

Pell Grant Program Best Practices Report

Prepared for the Program Analysis Division
Of The
Office of Federal Student Aid

By: Howard W. Bell, Jr.
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Table of Contents

1. Introduction	1
2. Background Information	3
3. An initial set of suggested best practices	5
3.1. Principles for Preventing and/or Detecting Errors	6
3.1.1. Create a Customer Centered Culture	7
3.1.1.1. Segmenting Customers	8
3.1.1.2. Building Customer Profiles	11
3.1.2. Use Third Party Information to Validate	12
3.1.3. Measure Factors to be Controlled	13
3.1.4. Automate as Much of a Program’s Processes as Possible	15
3.1.4.1. Eliminate Multiple Databases and Systems	16
3.1.4.2. Engage in Automated Validation and Analysis	17
3.1.4.3. Use Information in the System to Create Customer Profiles	18
3.1.5. Prevent Errors and Abuse Whenever Possible	19
3.1.5.1. Prevention	19
3.1.5.2. Automated Data Element Reviews	20
3.2. Activities Designed to Improve Verification Effectiveness	21
3.2.1. Verify people in an applicant’s parents’ household	22
3.2.2. Request W-2’s to look at untaxed income	22
3.2.3. Verify dependents enrolled in school	23
3.2.4. Request divorce papers	23
3.2.5. Use a logistic regression model	23
3.2.6. Implement an individualized verification/modeling system	24
3.3. Activities Designed to Prevent Errors	24
3.3.1. Use Web site to communicate FAQ’s and alerts	24
3.3.2. Urge students to file their FAFSA electronically	25
3.3.3. Make group presentations to students, parents, and counselors	25
3.3.4. Use workshops/counseling sessions to inform students	25
3.4. Activities Requiring Policy and/or Programmatic Changes	25
3.4.1. Increased interaction amongst QA schools	26
3.4.2. Review schools prone to have applicant errors	26
3.4.3. Increase error edits of the web FAFSA	27
3.4.4. Eliminate annual re-certification of poor families	27
3.4.5. Use state system classification and certification of needy	27
4. Error rates of other government programs	28
5. Measures	30
5.1. Concentration of Risk	30
5.2. Impact of a Practice on a of School’s Error Rate	30
5.3. Impact of a Practice on the Overall Pell Grant Error Rate	31
Appendix 1: Department of Education Performance Goal	32
Appendix 2: Interviewees	33
Appendix 3: Summary of the Pell verification process as of March 31, 2002	35

1. [INTRODUCTION](#)

The Department of Education is engaged in an extensive effort to improve its services to the education community through a series of initiatives. One of these initiatives is a comprehensive review of the Pell Grant Program. The goal of this initiative is to reduce overawards in the Pell Grant Program while maintaining or improving the services to and satisfaction of Pell Grant recipients and the schools and other institutional partners involved in the Pell Grant Program.

As part of this comprehensive effort, the Department of Education has engaged in best practices research, through its Program Analysis Division (PAD). In conducting this best practices research, the approach set forth in the 1998 [Best Practices](#) book by Arthur Andersen has been used. According to this book on best practices, a “universal process-based” approach should be used to identify best practices.¹ This approach is based on the findings of Arthur Andersen and other organizations engaged in best practices consulting that there are processes that are useful in attaining certain outcomes regardless of the industry using the processes. This provides a flexible approach that can cut across industries enabling the identification of best practices across a larger playing field than is possible by concentrating on a single industry. As a result, this approach opens the way to a widespread exchange of creative solutions.

Applying this “universal process-based” approach to the best practices research for the Pell Grant Program has led to a focus on identifying approaches used by schools, other government agencies, and financial institutions for reducing errors in income-based programs. This research has also included a review of a series of publications and discussions with researchers that can identify best practices for reducing errors in income-based programs. The assumption behind this research is that some of these best practices can be used to improve the Department of Education’s ability to prevent and/or detect award errors that lead to overawards in the Pell Grant Program. This Report summarizes the results of the best practices research done by PAD.

In addition to this Introduction, this Report is divided into five sections. These sections summarize the results of the Pell Grant best practices research project as of August 9, 2002. The five sections are:

[Background Information](#)

[An Initial Set of Suggested Best Practices](#)

[Error Rates of Other Government Programs](#)

[Best Practices Measures](#)

[Databases that might be used to verify various FAFSA data elements.](#)

The Background Information section provides information on the Department of Education’s Strategic Plan and how it led to the best practices research study.

¹ Best Practices: Building Your Business with Customer-Focused Solutions, Arthur Andersen (Robert Hiebeler, Thomas B. Kelly, and Charles Ketteman), Simon & Schuster, copyright 1998, page 21.

The next section, “An Initial Set of Suggested Best Practices”, presents information on the key principles gleaned from the best practices research project. This section also presents a set of activities that are being used by a majority of the schools that were interviewed to prevent errors under the Pell Award Program. Finally, this section discusses a set of activities proposed by various interviewees for improving the Pell Grant verification process that may require policy and/or programmatic changes to implement.

Section four provides a comparison of the error rates for a variety of other federal programs while section five provides a list of the databases that the Department of Education may want to use to enhance its verification efforts.

In addition, this Report contains the following four appendices.

[Appendix 1: Department of Education Performance Goal](#)

[Appendix 2: Interviewees](#)

[Appendix 3: Summary of the Pell verification process as of March 31, 2002](#)

[Appendix 4: Summary of interviews](#)

Appendix one contains the language for the Department of Education’s Strategic Objective 6.4 and its Performance Plan Goal 9 while Appendix two lists the names and associated organizations of each of the persons interviewed during the best practices research project. Appendix three provides a summary of the verification process used to detect errors in the applications for Pell Grant awards as of March 31, 2002. Finally, Appendix four provides a summary of the results of the best practices engaged in by the ten schools interviewed during the best practices research project.

2. BACKGROUND INFORMATION

The impetus for the best practices research project is the U.S. Department of Education's *Strategic Plan 2002 – 2007 (Strategic Plan)* issued on March 7, 2002. This *Strategic Plan* was under development for over two years.² “Its vision was first communicated in September of 1999, when then-Governor George Bush started discussing his plans to improve the quality of America’s education system. This vision was further refined and communicated during the course of the presidential campaign and became even more concrete when President Bush issued his landmark education plan, *No Child Left Behind*. The development of this strategic plan continued apace at the Department as [its] leadership and staff set about identifying and attacking longstanding management problems that had challenged this agency for years.”³ “*The No Child Left Behind Act* is a mandate for the transformation of the Department. Not only does it embrace the president’s education principles, it also embraces the spirit of the Government Performance and Results Act. It demands achievement in return for investment, and it requires a system of performance measurements throughout the educational enterprise.”⁴

This *Strategic Plan* is focused on performance. In support of this performance focus, this *Strategic Plan* “states in unambiguous language the measurable goals and objectives the Department intends to achieve.”⁵ This *Strategic Plan*, which supports the Department’s mission – “To ensure equal access to education and to promote educational excellence throughout the nation”⁶ –, also seeks to serve as the base of an accountability system for the Department of Education as the Department “works to imbue accountability throughout the nation’s education system.”⁷ In addition, this *Strategic Plan* supports the President’s Management Agenda, which is “a comprehensive plan to improve the performance of the federal government.”⁸

The Department of Education’s *Strategic Plan* contains six strategic goals. These goals are further divided into a set of objectives. Goal six (6), which is “Establish Management Excellence”,⁹ is divided into seven objectives. Objective 6.4 is to “Modernize the Student Financial Assistance programs and reduce their high-risk status.”¹⁰ Objective 6.4 is built on the fact that while the Department of Education “has made some progress in recent years in modernizing its systems, it remains on the General Accounting Office’s high-risk program list. It is also the only Department program identified for corrective action by the President’s Management Agenda.”¹¹ To this end, objective 6.4 is designed to “reduce the programs’ vulnerability to fraud, waste, error and mismanagement.”¹²

² *Strategic Plan 2002 –2007*, U.S. Department of Education, March 7, 2002, Washington, DC., p. 6.

³ *Idem*.

⁴ *Ibid.*, p. 10.

⁵ *Ibid.*, p. 6.

⁶ *Ibid.*, p. 3.

⁷ *Ibid.*, p. 11.

⁸ *Ibid.*, p. 11.

⁹ *Ibid.*, p. 15.

¹⁰ *Ibid.*, p. 79.

¹¹ *Ibid.*, p. 86.

¹² *Idem*.

In support of Objective 6.4, the Department of Education established Goal 9 as part of its *FY2002 Performance Plan*. Goal 9 is to “Reduce erroneous financial aid grant payment awards based on IRS match and improved verification.”¹³ The goal of the Pell Grant best practices research project is, therefore, to identify ways to reduce award errors in the Pell Grant Program in accordance with the Department of Education’s *Strategic Plan* Objective 6.4 and the Department’s FY2002 Performance Plan Goal 9.

Achieving the above should lead to reductions in the current baseline Pell Grant award error rate by 20% in FY2003 and an additional 12% in FY2004.¹⁴ (See [Appendix 1](#) for more information on Objective 6.4 and Performance Plan Goal 9.) Through this research, the Department of Education is endeavoring to identify and adapt the best practices used by private financial institutions, state and federal government agencies, schools, and other entities to enhance the ability of its verification system to prevent and detect errors in the Pell Grant process, especially errors that produce overawards.

As of March 31, 2002, the Department of Education used a statistical model to identify applicant groups with a high probability of errors that will change the Expected Family Contribution (EFC) and hence the size of the Pell Grant award. The identified applicant groups represent approximately 30% of all Pell Grant applicants each year. The schools of the identified applicants are asked to verify certain key data elements from the FAFSA forms of the applicants. The key data elements examined when an applicant is selected for verification are 1) household size; 2) number enrolled in college; 3) Adjusted Gross Income; 4) U.S. income tax paid; and 5) certain untaxed income and benefits. Among the forms of untaxed income and benefits examined are: 1) Social Security benefits; 2) child support; 3) IRA/Keogh deductions; 4) foreign income exclusions; 5) earned income credit; and 6) interest on tax-free bonds. See [Appendix 3](#) for a more detailed summary of the Pell Grant verification process as of March 31, 2002.

As part of the best practices research, telephone and in-person interviews were conducted with over 50 people. More specifically, PAD personnel have interviewed administrators at 10 schools, 25 staff at 14 federal and state government agencies (to include Department of Education staff, personnel at 6 associations, personnel from 2 financial institutions, 8 researchers at various institutions, and personnel from 3 contractors providing services to the Department of Education. See [Appendix 2](#) for a more detailed listing of contacts.

¹³ Performance Plan Student Financial Assistance – FY2002, p. 1.

¹⁴ Calculations based on overpayment baseline for FY2002, and overpayment goals for FY2003 and FY2004. *Strategic Plan 2002 –2007*, U.S. Department of Education, March 7, 2002, Washington, DC., p. 87.

3. INITIAL SET OF SUGGESTED BEST PRACTICES

According to the 1998 Best Practices book by Arthur Andersen, a “universal process-based” approach should be used to identify best practices.¹⁵ This approach is based on the findings of Arthur Andersen and other organizations engaged in best practices consulting that there are processes that are useful in attaining certain outcomes regardless of the industry using the processes. This provides a flexible approach that can cut across industries enabling the identification of best practices across a larger playing field and opening the way to a widespread exchange of creative solutions. This approach, which Accenture has used a variant of with the Department of Education, cuts across internal functional boundaries allowing managers to view the company as a whole, map each process, and precisely target where improvements can be made. In support of this approach the interviews conducted as part of the best practices research project included schools, government agencies, financial institutions, and researchers.

To identify leaders in the area of reducing errors in income-based programs discussions were held with members of the Financial Partners, Schools, and Students Channels and the Analysis Division of the Department of Education. A review of the GAO best practices document for controlling improper payments also produced a set of contact names.¹⁶ In addition, some of the initial people contacted provided the names of people that they considered to be experts in the field of reducing errors in income-based programs. The net result of these sources was a list of leaders and experts in the area of reducing errors in income-based programs.

Staff in the Schools Channel in charge of the Quality Assurance (QA) Program of the Department of Education provided the names of contacts at schools considered to be leaders in establishing innovative and effective processes for verifying the accuracy of their Pell Grant applications. The schools chosen represented a cross section of the various types of colleges and universities participating in the Pell Grant Program. The schools included in this research project included two private and two state QA schools, a private and state non-QA university, two community colleges, and two proprietary colleges. In addition, two of the QA schools, Kent State University and George Mason University, are recent winners of the Schools Channel’s Model of Quality Award. Of the other schools interviewed:

- 1) Penn State uses a logistic regression model that flags a higher percentage of errors than the CPS edits.
- 2) Minnesota State College – SE was a QA school but left the program because it has an internally generated automated verification system that does the types of analyses available through the QA Tool.
- 3) Boston University and the Ohio Technical College, verify close to 100% of their applicants.

¹⁵ Best Practices: Building Your Business with Customer-Focused Solutions, Arthur Andersen (Robert Hiebeler, Thomas B. Kelly, and Charles Ketteman), Simon & Schuster, copyright 1998, page 21.

¹⁶ Strategies to Manage Improper Payments – Learning from Public and Private Sector Organizations, GAO-02-69G, October 2001.

- 4) The University of San Francisco interviews 100% of its dependent applicants and all of the independent applicants required by the CPS edits plus those that have “unusual” applications.
- 5) ECPI College of Technology, Glendale Community College, and Macomb Community College all verify more than the minimum 30% required.

Staff in the Financial Partners Channel provided the names of contacts with the financial institutions. The names of the association contacts were provided by Analysis Division staff and staff in the Schools Channel. The contacts at the government agencies included in the interviews were obtained from a number of sources to include:

- 1) Staff in the Financial Partners, Schools, and Students Channels.
- 2) Agencies and individuals mentioned in the GAO best practices document for controlling improper payments.¹⁷

The initial set of researcher names were provided by Analysis Division staff and Students Channel staff based on experts who the staff had heard at either a conference or at a workshop discussing the topic of controlling fraud, waste, or abuse or reducing errors in income-based programs. In addition, a number of the researchers, when contacted, provided the names of persons who they considered to be experts on the subject of controlling errors in income-based programs.

In addition to the interviews a number of publications were reviewed. Some of the publications were identified in the GAO best practices document¹⁸ while staff with the Department of Education and some of the researchers who were interviewed recommended other publications.

Based on the interviews and publication reviews, five principles for preventing and/or detecting errors have been identified. In addition; the best practices research has identified: 1) activities designed to improve verification effectiveness; 2) activities designed to prevent errors and 3) activities requiring policy and/or programmatic changes. The following subsections contain the principles and activities identified as suggested best practices for the Pell Grant Program. The individuals and organizations listed in the footnotes associated with a given principle and/or activity are the people – and their associated organization – who identified a given principle or activity.

3.1 Principles for Preventing and/or Detecting Errors

As noted in the above section of this Report, according to the 1998 Best Practices book by Arthur Andersen, a “universal process-based” approach should be used to identify best practices.¹⁹ This approach is based on the findings of Arthur Andersen and other

¹⁷ Strategies to Manage Improper Payments – Learning from Public and Private Sector Organizations, GAO-02-69G, October 2001.

¹⁸ *Idem*.

¹⁹ Best Practices: Building Your Business with Customer-Focused Solutions, Arthur Andersen (Robert Hiebeler, Thomas B. Kelly, and Charles Ketteman), Simon & Schuster, copyright 1998, page 21.

organizations engaged in best practices consulting that there are processes that are useful in attaining certain outcomes regardless of the industry using the processes. Given the above, the interviews that were conducted and the publications that were reviewed as part of the best practices research project were used to identify a set of “universal-based processes” that could be used to drive change in the verification processes used by the Department of Education to reduce overawards in the Pell Grant Program. These “universal-based processes” are presented in this Report as a set of principles for preventing and/or detecting errors in the Pell Grant Program in support of:

- 1) The mission of the Department of Education which is to “ensure equal access to education and to promote educational excellence throughout the nation.”²⁰
- 2) The goals and objectives contained in Objective 6.4 of the Department of Education’s Strategic Plan and goal 9 of the Department of Education’s Performance Plan which are respectively to: 1) “Modernize the Student Financial Assistance programs and reduce their high-risk status”²¹ and 2) “Reduce erroneous financial aid grant payment awards based on IRS match and improved verification”²².

The principles identified during the best practices research are supportive of the above mission, goals and objectives and were chosen for their potential to assist the Department of Education to reduce the current baseline Pell Grant award error rate by 20% in FY2003 and an additional 12% in FY2004.²³

This principle identified during the best practices research for achieving the above mission, goals and objectives are:

- 1) [Create a Customer Centered Culture](#)
- 2) [Use Third Party Information to Validate](#)
- 3) [Measure Factors to be Controlled.](#)
- 4) [Automate as Much of a Program’s Processes as Possible](#)
- 5) [Prevent Errors and Abuse Whenever Possible](#)

The following subsections discuss each of these principles and provide some examples of how they might be applied to the Pell Grant program.

3.1.1 Create a Customer Centered Culture

During the best practices research project interviews and reviews of publications, a recurring principle was the need for organizations to create a customer-centered culture. Creating a customer-centered culture requires an organization to target both its practices and services to meet the unique needs of its many customers. Developing a customer-centered culture can

²⁰ Strategic Plan 2002 –2007, U.S. Department of Education, March 7, 2002, Washington, DC., p. 3.

²¹ Ibid., p. 79.

²² Performance Plan Student Financial Assistance – FY2002, p. 1.

²³ Calculations based on overpayment baseline for FY2002, and overpayment goals for FY2003 and FY2004. Strategic Plan 2002 –2007, U.S. Department of Education, March 7, 2002, Washington, DC., p. 87.

take many different forms. For example, a number of schools have taken steps to advise students who have recently changed their marital status due to the tendency of these students to make errors in completing the FAFSA form. A totally different example is the Department of Education's Quality Assurance (QA) program that enables QA schools to use a verification process that is very different from the one required of non-QA schools. In both instances the unifying principle is creating a customer-centered culture.

Creating a customer-centered culture combines attributes of two of the “universal-based processes” identified in the 1998 Best Practices book by Arthur Andersen for achieving excellence in customer relations. The two “universal-based processes” are understanding customers²⁴ and managing customer information.²⁵ A sub-process associated with understanding customers is segmenting customers.²⁶ A sub-processes associated with managing customer information is building customer profiles.²⁷ The following sub-sections of this Report discuss the processes of segmenting customers and building customer profiles as they relate to the principle of creating a customer-centered culture.

3.1.1.1 Segmenting Customers

According to Al Hyde of the Brookings Institution, organizations with programs organized around processes tend to have a higher error rate than ones organized around customer types.²⁸ He used the example of the telephone companies as businesses that organize their services around customer types instead of processes. For example, the telephone companies are organized around services to large businesses, small businesses, and residential customers. Each of these groups has unique needs and concerns. By targeting services to each group, application forms and service offerings can be crafted to meet the needs and interests of each customer group.

This observation is consistent with the “universal-based process” of segmenting customers. Segmenting customers involves dividing large, “heterogeneous groups of customers into smaller units defined by unique needs, purchasing characteristics, or other criteria such as economic and demographic factors”.²⁹ Segmenting customers can involve tracking every customer interaction and using this information to determine their special needs wants and real time reactions to services. Segmenting customers enables an organization to develop a better understanding of its customers which it can use to tailor marketing strategies and service offerings to fit individual needs. In the case of the telephone companies tailoring services to meet the needs of each customer group not only impacts the types of services offered, it also impacts the processes that control how different types of customers apply for

²⁴ Best Practices: Building Your Business with Customer-Focused Solutions, Arthur Andersen (Robert Hiebeler, Thomas B. Kelly, and Charles Kettelman), Simon & Schuster, copyright 1998, page **xx**.

²⁵ page **xx**.

²⁶ Ibid., pages **47 and 48**.

²⁷ Ibid. page 203 and 204.

²⁸ Principle identified in a July 16, 2002, telephone discussion with Al Hyde of the Brookings Institution.

²⁹ Best Practices: Building Your Business with Customer-Focused Solutions, Arthur Andersen (Robert Hiebeler, Thomas B. Kelly, and Charles Kettelman), Simon & Schuster, copyright 1998, page **xx**.

and secure various services to include the format of the forms for requesting service and the wording of the instructions for completing the forms.

Another example of an organization segmenting its customers is visible in the Reinventing Service at the IRS: Report of the Customer Service Task Force. As noted in the IRS Report, the IRS' Customer Service Task Force was able to document "how different the needs and concerns were of different customer segments."³⁰ The data reviewed by the Task Force identified "five different customer segments – individuals, the self-employed, small businesses, large businesses, and tax preparers."³¹ The Task Force also "found that each group had very different needs at different points in time."³² Given these differences, the IRS has organized a number of its services around each of these groups. For example, in order for telephone assistance to meet the needs of the various groups it must take into account, the IRS found that:

- 1) "Small business people ... want to be able to reach the IRS after business hours and on weekends."³³
- 2) "Large businesses want to get through during business hours but want their employees to be able to call the IRS after work."³⁴
- 3) "Individuals and the self-employed want to talk to the IRS almost any time of day – whatever accommodates their particular situation."³⁵

The segmenting of customers also exists at the Department of Education, which formed the Financial Partners, Schools, and Students Channels. Each of these channels was organized around the concept that the needs of the Department's customers were very different depending on whether they were students, schools, or financial institutions. However, based on the best practices research, the Department of Education may want to engage in an additional level of customer segmentation as a way to reduce its overawards under the Pell Program. Adding the additional level of segmentation would enable the Department to target certain services and verification activities to meet the unique needs of identified customer groups.

Examples of the types of additional segmentation that should be considered are visible in the following excerpts from the interviews with administrators at various schools and state student aid agencies. During those interviews, it was learned that schools and state agencies that target aspects of their verification efforts to account for the unique attributes of their student population sometimes verify variables other than the five data elements required by the Department of Education – household size, number enrolled in college, Adjusted Gross Income, U.S. income tax paid, and certain untaxed income and benefits – when they are asked to do a verification. The schools identifying their unique variables did so in response

³⁰ Reinventing Service at the IRS: Report of the Customer Service Task Force, published by the IRS, January 1998, p.59.

³¹ *Idem*.

³² *Idem*.

³³ *Ibid.*, pp. 59 and 61.

³⁴ *Ibid.*, p. 61.

³⁵ *Ibid.*, p. 61.

to challenges arising from the special needs of each of their groups of applicants. For example:

- 1) Pat Hurley, Associate Dean/Student Financial Aid Services at Glendale Community College, stated that a disproportionate number of the College's immigrant students do not answer FASFA question 31 "Will you have a high school diploma or GED before you enroll?" correctly. While this issue may be unique to open admissions colleges with substantial immigrant enrollments, it nevertheless identifies a very real challenge to an identified cohort of schools and applicants. Many of Glendale's immigrant population interpret this question as asking about US high schools only and not about high school equivalents in foreign countries. Hence, some immigrant students unknowingly disqualify themselves for Pell Grants. In addition, for immigrant students from countries experiencing war or some other form of conflict or from a culture that does not value good record keeping they may not be able to produce proof of their attendance thereby adding an additional level of complexity to the verification process.
- 2) Carolyn Zehren at Minnesota State University stated that because her school is located within a half mile of North Dakota, a number of students answer question 24, "What is your state of legal residence?" incorrectly. This is caused because a given student may rent an apartment in Minnesota one year and North Dakota the next and declare their residence on the basis of their apartment location instead of where they have established legal residence. Ms. Zehren indicated that the answer to this question could have an impact on the applicant's EFC due to Minnesota having a higher tax rate. In this case the unique population are students who attend colleges within a few miles of the state border where there is a substantial difference in tax rates between the states.
- 3) Sherry Fox, the Acting Director of the New Jersey Higher Education Student Assistance Authority (NJ HESAA) said that in a wealthy state like New Jersey, her Agency has saved money by examining the cash, savings, and checking account assets of aid applicants reported in response to question 49. She estimated that the \$165 million Tuition Aid Grant (TAG) awards program might be forced to pay out 10's of millions of dollars more if these assets of an applicant's family were not reviewed. HESAA began checking these assets when they discovered that some students filing for aid after the first year did not fill in the amount in response to question 49. She attributes this to the renewal FAFSA not including this information and students missing this fact when completing the application. However, when HESAA, using its own database, began including the prior year's cash, savings, and checking account amounts, if they were higher than those being reported by the applicant on the current FAFSA, in HESAA's aid calculations and notifying the student's of the changes, it found that the majority of students did not challenge the higher asset amounts even when this increased the families EFC. She proposed that the Department of Education examine the impact of applicant assets on award amounts and analyze the potential benefits of reviewing an applicant's asset information to decrease overpayments. While this may not have a significant impact in a state with low average disposable income it may have an impact on students attending college in a state like New Jersey.

The above cases are not given to suggest that the Pell Grant Program should automatically revise its procedures to deal with the unique attributes of each of the aforementioned customer groups. Rather, the above cases are given to suggest that research be done to determine the size of these and other unique groups of institutions and applicants and the impact of the errors arising from these populations on the error rate of the Pell Grant Program. This recommendation is consistent with a suggestion from Al Hyde of the Brookings Institution, that the Department of Education analyze the verification results of each of the schools to determine whether there are unique issues arising from certain types of schools. For example, he suggested that the Department of Education examine the error rate for schools that are new to the Pell Grant Program to determine if the error rates of their students are substantially higher than those applicants at institutions that have been in the Pell Grant Program for over two years.

3.1.1.2 Building Customer Profiles

To develop additional customer segments as proposed above requires the creation of customer profiles. Building customer profiles produces a database that can be used to determine which services suit which customers and to identify which customers are the most valuable or the most problematic based on selected criteria. Building customer profiles can also assist the Department of Education to determine which efforts will have the greatest impact on reducing overpayments.

An example of using profile information to determine the impact of various efforts on reducing overpayments is visible in the Title IV loan program. Past studies of this program have shown that small improvements in the default rates of the majority of schools with low cohort default rates will have a greater impact on the total defaulted dollars in the system than larger reductions in the default rates of the small number of schools with very high Title IV loan default rates due to the size of the respective student populations. Similarly, developing profile information about the number of schools and students impacted by the errors, mentioned earlier in this Report – immigrant students at schools like Glendale Community College, the misstating of residency status at schools like Minnesota State University, and the misstating of cash, savings, and checking account assets under the NJ HESAA program – may identify potential segments for both school and student populations for which minor changes in the Pell Grant application process may have large impacts on the level of Pell Grant overawards.

Building customer profiles can also help identify changes in the way students apply for aid and look for assistance when seeking answers to questions that arise during the application process. This not only has the potential to impact error rates, it also has the potential to save the Department of Education and the schools that it works with money. For example, during a discussion with Al Hyde of the Brookings Institution, it was learned that the Social Security Administration sought to meet the needs of its client base for information by treating everyone equally using staff on the telephones. Had the Social Security Administration developed customer profiles that identified how its customers sought to obtain answers to questions over time it may have created an automated information system to answer certain customer questions. Instead by treating everyone the same, using staff to

answer questions via the telephone, the Social Security Administration is currently getting around 120 million telephone calls per year.³⁶ For the Department of Education, the current research on the stability of the Pell Grant EFC over time may identify a segment of the student population who may not have to engage in a complete application process each year. Changing the manner in which a segment of students applies for a Pell Grant might save the Department and the schools that it works with money without increasing the amount of overawards.

3.1.2 Use Third Party Information to Validate

During a telephone discussion with Jeff Liebman of the JFK School of Government at Harvard University, he noted that people tend to be more precise about the information they supply if they know an independent third-party, like an employer, reports on it.³⁷ In a telephone discussion with Rona Rustigian of the Social Security Administration (SSA), she reported a number of instances where obtaining independent third party information identified a number of self-reporting errors by applicants for social security benefits.³⁸ She also stated that wherever possible her preference is to look for outside sources to use to confirm information instead of relying on self-reporting.

In two of the examples cited by Ms. Rustigian, officials at the SSA had not expected there to be a substantial difference between the information that was being self-reported and the information being asked for from independent third-parties. The first example cited involved payments being made to people who, unbeknownst to the SSA were in fact prisoners at the same time that they were receiving payments from SSA. SSA currently estimates that running the match between its files and the prisoner database that it has created will save SSA around \$3.4 billion dollars over seven years. The second example cited involved payments to fugitive felons. Based on a pilot run comparing SSA data with information from approximately ten states the estimated overpayments since the fugitive law was passed in August 1996 through June 2000 is estimated to be around \$76 million.

The impact of third-party verification on the Pell Grant Program is visible in the practices at some of the Title IV schools that were interviewed during the Best Practices research project. More specifically, during the interviews with the schools:

- 1) Leslie Bridson of Boston University observed that requiring third party verification of the number of people in an applicant's parents' household who will be college students in the upcoming academic year has enabled Boston University to catch a frequent source of applicant error.³⁹ As a result Boston University requires all of its Pell recipients to supply proof – in the form of a transcript, proof of tuition payment, or other hard evidence – that each dependent identified on the FAFSA as being in college is in fact

³⁶ Statistic obtained during a July 16, 2002, telephone discussion with Al Hyde of the Brookings Institution.

³⁷ Principle identified in an April 30, 2002 telephone discussion with Jeff Liebman at the John F. Kennedy School of Government at Harvard University.

³⁸ Principle reinforced in a June 18, 2002 telephone discussion with Rona Rustigian, Audit Director of the Northern division of the Social Security Administration.

³⁹ Information identified in an April 30, 2002 telephone discussion with Leslie Bridson of Boston University.

attending school. Given the experience at Boston University it is interesting to note that while 60% of the respondent schools said they verified the number of dependents reported to be in school, five of the six schools said that they only required self-verification.

- 2) The interviewees at ECPI College of Technology, George Mason University, Macomb Community College, Minnesota State University, Ohio Technical College, and the University of San Francisco reported that obtaining information from an applicant's W-2 form provides very useful information about the applicant's untaxed income.⁴⁰ In general the schools using the W-2 form found that it was more useful than the applicant's tax return for providing information about untaxed income.
- 3) Janet Sain of ECPI College of Technology and Mark Brenner of the Ohio Technical College stated that obtaining divorce papers, especially the child support documents, provided a very useful tool for identifying sources of income and establishing the custody status of an applicant.⁴¹

Given the above observations, a best practice principle that the Department of Education should investigate further is the confirmation of information reported on the FAFSA through third party sources wherever possible as opposed to relying on self-reporting. This principle is consistent with the Department of Education's current efforts to receive enabling legislation to conduct IRS matches of applicant income information on the FAFSA form.

Engaging in an electronic match of IRS and Department of Education data would enable the Department of Education to verify two of the five data elements that schools must verify – the IRS Adjusted Gross Income and IRS income tax paid. Performing a similar electronic match against the W-2 database controlled by the SSA would enable the Department of Education to verify untaxed income. To verify the number of dependents in school the Department of Education would need to run an electronic match of its information with the private Clearinghouse database on student enrollment. Currently the only database that contains complete information about the size and composition of a person's household is the KidLink database that was created in 1999 and only has information on dependents born after 1999. However, in around fifteen years this database will become an excellent source for enabling the Department of Education to verify household size using a third party source.

3.1.3 Measure Factors to be Controlled

⁴⁰ The utility of using information from an applicant's W-2's to confirm the untaxed income of an applicant's parents (if dependent) was cited by Janet Sain of ECPI College of Technology in a May 29, 2002 telephone discussion, Erik Melis of George Mason University in a May 7, 2002 telephone discussion, Judy Florian of Macomb Community College in a May 13, 2002 telephone discussion, Carolyn Zehren of Minnesota State University in a May 6, 2002 telephone discussion, Marc Brenner of Ohio Technical College in a June 4, 2002 telephone discussion, and Susan Murphy of University of San Francisco in a May 13, 2002 telephone discussion.

⁴¹ Information identified in an a June 4, 2002 telephone discussion with Marc Brenner of Ohio Technical College and a May 29, 2002 telephone discussion with Janet Sain of ECPI College of Technology.

During a discussion with Tom Stanton, of Johns Hopkins University, about approaches to use to reduce error rates in income-based programs, he noted that emphasis should be placed on identifying and measuring concentrations of risk. He also stated that developing measures of risk could sometimes be daunting and that when identifying measures of risk one may want to choose an item that is easy to measure and can be used with a minimum of expense or hassle even though it may not be exactly on target.⁴² In a discussion with Al Hyde of the Brookings Institution, he noted that one measure of the effectiveness of a proposed solution for controlling errors and fraud and abuse is the nature of the impact and the percentage of the customer base that is affected by the solution.⁴³ In both conversations, the underlying principle is that to control the rate of error in an income-based program one should develop cost effective measures for the key factors that need to be controlled.

Based on the best practices interviews the following measures should be used: 1) the concentration of risk that a given set of factors will cause errors in Pell Grant awards; 2) the impact of a practice or set of practices on a school's error rate; and 3) the impact of a given practice or set of practices on the overall error rate of the Pell Grant Program.

In a conversation with Ted Macaluso with the Food Stamp program he emphasized that the Agriculture Department focuses its investigations on businesses that engage in food stamp fraud. Clearly the mechanics of the Food Stamp program are very different from the Pell Grant Program. However, the process used by the Food Stamp program to control fraud and abuse suggests that the Pell Grant Program might want to measure the quality of the verification efforts performed by each school and determine whether there are schools with a propensity to do an inadequate job of verifying the information submitted by their students.

The existence of schools that either do not complete the required verifications or that do so incorrectly is documented in a Final Audit Report by the OIG of the Effectiveness of the Department of Education's Student Financial Aid Application Verification Process.⁴⁴ According to this Report, of the six schools chosen by the OIG for visits by its staff "the six schools reported inaccurate verification results for 198 (63 percent) of our sampled recipients and did not complete the required verification for 70 (22 percent) of the sampled recipients."⁴⁵

These results would suggest that there might exist a concentration of risk for overawards at some of the schools awarding Pell Grants. To the extent that this supposition is valid the Probit measure of schools at risk used by CM&O to determine which schools need Case Management attention⁴⁶ might be used to identify the schools that are prone to do a less than thorough job of verifying their student information. While this measure may not be exactly on target for locating students with high error rates, it has the advantage of being a readily available measure that can be used with a minimum of expense or hassle. It is therefore

⁴² Principle identified in a July 1, 2002 telephone discussion with Tom Stanton of Johns Hopkins University.

⁴³ Principle identified in a July 16, 2002, telephone discussion with Al Hyde of the Brookings Institution.

⁴⁴ Final Audit Report (Control Number ED-OIG/A06-A0020) on the Effectiveness of the Department's Student Financial Aid Application Verification Process.

⁴⁵ Ibid., p. 5.

⁴⁶ The Probit Measure of Schools at Risk, prepared by the Oak Ridge National Laboratory, November 2000.

recommended that a pilot test be run to determine whether the Probit measure of schools at risk can increase the ability of the Department of Education to identify schools that do an inadequate job of verifying the data submitted by their students. In addition, the Department of Education may want to examine what impact the inadequate verification efforts have on the error rates of the students attending these schools. Finally, the Department may want to measure the overall impact of the error rates at these schools on the overall error rate for the Pell Grant Program.

The above discussion suggests that the Pell Grant Program may want to take a closer look at the impact of the type and number of errors on an institutional basis on the overall error rate of the Pell Grant program.

In addition, it is recommended that further research be done to determine the nature of the impact of requiring a third party verification of the number of dependents in college. This recommendation is based on the possibility that there may be a significant impact on the verification efforts of a sizable number of schools if third party verifications of the number of dependents in school were required. In support of this supposition:

- 1) While 60% of the schools interviewed verified the number of household members in college only one, Boston University, required third party verification of this data element.
- 2) In addition, Boston University stated that a significant percentage of its applicants were unable to support the statement that household members in addition to the applicant will be attending college in the upcoming academic year when asked to produce independent verification.

Because a change in the number of dependent students attending school could have a substantial impact on an applicant's EFC, running a pilot program to test the impact of requiring a third party verification of this factor could show a substantial impact on the overaward rate of the Pell Grant Program.

3.1.4 Automate as Much of a Program's Processes as Possible

During the best practices project interviews a recurring theme was the use of computers to automate, simplify, and improve the accuracy of efforts to control and reduce errors. This theme was stated most succinctly by Al Hyde of the Brookings Institution, when he noted that the greater the people to people interaction in a program the higher the error rate.⁴⁷ However, this principle was also articulated very well in the finding of the Reinventing Service at the IRS report which notes that "information technology has enabled banks and credit card companies ... to offer information and service 24 hours a day with even higher standards of accuracy, courtesy and convenience."⁴⁸ In response to this trend the IRS has

⁴⁷ Principle identified in a July 16, 2002, telephone discussion with Al Hyde of the Brookings Institution.

⁴⁸ Reinventing Service at the IRS: Report of the Customer Service Task Force, published by the IRS, January 1998, p.58.

made automating its processes a cornerstone of its efforts to become more efficient and customer friendly. For example:

- 1) “The IRS will increase the number of forms that can be filed electronically and educate customers about the benefits of electronic filing”⁴⁹
- 2) In 1999 the IRS will work to enable taxpayers to file paperless returns by eliminating the need for mailing in W-2s and other forms and for paper signatures.”⁵⁰
- 3) “...beginning in 1999 taxpayers who file electronically will be able to pay their taxes with a direct withdrawal from their bank accounts.”⁵¹

This principle is also consistent with:

- 1) Efforts by the Students Channel and a number of schools to have applicants file their applications using the web FAFSA.
- 2) The suggestion by Susan Murphy of the University of San Francisco that applicants using the web FAFSA be required to complete certain boxes (for example the number of people in an applicant’s parents’ household and the number of these individuals who will be college students in the upcoming academic year) before they can go on to the next question.

Based on the best practices interviews there have emerged three primary elements of this automation theme where the three elements are:

- 1) Eliminate multiple databases and systems
- 2) Engage in automated validation and analysis whenever possible
- 3) Use the information in the system to create customer profiles.

3.1.4.1 Eliminate Multiple Databases and Systems

In a discussion with Al Hyde of the Brookings Institution and Hyong Yi, the Director of the Operations and Policy Office of Budget and Planning for the District of Columbia a number of instances were cited wherein corporations and government agencies had saved millions of dollars, reduced the time needed to complete certain processes, and provided better information to decision makers by reducing multiple databases and systems into one. Reducing the number of systems and databases tends to reduce processing time, eliminate the need to enter a given piece of data into multiple systems multiple times, and reduce the hardware, software, and operating costs associated with maintaining multiple systems. Two examples given by Messrs. Hyde and Yi were Oracle and the District of Columbia.

⁴⁹ Ibid., p. 7.

⁵⁰ Idem.

⁵¹ Idem.

In the case of Oracle, the company reduced seventy data systems to one and saved \$7 billion in costs. In addition the company was able to reduce the time that it took to close its books from two weeks to two days and was able to provide management with information in real time. In the case of the District of Columbia it is estimated that the District will save \$70 million in costs by consolidating a number of its data systems.

This element of the automation principle is also visible in efforts at the Department of Education through the Common Origination and Disbursement (COD) project, which is designed to promote program integrity and offer schools simplicity, accuracy, and improved access to integrated student-level and program-level data beginning in the 2002-2003 Award Year by:⁵²

- Reengineering the current processes and systems for delivering and reporting Pell Grants and Direct Loans from two processes and systems into one common origination and disbursement process and system;
- Giving schools the option of reporting campus-based student level data;
- Providing schools with a standard record format that supports student level data exchange with other trading partners, at their option: FFELP partners; state grant, prepaid tuition, and scholarship agencies; and alternative loan partners, etc. We call this format the Common Record because the data definitions are the same across the community. Each partner still assigns unique business rules to support the various types of financial aid. Schools send the record to the specific trading partner just as they send the Pell Grant and Direct Loan records to FSA;
- Increasing accountability and program integrity by monitoring and informing schools of their progress in reporting records according to the existing 30-day reporting requirements; and
- Using standard language for e-business and the Internet called XML. See An Overview of XML and the Common Record for more information.

3.1.4.2 Engage in Automated Validation and Analysis

As noted in section 3.1.2 – [Use Third Party Information to Validate](#) – of this Report, the Social Security Administration engages in an automated process of matching its records with the prisoner database that it created and with a fugitive felons database that it is creating. As also noted in this section matching its records against the prisoner database will save SSA around \$3.4 billion dollars over seven years. In addition, based on a pilot run comparing SSA data with information from approximately ten states the estimated overpayments that have occurred because there was not an automated match against a fugitive felons database, since the fugitive law was passed in August 1996 through June 2000, is around \$76 million.

In addition, as noted in section 3.1.2 – [Use Third Party Information to Validate](#) – of this Report, “Engaging in an electronic match of IRS and Department of Education data would enable the Department of Education to verify two of the five data elements that schools must

⁵² Information is taken from the home page for Common Origination and Disbursement. The URL for this page is http://fsanet/schools/cod_ipt/index.html.

verify – the IRS Adjusted Gross Income and IRS income tax paid. Performing a similar electronic match against the W-2 database controlled by the SSA would enable the Department of Education to verify untaxed income. To verify the number of dependents in school the Department of Education would need to run an electronic match of its information with the private Clearinghouse database on student enrollment. Currently the only database that contains complete information about the size and composition of a person’s household is the KidLink database that was created in 1999 and only has information on dependents born after 1999. However, in around fifteen years this database will become an excellent source for enabling the Department of Education to verify household size using a third party source.”

Engaging in the automated validation of the data elements that schools are required to verify has the potential to improve the accuracy of the Pell Grant Program with less cost and effort on the part of the schools and possibly to the Department of Education.

3.1.4.3 Use Information in the System to Create Customer Profiles

As noted in section 3.1.1 [Create a Customer Centered Culture](#), building customer profiles produces a database that can be used to determine which services suit which customers and to identify which customers are the most valuable or the most problematic based on selected criteria. Building customer profiles can also assist the Department of Education to determine which efforts will have the greatest impact on reducing overpayments.

In addition, as noted in section 3.1.1 [Create a Customer Centered Culture](#), building customer profiles can also help identify changes in the way students apply for aid and look for assistance when seeking answers to questions that arise during the application process. This not only has the potential to impact error rates, it also has the potential to save the Department of Education and the schools that it works with money. For example, during a discussion with Al Hyde of the Brookings Institution, it was learned that the Social Security Administration sought to meet the needs of its client base for information by treating everyone equally using staff on the telephones. Had the Social Security Administration developed customer profiles that identified how its customers sought to obtain answers to questions over time it may have created an automated information system to answer certain customer questions. Instead by treating everyone the same, using staff to answer questions via the telephone, the Social Security Administration is currently getting around 120 million telephone calls per year.⁵³ For the Department of Education, the current research on the stability of the Pell Grant EFC over time may identify a segment of the student population who may not have to engage in a complete application process each year. Changing the manner in which a segment of students applies for a Pell Grant might save the Department and the schools that it works with money without increasing the amount of overawards.

It is therefore recommended that the Department of Education mine the information contained in its databases to develop profiles of its students and schools over time with an emphasis on using this information to create customer profiles that can identify which groups of schools and/or students are most prone to error and what forms of intervention,

⁵³ Statistic obtained during a July 16, 2002, telephone discussion with Al Hyde of the Brookings Institution.

either preventive or detection, will have the greatest impact on reducing the errors for each group.

3.1.5 Prevent Errors and Abuse Whenever Possible

In a telephone discussions on July 1, 2002, with Tom Stanton of Johns Hopkins University about the most efficient method for reducing errors in income based programs he noted that one should try to engage in filtering applications on the front end to avoid errors. The exception to this advice would occur when front end filtering is overly expensive or simply impractical in which case one can go to monitoring a process on the back end.⁵⁴

In support of this concept, it is noteworthy that “[I]ncreasingly the IRS and other regulatory agencies are concluding that giving more attention to early intervention and preventing problems have a significant impact on compliance.”⁵⁵

This concept leads to the principle that it is preferable to engage in efforts at the front end of a process to prevent errors and abuse whenever possible than to spend time on the back end of the process trying to detect errors and abuse. In examining this principle as it applies to the results of the best practices research, two forms of front end filtering emerge as viable strategies for the Pell Grant Program for reducing errors in the granting of awards. The two forms of front end filtering are:

- 1) Prevention activities in the form of educating the applicant population prior to their completing the FAFSA form.
- 2) Automated reviews of the five data elements that schools are required to verify – household size, number enrolled in college, U.S. Adjusted Gross Income, U.S. income tax paid, and certain untaxed income and benefits – for probable errors prior to the FAFSA’s being submitted for EFC calculations.

3.1.5.1 Prevention

During the best practices research, an example of the power of engaging in prevention activities was provided in the Reinventing Service at the IRS report. On page 2 of this report it states, “The task Force studied other government reinvention efforts and found ample evidence that enforcement is not the only good method of ensuring compliance with the law. It examined programs that prove that agencies that treat people like customers and partners can be more successful in encouraging people to obey the law, and can then focus enforcement efforts on those who deliberately violate it. For example, until the U.S. Customs Service began working with airlines, importers and the rest of the trade community, Customs at the Miami Airport had a history of long lines for passengers and endless waits for cargo. Customs designed and implemented a plan that enabled them to identify high risk passengers or freight before a plane landed. This resulted in an increase in drug seizures, faster passage through customs for law-abiding passengers and less waiting

⁵⁴ Principle identified by Tom Stanton of Johns Hopkins University

⁵⁵ Reinventing Service at the IRS: Report of the Customer Service Task Force, January 1998, published by the IRS, page 68.

time for importers. Similar results were found at the Environmental Protection Agency and the Occupational Safety and Health Administration when these agencies joined with the people and companies they regulate to solve problems – results such as cleaner air, fewer injuries and fewer violations and fines.”⁵⁶

In the telephone interviews with the ten schools contacted during the best practices research, a recurring theme was the effort that each school devoted to educating applicants and their parents in order to prevent errors from occurring. When questioned about the effort devoted to prevention activities, each of the respondents stated that they felt the time was well worth the effort because it resulted in fewer repetitive questions from applicants and a reduction in potential errors during the completion of the FAFSA form. Among the prevention activities engaged in by the schools were the following:

- 1) Using a Web site to communicate FAQ’s and provide information alerts about potential challenges in completing the FAFSA.
- 2) Traveling to area high schools to make presentations to groups of students, parents, and counselors.
- 3) Working with students through workshops and counseling sessions to inform them of challenges and to address the unique needs of each student.
- 4) Urging students to file their FAFSA electronically.

The best practices research suggests that the Department of Education should continue its efforts through entities like FSA University and other efforts to identify ways to work with the schools to better educate the applicant population on how to successfully complete the FAFSA form. The research also suggests that the Department should continue its efforts to both encourage students to use the web FAFSA and should continue its efforts to build into the web FAFSA a variety of aids to help students complete it successfully.

3.1.5.2 Automated Data Element Reviews

As noted in section 3.1.2 – [Use Third Party Information to Validate](#) – of this Report, the Social Security Administration uses an automated process to match its database of social security benefit recipients with its database on people incarcerated in federal, state, county, and local prisons and its database on fugitive felons. This technique has allowed the Social Security Administration to eliminate applicants for social security benefits who are either in jail or fugitive felons. According to Rona Rustigian Audit Director of the Northern Division of the Social Security Administration (SSA), checking applicants for social security benefits against federal, state, county, and local prison populations has saved the SSA an estimated \$3.4 billion over seven years. In addition, based on a pilot program of matching social security applicant files with fugitive felon files for a dozen or so states the SSA made an estimated \$76 million in over payments from August 1996 through June of 2000. In addition, until a full match of all fugitive felon databases is done Ms Rustigian estimates that there will continue to be around \$30 million in over payments per year.

⁵⁶ Reinventing Service at the IRS: Report of the Customer Service Task Force, January 1998, published by the IRS, page 2.

The combination of the prevention activities at the respondent schools and the proactive efforts of the Customs Service and other government agencies cited in the IRS document support the principle that to reduce errors in the Pell Grant program the Department of Education should concentrate on front end activities whenever possible and practical. This principle, when combined with principle 2 – Use third party information to validate – and principle 4 – Automate as much of a program’s processes as possible – suggest a strategy for the Pell Grant program that selects a set of applicant criteria that can be checked against existing databases and can be used to run a set of qualifying validations of FAFSA data points for accuracy prior to calculating the EFC for each applicant.

As also noted in section 3.1.2 [Use Third Party Information to Validate](#) of this Report, there are a number of databases that exist against which the Department of Education could seek agreements to gain access to automate the process of validating the key data elements that the schools are required to verify. More specifically, section 3.1.2 states that “Using the IRS match should enable the Department of Education to verify two of the five data elements that schools must verify – the IRS Adjusted Gross Income and IRS income tax paid. Running a match against the W-2 database controlled by the SSA would enable the Department of Education to verify untaxed income. To verify the number of dependents in school the Department of Education would need to run a match of its information with the private Clearinghouse database on student enrollment. Currently the only database that contains complete information about the size and composition of a person’s household is the KidLink database that was created in 1999 and only has information on dependents born after 1999. However, in around fifteen years this database will become an excellent source for enabling the Department of Education to verify household size using a third party source.”

By increasing the amount of front end filtering that is done, the verification process can be used to identify those FAFSA applications for which:

- 1) The applicant asserts that the front-end filter did not consider a relevant piece of data.
- 2) An institution in reviewing an ICIR has reason to suspect that something is amiss outside of the five data elements that are being reviewed electronically.

In both cases it is probable that the accuracy of the Pell Grant Program can be increased with less cost and effort on the part of the schools and possibly to the Department of Education.

3.2 Activities Designed to Improve Verification Effectiveness

During the course of researching best practices for income-based programs that might be applicable to the Pell Grant program, a number of practices were identified. The practices contained in this section are a subset of all of the practices identified that are designed to improve the effectiveness of the Pell Grant program. The key practices contained in this section were chosen either because of the number of schools using it or because the school(s) using it deemed it to have a significant impact on the final calculation of an applicant’s EFC. The activities included in this section are:

- 1) [Verify people in an applicant's parents' household](#)
- 2) [Request W-2's to look at untaxed income](#)
- 3) [Verify dependents enrolled in school](#)
- 4) [Request divorce papers](#)
- 5) [Use a logistic regression model](#)
- 6) [Implement an individualized verification/modeling system](#)

3.2.1 Verify people in an applicant's parents' household

During the interviews with personnel at the ten schools included as part of the Best Practices research project, it was determined that 60% of the schools interviewed requested verification of the number of people in an applicant's parents' household.⁵⁷ However, a number of schools augmented this general practice with more specific requirements to include:

- 1) Erik Melis of George Mason University who pays particular attention to persons who are wards of the court because of the confusion that can arise due to an applicant not accurately identifying their custodial status.
- 2) Pat Hurley of Glendale Community College who is especially attentive to those situations in which an applicants family size is not equal to the number of exemptions claimed by the applicant (independent student) or the applicant's parents (dependent student).

3.2.2 Request W-2's to look at untaxed income

During the interviews with personnel at the ten schools included as part of the Best Practices research project, it was determined that 60% of the schools interviewed requested students and/or their parents to provide the school with W-2's. The W-2's were examined to verify information about the amount of untaxed income and benefits received by a student and/or his/her parents. Each of the schools engaged in this practice stated that the W-2's were a lot more helpful in determining the untaxed income of a student and/or his/her parents than the income tax form.

The schools involved in requesting the W-2 forms and the individuals who were interviewed were:

- | | |
|-------------------------------|---------------------------------|
| 1) ECPI College of Technology | – Janet Sain |
| 2) George Mason University | – Erik Melis |
| 3) Macomb Community College | – Judy Florian |
| 4) Minnesota State University | – Carolyn Zehren (parents only) |

⁵⁷ Erik Melis of George Mason University, Pat Hurley of Glendale Community College, Craig Cornell of Kent State University, Judy Florian of Macomb Community College, Marc Brenner of Ohio Technical College, and Susan Murphy of the University of San Francisco cited the utility of requesting verification of the number of people in an applicant's parents' household.

- 5) Ohio Technical College – Marc Brenner
- 6) University of San Francisco – Susan Murphy

3.2.3 Verify dependents enrolled in school

During the interviews with personnel at the ten schools included as part of the Best Practices research project, it was determined that 60% of the schools interviewed requested verification of the number of dependents enrolled in school. As noted in section 3.1.1 [People are more precise when they know a 3rd party reports on data](#), Leslie Bridson of Boston University observed that requiring third party verification of the number of people in an applicant’s parents’ household who will be college students in the upcoming academic year has enabled Boston University to catch a frequent source of applicant error.⁵⁸ The schools involved in requiring the verification of the number of dependents enrolled in a college or university were:

- 1) Boston University – Leslie Bridson (3rd party verification)
- 2) ECPI College of Technology – Janet Sain (self verification)
- 3) Minnesota State University – Carolyn Zehren (self verification)
- 4) Ohio Technical College – Marc Brenner (self verification)
- 5) Penn State University – Shari Howell (self verification)
- 6) University of San Francisco – Susan Murphy (self verification)

3.2.4 Request divorce papers

During the interviews with personnel at the ten schools included as part of the Best Practices research project, it was determined that two of them requested divorce papers (esp. child support documents) to verify the custody status and income of an applicant.

The schools involved in requesting divorce papers are:

- 1) ECPI College of Technology – Janet Sain
- 2) Ohio Technical College – Marc Brenner

3.2.5 Use a logistic regression model

During the interviews with personnel at the ten schools included as part of the Best Practices research project, it was determined that Penn State University uses a logistic regression model to identify potential filers with errors. According to Shari Howell and her staff, during the May 6, 2002 telephone interview with them, the logistic regression model used by Penn State University contains the following ten (10) variables:

- 1) Number in college
- 2) Cost of attendance
- 3) Ethnicity
- 4) Total income

⁵⁸ Information identified in an April 30, 2002 telephone discussion with Leslie Bridson of Boston University.

- 5) Need (Cost of a Penn State education minus the applicant's EFC)
- 6) Total Pell
- 7) 3 institutional specific aid measures
- 8) College work study.

As noted in section 5.1 [Quantitative Measures](#) of this Report, according to Penn State University, their logistic regression model reduced overawards in the 600 person sample population that they selected for comparative purposes by 87.8% while the CPS edits only reduced it by 35.4%. The same logistic regression model reduced underawards by 42.2% versus 32.6% for the CPS edits. In addition, Penn State University stated that they attained these results even though they only verified 10% to 15% of the applicant pool versus the 30% verification requirement for the CPS edits.

3.2.6 Implement an individualized verification/modeling system

During the interviews with personnel at the ten schools included as part of the Best Practices research project, it was determined that four of the schools interviewed had implemented an individualized verification/modeling system. In some cases such as with the University of San Francisco the motivation for the individualized verification system was the significant amount of institutional money distributed as scholarship aid. With Minnesota State University, Penn State University, and Kent State University a significant factor with the individualized verification system was the level of automation used by the schools in an effort to decrease the cost and increase the accuracy of their verification efforts.

3.3 Activities Designed to Prevent Errors

During the course of researching best practices for income-based programs that might be applicable to the Pell Grant program, a number of practices were identified. The practices contained in this section are a subset of all of the practices identified that are designed to prevent errors in the Pell Grant program. The key practices contained in this section were chosen either because of the number of schools using it or because the school(s) using it deemed it to have a significant impact on the ability of applicants to avoid errors when completing their FAFSA application. The activities included in this section are:

- 5) [Use Web site to communicate FAQ's and alerts](#)
- 6) [Urge students to file their FAFSA electronically](#)
- 7) [Make group presentations to students, parents, and counselors](#)
- 8) [Use workshops/counseling sessions to inform students](#)

3.3.1 Use Web site to communicate FAQ's and alerts

During the interviews with personnel at the ten schools included as part of the Best Practices research project, the following schools stated that they used their Web site to communicate FAQ's and alerts.

- 1) Boston University – Leslie Bridson

- | | |
|-----------------------------|------------------|
| 2) George Mason University | – Erik Melis |
| 3) Kent State University | – Craig Cornell |
| 4) Minnesota State | – Carolyn Zehren |
| 5) Penn State University | – Shari Howell |
| 6) Macomb Community College | – Judy Florian |

3.3.2 Urge students to file their FAFSA electronically

During the interviews with personnel at the ten schools included as part of the Best Practices research project, the following schools stated that they urged students to file their FAFSA electronically.

- | | |
|-------------------------------|------------------|
| 1) Kent State University | – Craig Cornell |
| 2) Minnesota State University | – Carolyn Zehren |
| 3) Penn State University | – Shari Howell |

3.3.3 Make group presentations to students, parents, and counselors

During the interviews with personnel at the ten schools included as part of the Best Practices research project, the following schools stated that they use high school tours/presentations to inform students, parents, and counselors how to complete the FAFSA form and how to avoid making errors:

- | | |
|--------------------------------|------------------|
| 1) George Mason University | – Erik Melis |
| 2) Kent State University | – Craig Cornell |
| 3) Macomb Community College | – Judy Florian |
| 4) Minnesota State | – Carolyn Zehren |
| 5) University of San Francisco | – Susan Murphy |

3.3.4 Use workshops/counseling sessions to inform students

During the interviews with personnel at the ten schools included as part of the Best Practices research project, the following schools stated that they use workshops/counseling sessions for students to inform them how to complete the FAFSA and avoid making errors:

- | | |
|-------------------------------|------------------|
| 1) Glendale Community College | – Pat Hurley |
| 2) Minnesota State University | – Carolyn Zehren |
| 3) Kent State University | – Craig Cornell |
| 4) ECPI College of Technology | – Janet Sain |

3.4 Activities Requiring Policy and/or Programmatic Changes

During the course of researching best practices for income-based programs that might be applicable to the Pell Grant program, a number of practices were identified. The practices contained in this section are a subset of all of the practices identified that would require programmatic and/or policy changes before they can be implemented. The practices

contained in this section were chosen either because of the number of schools and/or government agencies suggesting it or because it is deemed as having the potential to have a significant impact on either the cost of managing the Pell Grant program or a significant impact on the final calculation of an applicant's EFC. The activities included in this section are:

- 1) [Increased interaction amongst QA schools](#)
- 2) [Review schools prone to have applicant errors](#)
- 3) [Increase error edits of the web FAFSA](#)
- 4) [Eliminate annual re-certification of poor families](#)
- 5) [Use state system classification and certification of needy](#)

Items 1, 2, and 3 will be examined further as part of the Best Practices study. Item 4 may be impacted by the research being done on the Pell study on stable EFC. Item 5 is currently beyond the scope of this study.

3.4.1 [Increased interaction amongst QA schools](#)

Of the ten schools contacted about best practices four of them were Quality Assurance (QA) schools. During the interviews with personnel at the four QA schools Leslie Bridson at Boston University and Shari Howell at Penn State University expressed a desire for more interaction amongst the QA schools.

Increasing the interaction amongst the QA schools would, at minimum, require programmatic changes in the QA schools initiative. As part of future efforts under the Best Practices study, it is recommended that contact be made with various individuals within the Schools Channel to determine the feasibility and desirability of the Schools Channel sponsoring and/or facilitating additional interactions among the QA schools.

3.4.2 [Review schools prone to have applicant errors](#)

As noted in section 3.1.7 [Identify and Measure Concentrations of Risk](#) in this Report, The Department of Education may want to examine more closely colleges and universities that are prone to do a less than thorough job of verifying their student information thereby increasing the likelihood of there being undetected errors in applicant information. Selecting students for verification based on the schools that they attend and taking additional steps to ensure that the information submitted by these students is properly verified would be a policy and programmatic change in the process used to verify information under the Pell Grant program.

As part of future efforts under the Best Practices study, it is recommended that contact be made with various individuals within the Schools and Students Channels to determine the feasibility and desirability of the Department of Education targeting students who attend schools that are prone to do a less than thorough job of verifying their student information. If this recommendation is accepted the Schools and Students Channels will also need to

develop a process for ensuring that the information submitted by these students is properly verified.

3.4.3 Increase error edits of the web FAFSA

During the interviews with personnel at the ten schools included as part of the Best Practices research project Susan Murphy at the University of San Francisco proposed that certain boxes on the web FAFSA must be filled in before one can go to the next question. She used as examples of the boxes that might be targeted for this treatment the number of members in the family and the number of members of the family enrolled in college. Making these kinds of edit changes with the web FAFSA would be a programmatic change in the functioning of this form.

As part of future efforts under the Best Practices study it is recommended that contact be made with various individuals within the Students Channel to determine the feasibility and desirability of making these changes in the web FAFSA form.

3.4.4 Eliminate annual re-certification of poor families

During the interviews with personnel at the ten schools included as part of the Best Practices research project Judy Florian at Macomb Community College proposed that the verification process could be simplified and made less expensive if poor families did not have to re-certify that they are needy every year. Implementing this practice would be a major policy change in the process used to establish a student's eligibility for a Pell Grant. Research currently underway to determine the stability of the Expected Family Contribution for a student during their time in school may provide facts that can be used to judge the advisability of this suggestion.

3.4.5 Use state system classification and certification of needy

During the interviews with personnel at the ten schools included as part of the Best Practices research project, Judy Florian at Macomb Community College proposed that the verification process could be simplified and made less expensive if the Department of Education were to use the state system classification and certification of needy to qualify students for aid under the Pell Grant program.

While this proposal might, if implemented, produce a cost effective way to manage the Pell Grant program, researching the policy and programmatic changes required to make this proposal a reality are outside of the scope of the Best Practices research project.

4. ERROR RATES OF OTHER GOVERNMENT PROGRAMS

In an effort to determine how well or poorly the Department of Education is doing in controlling the level of over and underaward errors in its Pell Grant program the Best Practices research project has identified the error rates of a number of income-based programs administered by federal and state agencies. The results of this research are contained in this section.

According to the 2000-2001 Title IV/Federal Pell Grant Program End of Year Report⁵⁹ total expenditures for the Pell Grant program for award year 2000-2001 were \$7,956,304,184.⁶⁰ Based on an analysis completed by the Program Analysis Division the over and under awards for award year 2000-2001 were \$272 million and \$64 million respectively for a total absolute award error of \$336 million. This dollar level of award error translates to 3.4% overaward error rate, a 0.8% underaward error rate, and a 4.2% absolute award error rate for the Pell Grant program.

The above error rates compare very favorably with the range of error rates for the Aid For Dependent Children (AFDC), Earned Income Tax Credit (EITC), and Food Stamp programs. It also compares favorably with the IRS uncollected taxes rate.

Two of the researchers interviewed during telephone and in person discussions stated that the error rates of other government programs were as follows.

1) AFDC	4 – 10%	- per Wendell Primus ⁶¹
2) EITC	30%	- per Jeff Liebman ⁶²
	20%	- per Wendell Primus
3) Food Stamps	4 – 10%	- per Wendell Primus
4) IRS	16%	- per Jeff Liebman
	10 – 15%	- per Wendell Primus

In an effort to verify the estimates given by the researchers, a review of available literature was conducted. Based on the literature review the following additional information was learned about the error rates of other government programs:

- 1) AFDC
 - a) "... quality control data suggest an overpayment rate of **6 percent for AFDC** (Committee on Ways and Means 1998)."⁶³

⁵⁹ 2000-2001 Title IV/Federal Pell Grant Program End of Year Report, Submitted to the U.S. Department of Education Office of Postsecondary Education, by NCS Pearson.

⁶⁰ Ibid., p. 14.

⁶¹ Wendell Primus is with the Center on Budget and Policy priorities. An in person meeting was held with him at FSA on 6/20/02.

⁶² Jeff Liebman is with the JFK School of Government at Harvard University. A telephone interview was held with him on 4/30/02.

⁶³ Liebman, Jeffrey B., "Who Are the Ineligible EITC Recipients? Prepared for a conference of the Joint Center for Policy Research, "the Earned Income Tax Credit: Early Evidence," Evanston, Ill., October 1999, p. 1.

2) EITC

- a) “Tabulations from the 1985 and 1988 IRS Taxpayer Compliance Measurement Program (TCMP) surveys first presented by Holtzblatt (1991) and Scholtz (1990) found that **one-third of EITC recipients were not eligible for the credit**, primarily because they did not have eligible children.”⁶⁴
- b) “The IRS and Treasury also estimated that if certain new enforcement procedures first in effect during the 1997 filing season had been in effect in 1995, the error rate would have been reduced further, to about **20.7 percent**.”⁶⁵

3) Food Stamp program

- a) “...the Food Stamp program reduced its national error rate from 8.9 percent in 2000 to 8.7 percent in 2001.”⁶⁶

4) IRS

- a) “Last year, IRS enforcement efforts collected \$30 billion in revenue beyond taxes paid voluntarily, pushing the collection rate up to 87 percent.”⁶⁷

In addition to the estimates of error rates for the AFDC, EITC, and Food Stamp programs, “Medicare reported a reduction in its erroneous payment rate from 6.8 percent in 2000 to 6.3 percent in 2001.”⁶⁸

⁶⁴ Liebman, Jeffrey B., “Who Are the Ineligible EITC Recipients? Prepared for a conference of the Joint Center for Policy Research, “the Earned Income Tax Credit: Early Evidence,” Evanston, Ill., October 1999, p. 1.

⁶⁵ McCubbin, Janet. EITC Noncompliance: The Misreporting of Children and the Size of the EITC. U.S. Department of the Treasury, Office of Tax Analysis . Prepared for a conference of the Joint Center for Poverty Research, “Earned Income Tax Credit: Early Evidence.” Evanston, Ill., October 1999.

⁶⁶ Office of Management and Budget, Progress Implementing the President’s Management Agenda, July 26, 2002, p5.

⁶⁷ Reinventing Service at the IRS: Report of the Customer Service Task Force, January 1998, published by the IRS, page 67.

⁶⁸ Office of Management and Budget, Progress Implementing the President’s Management Agenda, July 26, 2002, p5.

5. MEASURES

As noted in section 3.1.3 Measure Factors to be Controlled, there are three measures of the key factors that should be controlled as part of an effort to reduce overawards in the Pell Grant Program. The three measures are: 1) the concentration of risk that a given set of factors will cause errors in Pell Grant awards; 2) the impact of a practice or set of practices on a school's error rate; and 3) the impact of a given practice or set of practices on the overall error rate of the Pell Grant Program.

5.1 Concentration of Risk

Currently there does not exist a methodology within the Department of Education that is designed to identify high risk populations of students over time in a manner that will allow a given school to know what groups of students it should be looking at as having a high risk of making errors. While the CPS edits provide a school with a list of students that should be verified, none of the schools interviewed during this research understood how and why students were selected for verification.

Similarly, there does not exist a program to systematically identify and track schools that might be prone to do a less than adequate job of verifying their students. That there are some schools that do an inadequate job of verifying their students is documented in a Final Audit Report by the OIG of the Effectiveness of the Department of Education's Student Financial Aid Application Verification Process.⁶⁹ According to this Report, of the six schools chosen by the OIG for visits by its staff "the six schools reported inaccurate verification results for 198 (63 percent) of our sampled recipients and did not complete the required verification for 70 (22 percent) of the sampled recipients."⁷⁰

These results suggest that the Department of Education may want to focus some of its efforts on developing ways to measure concentrations of risks at the student level that are understood by the schools. It also suggests that the Department may want to develop a process for identifying and tracking over time those institutions that may be likely to do an inadequate job of verifying their students. Relative to this latter suggestion the Probit measure of schools at risk used by CM&O to determine which schools need Case Management attention might be used to identify schools that are prone to do a less than thorough job of verifying their student information.

5.2 Impact of a Practice on a School's Error Rate

According to Penn State University, their logistic regression model reduced overawards in the 600 person sample population that they selected for comparison by 87.8% while the CPS edits only reduced it by 35.4%. The same logistic regression model reduced underawards by 42.2% versus 32.6% for the CPS edits. In addition, Penn State University stated that they

⁶⁹ Final Audit Report (Control Number ED-OIG/A06-A0020) on the Effectiveness of the Department's Student Financial Aid Application Verification Process.

⁷⁰ Ibid., p. 5.

attained these results even though they only verified 10% to 15% of the applicant pool versus the 30% verification requirement for the CPS edits.

According to Kent State the following selection criteria led to EFC changes 65% or more of the time for the verified populations. The number of verified persons in each case is greater than 100 persons.

- 1) Reported parents' taxes paid is > 35% of AGI and AGI is not equal to 0 or is blank (parents of dependent students) – 81.2% EFC change
- 2) Reported taxes paid is > 35% of AGI and AGI is not equal to 0 or is blank (dependent students) – 86.6% EFC change
- 3) Student Worksheet C is > 50% of student total income (dependent students) – 75.2% EFC change
- 4) Parents AGI is < 25% of total father income earned and mother income earned (dependent student) – 67.3% EFC change.

In addition to the analyses performed by these two schools, which are QA schools, the QA tool also enables schools to determine the impact of various practices on their error rates. While there may be other quantitative methods in use to measure the impact of various practices on the error rates of a given school, it is recommended that the Department of Education work with the QA schools, to include Penn State and Kent State, to determine the applicability of their approaches to the task of measuring the impact of verification programs at other schools.

5.3 Impact of a Practice on the Overall Pell Grant Error Rate

Currently there does not exist a comprehensive approach to measuring the impact of various practices on the overall error rate of the Pell Grant Program. It is therefore recommended that the Department of Education conduct research into possible measures for determining the effectiveness of various practices on the overall error rate for the Pell Grant Program.

APPENDIX 1

DEPARTMENT OF EDUCATION PERFORMANCE GOAL

The 2001 GAO Performance and Accountability Series and High Risk Update reported that, as of June 2000, neither the Department's 1999 Performance Report nor the Department's 2001 Strategic Plan included goals and objectives aimed at reducing the risk of fraud, waste, or error in the student aid programs. As a result of the GAO report, the Department and SFA developed the following goals in their Strategic/Performance Plans.

- Education Objective 6.4 – Modernize the Student Financial Aid assistance programs and reduce their high-risk status. Measure 3 – Erroneous financial aid grant payment awards based on IRS match and improved verification: Set base line using IRS actual data (FY 2002), Baseline minus 10% (FY 2003), Baseline minus 20 % (FY 2004).
- Department of Education Performance Plan Goal 9 – Develop a new verification process that will drive an over/underaward reduction through targeted improved verification.

In addition, the President's Management Agenda for FY 2002 reported that:

“GAO (also) has cited EDs inability to verify students' income effectively as a weakness in the student aid programs that leaves them vulnerable to fraud and error. (...) A test match between ED and Treasury compared the income students reported on their aid applications to IRS income data. Preliminary results of that test estimate that the Pell Grant program made overawards of \$400 million in 2000-2001 (and underawards of \$100 million) because students or their parents misreported their income in their student aid applications.”

Appendix 2
INTERVIEWEES

Organization	Person
Government Agencies	
Dept of Ed-Budget Services	Mike Carpenter
Dept of Ed-Office of Postsecondary Ed	David Bergeron
DC – Office of Budget and Planning	Hyong U Yi
FDA – Food Stamp Program	Ted Macaluso
HUD – Qlty Cntrl for Rental Assist ...	Joseph Riley
Illinois State SURS- Illinois Dept. of Public Aid (IDPA)	Wynona Johnson
IRS	Ed Emblom
IRS	Mike Albert
IRS	Janet Holtzblatt
Medicaid-(Medicaid Fraud Control Unit)-Texas	Scott Stephenson
Medicaid-(Medicaid Fraud Control Unit)-Texas	Charles Hafer
N.J. Guaranty Agency	Sherry Fox
OMB	David Rowe
OMB	Daniel I. Werfel
Pennsylvania Higher Education Assistance Agency (PHEAA)	Mary Beth Kelly
Planning & Evaluation Service	Daniel Goldenberg
Social Security Administration	Rona Rustigian
Texas State SURS	Aurora F. Lebrun
University of California system	Nancy Coolidge
Veterans Administration	John Hyle
Associations	
Assoc -- AASCU	Pat Smith
Assoc – CBA	John Dean
Assoc – NASFAA	Dallas Martin
Assoc – NACUBO	Jay Morley
Assoc - NHCAA; National Health Care Anti-Fraud Association	William J. Mahon
Workgroup - National Medicaid and Fraud and Abuse Initiative's Information Systems	Pam Antlitz
Financial Institutions	
Fin Inst – First Union	Tom Levandowski
Fin Inst – Formerly with USA Bank	Albert Hyacinth
Schools	
QA Sch'l – George Mason University	Erik Melis
QA Sch'l – Boston University	Leslie Bridson

QA Sch'l – Kent State University	Craig Cornell
QA Sch'l – Penn State University	Shari Howell
Non-QA – Macomb Community Coll	Judy Florian
Non-QA – University of San Francisco	Susan Murphy
Non-QA – Glendale Community Coll	Pat Hurley
Non-QA – ECPI College of Technology	Janet Sain
Non-QA – Ohio Technical College	Marc Brenner
Non-QA – Minnesota State University – Moorhead	Carolyn Zehren, Director
Academic Researchers	
Rsrchr - Brookings Institution	Al Hyde
Rsrchr	Frank Kesterman
Non-Prft - Center on Budget & Policy Priorities	Wendell Primus
Rsrchr - Harvard, J.F. Kennedy Sch'l	Jeff Liebman
Rsrchr - John Hopkins, Int'l Sch Bus	Tom Stanton
Rsrchr – Skidmore College	Sandy Baum
Rsrchr -- UCLA	Tom Kane
Rsrchr -- Westat	Alex Ratnofsky
Private Organizations	
NCS/Credit Central, Inc.	Steve Starkweather

APPENDIX 3

SUMMARY OF THE PELL VERIFICATION PROCESS AS OF MARCH 31, 2002

The Pell Grant program, like most dynamic programs, changes over time as the Department of Education works to enhance the performance and effectiveness of the Program. In an effort to document the status of the Pell verification process at the start of the work on best practices, this section of the Report has been created.

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.

3.1. OVERALL OBJECTIVE OF VERIFICATION

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.

3.2. VERIFICATION PROCEDURES: TWO COMPONENTS

In support of this Objective, the Department of Education 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 verification⁷¹ 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.

3.2.1. 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 the Department of Education. In deciding which groups to select for verification, MACRO

⁷¹ Student Financial Aid Handbook: Application and Verification Guide, 2001-2002. AVG-40 and AVG-41.

uses an Automatic Interaction Detection (AID)⁷² 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.

3.2.1.1. 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

⁷² Section 2 – Verification System Analysis Process p. 2-2.

total number of 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:⁷³

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:⁷⁴

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.

3.2.2. Quality Assurance Program

The Quality Assurance (QA) program, initiated in 1985 by the IQC Pilot Project, Institutional Quality Control Project⁷⁵, 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 regulations⁷⁶ under the CPS program. Under the QA program, schools can obtain relief from the CPS verification activities.⁷⁷ 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 it is a QA school or non-QA school, starting for award year 2002-

⁷³ Ibid., p. AVG-44.

⁷⁴ Ibid., p. AVG-51.

⁷⁵ Quality in Student Financial Aid Programs, A New Approach, p. 150.

⁷⁶ Ibid., p. AVG-42.

⁷⁷ New Tools for All Schools; Technology Support for Institutional Verification from the Quality Assurance Program (FSA), p. 1-4.

2003.⁷⁸ 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.⁷⁹ Reports produced from the QA tool can explore how well verification is working.⁸⁰

3.3. 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.

⁷⁸ Ibid., p. AVG-51.

⁷⁹ Ibid., p. AVG-51.

⁸⁰ Idem.