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# IMPROVING THE PROCESS FOR FORGIVING STUDENT LOANS

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## FINAL AUDIT REPORT



**Audit Control Number 06-80001**  
**June 1999**

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Our mission is to promote the efficient  
and effective use of taxpayer dollars  
in support of American education



U.S. Department of Education  
Office of Inspector General  
Dallas, Texas

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## **NOTICE**

**Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by appropriate Department of Education officials. This report may be released to members of the press and general public under the Freedom of Information Act.**



# UNITED STATES DEPARTMENT OF EDUCATION

## OFFICE OF INSPECTOR GENERAL

1999 Bryan Street, Suite 2630  
DALLAS, TEXAS 75201-6817  
214-880-3031



June 7, 1999

### **MEMORANDUM**

**TO :** Greg Woods  
Chief Operating Officer  
Office of Student Financial Assistance Programs

**FROM :** Daniel J. Thaens  
Western Area Manager  
Dallas, Texas

**SUBJECT:** *Final Audit Report--IMPROVING THE PROCESS FOR FORGIVING STUDENT LOANS*  
Audit Control Number 06-80001

Staff from your office requested that the OIG determine if the use of discharge provisions of the Federal Family Education Loan Program (FFELP) were being abused and whether additional management controls are necessary to ensure that only legitimate discharges were being granted. With the help and cooperation of your staff, we have completed the audit work necessary to answer the questions posed. The results of our audit are contained in the attached final audit report.

You have been designated primary action official for this report. Please provide the Office of the Chief Financial Officer - Financial Improvement and Post Audit Operations/Post Audit Group and the Office of Inspector General/Audit Services with semiannual reports on corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

If you have any questions concerning this report, please call me at 214-880-3031.

Attachment

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## **EXECUTIVE SUMMARY**

Student loans are being discharged (forgiven) for total and permanent disability and death even though the borrowers are apparently not totally and permanently disabled or deceased.

The Higher Education Act provides for loan discharges when the borrower either becomes totally and permanently disabled or dies. The Department of Education (Department) defines total and permanent disability as a condition which prevents an individual from working and earning money or attending school because of an injury or illness that is expected to continue indefinitely or result in death.

During the period from July 1, 1994, through December 31, 1996, Federal Family Education Loan Program (FFELP) loans totaling over \$292 million were discharged for borrowers claiming total and permanent disability and over \$216 million were discharged for borrowers who died. We matched all of the borrowers who received these disability and death discharges with the Social Security Administration's master earning records for 1997. We identified 9,798 individual borrowers, or 23 percent of the total disabled borrowers, who were earning wages after having over \$73 million in loans forgiven. Eighty-one of these individuals earned more than \$50,000 in 1997 after receiving a disability discharge. We also found that 708 borrowers who had received death discharges totaling over \$3.8 million, were earning wages after the discharge. Additionally, over 6,800 new loans totaling almost \$20 million have been awarded to borrowers who returned to school after previously having loans totaling nearly \$11.5 million discharged due to total and permanent disability.

Inappropriate discharges are apparently occurring because of control weaknesses in the current system for determining borrower eligibility for the disability or death discharge. Similar procedures are followed for determining borrower eligibility for a William D. Ford Federal Direct Student Loan Program loan discharge. The Department can make immediate changes to strengthen the current system for loan discharges applicable to disability and death. In addition, the Social Security Administration's Disability Determination Service (DDS) has a nation-wide system and infrastructure in place which could be used to provide increased assurance that disability determinations are reliable and accurate.

(continued)

## **EXECUTIVE SUMMARY** (continued)

We are recommending that the Department:

1. Enhance the current discharge determination procedures by: (a) revising the disability form to include, at a minimum, the doctor's professional license number and office telephone number; and (b) requiring certified copies of death certificates;
2. Establish a focal point for guaranty agency technical assistance and for monitoring the administration of the discharges;
3. Provide additional guidance to guaranty agencies regarding borrower requests for discharge if the guaranty agency suspects or becomes aware of conflicting information concerning the disability either before or after the discharge is granted;
4. Establish a procedure for reinstating a discharged loan if information obtained after-the-fact indicates that the borrower was not eligible for the disability or death discharge; and
5. Concurrent with the implementation of the above recommended actions, consider: (a) negotiating an agreement with the Social Security Administration for determining if borrowers are totally and permanently disabled according to the Department's disability definition or simply requiring that borrowers qualify for total and permanent disability benefits under the Social Security Administration as a condition for loan discharge; and (b) modifying the existing sections of the regulations to reflect the change.

We believe that implementing these recommendations will result in an annual better use of about \$35.0 million. The Department concurred with our findings and recommendations. A copy of the OSFAP response is attached to this report.

## AUDIT RESULTS

Borrowers are receiving disability and death discharges even though they are apparently not totally and permanently disabled or deceased. Our review identified a significant number of FFELP loans that have been inappropriately discharged for borrowers who claimed to have a total and permanent disability. Borrowers who received disability discharges of over \$73 million were earning wages and borrowers who received disability discharges of nearly \$11.5 million returned to school and received additional loans and grants. Additionally, our review identified over \$3.8 million in FFELP loans discharged for borrowers who inappropriately received a death discharge. We found that these borrowers were earning wages after receiving the death discharge.

This report discusses how the current system works, the results of our analysis of student financial aid (SFA) and wage earnings information, and provides alternatives for discharging loans for total and permanent disability and death.

### ***How the Current System Works for Disability and Death Discharges***

The current regulations provide for the forgiveness of student loans if the borrower becomes totally and permanently disabled which the Department defines as *the condition of an individual who is unable to work and earn money or attend school because of an injury or illness that is expected to continue indefinitely or result in death* (34 CFR 682.200). The current disability determination system is initiated and controlled by the borrower. Borrowers contact their lender or guaranty agency to obtain the disability form. The lender or guaranty agency sends the form to the borrower. The borrower takes the form to his or her Doctor of Medicine or Osteopathy.

The doctor completes and signs the form and the borrower mails it to the lender or guaranty agency. The guaranty agency or lender staff reviews the form for completeness and determines if the date that the borrower became totally and permanently disabled was subsequent to the date of the loan(s). If the loan date was prior the disability date, the loan is discharged. Additionally, if a pre-existing condition deteriorated after the loan guaranty date, the loan is discharged. Although one state guaranty agency we visited checked the employment status of disability applicants with the state employment agency, the current process does not require verification of employment. The

current process also does not require or provide for verification that the doctor actually saw the patient. The Department's Debt Collection Services uses a similar process to discharge loans for borrowers whose loan(s) are held by the Department. A similar process is also used for determining borrower eligibility for a William D. Ford, Federal Direct Student Loan discharge.

Department officials acknowledged that there is no single point of contact within the Department where guaranty agencies can call to obtain guidance regarding discharges. An official at a guaranty agency was unsure how to proceed if she became aware of conflicting information before or after the discharge. Further, there is no process for reinstating a discharged loan if information available after-the-fact shows that the borrower was not eligible for the discharge. For example, one guaranty agency we visited checks state employment records to determine if the borrower is employed. The discharge is refused if state records indicate the borrower is employed. However, an official at another guaranty agency was aware that a borrower was employed but did not know whether she had the authority to override the discharge and reinstate the loan.

The current regulations also provided for the forgiveness of student loans if the borrower dies or the student for whom a parent received a PLUS loan dies [34 CFR 682.402 (b)(1)]. In determining that a borrower (or student) has died, the lender may rely on a death certificate or other proof of death that is acceptable under applicable state law [34 CFR 682.402 (b)(2)]. Both guaranty agencies visited as well as the Department accepted copies of the death certificate. None of the offices visited required a certified copy of the death certificate.



Our comparison of discharged loan records with the Social Security Administration's master earnings records, analysis of loan data on the National Student Loan Data System (NSLDS), and an analysis of Federal Pell Grant data disclosed that borrowers were employed and earning wages or returned to school after their disability discharge determinations were made.

***Totally and Permanently  
Disabled Borrowers  
Earned Wages After the  
Discharges***

Any mental or physical condition described by a doctor is accepted by guaranty agencies and the Department to discharge loans for total and permanent disability. One official told us that, "The doctor's diagnosis is not questioned."

We reviewed a random sample of 75 disability discharge claims at two guaranty agencies. Our review of the borrower's files disclosed that in 19 instances, the diagnosis was completely or partially unreadable, yet the discharge was granted because the doctor's signature section of the form was signed and the disability date was after the loan date. We were advised, by one guaranty agency, that the staff reviewing the disability forms have no medical background, which would make it even more difficult for them to understand some of the medical terminology used by the doctors.

At one of the guaranty agencies visited, we reviewed the results of a match they performed against state employment and earnings records for individuals who received loan discharges because of total and permanent disability. The comparison disclosed that about 10 percent of the borrowers became employed after a discharge was granted. For example, one borrower was certified by a doctor to be totally and permanently disabled for work or school in December 1995. The borrower had more than \$42,000 in loans discharged. That same borrower earned more than \$75,000 between April 1996 and June 1997.

Another borrower earned in excess of \$57,000 for the same period after receiving a disability discharge of almost \$11,000 in September 1994. This particular borrower was earning wages after having loans discharged for "... chronic low back pain." Other borrowers were earning wages in excess of \$20,000 each, after having loans discharged for total and permanent disabilities of "...memory loss..." or "... reconstruction of right ankle." Because we also found loans being discharged for conditions such as "...carpal tunnel syndrome..." , "...depression..." , "...fractured elbow..." , and "...serve (sic) headaches..." , we expanded our analysis.

We matched the entire universe of borrowers who had received disability discharges from July 1, 1994 through December 31, 1996 with the Social Security Administration's master earnings records. If a borrower received a discharge in 1995 and had earnings in 1996 or 1997, we concluded that the borrower earned wages after receiving the disability discharge. The analysis disclosed that 9,798 individuals, or 23% of the total borrowers who received discharges, earned wages after the time that a total and permanent disability determination was made or a discharge was received. These borrowers apparently were working after having over \$73 million in loans discharged for total and permanent disability. A breakdown by ranges of annual earnings follows<sup>1</sup>:

- 81 borrowers received a disability discharge and then earned \$50,000 or more in 1997.
- 328 borrowers received a disability discharge and then earned between \$30,000 and \$50,000 in 1997.
- 9,389 borrowers received a disability discharge and earned up to \$30,000 in 1997.

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<sup>1</sup>Because of the Computer Matching and Privacy Protection Act of 1988, the information provided to us by the Social Security Administration was limited to summary computer matches within ranges of earnings.

***Totally and Permanently  
Disabled Borrowers  
Returned to School After  
the Discharges***

A financial aid administrator (FAA) we contacted provided an example, which she felt, illustrated how easily the disability discharge process could be abused. A student had recently applied for loans after enrolling in an undergraduate program at the FAA's university. The student had just obtained disability discharges from four different guaranty agencies for loans from nine schools totaling more than \$40,000. Six days after obtaining the last discharge because of total and permanent disability, the student obtained a statement from a different doctor who indicated her condition was "stable at present" and she was capable of going back to school. The student was approved for \$10,500 in new FFELP loans. The student's ability to return to school is an indication to us that the disabling condition that was the basis for the discharged loans was neither total nor permanent as defined by the Department.

During our visit to one guaranty agency, we noted other borrowers receiving new loans that did not appear to be totally or permanently disabled according to the Department's definition:

- A borrower's defaulted loans totaling \$11,634 were discharged because a doctor certified that the borrower was totally and permanently disabled for work or school. The borrower received a new loan for \$2,890 within six months of the discharge.
- A borrower was determined totally and permanently disabled for work or school and had defaulted loans totaling \$8,517 discharged. The borrower subsequently received four additional loans totaling \$9,565. The first new loan was received within about six months of the discharge.

The number of individuals that received disability discharges and then returned to school increased significantly after July 1, 1995. We believe that this increase is at least partly due to the revision of a FFELP regulatory provision (34 CFR 682.201) which had required that all previously discharged loans be reaffirmed before a borrower was eligible for any new loan. The change in the

regulations was made to conform the FFELP regulations to those of the William D. Ford Federal Direct Student Loan Program. The regulation continues to require the borrower to obtain a certification from a doctor that he or she is able to engage in substantial gainful activity in order to be eligible for additional loans.

The amount of new loans awarded to borrowers with previous discharges for disability increased from about \$1.9 million to \$8.6 million, or 351 percent, from the 1994 to the 1997 award year. The following figure illustrates the change in the amount of new loans obtained by borrowers who had previous loans discharged due to disability before and after the July 1, 1995 change in the regulations.

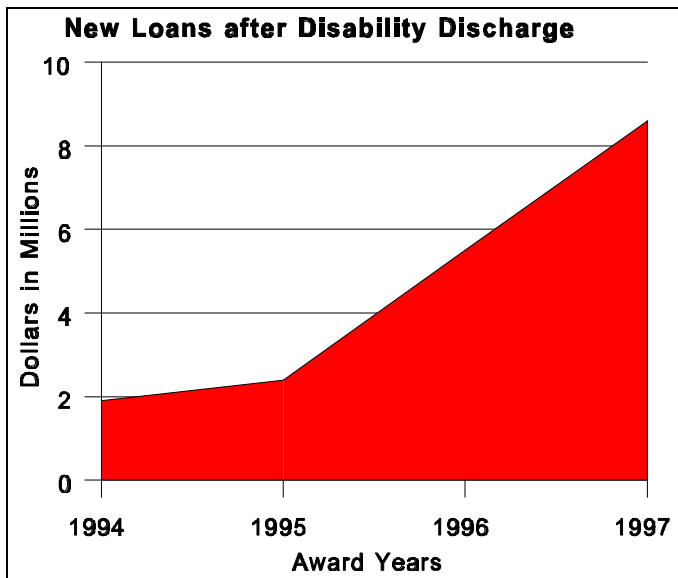


Figure 1: New loans made to borrowers subsequent to their receiving disability discharges have increased dramatically.

From the July 1, 1995 effective date of the regulatory change to February 1998, over 6,800 new loans totaling almost \$20 million have been awarded to 2,475 borrowers who previously had loans totaling nearly \$11.5 million discharged due to total and permanent disability. Of the 2,475 borrowers in this analysis that had loans discharged, 504, or over 20 percent, returned to school within one year. We did not obtain comparative information for the Direct

Student Loan Program. However, it is likely that similar conditions could exist because a similar disability determination system is used.

In addition to these new loans, students who received total and permanent disability discharges also returned to school and received Federal Pell Grants. During Pell award years 1994 through 1997, 5,816 students received over \$7 million of Pell Grant funds after they received disability discharges. Of these students, 1,411, or nearly 25 percent, also received one or more new student loans. The remaining 4,405 students received only Pell Grants. As shown in Figure 2, about \$1.1 million was awarded during award year 1994. The awards increased to over \$2.8 million for award year 1997.

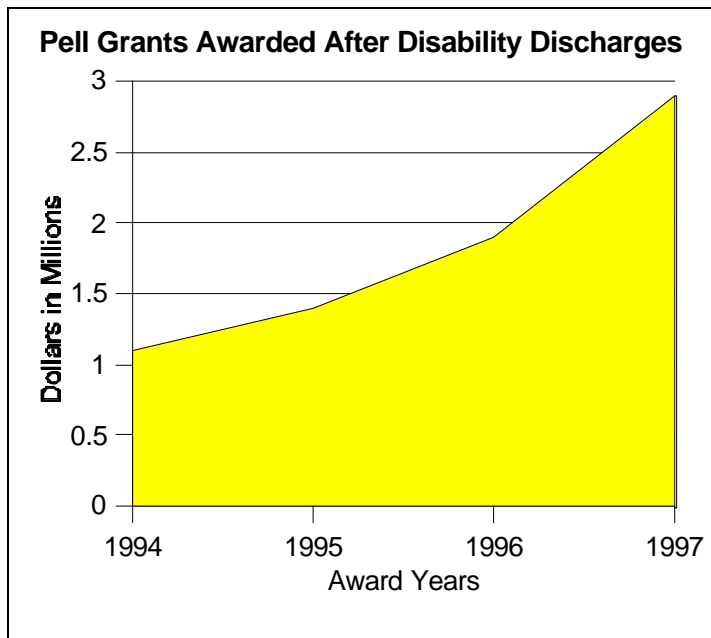


Figure 2: Pell Grants awarded to students after they had loans discharged for disabilities have also increased.

Many of these students returned to school within one year of having a loan discharged for total and permanent disability. We believe our analysis of new loans and Pell Grants indicates that there is a need for the Department to establish

a policy for reinstating loans for borrowers returning to school soon after receiving a discharge for total and permanent disability.

The Department has a mechanism to accommodate borrowers whose disability is not total and permanent. A temporary disability deferment can be granted for up to three years and is designed to relieve borrowers of their loan payments while they are temporarily disabled. We believe that borrowers that inappropriately receive a total and permanent disability discharge and then shortly thereafter wish to return to school should be required to reinstate the discharged loans before receiving new loans. After the discharged loan has been reinstated, the borrower could then request a temporary disability deferment or an in-school deferment. By requiring borrowers to reinstate inappropriately discharged loans, we estimate that over \$4.3 million annually could be better used at no additional cost to the Department ( $\$11.5 \text{ million} \div 32 \text{ months} \times 12 \text{ months}$ ).

***Borrowers Who Received  
a Discharge Because of  
Death Subsequently  
Earned Wages***

We reviewed a random sample of 57 death discharge claims at the two guaranty agencies. We noted death certificates that were typed except for the individual's name which were hand-written. Additionally, one guaranty agency told us that they had received a death discharge claim and an altered copy of a certificate of death. The borrower had apparently altered his twin brother's certificate of death by changing the name and social security number on the certificate to his own in an attempt to get his FFELP loans discharged.

While we did not verify the validity of the death certificates during our audit, the examples we noted indicated a need for a policy regarding acceptable proof of death. We determined the effect of discharging loans with potentially invalid death certificates by matching all borrowers who had received death discharges, from July 1, 1994 through December 31, 1996, with the Social Security Administration's master earnings records. The analysis disclosed that 708 or 2% of the total borrowers who

received death discharges earned wages after having \$3.8 million in loans discharged<sup>2</sup>. A breakdown by ranges of annual earnings follows:

- 150 borrowers received a death discharge and then earned \$50,000 or more in 1997.
- 191 borrowers received a death discharge and then earned between \$30,000 and \$50,000 in 1997.
- 367 borrowers received a death discharge and earned up to \$30,000 in 1997.

In our opinion, a certified copy of the death certificate should be required before a discharge is granted for deceased borrowers. We believe that the results of this match demonstrate a need for an instruction to guaranty agencies to only accept a certified copy of a death certificate as the basis for approving a discharge request. By accepting only certified copies of death certificates we estimate that at least \$1.5 million annually could be better used at no additional cost to the Department ( $\$3.8 \text{ million} \div 30 \text{ months} \times 12 \text{ months}$ ).

### ***Alternative Methods for Making Disability Determinations***

The doctor's signature is one of the key components of the disability determination process. Under the current process there is no assurance that a qualified doctor actually saw the borrower and signed the certification of disability form. The form itself is mailed to the borrower rather than to the doctor by the lender, guaranty agency, or the Department. The certification form does not contain verifiable factors such as the doctor's professional license number or office telephone number. If the form contained this information, the responsible discharge official could at least confirm that the doctor existed, was licensed to practice medicine, saw the patient, and made the diagnosis of total and permanent disability according to the Department definition.

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<sup>2</sup>We did not attempt to determine if any individuals had assumed the identity of a deceased borrower and fraudulently reported earnings to the Social Security Administration using the name and social security number of the deceased.

While these enhancements to the current system would provide additional control over the process, the Department would not be assured that only doctors of medicine or osteopathy with the necessary expertise made the permanent and total disability determinations. In our opinion, assurance of an appropriate disability determination could be best achieved if the Department used the Social Security Administration's Disability Determination Service (DDS).

The DDS has a nation-wide system and infrastructure in place to evaluate client disability. The DDS process for disability determination is initiated by the claimant but is controlled through the DDS. The claimant obtains the disability form from the local social security office, fills it out, and sends it back to the social security office. The social security office forwards the form to the DDS. The DDS examiner obtains medical records from the claimant's personal doctor or sends the claimant to a contracted doctor. The examiner evaluates the evidence supporting the condition. A two-person adjudicative team consisting of a doctor or psychological consultant and a disability examiner then makes the disability determination. The DDS notifies the social security office of the decision. The social security office in turn notifies the claimant of the decision. If the disability claim is denied, the claimant is entitled to an appeal. According to the Social Security Administration, the DDS evaluated more than 3.8 million claims nation-wide at an average cost of \$346.05 per claim in fiscal year 1997.

The Department could contract with the Social Security Administration to use the DDS for disability determinations nation-wide based on the Department's definition of total and permanent disability. If the DDS processed disability claims for the Department, we estimate that at least \$29.2 million annually could be better used at a cost of about \$5.96 million.



The Department and the Social Security Administration have similar definitions of total and permanent disability<sup>3</sup> although the Department's definition appears to be more restrictive. As an alternative approach, the Department could simply require that borrowers seeking a disability discharge provide evidence that they met the disability criteria as defined by the Social Security Administration and had been approved for disability benefits. With this approach, we estimate that at least \$29.2 million annually could be better used but at no additional cost to the Department ( $\$73 \text{ million} \div 30 \text{ months} \times 12 \text{ months}$ ).

The use of the DDS system would provide added assurance that only borrowers with a total and permanent disability would be granted a loan discharge. Further, based on our understanding of the system, using the DDS would not add any additional burden to the borrower, guaranty agencies, lenders or the Department. In addition, the borrowers would either be sent to a doctor at no expense to the borrower, or the borrower's doctor would only be required to report the condition. The DDS examiner and medical consultant would evaluate the disabling condition using either the Department's or the Social Security Administration's definition of total disability. Finally, the DDS would notify the appropriate discharge official of the determination, who in turn would notify the borrower of the decision.

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<sup>3</sup>Social Security Administration defines disability as: *The inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment(s) which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.*

## RECOMMENDATIONS

We are recommending that the Department:

1. Enhance the current discharge determination procedures by: (a) revising the disability form to include, at a minimum, the doctor's professional license number and office telephone number; and (b) requiring certified copies of death certificates;
2. Establish a focal point for guaranty agency technical assistance and for monitoring the administration of the discharges;
3. Provide additional guidance to guaranty agencies regarding borrower requests for discharge if the guaranty agency suspects or becomes aware of conflicting information concerning the disability either before or after the discharge is granted; and
4. Establish a procedure for reinstating a discharged loan if information obtained after-the-fact indicates that the borrower was not eligible for the disability or death discharge;
5. Concurrent with the implementation of the above recommended actions, consider: (a) negotiating an agreement with the Social Security Administration for determining if borrowers are totally and permanently disabled according to the Department's disability definition or simply requiring that borrowers qualify for total and permanent disability benefits under the Social Security Administration as a condition for loan discharge; and (b) modifying the existing sections of the regulations to reflect the change.

We believe that implementing these recommendations will result in an annual better use of about \$35.0 million (\$4.3 + \$1.5 + \$29.2 million). The Department concurred with our findings and recommendations. A copy of the OSFAP response is attached to this report.

## BACKGROUND

The Department and guaranty agencies have the authority to discharge a borrower's loan obligation for reasons of death, disability, bankruptcy, false certification by the school, or attendance at a school that closed (34 CFR 682.402). If the borrower is determined to be totally and permanently disabled, the obligation of the borrower to make any further payments on the loan is discharged. In order to receive a disability discharge, a doctor of medicine or osteopathy must certify that the borrower is totally and permanently disabled. The Department defines total and permanent disability as:

*The condition of an individual who is unable to work and earn money or attend school because of an injury or illness that is expected to continue indefinitely or result in death. (34 CFR 682.200)*

The phrase “Or *attend school*” was added to the definition and became effective in February 1993.

A borrower is not considered totally and permanently disabled on the basis of a condition that existed before he or she applied for the loan unless that condition substantially deteriorated to the point of total and permanent disability after the borrower applied for the loan. {34 CFR 682.402(c)(1)(i)}

Prior to July 1, 1995, an otherwise eligible borrower could obtain additional loans if he or she:

*34 CFR 682.201(a)(4)(i) Reaffirms any FFEL loan amount that previously was canceled due to the borrower’s total and permanent disability; ...*

*(a)(5)(i) In the case of a borrower whose previous loan was canceled due to total and permanent disability, obtains a certification from a physician that the borrower’s condition has improved and that the borrower is able to engage in substantial gainful activity; and*

*(a)(5)(ii) Signs a statement acknowledging that any new FFEL loan the borrower receives cannot be canceled in the future on the basis of any present impairment, unless that condition substantially deteriorates;*

Regulations effective July 1, 1995, changed the reaffirmation of loans that had been previously canceled due to the borrower’s total and permanent disability. The section in the regulation that dealt with reaffirmation was changed to:

*34 CFR 682.201(a)(4)(i) Reaffirms any FFEL loan amount on which there has been a total cessation of collection activity, including all principal and interest that has accrued on that amount up to the date of reaffirmation.*

Total cessation of collection activity refers to a borrower who has defaulted on a loan on which the guaranty agency or the Secretary has ceased collection activity.

Section 34 CFR 682.201(a)(5) remained essentially unchanged.

If an individual borrower dies, or the student for whom a parent received a PLUS loan dies, the obligation of the borrower and any endorser to make any further payments on the loan is discharged (34 CFR 682.402(b)(1)). In determining that a borrower (or student) has died, the lender may rely on a death certificate or other proof of death that is acceptable under applicable state law. If a death certificate or other acceptable proof of death is not available, the borrower’s obligation on the loan can be discharged only if the guaranty agency determines that other evidence establishes that the borrower (or student) has died (34 CFR 682.402(b)(2)).

The Social Security Administration's Disability Determination Service is fully funded by the Federal Government and is comprised of 54 state agencies responsible for developing medical evidence and rendering the initial determination on whether the claimant is or is not disabled. The Social Security Administration defines disability as: *...the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment(s) which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.*

## **AUDIT SCOPE AND METHODOLOGY**

The objective of this audit was to determine the nature and extent of the Department's controls to ensure that FFELP loans are discharged for reasons authorized by law and regulations. During our initial limited survey, we identified weaknesses related to processing of discharges for disability and death. As a result, we limited our audit work to a more detailed evaluation of the controls over discharges due to the borrower's total and permanent disability and death.

We judgmentally selected and visited the Texas Guaranteed Student Loan Corporation (TGSLC), USA Group, and the Department's Debt Collection Services in San Francisco to examine the process for FFEL loan discharges for selected borrowers. At TGSLC and USA Group we reviewed a random sample of borrowers who received a discharge in award years 1995 through 1997. At the Department's Debt Collection Service, we reviewed 21 files that were currently being processed for disability, death, closed school, and false certification discharges.

During the planning stage of this audit, we were asked by the Department's Guarantor and Lender Oversight Service Director to try to determine if individuals were receiving total and permanent disability discharges and then returning to work. We identified borrowers who received a disability or death discharge from the NSLDS. These borrowers were matched with the Social Security Administration's master earnings records. The Guarantor and Lender Oversight Service reimbursed the Social Security Administration for the data match services provided. We also identified borrowers who received a disability discharge and subsequently received additional student loans and Pell Grant funds.

We reviewed current, prior, and proposed regulations relating to the discharge of FFELP and Direct loans due to total and permanent disability. We interviewed guaranty agency and Department officials. We also visited the Social Security Administration's Disability Determination Service in Austin, Texas to gain an understanding of their disability determination system. We did not evaluate the reliability of computerized data extracted from NSLDS and matched with the Social Security Administration. However, we believe the data is sufficiently reliable as used in this report.

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Our fieldwork was performed during the period August 1997 through April 1998. Computer matching and data analysis was performed from January 1998 to February 1999. Fieldwork was performed at the Office of Postsecondary Education in Washington, D.C.; Debt Collection Service in San Francisco, CA; guaranty agencies in Texas and Indiana; and the Disability Determination Service in Texas. Our review was conducted in accordance with the government auditing standards appropriate to the scope described above.



ATTACHMENT

## UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-\_\_\_\_\_

JUN 4 1999

Mr. Daniel J. Thaens  
Western Area Manager  
Office of Inspector General  
U.S. Department of Education  
1999 Bryan Street, Suite 2630  
Dallas, Texas 75201-6817

Dear Mr. Thaens:

Thank you for the opportunity to review and comment on your report entitled *Improving the Process for Forgiving Student Loans* (Audit Control Number: 06-80001), which was transmitted to my office on May 20, 1999.

I also want to thank you for accommodating our request to initiate this audit to determine if there are abuses of the Federal Family Education Loan (FFEL) Program discharge provisions that warrant additional management controls.

We agree with your report's recommendations. After reading this report, it is clear that we must institute changes in our policies and procedures to ensure effective program management, efficient use of taxpayers' funds, and, most importantly, safeguard the interests of borrowers whose loan discharges are clearly justified and adequately documented.

Again, thank you for your assistance and cooperation in responding to our request.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Woods".

Greg Woods  
Chief Operating Officer  
Office of Student Financial Assistance

cc: Mike Smith  
Linda Paulsen  
Larry Oxendine  
Nina Winkler

# DISTRIBUTION SCHEDULE

## Audit Control Number 06-80001

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Charles Miller, Post Audit Group Supervisor, OCFO	1
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