



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

NOV 14 2001

ED-OIG/A06-B0012

Dr. Mary Spangler
President
Los Angeles City College
855 North Vermont Avenue
Los Angeles, California 90029

Dear Dr. Spangler:

This **Final Audit Report** (Control Number ED-OIG/A06-B0012) presents the results of our audit of Los Angeles City College's (LACC's) compliance with the Title IV, Student Financial Assistance, verification requirements. The objectives of our audit were limited to determining if LACC completed verification of applicant data and accurately reported verification results to the Department of Education for the period July 1, 1999, through June 30, 2000.

A draft of this report was provided to LACC. In its response, LACC concurred with two of the three recommendations and included a check to the Department of Education for the \$14,072 of unallowable Federal Pell Grants that the draft report identified. LACC did not concur with our recommendation that it perform a review of recipients not included in our audit and return any additional unallowable Title IV aid disbursed. We have summarized LACC's comments after the recommendations. A copy of the complete response is enclosed with this report.

BACKGROUND

LACC is a two-year public community college located in Los Angeles, California. It received initial approval to participate in the Title IV, Student Financial Assistance programs on January 1, 1966. The Western Association of Schools and Colleges – Community/Junior Colleges accredits the school. LACC offers associate degrees in business, education, liberal and theatre arts, sciences, applied arts, and health professions, as well as vocational certificates in various fields. From July 1, 1999, through June 30, 2000, LACC disbursed \$8.1 million in Title IV aid, including \$7.2 million in Federal Pell Grants, \$44,250 in Federal Stafford Loans, and \$836,246 in William D. Ford Federal Direct Loans (Direct Loans). The Department's Central Processing System (CPS) selected for institutional verification 624 (18.5 percent) of the school's 3,375 Federal Pell Grant recipients during that year.

AUDIT RESULTS

LACC did not always complete the required verification or report accurate verification results. We concluded that verification was incomplete for 12 (24 percent) of 50 sampled Federal Pell Grant recipients. LACC disbursed \$14,072 in unallowable Title IV aid to the 12 recipients. LACC also incorrectly reported the verification results for all 50 (100 percent) of the sampled recipients.

Verification Requirements

Verification of information submitted by applicants for Title IV assistance is governed by Subpart E of Title 34, Code of Federal Regulations (34 CFR), Part 668. Applicants must submit information on income, family size, and other data to the CPS. The CPS uses the information to determine each applicant's expected family contribution and Title IV eligibility. To ensure the information is correct, the CPS selects certain applications for verification based on edits specified by the Secretary.

Pursuant to 34 CFR § 668.54, schools must require each applicant selected for verification to complete the verification process, except no school is required to verify more than 30 percent of its total number of applicants. Schools are required to verify five major data elements reported by students on their financial aid applications (34 CFR § 668.56). These elements are adjusted gross income, income tax paid, household size, number enrolled in college, and certain untaxed income/benefits. Schools and applicants must complete verification by established deadlines or the applicants forfeit their Federal Pell Grant for the award year, may not receive any other Title IV disbursements, and must repay to the institution any Federal Supplemental Educational Opportunity Grant (FSEOG) or Federal Perkins Loan disbursements received. The institution must return to the lender or the Secretary, in the case of Direct Loans, any Federal Stafford Loan or subsidized Direct Loan proceeds that would otherwise be payable to the applicants and return to the appropriate program account any Federal Pell Grant, FSEOG, or Federal Perkins Loan disbursements not repaid by the student.

For the Federal Pell Grant Program, the school has completed verification when it has corrected the applicant's data or determined that the application data are correct. Except for the Federal Stafford Loan and Direct Loan programs, schools are allowed to make an interim disbursement before verification is completed as long as the school has no reason to believe the application information is inaccurate. The school must document the verification and have on file the final and valid federal output document showing the student's official expected family contribution.

When a school disburses a Federal Pell Grant, it must report the disbursement and the results of verification to the Department's Recipient and Financial Management System (RFMS). Schools use verification status codes to report verification results. Proper reporting of these codes shows that the verification procedures have been followed and allows the Department to gather information on the effectiveness of the verification requirements. Verification results do not have to be reported for loan only students.

Incomplete Verification

LACC did not complete verification for 12 (24 percent) of the 50 sampled recipients. The school began the verification process for all 12 recipients, but failed to obtain the required documentation for nine of the recipients and did not correct errors identified in the applications for the remaining three recipients. For example, the school obtained documentation from one recipient that supported the adjusted gross income and taxes paid, but the school did not obtain documentation to support the recipient's untaxed benefits, number in college, or the number in the household. Another recipient reported on his application that he made \$19,480 in adjusted gross income, paid the exact same amount in taxes, and received \$2,366 in earned income credit. Documentation provided by the student showed that he paid only \$2,366 in taxes and did not receive an earned income credit. LACC did not correct the application and disbursed \$1,416 in unallowable Federal Pell Grant funds.

School officials agreed that verification for the 12 recipients was not completed and that the application errors should have been corrected. The incomplete verification resulted in LACC disbursing \$14,072 in unallowable Federal Pell Grant funds.

Inaccurate Results

LACC also reported incorrect verification results to the RFMS for all 50 sampled recipients. For 48 of the recipients, LACC reported that it did not verify the recipients' applications. We determined that LACC began the verification process for the 48 recipients and should have reported that verification was not completed for 12 recipients and verification was completed for 36 recipients. For the remaining two recipients, LACC reported that it completed verification and determined that the first recipient's application contained only minor errors, which were not corrected, and the second recipient's application contained errors that were corrected. We determined that LACC should have reported that it corrected the application for the first recipient and found the application for the second recipient to be accurate.

LACC agreed that the verification results reported to the Department were incorrect. The school had not entered a verification status code for each recipient when it began using the new EDEExpress software to process Title IV aid and transmit data to the RFMS. The school's failure to enter a code caused the software to default to a verification status code indicating that verification was not performed, which was then transmitted to the RFMS. The school was unable to explain why it entered incorrect verification status codes for the two sampled recipients. Correct reporting would have prevented LACC from obtaining Title IV aid for the 12 recipients for whom verification was not completed. Reporting inaccurate verification results also limits the usefulness of RFMS data for monitoring the effectiveness of the required verification process.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for Student Financial Assistance require LACC to:

1. Return to the Department \$14,072 in Federal Pell Grant funds disbursed to students for whom verification was not completed.
2. Strengthen its management controls to ensure that the required verifications are completed and accurate results reported to the Department.
3. Perform a review of recipients who had verification results reported to RFMS and who were not included in our audit for award year 1999-00 through the current period and return any additional Title IV aid disbursed as a result of the incomplete verification.

LACC'S COMMENTS TO THE DRAFT REPORT AND OIG'S RESPONSE

LACC concurred with recommendation numbers one and two. In its response, LACC included a check payable to the Department of Education for the \$14,072 of unallowable Federal Pell Grant disbursements. The response also described the corrective actions LACC has taken to strengthen its management controls.

LACC did not concur with recommendation number three because of the “tremendous workload to review all verified recipient files for both fiscal years.” LACC’s response stated that it had requested its auditor “to perform an audit on the verification requirements for 2000-2001” We have not changed our recommendation. As an alternative to performing a 100 percent review of recipients who had verification results reported for the 1999-00 year, LACC may want to consider a review and return of unallowable Title IV aid based on a statistically valid sample of recipients for that year. For the 2000-01 year, LACC’s proposal to have its auditor perform the review would address our recommendation if the review included all recipients (or a statistically valid sample of recipients) who had verification results reported during that year and LACC returned all unallowable Title IV aid identified.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were limited to determining if LACC completed the verification of student financial aid applications and reported accurate verification results to the Department. Our audit did not include a review of other Title IV compliance requirements. We selected LACC for audit because the school reported that it only verified 7 of the 624 applications selected for verification in award year 1999-00.

To accomplish our objectives, we obtained background information about the school. We interviewed school officials and reviewed the school's policies and procedures relating to verification. We reviewed LACC's financial aid files for 50 randomly selected recipients from the universe of 624 Federal Pell Grant recipients who were selected for verification in award year 1999-00 (July 1, 1999, through June 30, 2000). The sample represented eight percent of the universe. The sample size did not provide a sufficient level of precision for us to recommend a refund of the sample estimate.

We relied on computer-processed data obtained from the RFMS for background information and to select a random sample of Federal Pell Grant recipients for review. We performed limited tests of the data to verify reliability by comparing the data to information in LACC's student files. Based on the results of these tests, we concluded that the computerized data was sufficiently reliable to formulate conclusions associated with the objectives of our audit.

Our audit covered the period from July 1, 1999, through June 30, 2000. We performed fieldwork during February 12-15, 2001, and we conducted an exit meeting on February 15, 2001, at LACC in Los Angeles, California. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed LACC's management controls, policies, procedures, and practices applicable to the scope of the audit. We assessed the level of control risk for determining the nature, extent, and timing of our substantive tests. For the purposes of this report, we assessed and classified the significant management controls into the following categories: (1) completion and documentation of verification, and (2) reporting verification results to the Department.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in management controls. However, our assessment disclosed weaknesses related to completing verification and reporting verification results to the Department. These weaknesses are discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

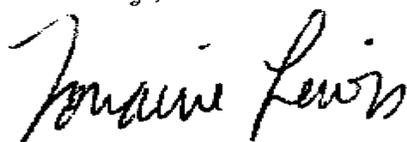
Mr. Greg Woods, Chief Operating Officer
Student Financial Assistance
U.S. Department of Education
ROB-3, Room 4004
7th and D Streets, SW
Washington, DC 20202-5132

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, we request receipt of your comments within 30 days.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions or wish to discuss the contents of this report, please contact Sherri L. Demmel, Regional Inspector General for Audit, Dallas, Texas, at 214-880-3031. Please refer to the control number in all correspondence related to this report.

Sincerely,



Lorraine Lewis

Enclosure



Financial Aid Office

Los Angeles City College
855 North Vermont Avenue
Los Angeles, CA 90029
Tel (323) 953-4246

October 10, 2001

Sherri L. Demmel
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
1999 Bryan Street, Suite 2630
Dallas, TX 75201-6817

Dear Ms. Demmel:

This letter is our response to your **Draft Audit Report** (Control Number ED-O1G/A06-B0012) in which you noted your findings of the audit conducted during February 12-15, 2001 for the period July 1, 1999 through June 30, 2000. As noted, this audit reviewed financial aid recipients that were flagged for verification by the Department of Education. Los Angeles City College offers the following responses to the recommendations outlined in your letter.

- **Recommendation #1.**

Return to the Department \$14,072 in Federal Pell Grant funds disbursed to students for whom verification was not completed.

Response:

Los Angeles City College concurs with these findings and enclosed is our check in the amount of \$14,072 (Fourteen thousand and seventy-two dollars) as reimbursement for incomplete verification of selected financial aid recipients.

- **Recommendation #2.**

Strengthen management controls to ensure that the required verifications are completed and accurate results reported to the Department.

Response.

Immediately upon discovering incomplete verification procedures and non-reporting of verified results to the Department of Education, the Financial Aid Office conducted intensive training to ensure compliance with verification requirements and proper reporting of verification status to the Department of Education. In addition, staff were instructed to review all 2000-2001 verified files and correct verification status where appropriate, holding subsequent financial aid until verification was completed. Staff were also required to review verification status in EExpress and correct the verification status code for reporting through RFMS.

- **Recommendation #3.**

Perform a review of recipients who had verification results reported to RFMS and who were not included in your audit for award year 1999-2000 through the current period and return any additional Title IV aid disbursed as a result of the incomplete verification.

Response.

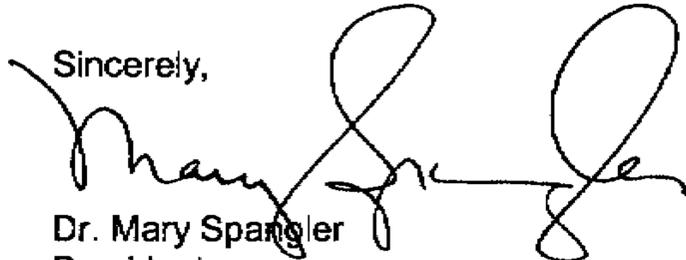
We do not concur with this recommendation because of the tremendous workload to review all verified recipient files for both fiscal years.

The institution took immediate action to correct deficiencies, as indicated in the response for Recommendation #2. In addition, as part of the annual audit, we have requested our auditor, KPMG, to perform an audit on the verification requirements for 2000-2001 financial aid files selected by the Department of Education for verification. Any questioned costs, as a result of incomplete verification, shall be returned to the Department of Education.

The institution will perform complete verification of all 2001-02 financial aid recipient files selected by the Department of Education for verification to ensure compliance with federal verification regulations.

We hope this information will satisfy the Office of Inspector General that adequate measures have been taken to ensure compliance with federal verification requirements. If you need further information, please contact Karol Bravo, Financial Aid Manager, at (323) 953-4000, Extension 2011.

Sincerely,



Dr. Mary Spangler
President

Cc: Karol Bravo, Financial Aid Manager
Myra Siegel, Vice President, Student Services
Leanna Watts, Dean, Student Activities and Support Services
Vinh Nguyen, Assistant Controller, District Office
Fely Mundo, Accounting, District Office

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