

**FEDERAL STUDENT AID PELL GRANT VERIFICATION PROCESS
BASELINE DESCRIPTION FOR AWARD YEAR 2002/2003
May 29, 2002**

1. PURPOSE OF THIS DOCUMENT

The Federal Student Aid (FSA) office of the Department of Education is currently engaged in a process of enhancing its methodology for reducing over and under awards under the Pell Program through the identification and incorporation of Best Practices into its existing procedures for verification. As an initial step in this process this document provides a high level summary of the current verification processes used to reduce errors in the awards made under the Pell Grant Program. This high level summary is intended to serve as a baseline so that the nature and impact of future changes in the verification process can be easily identified.

2. OVERALL OBJECTIVE OF VERIFICATION

The Federal Student Aid (FSA) office of the Department of Education currently requires schools to verify a percentage of their applicants for Pell grants. The goal of this verification effort is to ensure program integrity in the Pell Grant Program.

3. VERIFICATION PROCEDURES: TWO COMPONENTS

In support of this Objective, FSA operates a two-pronged approach for ensuring program integrity. This approach involves conducting verifications of student applications for Pell assistance identified through the Central Processing System (CPS) and the Quality Assurance (QA) Schools program.

The CPS is programmed to flag students for verification¹ and schools must verify the applicants selected up to a maximum of 30% of their applicant pool. However, some schools, especially those providing substantial amounts of institutional aid, verify more than 30% of their applicants.

Under the QA program, schools do not have to adhere to the 30% verification requirement of the Pell Program. Instead, schools are free to develop their own criteria and percentage of applications to verify. Some schools under the QA program verify less than 30% of their applicants while other schools verify substantially more than 30%. All of the schools under the QA program utilize the QA software tool (QA tool) to analyze their applicant population.

3.1. Central Processing System

Within the larger Pell program, the process for identifying which applicants to verify begins with the creation of a statistical analysis model by MACRO International (MACRO). MACRO is a firm under the NCS-Pearson contract that works with the Students Channel of FSA. In deciding

¹ Student Financial Aid Handbook: Application and Verification Guide, 2001-2002. AVG-40 and AVG-41.

which groups to select for verification, MACRO uses an Automatic Interaction Detection (AID)² statistical tool. CPS uses the output of the MACRO model when identifying and selecting the groups for verification. A general description of the MACRO model is set forth in the following section.

3.1.1. MACRO Verification Model

MACRO uses a regression tree approach of statistical modeling that has as its goal the creation of a tree of mutually exclusive and collectively exhaustive groups. These groups are derived on the basis of characteristics that would likely result in major award differences (such as dependency status) and on a statistical basis to maximize the difference between the tendency of applicants to correct their application outside of verification versus being forced to correct their application through verification.

MACRO's statistical data analysis uses data from the previous award year and continues through a series of steps to the creation of two distinct work files, development of cluster categorizations, implementation of data partitions from cluster segmentation, analysis of the partitions, and a final evaluation of the results produced by the model.

For AY02/03, the AID model was applied separately to dependent and independent students. Following this first "partitioning" of the data, however, the same processes are followed for both the dependent and independent categories even though the process may identify different group characteristics as important for dependent and independent students. Partitions are identified by means of a series of categorized clusters that are created through calculated indices. These indices, as previously noted, are built upon the maximum difference between the tendency of applicants to correct their application outside of verification versus being forced to correct their application through verification. These calculated indices are created by taking the largest average difference between self-correcting and non-self correcting applicants and dividing these averages by the root mean square of standard deviation. This process leads to a split that creates two clusters. Each cluster is analyzed independently and the process is repeated until no further partitioning is possible.

Evaluation of the model begins with the partition with the largest difference in index between the selected group and an immune group of individuals who will not be selected for verification. A selected and immune group of clusters is selected at each stage. The model is referred to as "adequate" when there is no terminal cluster that is greater than 15% of total applicants. Each terminal cluster is referred to as the "transaction selection criteria". There must be at least 400 applicants in each of the selected and immune groups.

Once the transaction selection criteria are identified, two groups of applicants are selected for verification. The first group consists of 2.5% of the applicants to be verified and 2.5 % of the applicants to be immune from verification in each of the transaction selection criteria. The second group consists of **all** of the applicants, except the 2.5% who are in the immune group, in each of the transaction selection criteria selected for verification that have the greatest difference between self-correction and forced correction through verification. The total number of

² Section 2 – Verification System Analysis Process p. 2-2.

transaction selection criteria chosen for verification may be as small as three or four. The total percentage of applicants selected from these two groups is the 30% of applicants mentioned earlier.

For FASFA forms selected by CPS for verification, there are five data elements, reported by the students, that the schools must verify. The five data elements are:³

1. Household size
2. Number enrolled in college
3. Adjusted Gross Income (AGI)
4. U.S. income tax paid
5. Certain untaxed income and benefits.

For an application selected for verification, a school must verify up to six specific types of untaxed income and benefits. The six types of untaxed income and benefits are:⁴

1. Social Security benefits
2. Child support
3. IRA/Keogh deductions
4. Foreign income exclusions
5. Earned income credit
6. Interest on tax-free bonds.

3.2. Quality Assurance Program

The Quality Assurance (QA) program, initiated in 1985 by the IQC Pilot Project, Institutional Quality Control Project⁵, developed its program requirements to help schools improve aid administration and to help schools improve service to their students.

Schools participating in the Quality Assurance program can develop verification procedures that are different from those specified in the SFA regulations⁶ under the CPS program. Under the QA program, schools can obtain relief from the CPS verification activities.⁷ They are able to develop their own verification systems and procedures according to their individual student populations. Within this program schools are the leads for specialized pilot practices and share results. Schools under the QA program use the QA tool to analyze their applicant populations.

The Quality Assurance tool, commonly referred to as the QA tool, has recently been modified as a central component of the QA program. The QA tool is available for any school to use, whether

³ Ibid., p. AVG-44.

⁴ Ibid., p. AVG-51.

⁵ Quality in Student Financial Aid Programs, A New Approach, p. 150.

⁶ Ibid., p. AVG-42.

⁷ New Tools for All Schools; Technology Support for Institutional Verification from the Quality Assurance Program (FSA), p. 1-4.

it is a QA school or non-QA school, starting for award year 2002-2003.⁸ This recently upgraded tool can create reports that identify confusing FAFSA parts, can be incorporated to analyze FAFSA application information on ISIR and can determine impact changes on EFC and Pell eligible applicants.⁹ Reports produced from the QA tool can explore how well verification is working.¹⁰

4. CONCLUSION

As noted above, the two components of the Federal Student Aid's verification process for ensuring program integrity in the Pell grant program are CPS and the QA program. CPS selects applicants for verification based on the results of the MACRO verification process, AID. The QA program uses a variety of methods for selecting applicants for verification and the QA tool to analyze a school's applicant pool.

⁸ Ibid., p. AVG-51.

⁹ Ibid., p. AVG-51.

¹⁰ Idem.