



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

AUG 25 2003

ED-OIG/A07-C0030

Theresa S. Shaw
Chief Operating Officer
Federal Student Aid
U.S. Department of Education
830 1st Street, N.E.
Washington, DC 20202

Dear Ms. Shaw:

This *Final Audit Report* (Control No. ED-OIG/A07-C0030) presents the results of our Address Match using the Department's Student Financial Assistance (SFA) application processing and disbursement systems – the Federal Student Aid's (FSA) Central Processing System (CPS) and National Student Loan Data System (NSLDS). Our audit objectives were to identify addresses with unusual data applicant and student aid disbursement patterns and to analyze those addresses for reasonableness. FSA officials generally concurred with our findings and recommendations in their August 22, 2003,¹ response and will analyze the data to determine appropriate corrective actions that may be warranted. FSA's full response is provided as an attachment to this letter.

AUDIT RESULTS

Our review of the FSA 2000-2001 CPS and NSLDS student data identified the following unusual Free Application for Federal Student Aid (FAFSA) and disbursement information.

- Multiple awardees of SFA funds used the same permanent home mailing address. A total of 8,888 individuals were awarded \$64,753,086 in SFA funds using only 1,619 different permanent home mailing addresses.
- Awardees of SFA funds reported penal institutions as their permanent home mailing address. A total of 99 individuals, awarded \$560,125 in SFA funds, reported state penitentiaries or correctional facilities as their permanent home mailing addresses on their application.

¹ FSA revised its initial response to the draft report. This final report was reissued to address that response.

- Awardees of SFA funds reported no, or incomplete, mailing addresses. A total of 2,436 individuals, awarded \$25,653,328 in SFA funds, reported no, or incomplete, permanent home mailing address information on their applications.

GAO's Standards for Internal Controls in the Federal Government outlines control activities, such as application controls, that are specific to information systems. Application controls are designed to cover the processing of data within the application software. This category of control is designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. An example is computerized edit checks built into the system to review the format, existence, and reasonableness of data. The absence of application controls to identify multiple awardees with the same address, addresses that are penal institutions, and field edit checks to identify and/or reject applications with incomplete addresses allowed the data inconsistencies identified in our audit to go undetected.

We found that the Department's CPS and NSLDS systems do not contain application controls to identify unusual address-related student aid disbursement patterns. Although the Department's CPS system contains controls verifying eligibility, such as, name, birth date, and social security or immigration number, the system does not include more sophisticated checks necessary to identify multiple applicants with the same address or applicants with penal institution addresses. Without such controls, the Department may be missing an opportunity to identify potential risks.

Multiple Awardees With The Same Address

The Department's CPS system has no edit checks or exception reports for multiple individuals using the same address as their permanent home mailing address on their FAFSAs. We matched the information in CPS² to NSLDS and, after eliminating applications that were not awarded SFA funding, we found that 8,888 individuals were awarded \$64,753,086 using 1,619 different permanent home mailing addresses.

Table 1 summarizes the results of our work after sorting the information by street address and stratifying the universe by number of awardees per address.

² From the 2000-2001 CPS database, we modified the universe for our analyses to include records for only those addresses that showed five or more initial submissions with that address, regardless of whether or not the applicants were awarded SFA funds.

Table 1. Results of Address Analysis

Number of Awardees per Address³	Number of Unique Addresses	Total Number of Awardees	Total SFA funds Awarded
> 100	2	761	\$2,496,250
21 – 99	33	1,350	\$6,268,339
11 – 20	55	792	\$5,093,292
6 – 10	215	1,545	\$12,072,961
2 – 5	1,314	4,440	\$38,822,244
Total	1,619	8,888	\$64,753,086

Our analysis shows two addresses with more than 100 awardees, one with 604 and another with 157. Both addresses are a variation of the same address. While it may not be unusual to have more than one eligible student residing at one address, it is highly unlikely that there are 761 eligible students having one permanent home mailing address. A red flag should go up to indicate that further research should be done to validate the information.

FSA officials responsible for CPS and NSLDS data stated that it is possible that some of these addresses are school addresses or dormitories. Further research indicated that many of the addresses with multiple awardees were school addresses. However, the Department’s school year 2000-2001 FAFSA instructions state that applicants “...must give a permanent home mailing address (not a school or office address).”

The FSA officials stated that they could not see any advantage of adding application controls up-front to identify multiple individuals using the same address. They indicated that this could be a data mining activity that Case Management could use as an element of risk in considering which schools to select for program reviews. The information could also be used as an indicator in prioritizing the applications selected for verification. Each school is required to verify no more than 30 percent of its total number of applicants for assistance under Title IV (see 34 CFR § 668.54(a)(2)).

The FSA officials maintained that there was no legal requirement for applicants to use a permanent home mailing address on the application, and they found no indication from our analyses that multiple individuals using the same permanent home address presented a risk for fraud. However, as discussed in the following section, we found that some of the addresses with multiple individuals were penal institutions.

The Department routinely flags recipient applications in its Management Information System (MIS) and provides weekly reports of the flagged information for follow-up and

³ The modified universe of addresses with five or more applications was further modified to reflect awardees of SFA funds. Our analyses address individuals awarded SFA funds as opposed to applicants.

verification. Examples of flags already used in the MIS are social security numbers and date of birth. Our investigations office has been asked at times to identify additional flags to add to the system – multiple recipients using the same permanent home address may be an appropriate flag for that system.

Applications With Addresses Of Penal Institutions

The Department awarded Federal Pell Grant, FFEL, and Direct Loans to individuals using state penitentiary addresses as the permanent home mailing address on their applications. We found that, in 2001, 99 individuals were awarded \$560,125 in Federal Pell Grant, FFEL and Direct Loan program funds even though they reported penitentiaries as their permanent home mailing address on their applications. Because regulations generally exclude incarcerated students from receiving Title IV funds, the Department may have permitted disbursement of SFA funds to ineligible students.

The student eligibility criteria outlined at 34 CFR § 668.32 (c)(2)(ii) (2000) states that

A student is eligible to receive title IV, HEA program assistance if the student is not incarcerated in a Federal or State penal institution.

In addition, 34 CFR § 668.32 (c)(3) (2000) states that

A student is eligible to receive title IV, HEA program assistance ... [f]or purposes of the Federal Perkins Loan, FFEL and Direct Loan programs, [if the student] is not incarcerated.

Specifically, we found that

- Sixty-five individuals reported 10 addresses listed as Indiana Department of Corrections facilities and were awarded a total of \$380,933 in Federal Pell Grant, FFEL and Direct Loan program funds.
- Twenty-four individuals reported 11 addresses listed as Texas Department of Criminal Justice Prisons and State Jails and were awarded \$139,567 in Federal Pell Grant, FFEL, and Direct Loan program funds.

In a separate analysis of post office boxes, we identified ten more awardees reporting seven different post office box addresses listed as California Department of Youth and Adult Correctional Agency facilities. These ten individuals were awarded \$39,625 in Federal Pell Grant, FFEL and Direct Loan program funds. These individuals were identified only

because we identified seven unusually numbered boxes in the entire universe of 225 post office box addresses. Five of the seven were consecutively numbered boxes, three of which had the same number with an additional direction of “MONO H” and “TIOGA”.

While there are no guidelines prohibiting the use of post office boxes as permanent home mailing addresses, the Department should, at a minimum, be checking for unusual or consecutively numbered boxes. Without a mechanism to match addresses to all penal institutions, the Department risks improperly disbursing funds to prisoners.

FSA officials responsible for the CPS and NSLDS data stated that incarcerated people are entitled to Federal aid, just not Pell Grants. The regulations are clear that a student incarcerated in a Federal or state penal institution is not eligible for Pell Grant, FFEL, and Direct Loans. All of the 98 individuals using penal institutions addresses identified above were awarded Pell Grants, FFEL, and/or Direct Loans.

FSA officials also stated that the Department systems are not used to determine student eligibility, but that the Department relies on school certification, lender determination, guarantor assessment, and finally the Common Origination and Disbursement System (CODS). Despite these numerous layers of eligibility determination, our investigators continue to identify fraud and abuse in SFA programs. The reliance on others to determine eligibility does not negate FSA’s responsibility for assuring that it has adequate controls to prevent or reduce the likelihood of distributing SFA funds to ineligible students.

Incomplete Addresses

The Department’s CPS system permitted the award of SFA funds to individuals reporting no, or incomplete, permanent home mailing address information and addresses with numerical data in the city field of the record layout.

The FAFSA instructions for completing the application state that a student must give a permanent home mailing address. Without obtaining the applicants’ complete address the Department cannot ensure SFA is not awarded to individuals who may fraudulently misrepresent their identity.

We identified 2,436 individuals who were awarded \$25,653,328 even though they reported no, or incomplete, permanent home mailing address information on their applications. Without complete address information, the Department may 1) find it difficult to validate the application to determine student eligibility, and 2) risk making payments to ineligible students. We also identified 274 addresses with a numeric in the “city” field. A check for

required information would have eliminated incomplete addresses on the application and may have identified inconsistent data in the specific fields of the application record layout.

FSA officials responsible for the CPS and NSLDS systems maintained that the FAFSA included sufficient direction for the applicant to be awarded SFA funds. According to these officials, the FAFSA on the web contains basic edit checks for numeric/non-numeric fields and for city, state, and zip code. FSA officials added that the website is completely redeveloped each program year to refine and/or change edit checks based on the previous year's program experience. They stated that the current edit checks require two of the three fields for city, state, and zip code. They indicated that they were surprised that we found numeric data in the "city" field; however, they maintained that FSA only needs the zip code to be able to contact the applicant and the current edit checks required at least one more field – city or state. However, the lack of a complete address may preclude follow-up to determine eligibility or substantiate the schools', lenders', or guarantors' determination of eligibility.

CONCLUSION

Our analyses of the CPS and NSLDS databases identified questionable address data, which, at a minimum, should have provided a red flag indicating that further research was necessary before awarding SFA funds. Because the Department's systems do not include checks of the data to identify unusual applicant address related student aid disbursement patterns, funds may have been disbursed to ineligible recipients. Without controls/checks to identify unusual data patterns and reject applications with missing information, the Department is missing a potential opportunity to identify fraud before SFA funds are disbursed.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for FSA require a cost benefit analysis on a CPS system modification or additional MIS flags that would add the necessary application controls and proceed accordingly. Specifically, the cost benefit analysis should address application controls designed to flag applications with

- Excessive numbers of applications containing the same permanent home mailing address.
- Federal or State penitentiaries' addresses as its permanent home mailing address.

- Inconsistent data fields or missing information in required fields, including address.

We also recommend that the Chief Operating Officer for FSA ensure that 1) schools identified with unusual applicant data and student aid disbursement patterns are provided to Case Management for use as an element of risk in determining which schools to select for program reviews; and 2) the information is used as an indicator in prioritizing recipients for school verification.

FSA Comments

FSA officials generally concurred with our findings and recommendations and will analyze the data to determine appropriate corrective actions that may be warranted.

BACKGROUND

In fiscal year 2001, the U.S. Department of Education awarded \$65.6 billion in student financial assistance programs through 15.5 million awards to 7.6 million students. Of the total amount awarded,⁴ \$52.5 billion was in the form of student loans, \$9.9 billion in Federal Pell Grants, with the remaining \$3.3 billion in a combination of campus-based awards.

Because of the inherent nature of the program and the large amounts disbursed, Federal student financial assistance has historically been subject to recipient fraud, waste, and abuse.⁵ Since 1990, GAO has considered the Department's student financial assistance programs as high-risk for fraud, waste, abuse, and mismanagement. GAO attributed the high-risk designation to the Department's history of financial management problems and the lack of internal controls needed to maintain the integrity of their operations. In addition, GAO reported that weaknesses in information systems controls increase the risk of disruption in services and make Education's loan data vulnerable to unauthorized access, inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without detection.

As required by the Higher Education Act as amended (HEA), the Department has established data matches with the Social Security Administration, the Immigration and

⁴ Reported from FSA's web page and the total does not equal the sum of the individual awards due to rounding.

⁵ Recipient fraud includes falsification of income, identity theft, falsification of eligibility status, and fraudulent loan discharges.

Naturalization Service, and Selective Service to match the name, date of birth, social security number, immigration status, and Selective Service registration status of applicants.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to identify addresses with unusual data applicant and student aid disbursement patterns and to analyze those addresses for reasonableness.

To accomplish our audit objectives we

- Reviewed applicable Federal laws and regulations, Department policy and guidance, and program information available in reports and on the Internet;
- Interviewed officials from the Department's Federal Student Aid Office;
- Reviewed and analyzed data contained in the Department's Central Processing System and the National Student Loan Data System; and
- Researched selected awardees' addresses using the Internet.

In order to accomplish our objectives, we relied extensively on computer-processed data contained in Department's Central Processing System and the National Student Loan Data System. We performed a limited data reliability assessment in matching the address data between CPS and NSLDS databases. To perform the assessment we used logical tests, which included checks for missing data, relationship of data elements, expected values, etc. As discussed in the *AUDIT RESULTS* section of this report, our initial testing identified unusual applicant data and student aid disbursement patterns because the database systems lacked adequate system controls in the form of edit checks. Based on these findings from the initial testing, we did not perform any additional testing of system controls.

We researched a judgmentally selected sample from the universe⁶ of multiple awardees using the same address in order to determine the validity of the address. The sample reviewed included 42 percent of that universe. Specifically, the sample consisted of 100 percent review of addresses with more than 100 individuals per address; 88 percent of addresses with between 21 to 99 individuals; 64 percent of addresses with between 11 to 20 individuals; 47 percent of addresses with between 6 to 10 individuals; 37 percent of addresses with between two to five individuals; and 76 percent of the addresses with one

⁶ From the 2000-2001 CPS database, we modified the universe for our analyses to include records for only those addresses that showed five or more initial submissions with that address, regardless of whether or not the applicants were awarded SFA funds.

individual. We did not review addresses that were not awarded any SFA funds. Our research of the judgmentally selected sample indicated that many of the addresses with multiple awardees were school addresses; however, as discussed in the *AUDIT RESULTS* section of this report, we also found addresses of penal institutions and addresses with insufficient information for us to properly identify the address location.

We performed fieldwork at FSA offices in Washington, D.C. and at our offices in Kansas City, Missouri. Our fieldwork was conducted from September 9, 2002, to April 11, 2003. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of our review.

STATEMENT OF MANAGEMENT CONTROLS

As part of our review we assessed the system of management controls, policies, procedures, and practices applicable to the CPS and NSLDS systems. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Student eligibility; and
- Award of the Federal Student Aid's SFA program funds.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses. These weaknesses relate to insufficient application controls over applicant permanent mailing address data. These weaknesses and their effects are fully discussed in the *AUDIT RESULTS* section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

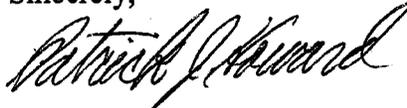
Corrective actions proposed (resolution phase) and implemented (closure phase) by your office(s) will be monitored and tracked through the Department's automated audit tracking system. ED policy requires that you develop a proposed Corrective Action Plan (CAP) in the automated system within 60 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the number of audits unresolved. In addition, any reports unresolved after 180 days from the date of issuance will be shown as overdue in our reports to Congress.

In accordance with Freedom of Information Act (5 U.S.C. §522), 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.

We appreciate the cooperation given us during this review. If you have any questions, please call William T. Allen at (816) 268-0501.

Sincerely,



Helen Lew

Assistant Inspector General for Audit Services

c.c. William J. Leidinger, Assistant Secretary for Management and Chief Information Officer
Jerry Schubert, Acting Chief Information Officer, FSA

Attachment



**F E D E R A L
S T U D E N T A I D**
We Help Put America Through School

CHIEF OPERATING OFFICER

August 22, 2003

Mr. William T. Allen
Regional Inspector General for Audit
Office of Inspector General
8930 Ward Parkway, Suite 2401
Kansas City, MO 64114

Dear Mr. Allen,

This is in response to your draft audit report (Control No. ED-OIG/A07-C0030) issued May 13, 2003, presenting the results of your Address Match using the Department's Student Financial Assistance application processing and disbursement systems.

Although FSA does not agree that a system change is necessary at this time, based on the information provided in the report, we believe that the report has provided valuable information and raised important issues requiring further analysis. My staff have contacted your office and requested the underlying data on the applicants identified in your report. Our immediate priority is to review the addresses of those applicants residing in state penitentiaries or correctional facilities. Incarcerated persons are not eligible for loan funds, and if incarcerated persons are in a Federal or state penitentiary those persons are also not eligible for Pell grants, thus we need to perform follow-up work as necessary to determine whether or not the persons identified in your match were eligible for the funds they received.

In addition, further analysis and follow-up is necessary on the entire population identified to determine the full extent of any possible problems regarding applicant eligibility and school compliance. In the near-term, this follow-up will feed into current analysis to determine: 1) whether or not a flag in the current application processing system is appropriate to identify possible ineligible students or the need to follow up at schools that may be enrolling and providing aid to ineligible students; or 2) whether or not other near-term actions might be more appropriate. This analysis is particularly important since over 80% of the population and nearly 60% of the dollars identified in the report relate to recipients where 2-5 recipients had the same address. There are valid explanations as to why more than one recipient might reside at the same address that would be included in this population, including college students sharing dormitories and apartments. A full understanding of the information is necessary before recommending changes to the application system controls. In the long-term, your report findings and our subsequent analysis and follow-up will be used to inform FSA's on-going data strategy efforts, which include plans to improve our enterprise data quality and program integrity efforts through

better analytics, including more robust data-mining capabilities and enhanced analysis on this type of information.

Although your report did not identify any inappropriately awarded funds, we recognize the need to continually review our systems to ensure that we are providing the right dollars to the right students at the right time. We take this responsibility seriously. We look forward to receiving the underlying data on the population of students identified in your audit so that we can perform the additional analysis and follow-up described and continue to work with you on this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Theresa S. Shaw". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Theresa S. Shaw

cc: Patrick J. Howard
Helen Lew
William J. Leidinger
Gerald T. Schubert