



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
EDOIG/A09G0033

Dr. Steven C. Ballard, Chancellor
East Carolina University
105 Spilman Building
Greenville, NC 27858

Dear Dr. Ballard:

This **Final Audit Report**, entitled *East Carolina University'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 East Carolina University 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.

East Carolina University (ECU) is a public university accredited by the Southern Association of Colleges and Schools, Commission on Colleges. ECU operates a main campus in Greenville and 19 satellite campuses located throughout North Carolina. ECU has an enrollment of about 23,000 students and offers bachelor's, master's, and graduate's degrees in about 200 areas of study. ECU also offers 47 vocational/non-degree programs. Educational programs are provided on a standard-term calendar that is measured in semester credit hours.

ECU participates in the following HEA, Title IV programs: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Perkins Loan, Federal Family Education Loan, and Federal Work Study. During the period from July 1, 2004, through June 30, 2005, ECU disbursed about \$104 million in Title IV funds, which included about \$14 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. ECU 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

ECU had policies and procedures for ensuring that FAFSA information was verified in accordance with the applicable HEA provisions, Federal regulations, and Department guidance, but ECU did not consistently adhere to the procedures. An analysis of information in the Department's databases identified 2,629 ECU 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 ECU's student financial aid files for a random sample of 25 of the 2,629 students found that ECU staff did not properly perform the verification for 3 of the 25 students. ECU also did not report student verification statuses to the Department's COD system. In its comments to the draft report, ECU concurred with our findings and recommendations. ECU's comments are summarized at the end of each finding and the full text of the comments is included as an attachment to the report.

FINDING NO. 1 – ECU Did Not Resolve Conflicting Information During the Verification Process

ECU did not properly perform the verification process for 3 of the 25 students in our sample. For three students, ECU did not resolve non-taxable income information reported on the FAFSA that conflicted with information on other documents in the student's file. Under 34 C.F.R. § 668.16(f), an institution must resolve conflicting data during the verification process. After being advised of the errors, ECU resolved the information, recalculated the student EFCs, and determined that one student had received a Pell overpayment of \$1,373 and another had received a Pell overpayment of \$91. The recalculation did not change the EFC for the third student. ECU reported the changes in the FAFSA information to the CPS. ECU's Assistant Vice Chancellor for Financial Aid stated that the errors were made by inexperienced staff who are no longer involved in the verification process.

Prior to our review, ECU's internal audit staff had also identified errors in the verification process. The internal audit staff's review of student files for award year 2005-2006 found that 4 of 20 student files contained verification errors. In response to the internal audit findings, the Financial Aid Department added a quality control position to its staff that will review student file for adherence to ECU's policies and procedures, including its procedures related to the verification process. ECU's Director of Internal Audits also advised us that the University would be migrating to a new student information system in mid-2007.

Recommendations

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

- 1.1 Require ECU to return to the Department the \$1,373 and \$91 in Federal Pell Grant funds that were overpaid to the two students.

- 1.2 Require ECU to identify other Title IV overpayments made to students for award year 2005-2006 due to conflicting information that was not resolved during the verification process and return the Title IV overpayments to the Department.
- 1.3 Take appropriate action to ensure that ECU staff are resolving conflicting information in student files.

ECU's Comments

ECU concurred with the finding. ECU stated that it has returned the Pell Grant funds to the Department for the two overpaid students, is contracting with a consulting firm to re-verify FAFSA information for Pell Grant recipients for award year 2005-006, and will request that its independent public accountant, as part of the next scheduled audit, review a sample of students selected for verification to confirm that ECU staff are resolving conflicting information in student files.

OIG Response

The action's described in ECU's comments should address our finding, if properly designed and implemented. We have revised the draft report's language for recommendation 1.3 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 ECU appropriately implemented the needed corrective action.

FINDING NO. 2 – ECU Did Not Report Verification Status Codes to the COD System

All students we identified from the Department's database, whose applications were selected by the CPS for verification and who received Pell Grant disbursements for award year 2005-2006, had a verification status of blank in the COD system. Our review of files for 25 students found that ECU had completed the verification process for the students, although not always in conformance with ECU's procedures. Thus, the students should have had a verification status of **V** in the COD system.

The Assistant Vice Chancellor for Financial Aid advised us that, for award year 2005-2006, ECU was required to change the file format used to report information to the COD system. In collaboration with an ECU Applications Programmer, the Assistant Vice Chancellor decided to include only required fields in the new format to streamline the process. Since COD's Technical Documentation for 2005-2006 identifies the student verification status as an optional field, the ECU Applications Programmer did not include the verification status in the data extraction software program. Hence, the student verification status was not reported to the COD system. The Assistant Vice Chancellor was not aware that the University was receiving the Pell Verification Status Reports from the COD system to confirm that verification status had been properly reported.

Under 34 C.F.R. § 668.14(b)(7), an institution must “submit reports to the Secretary at such times and containing such information as the Secretary may reasonably require” The *Federal Student Aid Handbook 2005-2006*, “Application and Verification Guide,” requires that, when an institution disburses a Pell Grant, it must report through the COD system the student’s verification status.

The ECU Applications Programmer advised us that the software program has been revised to include the student verification status in reports to the COD system for award year 2006-2007. ECU also appropriately updated the verification status for the 25 sampled students from a blank to a V in the COD system. Our review of the information in the COD system found that ECU had also changed verification statuses for other students.

Recommendations

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

- 2.1 Require ECU to confirm that the verification status has been appropriately reported to the COD system for all students for award year 2005-2006.
- 2.2 Require ECU to implement regular reviews of COD Pell Verification Status Reports to ensure that verification status is properly reported to the COD system.
- 2.3 Take appropriate action to ensure that ECU is properly recording the verification status and regularly reviewing the COD Pell Verification Status Reports to ensure that the verification status is being accurately reported to the COD system.

ECU’s Comments

ECU concurred with the finding. ECU stated that it has initiated action to correct verification status in the COD system for award year 2005-2006, has implemented regular reviews of the COD Pell Verification Status Reports, and will request that its independent public accountant, as part of the next scheduled audit, review that ECU is properly recording verification statuses and regularly reviewing the COD reports.

OIG Response

The actions described in ECU’s comments should address our finding, if properly designed and implemented. We have revised the draft report’s language for recommendation 2.3 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 ECU appropriately implemented the needed corrective action.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to determine if ECU 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 the State of North Carolina’s single audit report prepared by the North Carolina State Auditor for the year ended June 30, 2005; an ECU internal audit report on student verification, dated September 1, 2006; and correspondence from the Department
- Verified ECU’s accreditation status.
- Gained an understanding of ECU’s internal control for the verification process by 1) reviewing written policies, procedures, and correspondence related to the verification process, 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 ECU’s procedures and compliance with the Title IV, HEA program verification requirements, we reviewed documentation in student financial aid files for 25 students randomly selected from the 2,629 ECU students who had an application selected for verification by the CPS and received a Pell Grant disbursement for award year 2005-2006.

We relied on data extracted from the CPS and the Department’s National Student Loan Data System to identify the ECU students whose application was 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 student financial aid files for the 25 students, 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 student reviewed in the audit.

We reviewed information in the COD system to confirm that ECU, in response to our finding, had properly updated the student verification status for the 25 sampled students.

We performed our fieldwork at the ECU campus in Greenville, North Carolina. We held an exit briefing with ECU 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.

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

East Carolina University's Comments to Draft Audit Report



Office of the Chancellor

East Carolina University
105 Spilman Building • Greenville, NC 27858-4353
252-328-6212 office • 252-328-4155 fax
www.ecu.edu

February 21, 2007

Ms. Gloria Pilotti
Regional Inspector General for Audit
United States Department of Education
Office of Inspector General
501 I Street, Suite 9-200
Sacramento, California 95814

Re: ED-OIG/A09G0033

Dear Ms. Pilotti:

Thank you for the opportunity to review and comment on the draft report dated January 25, 2007, entitled *East Carolina University's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid*. Below you will find East Carolina University's formal responses to the findings and recommendations as listed in your draft report. We also respectfully request that the title "ECU's Assistant Chancellor for Financial Aid" be changed to "ECU's Assistant Vice Chancellor for Financial Aid" in the draft report.

FINDING NO. 1 - ECU Did Not Resolve Conflicting Information During the Verification Process

Recommendations – We recommend that the Chief Operating Officer for Federal Student Aid require ECU to-

- 1.1 Return to the Department the \$1,373 and \$91 in Federal Pell Grant funds that were overpaid to the two students.
- 1.2 Identify other Title IV overpayments made to students for award year 2005-2006 due to conflicting information that was not resolved during the verification process and return the Title IV overpayments to the Department.
- 1.3 Have its independent public accountant, as part of the institution's next scheduled audit, review a representative sample of students selected by the CPS for verification to ensure that ECU staff have resolved conflicting information in student files.

University's Response: ECU concurs with the finding and we are taking the following corrective actions:

- 1.1 ECU has returned to the Department the \$1,373 and \$91 that were overpaid to the students.

Target Completion Date: Completed September 15, 2006

- 1.2 ECU is contracting with a consulting firm to re-verify the Federal Pell Grant recipients who were verified for award year 2005-2006.

Targeted Completion Date: To be determined by consultant.

- 1.3 ECU will request the North Carolina State Auditor's Office, which is our independent public accountant, to review during ECU's next scheduled audit, a representative sample of students selected by the CPS for verification to ensure that ECU staff have resolved conflicting information in student files.

Targeted Completion Date: Next scheduled audit for fiscal year 2006-2007 starts approximately June, 2007 and concludes approximately October, 2007.

FINDING NO. 2 – ECU Did Not Report Verification Status Codes to the COD System

Recommendations: We recommend the Chief Operating Officer of Federal Student Aid require ECU to-

- 2.1 Confirm that the verification status has been appropriately reported to the COD system for all students for award year 2005-2006.
- 2.2 Implement regular reviews of COD Pell Verification Status Reports to ensure that verification status is properly reported to the COD system.
- 2.3 Have its independent public accountant, as part of next scheduled audit, confirm that ECU is properly recording the verification status and regularly reviewing the COD Pell Verification Status Reports to ensure that the verification status is being accurately reported to the COD system

University's Response: ECU concurs with the finding and we are taking the following corrective actions:

- 2.1 ECU has confirmed that the verification status has been appropriately reported to the COD system for all students for award year 2005-2006, except for those noted under targeted completion date.

Targeted Completion Date: Completed September 15, 2006

Note: ECU identified 21 students as having an incorrect status. We have requested permission from COD to update those records and are awaiting an answer.

- 2.2 ECU has implemented regular reviews of COD Pell Verification Status Reports to ensure that verification status is properly reported to the COD system.

Targeted Completion Date: Completed October 1, 2006

- 2.3 ECU will request the North Carolina State Auditor's Office, which is our independent public accountant, to review during ECU's next scheduled audit, that ECU is properly recording the verification status and regularly reviewing the COD Pell Verification Status Reports to ensure that the verification status is being accurately reported to the COD system.

Targeted Completion Date: Next scheduled audit for fiscal year 2006-2007 starts approximately June, 2007 and concludes approximately October, 2007.

If you should have any questions regarding our responses, please contact Stacie Tronto, Director of Internal Audit at (252) 328-9025.

Sincerely,

Steve Ballard
Chancellor, East Carolina University

cc: Mr. Steve Showfety
Dr. James LeRoy Smith
Dr. Henry Peel
Mr. Don Joyner
Ms. Rose Mary Stelma
Mr. Kevin Seitz
Ms. Anne Jenkins
Ms. Stacie Tronto