



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/A09G0032

Juan B. Nazario-Negrón, President  
American University of Puerto Rico  
PO Box 2037  
Bayamón, PR 00960-2037

Dear President Nazario-Negrón:

This **Final Audit Report**, entitled *American University of Puerto Rico'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 American University of Puerto Rico 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).

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## BACKGROUND

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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 a 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, 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 the verification and maintain a CPS document in its files showing the student's final EFC.

As described in the *Federal Student Aid Handbook 2005-2006*, “Application and Verification Guide,” 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.<sup>1</sup> The student verification status remains blank when the school has not performed verification because the application was not selected for verification.

American University of Puerto Rico (American University) is a non-profit institution of higher education accredited by the Middle States Commission on Higher Education. American University has its main campus in Bayamón, Puerto Rico and operates an additional location in Manati, Puerto Rico. The university has an enrollment of about 4,000 students, offers associate’s and bachelor’s degrees in the areas of business administration, education, communication and criminal justice, and offers a master’s degree in criminal justice. Educational programs are provided on a standard-term calendar that is measured in semester credit hours.

American University participates in the following Title IV HEA programs: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Family Education Loan, William D. Ford Federal Direct Loan and Federal Work-Study. During the period from July 1, 2004, through June 30, 2005, the university disbursed about \$13 million in Title IV funds, which included about \$11 million from the Federal Pell Grant Program.

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## AUDIT RESULTS

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American University generally completed verification of applicant data in accordance with the applicable HEA provisions, Federal regulations, and Department guidance. Our analysis of information in the Department’s databases identified 1,538 American University 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 university’s student financial aid files for a random sample of 50 of the 1,538 students found that American University properly performed the verification and reported changes to the CPS for 47 of the 50 sampled students.<sup>2</sup> For all 50 sampled students, American University obtained appropriate student-provided documentation and accurately reported student verification statuses to the COD system. However, American University did not comply with the requirement to have written policies and procedures for the verification process. In its comments on the draft report, American University concurred with our finding and recommendation. American University’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.

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<sup>1</sup> 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.

<sup>2</sup> For two students in our sample, American University staff did not increase the number of students enrolled in college from one to two students. For the other student, the university did not include foreign tax credit (taxes paid in Puerto Rico) of \$896 in the amount reported for U.S. income taxes paid. The Title IV award would not have changed for these students because the EFC calculated based on the original data would not have changed. We concluded that these were isolated errors.

## **FINDING – American University Did Not Have Required Written Policies and Procedures**

American University staff used the verification worksheets and other information in the Department's *Federal Student Aid Handbook 2005-2006*, "Application and Verification Guide," when verifying student information reported on the FAFSA, making corrections and other changes to the FAFSA information, and reporting to the CPS and the COD system. While the American University had written procedures covering other student financial assistance areas, it did not have written procedures for the verification process. The Federal regulations at 34 C.F.R. § 668.53(a) state, "An institution shall establish and use written policies and procedures for verifying information contained in a student aid application in accordance with the provisions of [Subpart E of Part 668, Verification of Student Aid Application Information]."

Written policies and procedures are an essential internal control that would provide the Department and the American University with an increased level of assurance that the university is complying with the verification requirements and is able to prevent or promptly detect errors made during the verification process.

### **Recommendation**

- 1.1 We recommend that the Chief Operating Officer for Federal Student Aid require the American University to develop written policies and procedures for the verification process.

### **American University Comments**

American University concurred with the finding. The American University stated that policies and procedures for the verification process were included in its revised Financial Aid Office Procedures Manual and provided a copy of the manual (Spanish version).

### **OIG Response**

Our review of an English translation of the written policies and procedures covering the verification process in the revised manual found that they are not adequate to ensure that verification is properly performed: the revised manual did not include the specific written policies and procedures required by the *Federal Student Aid Handbook 2005-2006*, "Application and Verification Guide"; it did not address acceptable documentation for verification or refer to the *Handbook* guidance on those requirements; its procedures did not accurately reflect requirements for reporting application corrections to the CPS; and it did not include steps for reporting student verification status to the COD system. In addition, based on our review of this sample of the revised manual's written procedures, we cannot be certain that the remainder of the revised manual contains adequate written policies and procedures to ensure that Title IV programs are administered properly by American University.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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Our audit objective was to determine if American University completed verification of applicant data and accurately reported verification results to the Department. Our audit covered the 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 the American University's audited financial statements prepared by its independent public accountant for the fiscal years ended June 30, 2004 and 2005, and correspondence from the University's accrediting agency.
- Gained an understanding of American University's internal control for the verification process by 1) reviewing the written policies and procedures manual for administering student financial aid, 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 American University's procedures and compliance with verification requirements, we reviewed documentation in student financial aid files for 50 of the 1,538 students who had an application selected for verification by the CPS and received a Pell Grant disbursement for award year 2005-2006. All 1,538 students had a verification status code of **V**, indicating that the university had verified the application. To select the sample, we stratified the 1,538 students into two groups: a) the 1,231 students whose application contained only one record in the CPS (i.e., had no application changes) and b) the 307 students whose application contained two or more records in the CPS (i.e., had application changes). We randomly selected 25 students from each group.

We relied on data extracted from the CPS and the Department's National Student Loan Data System to identify the University students who had an application selected for verification by the CPS and 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 the 50 student financial aid files, we confirmed that the documentation showed that CPS had selected the students for verification. We concluded that the extracted data were sufficiently reliable for use in selecting the sample of students reviewed in the audit.

We performed our fieldwork at the American University's campus in Bayamón, Puerto Rico. We held an exit briefing with American University officials on September 14, 2006. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

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## ADMINISTRATIVE MATTERS

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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

Attachments

**Attachment:**

**American University's Comments on the Draft Report**

American University provided a copy of its Financial Aid Office Procedures Manual (Spanish version) with its comments. A copy of the manual and our English translation of the manual page covering the school's verification process will be made available upon request.



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February 12, 2007

Gloria Pilotti  
Regional Inspector General for Audit  
Department of Education  
Office of Inspector General  
501 I Street, Suite 9-200  
Sacramento, CA 95814-2559

Dear Mrs. Pilotti:

On January 19, 2007 we received the results of an audit performed to our institution for the period of July 1, 2005 through June 30, 2006 (Award Year 2005-06).

The only finding as a result of this audit was that the university did not have the required written policies and procedures for the verification process. We concur with this finding.

Our Financial Aid Director, Mrs. Yahaira Meléndez, reviewed the Financial Aid Office Procedures Manual as of September 2006 and included the procedures and policies for the verification process as required (Revised Procedures Manual copy is attached). Also, a copy of the Revised Procedures Manual was distributed to each Financial Aid Officer at our Bayamón and Manatí locations.

If there are any questions regarding this matter, please contact me at (787) 620-2040 Ext. 1030.

Cordially,

Juan C. Nazario Torres  
Vice President for Administrative and Financial Affairs

Enclosure: Revised Procedures Manual