are only keeping 2 percent here and 98 percent is going back to those schools in New Orleans for those local districts to decide how—hopefully, they would spend some of it on upkeep and replacing that windowsill from termites. Of course, in New Orleans and in some of our parts of Texas we can fight, termites we have been fighting them for 200 years, and we just have a lot of them.

But, again, I just wanted to make sure the record was correct in that we were talking about the 2 percent for administration here in Washington. I'm not saying I'm happy with that, I would like to see it 1 percent, because I want to see all that money back in the classroom because we don't educate any kids up here, and, frankly, they are not educated in the school administration buildings either, they are in the classroom, so as much as we can pull that down.

Let me follow up on what I said a while ago about the inequities exist, and my colleague from New York talked about the inequities even within the school districts often times, and that was the original intent in 1965 of the Title I or Chapter 1 funding. The Elementary and Secondary Education Act was to try to take a school district the size of Houston that is, you know, the largest in the State of Texas, and you may have inequities within the district, you may have one high school that is well funded, parent involvement, a lot of private donations, and then you have another school that—in fact, I attended one in 1965, the first time we received audiovisual projectors and things like overhead projectors. We didn't have those, even though they were in other schools. It was to make up for some of those inequities, and that inequity is still there in 1995 as much as it was in 1965, although now we have recognized that we have some—we have some hardware, because I can go into my Title I or Chapter 1 schools, and we have computers and in most of the places they can plug them into the wall, the 30 that they have in our elementary schools.

But there are cases where, either because of professional development as the report showed or facilities, that they can't utilize. As much as we want to maybe provide a tax credit for poor people to buy a laptop, they may not be able to plug it in.

But that inequity is still there, and sometimes within the school districts, and that is what that Federal funding is supposed to do, that 98 percent of $33 billion, and it is providing that because, again, I go to my schools at least every week, and all my schools in my district are Title I schools or Chapter 1 schools; at least the elementaries are.

Thank you, Mr. Chairman.

Mr. SHAYS. I thank the gentleman.

Mr. Souder, you have the floor, sir.

Mr. SOUDER. A couple of questions here. One, I wanted to make a brief comment, and I assume you have some of the data in here too, that the 2 percent, if that is indeed the figure, is around $660 million. Much of the $33 billion existed prior to the Department of Education student loans, things like that. It doesn't mean that there wasn't bureaucracy before to administer student loans and that type of thing. But that is really what we are targeting. There is always going to be some level of bureaucracy to handle student loans, some level, but there is a lot of additional money that has come in as we have proliferated the programs, and the bulk of the $33 billion goes most likely to very few programs.

The second point: I had a question on the direct student loans versus the other. You seemed to suggest, and it wasn't very clear to me, but you seemed to suggest that the Direct Student Loan Program may be more sensitive to interest rates and fluctuations and that was why you were having trouble estimating. Is that because the Federal Government wouldn't have a mixed portfolio? In other words, private lenders would have a mixed portfolio of loans? Or is it not more sensitive?

Ms. BLANCHETTE. Well, our point is that any estimate in this nature is going to be sensitive to various fluctuations, interest rating being one. Our primary—I don't know if I want to say primary

point, but a basic point has to do with how administrative costs are treated, long-term administrative costs.

I mentioned the Credit Reform Act of 1990 and its requirement that long-term administrative costs be excluded from the computation of the net cost to the Government, and therein lies the problem or the difference and the difficulty in actually coming up with a comparison. The administrative costs are probably different for the two programs and occur over a different period of time, and in the case of the Direct Loan Program many of those costs will be beyond the 5 years used for the current estimate but would not be included.

Mr. SOUDER. So you are, in effect, saying that while there may be savings the risk is greater to the Government because they have costs that they don't know whether they would absorb, but if it wasn't a Direct Loan Program the private sector would absorb some of those losses?

Ms. BLANCHETTE. Well, risk ties in with interest rates, but no, we are not specifically saying anything about risk in that instance.

Mr. SOUDER. If the interest rates that the loans were out were below what it costs for the cost of money for future loans, you would be off in your projections on what you were going to make on your loans and what it would take to keep the program funding, and since you don't have the administrative costs shared through other types of loans in the private sector presumably we don't have to pick up their administrative costs.

In other words, in part of the assumption of Federal direct loans being cheaper there was an assumption built in of certain types of projections where this was going to head, whereas the private sector was absorbing some of that risk of those projections.

Ms. BLANCHETTE. That is true, but there are also payments that go to the private sector under the guaranty program.

Mr. SOUDER. Right, for default.

Ms. BLANCHETTE. Well, for defaults but also interest subsidies that——

Mr. SOUDER. To cover their estimated risk. But it isn't expanding. In other words, if in actuality the risk was greater than they thought, you wouldn't expand the guaranteed payment to them, which could happen in the Federal Government. Interest rates jump 20 percent; let's say Clinton wins and the Democrats get back in—I take back my comments.

Mr. SHAYS. He retracts it.

Mr. SOUDER. I retract my statement.

Ms. BLANCHETTE. That would not occur, but of course the interest rate—the interest rate paid to lenders could change as a result.

Mr. SOUDER. A dramatic change is what really affects these type of loan programs we have out in SBA, and here in the more direct we have—I'm just saying the risk is probably greater based on what I read there and what you are doing.

I just want to make a brief comment that, while I basically favor moving back to the State level and the block granting, I would be interested, and I think as we pursue over in the education subcommittees for both early childhood and prior to college and postsecondary—I am concerned too about some inequities between

urban districts and their ability to have a local tax base, and I think there is some Federal role.

What we are going to need to do is, what kind of guidelines should we have in block grants to assure that there is at least minimal opportunity for everybody coming into the system without a lot of rhetoric with it, without a lot of inflated goals, and that you can get all kinds of things, but everybody does deserve a chance, and there is a Federal role, and that is how we first got into the education business, because some districts simply didn't have the assets, and I'm not willing to throw everything out, I think there is some acknowledgment on our side too of some of those kinds of roles.

I yield back.

Mr. SHAYS. I thank the gentleman.

I'm just going to conclude with the questions, and then we need to get to Mr. Hansen.

I think in fairness to you, Ms. Van Riper, I asked what you thought was the most serious problem facing the Department, and my staff pointed out that I didn't ask in terms of what. The point was, I didn't define my question well enough. You made a good stab at saying what you think is the most serious problem and talked about failure to pay refunds. I think, Mr. McNamara, you were trying to help me qualify the question. Could you just make your point again about my question? Do you remember what the issue was? I just want to make sure that I'm a better listener here. What was the point you were trying to make?

Mr. MCNAMARA. Thank you, Mr. Chairman.

I think we misunderstood the question, having just responded to the question about the cosmetology industry. I was thinking that matter was not what you were asking and it was something not covered under reauthorization.

Mr. SHAYS. OK. Let me just ask you this then. I want to make sure I have a better sense of the problem without dwelling on it too much because I want to ask Ms. Blanchette a question or two.

What I'm hearing you say to me is that when students leave, for whatever reason, there are institutions that just keep the money. Now are you saying that is the biggest cost financially to the Department, or is it that we simply have no sense yet of what its impact is and we really should focus more of our time and attention on it? I want to make sure that I'm hearing you correctly.

Ms. VAN RIPER. It is a combination. I think that, first, we can't or haven't been able to get a fix on what it is costing us, but I was answering also in the context of what it costs to the various parties involved. We know that it leads to higher defaults, we know that——

Mr. SHAYS. And the logic of that is that if someone left the program they'd think, "The hell I'm going to pay."

Ms. VAN RIPER. Exactly. Most students who withdraw assume that their refunds are going to be made to the bank and they are going to be held liable for a lesser amount of their loans, and when they go back and find out they are being billed for the full amount they get discouraged or they get irritated and they don't pay any of it.

Mr. SHAYS. When we talk about cosmetology, my criticism isn't that someone would choose that profession but that we are in fact encouraging people, through loans, to pursue this career when in fact they are unlikely to get a job. Their attitude may be, "I got this education. A lot of good it did me. I'm not paying back the loan."

Ms. VAN RIPER. Exactly.

Mr. SHAYS. OK.

Ms. VAN RIPER. The other consequence of the failure to make refunds is that if the students don't pay their debt and they don't pay the full amount of it and they are determined to be in default, it affects their eligibility for any future financial aid if they decide to return and try to get an education that they can use.

Mr. SHAYS. For the record, whatever a student may use as an excuse, if they had a loan, they had an obligation, and they should pay it back. If our Government isn't making them pay it back then I have a problem, but I understand why they may reason that way.

You both have done a wonderful service, but I think I realize why I'm a little frustrated. I thought I was going to be able to say we have five departments to look at, but we don't have to spend as much time with the Department of Education. You have made me realize that, regretfully, there is a gold mine of opportunity here.

Ms. Blanchette, you did something that I think is very interesting and reinforces a continual sense that we don't have a full picture. Even within a Department, we don't know everything a Department does. On page 4 of your statement, you talk about other Federal education related programs. You point out that the Department of Education, as a former member illustrated, is responsible for $33.4 billion, which is less than 50 percent of the total of Federal educational programs.

I just want to say to you that I learned during the HUD investigation that the Department of Agriculture had a lot of housing programs. It is interesting to know that the Department of Agriculture manages approximately 26 education related programs, and that is something I think we need to take a look at as well. That just fascinated me.

But let me just ask you this one last point. On page 6 of your statement you said, "Besides the program consolidation proposed by the Department, we identified two additional streamlining opportunities, vocational rehab and small, specifically targeted postsecondary programs."

You then go on to say in your statement that it is local education that does a lot of these programs. Are you suggesting that we give the programs to the local governments to focus on and we stay out of it?

Ms. BLANCHETTE. Well, the point there was that for these particular programs there was a history of services actually being provided at the local level in a number of instances, and because of that, because again, as I mentioned earlier, if you are only—can do it if you are a local entity, a State, and your only role is to take money from the Federal Government and to distribute it locally, you are not in as good a position to actually run a program as you would be if you had actual experience, and in some of these pro-

grams—there are a number of programs in this category. With respect to some of these at least, there was local experience.

Mr. SHAYS. And so let the local government in those cases do it.

Ms. BLANCHETTE. Well, that is the potential. We have been very careful to say potential candidates because there are a number of issues beyond special ones.

Mr. SHAYS. I understand. I'm not asking you to set policy for us, but if in fact some of us want to return more to local government a good place to start would be an example like this. You are not advocating that we do it, but if we are going to do it, this would be the area.

Ms. BLANCHETTE. This is a good example.

Mr. SHAYS. Would you agree with that, Ms. Van Riper?

Ms. VAN RIPER. Yes, particularly in the small programs where the delivery systems are already established.

Mr. SHAYS. Thank you. I'm going to thank all three of you for coming to testify. You have really been very excellent witnesses.

Ms. Van Riper, I would love it if you would just kind of communicate with my staff. I have a sense of what I'm asking for in terms of having all our Inspectors General give us their priorities. However, we will need to define those priorities. I'm willing to have them defined a lot of different ways.

The bottom line is, you have given us so much. I would love it if you would give us a sense of priority. You have really both done a wonderful job, and we thank you.

Ms. BLANCHETTE. Thank you, sir.

Mr. SHAYS. Regretfully, we will be having a lot more interaction—I'm teasing. Thank you very much.

I would like to call on our next witness, Mr. Hansen.

Mr. Hansen, if you would stand and raise your right hand. As you know, we swear in all our witnesses.

[Witness sworn.]

Mr. SHAYS. For the record, the witness has responded in the affirmative.

Mr. Hansen, we went over time with our other witnesses, but do welcome your testimony and would just affirm for you that your entire testimony will be submitted for the record. You have four Members here who would love to ask you some questions, but feel free to make sure that you have touched on the high points of your testimony.

STATEMENT OF WILLIAM D. HANSEN, FORMER ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF EDUCATION

Mr. HANSEN. Thank you very much, Mr. Chairman, and I do appreciate the opportunity to be before the subcommittee today.

This is a very important subcommittee, and it is a very important committee. This committee was the one that handled the bill to create the Department back in 1978 and 1979 when the debate took place back then. I still have some old wounds from former chairman Ted Weiss when he chaired this subcommittee when I worked at the Department. He was a very aggressive and very helpful chairman in helping the Department do a better job in managing its functions. I also appreciate the good work that Mr.

Towns, a previous chairman, has done in the past years. So I do appreciate this opportunity.

Mr. SHAYS. You are a very smart man. I have learned a lot just hearing you already. [Laughter.]

Having said that, however——

Mr. HANSEN. I would like to just touch briefly on a couple of issues, and I will summarize my statement but I would like to hit on a couple of key issues, and one is determining really what the appropriate Federal role in education is. I think that all of the questions that have been asked today, all of the questions that are going to be asked through the budget and appropriations and authorization processes, that issue is going to be the bottom line. The U.S. Congress needs to decide what the appropriate Federal role in education should be.

As Mr. Green mentioned, back in 1965 when a number of these programs were created, in particular the Chapter 1 program and others, there was a very different need. Less than half of our 25-year-old adults in this country were high school graduates in 1965. There were some inequities in numerous areas across this country, and so a number of these programs were put into place. I think every evaluation that has been conducted probably showed that these programs specifically haven't made a demonstrable difference in a lot of individual lives. Rather, what has happened was that the Federal level had helped people at the State and local levels focus more on what the priorities should be, and it has been through the State and local moneys that have been spent and where we now today have 94 percent of our 25-year age population having a high school diploma or equivalent.

I would like to talk just a little bit about what the Federal role should not be. It should not be one of intrusiveness, one of micromanagement, one of overregulation, one of overburdening paperwork requirements. I would just give one brief example of the type of situation I'm talking about.

There was a 1991 survey in Ohio where all the school districts were surveyed to determine what was required upon each superintendent in terms of paperwork burden. Each superintendent, on average, was asked to fill out 330 forms; 157 of those forms and reports were submitted to the State, and 173 were required by the Federal Government. This indicates that 55 percent of the paperwork and administrative burden were federally driven, and in light of only 6 percent of the money being paid to compensate.

I agree with the comments that the former Secretaries Alexander and Bennett have made recently about the Federal role in education, about whether there needs to be a Department of Education to handle that Federal role. I agree with the guiding principles that they have talked about, which are deregulation, choice, innovation, and accountability, and serious assessment.

Some of the proposals that have been submitted or talked about to dismantle the Department are serious proposals and should be addressed by this subcommittee. I think there are a number of ways in which the oversight and functions of the Department should be considered. This is not an anti-education statement. As the earlier witnesses have indicated, there are more programs and more money being spent in the Federal Government on education

than there are in the Department of Education. So where these programs are housed I don't think is necessarily the important issue, it is how these programs are managed and what the functions of those programs are and how the product is delivered to the consumer.

I stated in my written statement that I don't think that this committee or this Congress should change or abolish the Department of Education just for the sake of changing the name on the door. If you are just moving the current functions over to another agency, or calling it a new Department with the same functions and the same problems intact, we are not solving the problems that are about the Federal system of delivering aid.

I would like to just give a very brief description of the funding history of the Department. It has been indicated that $33 billion is the current budget for the Department, funding 240 programs. Back in 1980, the Department's budget was about $14 billion with about 130 programs. The Department at the time was actually a bigger Department. There were 7,500 employees in 1981 when Ronald Reagan came to office.

There were two major efforts that were undertaken in 1981 to downsize the Department. The first was, the student loan collection activities were privatized. The second was, there were 42 categorical programs that were block granted into the Chapter 2 Block Grant Program. This saved the Department of Education hundreds of millions of dollars and also allowed the Department to downsize by several hundred employees when, instead of having 42 categorical programs, we had one funding stream through the new Chapter 2 Block Grant Program.

The thing that happened through the 1980's and through today is the fact that the Department of Education's budget has more than doubled, it has gone up over 50 percent in real dollars. That is beyond inflation. The number of programs in the Department have also increased from 130. Year in year out new programs have been layered on top of one another, and today we have over 240 programs just in the Department and 300 additional programs elsewhere.

I don't think that there has been a very comprehensive, systemic look at what the functions of the Federal Government are, what the duplication is within the Government, and how those programs could best be consolidated, zeroed out, or block granted.

I do think that Mr. Goodling in the Opportunities Committee has laid it out very, very well. He has said that he wants to get rid of the word "reauthorization." He said he hopes it is stricken from the dictionary and we shouldn't assume that programs are going to be reauthorized year in and year out but to make sure that everything is being looked at from a clean slate. I would support that notion.

I would like to just remind the committee that when Secretary Riley was here he somewhat tried to take credit for reinventing the Department of Education, and he mentioned the fact that the Department has gone down from 7,500 employees to around 5,000 employees. Again, the Department went down from 7,500 down to about 4,500 employees during the 1980's and early 1990's, and since the early 1990's the Department has now grown to over 5,000 employees and they are now poised to hire a couple of hundred new

employees to handle the Direct Loan Program. So I think that there was actually reinvention going on in the 1980's and early nineties when the number of programs doubled and the number of staff was cut by 50 percent as opposed to the growth that is going on today.

I would like to also point out that what you see at the Department with these additional programs has been more and more concern about overregulation, about Federal solutions, and intrusion. I think that the new task force that Congressman Klug from Wisconsin is chairing on privatization has hit on some very key issues about the role of the Federal Government and whether more programs could be privatized, and his testimony the other day was a very powerful signal that indeed even the Student Loan Program should be more privatized instead of taken over by the Federal Government.

When Mr. Souder talked earlier about the amount of funds spent at the Department of Education, it is a real problem, and I'm frankly somewhat concerned about the Department's budget submission this year. They have asked for an increase in their spending for their overall Department of Education administrative account, for the number of employees they have on board. While they also supposedly have 450 employees, 8 percent of their agency taking the early buy-out retirement. It would seem to me they should be asking for a 5 to 10 percent decrease in their S&E funding.

Also, as Mr. Shays and some of the witnesses have indicated, the Department has talked about consolidating or block granting or eliminating 68 programs. If that was done, the Department could be downsized and the number of employees could be consolidated dramatically. Again, as I indicated, back in 1981 when the Chapter 2 block grant was created with 42 categorical programs being consolidated, the Department was able to downsize to the tune of about 250 employees by that one feat alone. So that is significant, and it is not accounted for in the Department's budget submission.

I think when we are looking at other opportunities for cost savings we have to look at the way in which the Guaranteed Student Loan Program and the other programs are administered. The Student Loan Program is a big program. The $6 or $7 billion that are spent each year actually leverage about $25 billion of loan aid available across the country. The current private-public partnership program, the Guaranteed Program, has made loans to over 75 million Americans over the last 20 years and has lent out over $180 billion during that time. There is a proven industry, a proven track record of getting the money to the students and collecting it in this program.

There have been problems in the program. Some of those problems were brought about by the industry itself, some were brought about by congressional failure to oversee the problems coming, and other problems were on the Department of Education's doorstep both today and in prior years. There is plenty of blame to go around, but the fact is, there is a strong infrastructure there, and it is becoming a more and more efficient infrastructure.

And I wish Congresswoman Morella were still here. She referred to the poll of the 100 schools that are in direct lending and how satisfied they are with it. The fact is, the Department of Education

has spent $600 million in the first 18 months in getting this program up and running to handle 100 schools. I would be very disturbed if those 100 schools were not satisfied.

I also think it is important to note that the budget savings that have been talked about need to be kept in context. The Guaranteed Program and the Direct Loan Program have the same interest rates, they have the same terms and conditions, they have the same loan limits. Congress was very careful in passing this law in 1993 to ensure that students were not adversely affected because of decisions that a college campus made about which way to handle the delivery of this program.

It is very important to also note that this year there were 100 schools participating with loan volume around $1 billion. If you consider that the private sector has made over $200 billion in loans over the last 20 years, with this year included, I think it is very easy to say that it is too early to tell of the major success of the direct loan program. Not one loan has been collected. Loans just started going out last September. It is very easy to make loans. It is not as easy to collect loans and to handle the collection process end, and I don't think that the administration even has their mind clear yet on how best to do this.

There has been a study that Congress mandated be on your desk on February 10 of last year that the Department of Education and the White House, have still not yet responded to about whether the IRS should be the ultimate loan collector or whether it should be contractors and other Government entities. This is a serious problem. The Department talks about using private sector contractors while at the White House and other places you still have people talking about having the IRS step in and, instead of serving as a debt collector, to now serve as the loan collector for every student across the country. That is a serious problem.

I would mention one other problem. We are talking about defaults and some of the cosmetology school issues. The Direct Loan Program, cap bill has been introduced by Chairman Goodling and by Bart Gordon. It is H.R. 530. It is a bipartisan bill, and the reason it is a bipartisan bill primarily is because of the integrity of default measures that are in this bill.

Right now, schools participating in the Direct Loan Program do not have to calculate their default rates, and the calculation of school default rates has been the best trigger that the Government currently has to kick the bad schools out of the program, to keep the shoddy schools out of the program. I think it is no mistake that half of the schools that want to participate in the Direct Loan Program next year are proprietary schools, and this should raise serious red flags to Congress as they consider the integrity issues with this program.

I would like to finish up on a couple of cost saving issues as well. I have mentioned the Department's S&E salaries and expenses.

Mr. TOWNS. Please summarize because what happened is, there is a vote on.

Mr. HANSEN. OK. Just very briefly, I think that we need to also keep in mind that whether the Department of Education exists in its current structure or not is not to be viewed as pro-education or anti-education. We need to get the deficit under control. Every stu-

dent in America today owes $18,000 to erase the National Debt. That is an important issue, and I think that as this committee considers the functions and the role of the Department of Education they need to keep in mind what the functions are and what the programs are and not what the sign on the door says.

Thank you very much.

[The prepared statement of Mr. Hansen follows:]

PREPARED STATEMENT OF WILLIAM D. HANSEN, FORMER ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF EDUCATION

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before you today to testify on the opportunities for cost savings in the Department of Education. My comments today reflect my experiences during the Reagan and Bush Administrations as well as my observations related to the direction that I believe federal education policy should be headed.

As the Committee carries out the heavy issues of departmental oversight and management review, it is important to understand the broader context of the Department's mission. By first determining a mission, answering questions relating to cost savings, program consolidation and elimination, administrative actions, internal management, and control systems may be more appropriately addressed.

The development of a coherent federal education policy requires that budget and program priorities are founded upon a set of principles. During the Bush Administration, Secretary Lamar Alexander identified such principles in the form of a mission statement for the Department. The statement said that the Department's mission is, "to ensure equal access to education and to promote education excellence throughout the Nation." I believe this mission statement should continue to guide any federal involvement in education.

It is with this mission statement in mind that I will address several areas relevant to the Department of Education's programs today:

- the Federal Role in Education;
- Proposals to Dismantle the Department of Education;
- the Funding History of the Department;
- the Size and Scope of the Department; and,
- Cost Saving Opportunities in Fiscal Years 1995 and 1996.

FEDERAL ROLE IN EDUCATION

Mr. Chairman, the federal contribution to education today consists of only five percent of the total elementary and secondary dollars spent nationwide. It is in the context of this limited contribution that the appropriate federal role in support of elementary and secondary education should be established. Five percent of total elementary and secondary spending nationwide can and should be directed toward ensuring equal access and promoting educational excellence. Such limited funding cannot and should not be represented as a substitute for the local resources available and should not be provided to states in a manner that undermines the proper administration of the 95 percent of resources provided at the state and local level.

My experience suggests that true local control of education priorities at the elementary and secondary level promotes local support for education and parental involvement. Local support will become increasingly important in the coming years. Parental involvement, in my view, is an absolute necessity if the problems in our schools are to be addressed. Unfortunately, many of the federal initiatives of the past several years appear to run contrary to these principles.

Two former Secretaries of Education, Lamar Alexander and William Bennett, recently called for the return of control of education to states, school boards, and parents. In their report entitled, "Local Options," the Secretaries suggest that literally dozens of federal programs should vanish and with those resources being available for federal tax cuts or through an expanded version of the Chapter 2 program to states and communities to do with as they judge best.

My experience in managing programs and personnel at the Department of Education suggests that the benefits derived from dozens of the federal elementary and secondary programs may be outweighed by the administrative burdens associated with administering those programs. For example, a 1991 survey of Ohio school districts determined that each school district in the state was required to complete 330 reports and forms, of which 157 were submissions to the state, and 173 were feder-

ally required. This study suggested that the federal government was responsible for 55 percent of the paperwork burden while federal funds accounted for only five percent of the resources available to the school district.

Secretaries Alexander and Bennett recommended that the guiding principles for federal education programs should be choice, deregulation, innovation, accountability, and serious assessment. I believe that if the Department of Education adopted these principles as a standard by which to review existing programs, many of the programs would be found in need of repeal or substantial revision.

PROPOSALS TO DISMANTLE THE DEPARTMENT OF EDUCATION

The call for change at the Department of Education has also come from Congress and its leaders. Since last November, the Senate Majority Leader, the Speaker of the House, and many Committee Chairmen have also called for the abolition or consolidation of the Department of Education. It is anticipated that numerous bills will be introduced shortly to achieve these objectives. Proposals have varied from abolition to dismantling the agency and transferring or consolidating functions with other cabinet agencies.

A member of this Committee, Mr. Scarborough from Florida, has been leading the freshman and leadership effort to develop a bill to work toward sending education back to parents and local officials. At a recent press conference to announce the effort to abolish the Department, Mr. Scarborough stated, "Obviously, the future of our economy and further economic growth depends on (reforming education) . . . if the federal government would retreat from this area, allow parents, teachers and students who want to take control of the academic agenda, this country would be better off."

Alternatively, Mr. Gunderson, a senior member of the Economic and Educational Opportunities Committee, has joined Chairman Goodling in calling for the Education and Labor Departments to be merged. Upon announcing the outline of their bill, Mr. Gunderson stated that, "As America plans for the challenges of the global economy, and the information and technological revolution that goes along with it, the federal government clearly will play an important role in education and employment."

Such efforts to achieve the appropriate federal role in education should be pursued vigorously by this Committee. However, Congress should oppose any effort to simply change the name on the door at the Department. Transferring functions and shifting duplicative, intrusive, and inefficient programs elsewhere will get us nowhere. Rather, Congress should start with a clean slate and determine what the appropriate federal role should be in education, determine how to best address targeted needs, and develop a delivery mechanism that best serves families and taxpayers. Reforms such as block grants to states or schools, tax cuts, vouchers or scholarships to families, and functional swaps between the federal and state governments would reduce bureaucracy, regulations, and federal control of education.

FUNDING HISTORY OF THE DEPARTMENT OF EDUCATION

The current appropriation for the Department totals nearly $33 billion which funds more than 240 categorical programs. The Department's first budget year as a cabinet agency was FY 1980. In 1980, the budget was just over $14 billion, funding about 150 programs. The Department's budget has grown over 50 percent in real dollars since its creation. This expansion of programs has led to obvious duplication and increased federal intrusion at the state and local levels

Since 1980, more than $350 billion have been appropriated to carry out the Department's programs. Of course, there has been some good accomplished with these funds. Millions of disadvantaged youth have received Chapter 1 services, disabled youngsters have been given opportunities they may not have known thirty years ago, and millions of students have had a postsecondary education made more affordable. However, any success could have been achieved whether education programs were housed at ED, HHS, Labor, or some other federal office. For example, when P.L. 94-142 was enacted in the early 1970's, it was housed at the old HEW. Clearly, this special education law has made a positive difference in the lives of millions of children and in society. Earlier this century, over 90,000 disabled children were institutionalized. Today, only 6,000 disabled children live in such circumstances. The bottom line is this, Congress and the American public demanded an appropriate education for handicapped youngsters and much success has been realized as a result of this law. I am convinced that these same results would have come to pass regardless of which cabinet agency this program was administered by. It was the law and the commitment by families and society that brought about the changes we have witnessed, not a specific cabinet agency.

Notwithstanding the expenditure of these monies, public confidence in America's education system appears to be close to an all time low. Parents and the public generally question whether the federal mandates in programs in the education area are producing the results they desire for their children. Given that the concept of an aggressive, expansive federal leadership role has been tested over the past decade, I believe it is time to give state and local administrators, and even more importantly families, the leadership opportunity.

We as taxpayers, and the Members of this Subcommittee, should ask tough questions regarding each of the federal education programs. Are students performing as well today as their parents did? Are we rewarding dependency and mediocrity? How can we reward quality and excellence? How can parents be given more control and responsibility over local education? Is the public getting its money's worth? I believe that many of the current programs fail to positively address the standards reflected in these questions.

As I suggested earlier, the Congress should consider starting over with a clean slate in determining which programs and necessary appropriations will be required to accomplish the Department's mission. Congressman Bill Goodling, Chairman of the Economic and Educational Opportunities Committee, said recently that he hopes that the "term 'reauthorization' be stricken from the dictionary . . . We shouldn't assume programs are going to continue year after year, but intensively examine them to make sure they are still needed and achieving their purpose. Similarly, I would suggest adding sunsets to some programs, laws and regulations." I wholeheartedly endorse Chairman Goodling's suggestions.

In my view, there has been next to little accountability for results for the taxpayer in return for their $350 billion investment in the Department of Education during the last 15 years. Evidence suggests that local governmental control and responsibility is undermined by federal requirements, and paperwork preoccupies state and local education authorities. A much simpler delivery system to states and local agencies could be implemented without federal dictates and with continued receipt of federal funds simply contingent on the recipient showing evidence that learning is improving.

SIZE AND SCOPE OF THE DEPARTMENT

Between 1981 and 1992, there were numerous legislative and administrative initiatives to help mold the mission of this new cabinet agency. In the early 1980's a major consolidation of 42 elementary and secondary programs took place which resulted in the creation of the Chapter 2 Block Grant. During that same time period, the student loan collection activities were privatized. Although not termed "reinventing government" the Department was downsized from 7,500 employees in 1980 to an average of about 4,500 employees during the late 80's and early 90's. At the same time, the number of programs authorized and funded by Congress grew from 132 to 240. Clearly, more was done with less.

We are now told the Department of Education is once again reinventing itself. Given the high-level of parental and general frustration with education quality, it is appropriate for this Subcommittee to provide the Department with a clear indication of the direction this reinvention should take. Congress should examine several areas of recent activities at the Department of Education and set clear priorities for the Department. The fact that the Department already has over 5,100 employees and plans to hire 600 employees to manage the direct student loan program is cause for concern about the Department's mission in a time of government-wide streamlining and privatization. The direction that Congress provides for the Department's programs and budget should play a key role as the Department reinvents itself. Congress should examine the following areas in setting priorities for the Department:

First, the Department has taken on a high handed regulatory effort with States, school districts, and college campuses that should be reined in. One of the best ways that Congress can curtail the Department's zeal to overregulate is by abolishing or amending burdensome programs and using its oversight authority as a means for providing a proper check and balance.

Second, the Congress, in particular the authorizing committees, should deauthorize all unfunded programs. This initiative would also assist on the deregulation front and prevent unnecessary budget battles.

Lastly, the Congress should cap or phase-out the Direct Student Loan Program. This new program runs directly counter to the principles outlined in the National Performance Review. Instead of streamlining the federal bureaucracy, direct lending would grow the Department of Education as President Clinton has exempted the Department from his Executive Order on downsizing government which has paved

the way for 600 new bureaucrats to join the federal workforce. Rather than support market driven solutions that focus on customer service, direct lending would wipe out tailored state and competing private-sector organizations that focus on serving the customer, in favor of a Washington monolith.

Of particular concern to this Subcommittee should be the fact that the 1993 Student Loan Reform Act created an unprecedented $2.5 billion administrative entitlement fund for the implementation of the direct loan program. Unlike nearly all other government administrative funds, those associated with ED's direct government loan program are not subject to annual appropriations and review. Chairman of the Economic and Educational Opportunities Committee, Bill Goodling has introduced a bill (H.R. 530) to cap the direct loan program which would also improve congressional oversight of the billions of dollars that the Department will spend to administer direct loans. This bill has received strong bipartisan support as it will also improve the integrity of the direct loan program.

OPPORTUNITIES FOR COST SAVINGS IN FY 1995 & FY 1996

Since the establishment of the Department of Education under President Carter, Presidents of both political parties have submitted budget requests to zero-fund dozens of education programs because they have largely or completely achieved their original intended purpose, were duplicative of other programs, or could be supported by other funding sources. For example, in President Bush's final budget, he called for the elimination of 39 education programs that fell into the categories just mentioned. President Clinton, both in his budget submission last year and as part of the National Performance Review recommended that 34 programs be eliminated—almost identical to a list that President Bush developed. Last year, Congress did eliminate 12 of these programs. As a starting point for finding savings in the FY 1995 and FY 1996 budgets, Congress should first look to the remaining programs in these previously submitted recommendations and to President Clinton's latest budget proposal which calls for 15 program terminations in FY 1995 (savings $122.7 million), 21 program terminations in FY 1996 (savings $504.1 million), five program phase-outs (savings $120.9 million), and 27 program consolidations (added cost $46 million).

The current FY95 rescissions debate has provided additional ideas and recommendations for cost savings immediately. The process for FY96 cost savings will be key as the authorizing committee considers major program overhauls and block grants and as the appropriations and budget committees consider opportunities to reduce the massive budget deficit.

The Subcommittee should also give serious analysis to the Department's Salaries and Expenses Accounts. A primary question the Department should be asked to address is why are they asking for a $ 13 million increase in their S&E account when over 440 employees have opted for the retirement buy-out (8% of total personnel). With the resulting smaller FTE covered by the S&E account (the hundreds of new staff hired this year to manage the direct loan program are paid out of a separate direct loan S&E account) and the anticipated savings of downsizing the Department because of the President's call to terminate or consolidate 68 programs, it would be expected that the Department would be proposing a substantial reduction in their S&E account. Other areas within these accounts that should be reduced are the two dozen federal advisory panels. Similarly, on another administrative account, as I referenced earlier, Chairman Goodling's bill to cap the direct loan program at year two school participants calls for a $50 million reduction in the FY 1995 budget authority for the direct loan program administration account (a reduction from $345 to $295 million and additional reductions in future years). It should be noted that the direct loan administrative account falls under the mandatory account and the other administrative accounts fall under the discretionary account.

As the Subcommittee reviews areas for cost savings it is important that the current budget environment is taken into consideration. The perpetuation of the deficit and our growing national debt is anti-family, anti-child, and anti-education. Every American child in school today already owes $18,000 as his or her share of the national debt. Senator Tom Harkin said recently that, "It's time we pass on to our kids more opportunity, not more debt." I agree with that statement.

How that opportunity is afforded to children and families will be central to your deliberations about the federal role in education and the future of the Department of Education. For those activities not turned over to the states, communities, and families, they should be re-designed to ensure excellence, choice, accountability, flexibility, efficiency, and a reliance upon private market driven solutions. This Subcommittee and this Congress have a unique opportunity to improve the quality of

education as it reviews the Department as a whole and every individual categorical program within the Department.

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee. I will be happy to respond to any questions you or Subcommittee Members may have.

Mr. TOWNS. Thank you very much.

Let me just sort of caucus here with the members. We have, I think, 6 minutes left on the vote. I think we need to recess and go vote.

Mr. GREEN. I don't know when our chairman is going to be back because I know he went to vote and was trying to get back before so we wouldn't take the time of the folks who are here. I will be glad to stay. If I have to go vote I can run over in 5 minutes. I have to leave though and go, and I would like to at least ask some questions.

Mr. TOWNS. Then why don't I just leave you to recess.

Mr. GREEN. And we will hold it. Thank you.

Mr. Hansen, I appreciate your being here because since I'm on the other committee and served 20 years in the legislature and the last 7 in the State Senate on the education committee, knowing what little bit of money we received from the Federal Government and now last year going through the reauthorization of elementary and secondary, frankly, I agree with Chairman Goodling that "reauthorization" is a Washington title. I would rather see a sunset measure on every Federal agency and every Federal program.

Of course I would also probably be there defending the Elementary and Secondary Education Act under a sunset because the work and the study that you quote from 1991 in Ohio particularly, I heard the same thing from my superintendents in Texas, but we tried to change that. And I think except for some policy decisions that were made by the committee and the conference committee on what we had to do or what politically they wanted to do, whether it was prohibit schools, they all had to have a gun policy. Well, again, I don't think that was the best coming from Washington, because I know all my school districts have a gun policy.

But I think the frustration from the eighties and the 1991 study was built into the ESCA reauthorization last year and, again, the combination. You heard the testimony. The Department of Ag has a lot of programs on education, and hopefully this committee will do some of that and combine those programs not just in the Department of Education but within other Federal agencies so we can say who is the boss, and if the program is broken let's go to that one person and say OK, what's wrong with it, and we can fix it, because that is the frustration at any level of government as well as the Federal Government.

With that, I'm going to recess the committee until we can get the chairman back, the real chairman.

[Recess.]

Mr. SHAYS. We will reconvene this hearing.

Mr. Hansen, you basically have concluded your statement. Is that correct?

Mr. HANSEN. Yes.

Mr. SHAYS. I would love it if, for my benefit, you would just summarize your key points in a minute or so.

Mr. HANSEN. I think the key thing to keep in mind, Mr. Chairman, is that in 1980 when the Department was created there were about——

Mr. SHAYS. Use the other mike too. Thank you.

Mr. HANSEN. There were 130 programs in the Department of Education and the budget was $14 billion. Since 1980 the Department's budget has more than doubled. It has gone up over 50 percent even after inflation. The number of programs had been layered upon one another over the years, and you now have over 240 programs, and, as the earlier witnesses said, you have an additional 300 programs in other agencies, so you have had this layering effect over the years with no real effort to stop and step back and look at what it is the Federal role should be.

At the same time, I mentioned as well that the staffing level at the Department of Education in 1980 was 7,500 employees. During the late eighties and early nineties that went down to 4,500.

Mr. SHAYS. Can I just ask you the significance of that? I mean that would seem to fly in the face of criticism that the Department is getting bigger and bigger.

Mr. HANSEN. Yes. There are two things here. One is, in the early 1980's Ronald Reagan instructed us to do two things at the time. One was to privatize the student loan collection activities. We were able to downsize over 1,000 employees that way. The other was in the 1981 reconciliation bill, the Chapter 2 block grant bill, that is today's Chapter 2 block grant, collapsed 42 categorical programs into that one block grant, and there were over 300 employees that were able to be offered early outs or had to be let go as a result of that program consolidation.

I did make the point that I was a little frustrated in the Department's budget this year where they do have an increase of $13 million in their salaries and expense budget. They have 440 people expected to take the early buy-out that has been offered, which is about 8 percent of their overall employment, so you would think that they would have a 5 to 8 percent reduction in their salaries and expense budget. They don't, they have an increase.

Mr. SHAYS. When you have buy-outs usually it is more expensive the first year, isn't it?

Mr. HANSEN. It is, yes, and——

Mr. SHAYS. That is probably part of the reason.

Mr. HANSEN. But also the fact that they are asking to consolidate or eliminate 68 other categorical programs.

As I just mentioned, back in 1981 that was one of the biggest cost-saving and downsizing activities that could be accommodated. Today's Chapter 2 program has six people handling that Block Grant Program.

Mr. SHAYS. How many years ago were you in the Department?

Mr. HANSEN. I was there off and on between 1981 and 1992.

Mr. SHAYS. You must have been a kid in that——

Mr. HANSEN. I was, still am.

Mr. SHAYS. It's kind of scary, isn't it?

Mr. HANSEN. It is.

Mr. SHAYS. One of the values of your testimony today is to help us decide how to allocate our scarce resources, and they are truly scarce.

One of the things that we will pass judgment on, that will also be handled by another subcommittee, is the issue of consolidation. My sense is that the majority party and the leadership will want consolidation like the Gunderson proposal, which would combine the Departments of Education and Labor. I might point out, the GAO combines Ed and Labor in their work. If you were going to combine Education with another Department, would you do that, or would you just divide it in little pieces and give some to Agriculture and some to Defense and some to others?

Mr. HANSEN. I think that there are two primary ways you could go after it. I mentioned while you were out that I don't support just changing the name on the door. There are some people that mentioned creating an education foundation or some other entity. I think that would be a mistake. If you keep all of the programs, all of the funds, all of the overlap and duplication intact, you are not changing or addressing the problems.

The Gunderson and Goodling proposal to consolidate the two departments, is probably valid in some degree, but I think there is one issue that I would be concerned about, and that is, there is some strong involvement of labor unions in both agencies, and I think if you combine the two of them there it might be prone for a little more control of organizations instead of the taxpayers and of consumers.

Mr. SHAYS. Interesting.

Mr. HANSEN. Also the fact that with all of the talk about employment and work force preparation and even at the K–12 level which some of the talk currently is centered around, I think we get away from academic preparation, and I think that in the work I'm doing at the State with Governor Allen on his State Commission in Virginia and others, you need to make sure that kids are academically prepared for life, for the work force, and that we don't focus everything on work force and training preparation but that education be academic preparation.

Mr. SHAYS. Your concern would be, it would be too focused on—potentially could be too focused on employment?

Mr. HANSEN. That is my concern, and if that be taken care of I wouldn't——

Mr. SHAYS. Now what would be wrong with that?

Mr. HANSEN. Just as I said, I think the focus needs to be on the basic skills, on the academic skills, on the core requirements.

Mr. SHAYS. Being a better citizen——

Mr. HANSEN. And learning the basic skills, and that is potentially, if it went to Labor, that could be enveloped into all worker training.

Mr. SHAYS. So what would you do?

Mr. HANSEN. I think that most of the programs came from HHS and the old HEW, and there are probably two reasons why I think that fit might make a little more sense. One is, you already have, if you looked at the GAO chart, more education programs and more money are already housed under HHS. You also have the Head Start Program, you have the children, youth, and families activities, and at the higher education level you also have the college/medical school type programs where you already have some

gatekeeping and other delivery mechanisms there to the higher education community.

Mr. SHAYS. I was mentioning to one of my staff, when the Department of Education was created, there wasn't the political clout, it seems to me, to consolidate all education programs. In other words, HHS wasn't going to give up certain education programs, or some committee within Congress didn't want to see that happen. The Department of Agriculture has nearly 11 percent of the education programs. They weren't willing to give them up. So what the creators of the department got was a name, a Cabinet official, and status, and it met the agenda. But this has really been a tremendous surprise to me, to see that the department has less than 50 percent of the total Federal money spent on education.

The Federal Government spends more than $66 billion on education, it doesn't spend $33 billion, which is what the department spends. A good chunk of the $33 billion are educational grants, Pell grants and so on. If you took those out, there may be more of a bureaucracy in education in other departments than there is in the Department of Education. It would be interesting for me to pursue that one. Do you know what I'm saying?

Mr. HANSEN. I do, and I actually don't have a clue as to how many staff are running those 300 programs in the other agencies, and that might be helpful as well.

Mr. SHAYS. I think it is an interesting pursuit.

You were here for the testimony of the GAO and the Inspector General. What struck you from that testimony?

Mr. HANSEN. I think a couple of things, one I do praise the President's budget for trying to consolidate and eliminate duplicative programs. The 1981 Block Grant Program consolidated programs that over the last 15 years brand new reincarnations popped up of those old programs, so I do think that the consolidations that they have talked about would make a difference.

I do think that there is a major concern on the higher education side of things about two things, the proprietary school issues and the types of students—type of institutions that should be receiving aid and also the delivery mechanism, be it direct lending or relying on the private guaranteed program.

Mr. SHAYS. Can you respond quickly to the direct lending issue?

Mr. HANSEN. Sure. I even mentioned that when Mrs. Morella was here she indicated that survey of about 100 schools that are in the program this year, of how satisfied they are with the program. It should be noted, the Department has spent $600 million in the first 18 months to get the program up and running, have been able to hold the schools' hands very carefully and very firmly. There are over 8,000 schools that would need to be participating in the program if it was a full blown program.

I think it is very easy for the Government to give money away, it is not as easy to collect it, and the Department has been talking about using the IRS or other sources to collect these loans, and it is very premature for people to come up representing the administration and claiming this program a success. Not one loan has been collected yet. The first loans were just made for the fall semester in September.

Mr. SHAYS. So it is a success from the standpoint of the participating institutions that were able to deal directly with the students.

Mr. HANSEN. And the funding stream that has gone directly to students. People cannot take that away from the Department, from the Direct Lending Program.

Mr. SHAYS. This was a program promoted originally by the Bush administration. Didn't they promote it?

Mr. HANSEN. No. The Bush administration fought the program very diligently, and in fact the President at that time threatened to veto the Higher Education Reauthorization Act in 1992 because a pilot program for direct lending was included.

Mr. SHAYS. My recollection was that the idea originated in a Republican administration. Was it promoted by the Reagan administration at first?

Mr. HANSEN. No. There have been ideas kicking around about different elements to it. There are—and I hope the authorization committee maybe in 1997 looks at a hybrid of taking the best elements of all these different ideas that are out there about how money should get into schools' and students' hands and how it should be collected.

And as I also indicated earlier, the private sector has had its problems over the years. The Congress was hands off for years, as was the Department of Education. Not just this administration but previous administrations probably didn't do as good a job as they could have. So there is plenty of blame to go around, but there is also, I think, plenty of good alternatives to look at in the future on how best to create the best delivery mechanism and the best collection mechanism for—this is a multibillion-dollar—there are $80 billion of outstanding loans out there, this is not a small program, and over 20 million students are in repayment.

Mr. SHAYS. Eight billion in the new direct loan?

Mr. HANSEN. Eighty billion total.

Mr. SHAYS. Total, OK.

Mr. HANSEN. What has been made over the last 20 years. There were almost $200 billion in loans made over the last 20 years. About $80 billion of those are still in repayment, and, again, the Department this year in direct lending made about $1 billion of direct loans, and that is what they are claiming success on.

Mr. SHAYS. Thank you.

Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. Hansen, let me thank you again for coming to testify, and of course I remember you, I remember your great work years ago in the Department, during the, as you indicated, the Ted Weiss days, and let me sort of ask you these questions, and I feel that I need to sort of say this so you can help me through this process, and I'm really just sort of seeking information to see in terms of what role we might be able to play as some of these proposals continue to unfold.

I don't consider myself a conservative, I don't consider myself a moderate, I don't consider myself a liberal, I don't consider myself any of those titles, I consider myself a practical political person in-

volved in trying to make a difference, and that is basically where I would like to be thought of and remembered as.

You mentioned the fact that the $600 million now is available to serve the 100 schools. You know, I sort of feel that sometimes we have to spend money to be able to put ourselves in a position to be able to save money. So would this be a situation where maybe we are spending money to be able to put ourselves in a position to save money later?

Mr. HANSEN. I think, in fairness to the Department, there are startup costs that they needed in terms of getting software developed and other activities that are associated that would be one time startup expenses, but it should be noted that in their budget for the next couple of years with direct lending they would require $550 million for the upcoming fiscal year, up to $1 billion by the end of the century each year to administratively handle this program. I think that the cost savings that they have talked about in their budget are illusory.

Rudy Penner, the former Director of the Congressional Budget Office, testified last week before a Senate education subcommittee that the Direct Loan Program in his estimation would probably actually cost more money in the long run and not save the money that the administration is claiming it would.

One thing the administration does not talk about is, if the Federal Government is on the hook for all this loan money, just figure the next 5 years, if tomorrow you flipped a switch and had them take over 100 percent direct lending, there would be over $150 billion of loans made over the next 5 years. That money is not coming out of the private sector, that money is coming, financed, by the U.S. Treasury, and it will add to the National Debt, and what Rudy Penner, the former CBO Director, said last week is, that additional $150 billion of debt will put additional pressure on interest rates to finance the $1 trillion interest on the $4 trillion debt. If you had just one basis point interest rate per year increase in the interest rate to cover—to pay for the whole National Debt, his point was that this program would cost billions of dollars to the Nation as a whole and to the Government in terms of how much it has to finance the overall debt.

But all of those issues are off budget. The administration only is looking at things in the credit reform environment, and even that environment needs to be changed, as GAO said, to where we are now comparing apples to oranges, with the direct loan account, and even more costs are off budget. All of the costs associated with direct lending beyond year five are not accounted for. All of the costs with the Guaranteed Program are all accounted for in that 5-year budget window, so you don't get a true mix, and that is what the GAO just testified to, that there is a $2 billion discrepancy because things aren't scored equitably.

It is also important to note that the Department of Education, in their budget savings estimates, are assuming there's going to be no defaults. The President has said you will have 25 years to pay off your student loans, after 25 years whatever balance you owe is forgiven. I don't think that is, No. 1, a very good policy, but it is also, No. 2, a budgetary gimmick to do away with billions of dollars of defaults that accrue every year. Defaults are basically defining

them away. They are still going to happen, they are still going to be there.

And in fact, as I mentioned earlier, I don't know if you were here in the room, but in the Direct Loan Program next year 1,400 schools have signed up for the Direct Loan Program. Right now in the Guaranteed Program if you have over 25 percent default rate at your school you get kicked out of the program. If you had that rate for 3 years, you can't make student loans any more until you get your act together.

In the Direct Loan Program there is no integrity mechanism, there is no default calculation in the Direct Loan Program, and it is no surprise that half of the 1,400 schools that want to participate in direct lending next year are proprietary schools. And I'm not here to bash proprietary schools, but I think it is interesting to note of the mass exodus of those schools going over there because they won't have to be accountable for their default rate, and that is something that Bart Gordon and the Democrats that are on Congressman Goodling's bipartisan bill, H.R. 530, to cap this program, that they have done, is to bring reasonableness and to make sure that you can calculate defaults in the Direct Loan Program. That is one issue that I think this committee should be very concerned about, is the oversight of how the Department spends its moneys on direct lending but also how it handles the gatekeeping functions of allowing schools into the program.

Mr. TOWNS. Let me talk about another area. We talked about paperwork in terms of the principles, in terms of the amount of paperwork they have to get involved in. You know, if we would spend the money out front and computerize and do the kinds of things that need to be done, then we would be able to cut down on a lot of the paperwork, but I think that what we do sometimes is get sort of reluctant to spend, and as a result we end up paying a lot more because we are trying to cut. So I think at some point we have to make some tough decisions and all cannot be to just cut, because I think that sometimes in order to bring about efficiency you have to spend. Do you share those views?

Mr. HANSEN. I do in terms of whenever you have a new system to get up and running you have got to invest money in resources if you are going to change a delivery mechanism to make that happen.

I do think though that at the Department of Education, for example, in their elementary and secondary programs a lot of these programs are duplicative and each have their own separate funding streams. It would be easier and save money for local officials that actually have to handle these programs if there was more of a block grant approach and take the Federal strings off and the Federal paperwork requirements off and trust the States and the local schools to do the right thing with those moneys, giving them a laundry list of what they can do. They can spend it on education infrastructure, on buildings, they can spend it on drug-free schools, they can spend it on goals, but if—that is one reason I like the block grant approach, that you are able to get the paperwork out of the way, you are able to get the Federal prescriptions out of the way. If a local school in one certain area has a problem with deteriorating buildings, another one has a drug problem, another one

has an immigrant problem, they would have more flexibility for each of those areas instead of having to submit separate applications for each categorical program.

There is a cottage industry out there for grant writing proposals that have been created over the last 20 years to have the experts come in and write grant proposals for school districts, and I just don't think that is an efficient use of money. I think the money should get as simply and as quickly as it can to the States and the local schools and get the paperwork out of the way.

Mr. TOWNS. How do we address the issue that was talked about here earlier, following your line of thinking that you have a school that does not have the wiring, does not have the capacity to even put computers in or even think about it? How do we address these kinds of issues in terms of this block grant kind of concept, recognizing that here's a district that has been neglected down through the years, and now we are talking about moving in and computerizing, but they can't even think about a computer because their wiring does not permit it?

Mr. HANSEN. It is an important problem, and I'm just convinced that over the last 30 years the Federal education dollars have been going to address more of a quantity issue and trying to reach as many people as possible versus a quality issue or a discretionary function. What I mentioned earlier about the number of those kids now at age 25—today 94 percent of those kids have a high school diploma or an equivalent; in 1967 it was half of that. I think we have come a long way.

On the special education side, earlier this century we had almost 100,000 children institutionalized in this country. Today, and I think as a result of Public Law 94–142, only 5,000 or 6,000 children are institutionalized. Clearly in some areas like the special education program and the handicapped law created in 1972, the Federal Government pushed by the American people, said every child should receive a free and appropriate education, and over the last 20 years we have made great progress that way. Congress should now be looking at, now that the access issue is out of the way, the quality and the other issues and making sure that Chapter 1 and special education are integrated on the school site building. That is one of the problems with these Federal categorical programs.

I went to Seattle when I was in the Department to an inner-city school, and the Chapter 1 teacher and the special education teacher couldn't even talk to one another, they couldn't teach one another's children, and it is those type of Federal constructions that need to be removed, and I think that there has been a lot of success like I just mentioned over the last 20 or 30 years to where the quantity issue is not the issue of the day, it is the quality issue, and I hope that that would be where the authorizers and this committee looked at driving the Federal programs and how the programs are constructed but also delivered.

Mr. TOWNS. Let me just ask one more question, Mr. Chairman.

Mr. SHAYS. Sure.

Mr. TOWNS. There are still some serious problems in the area of integration. I mean there is still. I can show you a report just recent in New York, so there are some serious problem in that area.

Mr. HANSEN. I was talking about special education integration, and I know there are still problems in that area too, but I think we have come 90 yards down the field and we still need to push it over the end zone line, but I would agree with you.

Mr. TOWNS. Right, I understand that, and that is what I'm talking about. We still have some problems in those areas. In fact, both integration—but anyway, I think Secretary Riley shared with this committee his education strategic plan, and he talked about priority areas and all of that. Are you familiar with that, his plan?

Mr. HANSEN. I have heard his testimony and read his testimony, but I have not read the plan.

Mr. TOWNS. OK. Let me ask you this based on that. What are you views on the Department's strategy, based on your reading of the plan and comments that you have heard?

Mr. HANSEN. In terms of their overall budget policies and what the Secretary has said in his numerous testimonies on the Hill, I still think that the budget at the Department, the way they are trying to deliver the product, is pretty much business as usual of what the programs have been doing for the last 25 or 30 years and they are still addressing quantity and not quality.

Mr. TOWNS. So it does not address the problems you have identified?

Mr. HANSEN. In my mind, they do not.

Mr. TOWNS. OK. Thank you very much, Mr. Hansen.

Mr. Chairman, I yield back.

Mr. SHAYS. Thank you.

Mr. Souder.

Mr. SOUDER. Thank you.

I had a couple of different lines of questioning, one on the direct loans. Secretary Riley and Assistant Secretary McEwen testified that they had sound up-to-date management practices in the Direct Loan Program, yet I understood you to say that they had been requested to make a report to Congress a year ago and that we don't have that. Could you explain that, how they can be confident that they have sound management practices and yet we don't have a report yet?

Mr. HANSEN. That is a good question, and that is—actually there is one bigger issue that I think this committee should be very concerned about as well, and that is the assistant secretary for the financial aid programs and the deputy assistant secretary, Leo Kornfeld, who manages these programs, were basically divorced last fall. That is about the best way to put it. The functions within the Office of Student Financial Assistance, you now have the assistant secretary for all these postsecondary education programs, David Longenecker, managing the Pell Grant Programs, the campus-based programs, the gatekeeping functions, and the policy functions, and you now have Leo Kornfeld who has had his office ripped out of the postsecondary office as we have known it for 20 years, and he is now a special advisor to the Secretary handling direct loans, guaranteed loans, and the debt collection activities.

Five years ago there was a massive study undertaken by some of the Big Six accounting firms by OMB and GAO that said that the gatekeeping functions, the campus-based, the Pell, and Guaranteed Programs need to be as tightly integrated and woven from

a management perspective as possible. It was written in the newspapers last fall that one of these officials threatened to resign, and they basically, as people from the outside could tell, put this new reorganization together overnight to try to accommodate two political appointees that maybe had differing views on the management of the program. And today—and this is one issue, when you talk about what this committee should be concerned about, the management functions over at the Department of Education, you now have two separate individuals handling the important management functions of this Department. There was no outside Big Six accounting firms, no analytical studies undertaken, OMB was not consulted as best I can tell, GAO was not. Yet they had this division that has been created in these programs overnight, and in years past there was an awful lot of congressional inquiry and oversight into these programs by Senator Nunn and others over to ensure that these programs are managed adequately and efficiently. You now have a very deep fracture within the Department in the management of the student aid programs and the gatekeeping functions and the campus-based programs in totally separate management lines of authority to the Secretary, and I think that for the Secretary and the deputy to come up and talk about how they have reinvented themselves and how well things are working, I think that this is a hidden issue, but it is an important issue. They talked about it only happening for 2 years and in 2 years it is going to go back to the way it should be. Why did they do it in the first place?

Mr. SOUDER. In mild defense of the administration, under every President—and all you have to do is go into any agency and talk to anyone who has worked in any agencies—you have these layers of assistant secretaries and undersecretaries. Every time they can't resolve a political difference they create a new Department, and it is part of the reason we are wasting so many dollars. It is just a question of why did they come here and say they were not doing that when in fact they appear to have done that.

You had said in your testimony that when you—they consolidated the Chapter 2 into block grant. Do you have any specifics on the savings with that and what happened in the process of that?

Mr. HANSEN. The numbers at the time were—it was in the hundreds of millions of dollars a year in program savings, but in Department of Education management savings the Department of Elementary and Secondary Education administered those 42 categorical programs and now today just handles the Chapter 2 program. About 300-plus employees, I think it might have been close to 350 employees, were able to be removed from the Federal rolls over time, and today, as I understand it, six people manage the Chapter 2 block grant program.

Mr. SOUDER. So we went from potentially 350 people down to 6 people at the Federal level, plus the paperwork regulations, presumably, by not having all the different programs to deal with went down substantially.

In your testimony you had said about the percentage of Federal dollars versus the requirements. Have you seen any studies of whether the actual programs that had been consolidated, whether the children were less well served?

Mr. HANSEN. I don't think the evaluations would be conclusive on that, but frankly most of those programs were categorical grant, discretionary grant programs that would usually go to fund institutions or other organizations, and the good thing about the Chapter 2 program is, that money goes directly to school districts to help purchase computers, do whatever the school district determines their need is at the local level, so just by construction is a much better delivery mechanism of funds.

Mr. SOUDER. May I ask one more question Mr. Chairman?

Mr. SHAYS. Sure.

Mr. SOUDER. I have a concern that—around the mission statement, of whether or not we have a Department of Education, we are likely to have an office of education, or consolidate education in Labor, and the problem with these kinds of mission statements, even as you have stated in your testimony, to ensure equal access to education, promote education excellence, that is pretty much of a blank check. How would you more precisely define the Federal, State, local, and give some guidance?

Mr. HANSEN. I think that the Federal role really needs to be focused on areas of national need if there is going to be a Federal role. Programs such as the student aid programs, there have been some Governors who have talked about block granting even the student aid programs. I think that type of program, it would be a difficult program to operate, because students go to schools in different States, it is more of a national type program than it is a State-by-State program.

Other areas of national concern I mentioned earlier the special education area. I think that is the type of area where, in terms of talking about access, that issue has been answered, but in terms of talking about excellence that that should be the next issue on the plate for authorizers to consider. There are a number of programs though that don't address either of those issues, and I think if you at least use that as a preliminary benchmark of the need for the Department's programs, I think it would be a good starting place.

Mr. SOUDER. In the principle that kind of what happened in New Jersey, the local school boards or local schools kind of fell apart, the State stepped in. Do you ever feel there is a Federal role, like in Chicago, if the city doesn't do it and then the State for some reason, it is there is not that there is a Federal emergency role, if certain kids simply are not getting an opportunity, or how would you address that question?

Mr. HANSEN. I think it is dangerous for the Federal Government to have that type of a role. I think that the pressure needs to be put upon by parents at the local level. As a parent of six kids and a former PTA official in my local town and serving on the Governor's State Champion Schools Commission, I would much rather try to take care of issues at the school level, at the school district level, or at the State level, than I would at the Federal level. Once you create something or start to have that type of a precedence set at the Federal level, it is very dangerous. And who is going to start determining the standards of what a school failure is or what academic failure would be and what a bankrupt school system might look like?

There have been some problems around this country, and most of those issues are taken care of very adequately at the State and local level, and I feel——

Mr. SOUDER. Having been in the Department of Education, would you have that same concern of State relative to local?

Mr. HANSEN. In many regards, I frankly do as well. I do appreciate Governor Allen in Virginia's position that education should even be thrown back from the State to the local level and to the parents as much as possible—a philosophy that I support. I think that a lot of time turning Federal bureaucracies over to State bureaucracies is not going to change things. As I said in my written testimony, any time we can get Federal programs directly to the students, directly to the families, directly to the institutions that serve them, we are much better off. Secretary Riley was correct in his statement when he was here before and said that we have got a real class higher education system, and the Pell Grant Program, the Student Loan Programs basically go directly to students and to families, empowers them to make a choice to go to Penn State University, to go to Indiana, University of Indiana, go to Texas Southern, or to Notre Dame, or wherever it is they want to go and with no strings attached.

I think also at the elementary and secondary level those programs like the Chapter 2 Block Grant Program with the flow-through of funds directly to the school district is a better program. It is less regulatory, it is less burdensome, the moneys are better used and more flexibly is used locally. So I think any time we can do that at the Federal level, to get programs closest to the families and to the students and to the campuses or the schools, we are better off.

Mr. SOUDER. Thank you.

As a graduate of both Indiana and Notre Dame, I need to say for the record, because I took flak all last fall, that also Purdue would be——

Mr. HANSEN. I'll add that to my list.

Mr. SHAYS. Well, since you run from Indiana, it is probably nice that you went to Indiana, right?

Mr. SOUDER. Right.

Mr. SHAYS. Just quickly, for the record, the Department of Education was supposed to do a study, I think, on the IRS' ability to help with the collection of student loans. Are you aware if that study has been done?

Mr. HANSEN. That is the one I just referenced. When the bill was passed in 1993, in August, they were given 6 months to get the study done. It was supposed to be up to Congress on February 10 of last year, and I understand it is still sitting in the White House somewhere.

Mr. SHAYS. OK. That relates to the IRS.

Mr. HANSEN. That is the IRS feasibility study.

Mr. SHAYS. Are you aware if we are asking the IRS to do collections in different areas besides this?

Mr. HANSEN. The IRS does not collect loans, they are a tax collection entity. They were asked by the Department of Education—one of the initiatives that we started back in 1989—was this IRS offset to where, if you were delinquent or defaulted on a loan, you

could have your tax return withheld. That is the only type of IRS involvement right now where they can withhold payments, but they can't—they cannot go and impound your car or take a student's property.

Mr. SHAYS. Is there any last thing you want to say before we adjourn this hearing? You have been wonderful to wait for the others, and we appreciate your testimony.

Mr. HANSEN. I just appreciate your leadership and think you have a big plate in front of you.

Mr. SHAYS. We do have a big plate. That is become very evident. I thank you for testifying, and we adjourn this hearing.

Thank you.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned.]

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