



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

501 I STREET, SUITE 9-200
SACRAMENTO, CALIFORNIA 95814
PHONE (916) 930-2388 • FAX (916) 930-2390



March 26, 2007

Control Number
ED-OIG/A09G0026

Dr. Brent Knight, President
Morton College
3801 South Central Avenue
Cicero, Illinois 60804

Dear Dr. Knight:

This **Final Audit Report**, entitled *Morton College's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid*, presents the results of our audit. The purpose of the audit was to determine if Morton College completed verification of applicant data and accurately reported verification results to the U.S. Department of Education (Department) for the period July 1, 2005, through June 30, 2006 (award year 2005-2006).

BACKGROUND

Students apply for Federal student aid by completing a Free Application for Federal Student Aid (FAFSA), which is processed by the Central Processing System (CPS). The CPS uses the application information and the statutory needs analysis formula to calculate each applicant's expected family contribution (EFC). If the EFC is less than the student's cost of attendance, a student has financial need and may be eligible to receive financial aid under the Higher Education Act of 1965, as amended (HEA), Title IV programs.

The CPS selects applications for verification, which is the process used to ensure that students and parents report accurate financial and demographic data on the FAFSA. Verification is required under Subpart E of 34 C.F.R. Part 668. For enrolled students who were selected by the CPS for verification, the schools verify the accuracy of five items of data: adjusted gross income, U.S. income tax paid, household size, number of students in the household who are enrolled in college, and certain untaxed income benefits. Students must provide schools with income tax returns and other documents to support the reported data. The school has completed verification when it has either determined that the application data are correct or when the corrected data have been submitted to the CPS. The school must document verification and maintain a CPS document in its files showing the student's final EFC.

When a school disburses a Federal Pell Grant for a student, the school is required to report the verification status of the student's application to the Department's Common Origination and Disbursement (COD) system.¹ As described in the *Federal Student Aid Handbook 2005-2006*, "Application and Verification Guide," the verification status codes are—

- **V** – School completed verification of the student's application. This code is used for both applications selected by the CPS for verification and those the school chose to verify based on its own criteria.
- **S** – The CPS selected the student's application for verification, but the school did not verify the application information because 1) the school participates in the HEA, Title IV, Quality Assurance (QA) Program² and the student's application did not meet the school's verification criteria or 2) the school elected not to verify the student's application because the school had reached the 30 percent threshold for required verifications.³
- **W** – The CPS selected the student's application for verification and the school has elected to make an interim Pell Grant disbursement prior to completing the verification of the application data. The school updates the code to a **V** when verification is completed.
- **Blank** – Neither the CPS nor the school selected the student for verification.

Schools receive a monthly Pell Verification Status Report from the COD system that shows students who have been selected by the CPS for verification and have a blank or **W** status. In addition, schools can request a Pell Reconciliation Report that shows the verification status of all students who were selected by the CPS for verification.

Morton College (College) is a public community college accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. The College has an enrollment of about 4,000 students, and offers associate's degrees and certificates in a variety of vocational programs. Educational programs are provided on a standard-term calendar that is measured in semester credit hours.

Morton College participates in the following HEA, Title IV programs: Federal Pell Grant, Federal Family Education Loan, and Federal Work-Study. During the period from July 1, 2004, through June 30, 2005, the College disbursed about \$3.8 million in Title IV funds, which included about \$2.9 million from the Federal Pell Grant Program.

¹ The Department's COD system performs a variety of functions related to awarding and disbursing Pell Grants, William D. Ford Federal Direct Loans, and funds from campus-based programs.

² Schools participating in the QA Program use their own criteria for selecting applications for verification that is tailored to their student population. QA schools are exempt from the requirement to verify 30 percent of student applications. Morton College is not a participant in the QA Program

³ In an Electronic Announcement dated March 9, 2006, the Department explained that schools may report either an **S** or leave the verification status blank for students in the excluded category (i.e., incarceration, recent immigrant, spouse unavailable, parents unavailable, death of the student, applicant verified by another school, Pacific Island resident, or not an aid recipient). Schools are not required to complete verification for students in the excluded category.

AUDIT RESULTS

Morton College had policies and procedures that ensured FAFSA information was verified in accordance with the applicable HEA provisions, Federal regulations, and Department guidance. Our analysis of information in the Department's databases identified 711 Morton College students who had an application selected by the CPS for verification and received a Pell Grant disbursement for award year 2005-2006. Our review of the College's student financial aid files for a sample of 25 of the 711 students found that Morton College properly performed verification by following its written policies and procedures, obtaining appropriate student-provided documentation, and accurately reporting changes in application information to the CPS and student verification statuses to the COD system.⁴ However, our analysis of information in the Department's databases identified other Morton College students (students who received a Pell disbursement but were not selected for verification by the CPS) who did not have the proper verification status in the COD system. In its comments to the draft report, Morton College generally concurred with our finding and recommendations. Morton College's comments are summarized at the end of the finding and the full text of the comments is included as an attachment to the report.

FINDING – COD System Had an Improper Verification Status for Students Not Selected for Verification

Our analysis of the Department's databases identified 299 Morton College students that received a Pell disbursement and had a verification status of **S**, even though the CPS had not selected the student's application for verification. Our review of the College's student financial aid files for a sample of 25 of the 299 students confirmed that neither the CPS nor the school had selected the students for verification. We also confirmed that the Morton College had not completed the verification process for the students' applications. Thus, the verification status in the COD system for these students should have been blank.

Morton College used EExpress, a Department-provided software, to process student financial aid and transmit information to the COD system. The College was unable to identify how its use of EExpress resulted in the reporting of an **S** to the COD system for students whose applications were not selected for verification by the CPS or the school. Morton College advised us that the College now transmits information to the Department through the COD system website rather than EExpress.

In response to our finding, Morton College changed the verification status for the 25 sampled students in the COD system. Morton College's Financial Aid Coordinator advised us that the

⁴ We identified one student for whom Morton College reported incorrect data to CPS. Due to a transposition error, the College submitted the student's adjusted gross income as \$15,176 rather than the \$15,716 reflected in the income tax return. The error resulted in a \$17 reduction in the student's Pell Grant disbursement. We concluded that this was an isolated error.

College had identified other students that were improperly shown with a verification status of S and had changed their statuses in the COD system.

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid—

- 1.1 Require Morton College to confirm that the verification statuses for award year 2005-2006 are accurate in the COD system for all its students.
- 1.2 Take appropriate action to ensure that the College is accurately reporting verification statuses for its students.

Morton College's Comments

In its comments on the draft report, Morton College provided further details on the condition reported in our finding. Morton College stated that its Financial Aid staff confirmed that the verification statuses of all students for the 2005-2006 award year have been recorded in the COD system as a blank or V status. Morton College also stated that a staff member has been dedicated to ensure proper reporting of verification statuses and that the College's Business Office, Cashier's Office, and Independent Public Accountant will continue to monitor the COD Pell Verification Status Reports to confirm proper verification status reporting for its students. In addition, the College's Financial Aid Department will continue to hold regular meeting to ensure that staff is informed of Federal and state financial regulations and changes in regulations as they occur.

OIG Response

The actions described in Morton College's comments should address our finding, if properly designed and implemented. We have revised the draft report's language for recommendation 1.2 to address potential conflicts with audit requirements in Office of Management and Budget Circular A-133 and to provide FSA with more flexibility in selecting the method used to confirm that Morton College appropriately implemented the needed corrective action.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to determine if Morton College completed verification of applicant data and accurately reported verification results to the Department. The audit covered award year 2005-2006. To accomplish our objective, we—

- Gained an understanding of applicable laws, regulations, and the Department’s *Federal Student Aid Handbook 2005-2006*, “Application and Verification Guide.”
- Reviewed Morton College’s Comprehensive Annual Financial Report prepared by its independent public accountant for the fiscal years ended June 30, 2004 and 2005, and correspondence from Morton College’s accreditation agency and the Department.
- Gained an understanding of Morton College’s internal control for the verification process by 1) reviewing written policies and procedures, 2) obtaining information on the manual and electronic processes applicable to verification and reporting of the verification status to the COD system, and 3) interviewing financial aid staff involved in the verification process.
- Evaluated documentation in student financial aid files related to the verification of applicant data.

To evaluate Morton College’s procedures and compliance with verification requirements, we reviewed documentation in student financial aid files for 25 of the 711 Morton College students who had an application selected for verification by the CPS and who received a Pell Grant disbursement for award year 2005-2006. We also reviewed student financial aid files for 25 of the 299 students that received a Pell disbursement and had a verification status of **S** in the COD system even though the CPS had not selected the student’s application for verification.

We relied on data extracted from the CPS and the Department’s National Student Loan Data System to identify the Morton College students who had an application selected for verification by the CPS and who received a Pell Grant disbursement for award year 2005-2006 (sampling universe). To assess the completeness of the extracted data, we compared the total records on the extract to totals reported on Department management information reports. During our review of documentation in student financial aid files for 25 students, we confirmed that the documentation indicated the students had been selected for verification by the CPS and that the CPS had not selected the other 25 students for verification. We concluded that the extracted data was sufficiently reliable for use in selecting the sample of students reviewed in the audit.

We reviewed information in the COD system to confirm that Morton College, in response to our finding, had changed the student verification status for the 25 sampled students who had not been selected by the CPS for verification.

We performed our fieldwork at Morton College’s campus in Cicero, Illinois. We held an exit briefing with Morton College officials on December 5, 2006. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

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.

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 Education Department official, who will consider them before taking final Departmental action on this audit:

Theresa S. Shaw
Chief Operating Officer, Federal Student Aid
U.S. Department of Education
Union Center Plaza, Room 112G1
830 First Street, NE
Washington, D.C. 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

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

Sincerely,

/s/

Gloria Pilotti
Regional Inspector General for Audit

Attachment

Attachment:

Morton College's Comments on the Draft Report



3801 South Central Avenue ~ Cicero, Illinois 60804-4398

February 28, 2007

Anne Goodwin
U.S. Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, CA 95814

Dear Ms. Goodwin:

In response to the Department of Education Draft Audit Report dated January 30, 2007, Morton College recognizes and accepts the Department of Education 2005-2006 audit finding and recommendations related to the Improper Verification Status for Students not Selected for Verification. The College is committed to rectifying the identified finding as pointed out by the audit; therefore, the following changes in office practices and staff responsibilities have been made.

Finding 1.1-Response

For 2005-2006, the Department of Education indicated that Morton College "elected not to verify the student's application because the school had reached the 30% threshold for required verification." DOE policy states that students who are not selected for verification should not have the "S" code placed on their record.

During the audit, we indicated that Morton College financial aid staff did not place the "S" code on these students' records. Additionally, we indicated that when Morton College financial aid staff requested a verification query for ISIR from EDEXpress, some students' records were selected by CPS for verification and thus had the asterisk indicating they needed to be verified. This query also showed some students' records without the asterisk which would indicate that they hadn't been selected by CPS for verification. Normally, on the verification query, students who are not selected for verification do not appear on the same list as students who are selected. The 299 students that received Pell disbursements had a verification status of "S". These were the same students who appeared on the verification query as selected for verification even though they did not have the asterisk or a comment code requesting verification.

In the audit interview meeting with Office of Inspector General staff, we reviewed the query information. At this time, Morton College financial aid staff provided ongoing documentation from EDEXpress and Morton College where the verification query and "S" codes were discussed but with no resolution. During the interview, you indicated that Morton College financial aid staff should work with technical support staff from EDEXpress. Because there had been no resolution to the verification issue, Morton College made the decision to transmit information through the COD system.

Recommendation 1.1-Response



3801 South Central Avenue ~ Cicero, Illinois 60804-4398

Imagine what you can do!

Financial Aid staff has confirmed that the reporting verification status of all students in 2005-2006 has been completed through COD "Blank" and "V" status codes have been recorded, where applicable.

Morton College will continue the 30% percent threshold requirement for the 2006-2007 year and monitor updated requirements.

As part of our ongoing financial aid staff review process and as a response to the finding, the Morton College Financial Aid office has dedicated a specific staff member for reporting the proper verification status code.

Recommendation 1.2- Response

Institutional departments such as the Business Office and Cashier's Office along with our Independent public auditors and comptroller will continue to monitor the Pell Verification Status Report from the COD system for proper verification reporting.

Regular financial aid departments meetings will continue to be conducted to ensure that the staff is informed of all federal and state financial aid regulations and changes as they occur.

We are confident through utilization and collaboration of college-wide staff and resources, policy and procedural changes and continued emphasis on accountability, the College will remain in compliance with Department of Education policy and guidelines.

If additional information or documentation is required to complete your review, please do not hesitate to contact me at (708)656-8000, ext. 227.

Sincerely,

Nicole L. Smith
Coordinator of Financial Aid

Cc:
SPS
BK
LN