

August 27, 2002

TO: Dottie Kingsley
FROM: Howard W. Bell, Jr.
RE: Proposed Activities for the Next Two Years

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 are respectively to: 1) "Modernize the Student Financial Assistance programs and reduce their high-risk status"¹ and 2) "Reduce erroneous financial aid grant payment awards based on IRS match and improved verification"². Currently the targeted reductions in the current baseline Pell Grant award error rate are 20% in FY2003 and an additional 12% in FY2004.³

This memorandum contains proposed activities for furthering the above named goals and objectives during the next two years.

1. Create a Customer Centered Culture

Two activities that can assist an organization to create a customer-centered culture are segmenting customers⁴ and building customer profiles.⁵

Segmenting customers involves dividing large, "heterogeneous groups of customers into smaller units defined by unique needs or other criteria such as economic and demographic factors".⁶ Segmenting customers enables an organization to develop a better understanding of its customers and can impact the processes that control how different types of customers apply for and secure various services to include the format of the forms for requesting service and the wording of the instructions for completing the forms. The Department of Education currently segments customers via the Financial Partners, Schools, and Students Channels.

During interviews with administrators at various schools and state student aid agencies, 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

¹ Strategic Plan 2002 –2007, U.S. Department of Education, March 7, 2002, Washington, DC, page. 79.

² Performance Plan Student Financial Assistance – FY2002, p. 1.

³ 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.

⁴ Best Practices: Building Your Business with Customer-Focused Solutions, Arthur Andersen (Robert Hiebeler, Thomas B. Kelly, and Charles Kettman), Simon & Schuster, copyright 1998, pages 47 and 48.

⁵ Ibid. page 203 and 204.

⁶ Ibid., page 67.

benefits – when they are asked to do a verification. This was done in response to challenges arising from the special needs of certain groups of applicants.

The above suggests that research be done to determine the size of these and other unique groups of institutions and applicants, the impact of the errors arising from these populations on the error rate of the Pell Grant Program, and whether additional customer segments should be created to enhance error reduction efforts.

To develop additional customer segments requires the creation of customer profiles. Building customer profiles produces a database that can be used to determine which customers are the most valuable or the most problematic. Building customer profiles may 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 without increasing the amount of overawards. For example, 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.

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

2. Use Third Party Information to Validate

Rona Rustigian, Audit Director of the Northern Division of the Social Security Administration (SSA), states that wherever possible her preference is to look for outside sources to use to confirm information instead of relying on self-reporting. Ms. Rustigian also stated that 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.

Leslie Bridson of Boston University reports 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.⁷ In addition, 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.⁸

⁷ Information identified in an April 30, 2002 telephone discussion with Leslie Bridson of Boston University.

⁸ 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.

Given the above observations, the Department of Education should investigate developing a pilot program to confirm information reported on the FAFSA through third party sources wherever possible as opposed to relying on self-reporting. This recommendation 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.

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. Measure Factors to be Controlled

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.⁹ This Report suggests that there might exist a concentration of risk for overawards at some of these schools. 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 attention¹⁰ 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 it is a readily available measure that can be used with a minimum of expense or hassle.

It is therefore recommended that: 1) 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, 2) the Department of Education examine what impact inadequate verification efforts have on the error rates of the students attending these schools, and 3) the Department measure the overall impact of the error rates at these schools on the overall error rate for the Pell Grant Program.

⁹ Final Audit Report (Control Number ED-OIG/A06-A0020) on the Effectiveness of the Department's Student Financial Aid Application Verification Process.

¹⁰ The Probit Measure of Schools at Risk, prepared by the Oak Ridge National Laboratory, November 2000.

4. Automate as Much of a Program's Processes as Possible

As articulated in the Reinventing Service at the IRS report “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.”¹¹ This principle is consistent with 1) Efforts by the Students Channel and a number of schools to have applicants file their applications using the web FAFSA, and 2) the Common Origination and Disbursement (COD) project at the Department of Education.

This is also consistent with 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.

5. Prevent Errors and Abuse Whenever Possible

“[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.”¹²

A form of early intervention and preventing problems are activities involved in educating applicants prior to their completing the FAFSA form.

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.

¹¹ Reinventing Service at the IRS: Report of the Customer Service Task Force, January 1998, published by the IRS, January 1998, p.58.

¹² *Ibid.*, page 68.