



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

August 1, 2008

Control Number
ED-OIG/A19H0011

Lawrence A. Warder
Acting Chief Operating Officer
Federal Student Aid
U.S. Department of Education
830 First Street, NE, Suite 112G1
Washington, DC 20002

Dear Mr. Warder:

This **Final Audit Report**, entitled *Audit of the Department's Process for Disbursing Academic Competitiveness Grants and National Science and Mathematics Access to Retain Talent Grants*, presents the results of our audit. The objectives of our audit were to identify and assess the adequacy of processes and controls established by Federal Student Aid (FSA) to ensure (1) students potentially eligible for an Academic Competitiveness Grant (ACG) or National Science and Mathematics Access to Retain Talent (SMART) Grant are appropriately identified and notified, as well as applicable schools; (2) only eligible students have received grants under these programs; and (3) schools required to participate in the ACG and/or National SMART Grant program are doing so. Our review included award years (AY) 2006-2007 and 2007-2008, with a particular focus on program implementation in AY 2006-2007.

BACKGROUND

On February 8, 2006, President Bush signed into law the Deficit Reduction Act of 2005 (Act) (Pub. L. No. 109-171). Included as a subtitle within the Act is the "Higher Education Reconciliation Act of 2005" (HERA). HERA contained a new student grant program, the Academic Competitiveness Grant Program, itself comprised of two separate grants: the ACG and National SMART Grant. These grants were established to encourage students to take more challenging courses in high school and to pursue college majors in high demand in the global economy, such as science, mathematics, technology, engineering, and critical foreign languages. HERA mandated that \$790 million be appropriated for these programs in fiscal year (FY) 2006, with a total of \$4.53 billion to be appropriated through FY 2010. Funds not expended in one year are to be carried forward to support awards in subsequent years. The programs were effective July 1, 2006, thus ensuring awards could be made for the 2006-2007 award year.

Under the ACG program, students may receive up to \$750 (first-year ACG) or \$1,300 (second-year ACG) to pay for higher education, provided they have successfully completed a rigorous secondary school program of study after January 1, 2006 for a first-year ACG or January 1, 2005 for a second-year ACG. A rigorous secondary school program of study is one that is established by a State or local educational agency and recognized by the Secretary of Education (Secretary) as such. First-year recipients must not have been previously enrolled in an undergraduate program, and second-year recipients must have attained at least a 3.0 grade point average (GPA) in their first year of undergraduate education.

Under the National SMART Grant program, qualifying third- and fourth-year students may receive up to \$4,000 per year to pay for higher education if majoring in mathematics, science, technology, engineering, or a critical foreign language, as determined by the Secretary in consultation with the Director of National Intelligence (DNI). Recipients must also maintain a cumulative GPA of 3.0 in the coursework required for their major.

Both programs require that recipients be U.S. citizens, receiving a Federal Pell Grant during the same award year, and enrolled full-time in a degree program. Taken together with other Federal, State, and school student aid, grants cannot exceed a student's cost of attendance. Program funding in excess of the amount needed to fund grants in a given year can be carried over for use in subsequent years; conversely, if the mandatory funding level is insufficient to fund program grants, grant levels can be ratably reduced.

Students who are potentially eligible for an ACG award are notified upon submitting the Free Application for Federal Student Aid (FAFSA).¹ Paper filers receive a comment on their Student Aid Report directing them to answer additional questions regarding their eligibility – specifically, the rigorous secondary school program of study completed – either online or by calling the Federal Student Aid Information Center. Students using FAFSA on the Web are given the opportunity to respond to these questions at the time they file. If it appears the applicant might qualify for an ACG, FSA notifies the institution(s) listed on their FAFSA. The institution must then obtain and review documentation to support the student's statements. If deemed eligible, a new award is created in the Common Origination & Disbursement (COD) System. Data submitted by the institution is then matched to data in the Central Processing System (CPS) to validate student eligibility, and school eligibility is also confirmed through a check of data in the Postsecondary Education Participant System (PEPS). If the student fails to meet the necessary criteria, the school will receive a rejection edit; if the new award is accepted, the COD System will process the grant and permit the school to draw down funds for disbursement.²

¹ As most applicants had already submitted their FAFSA for AY 2006-2007, FSA identified students potentially eligible for an ACG during the first year of the program using data available in the Central Processing System. These students, as well as parents for whom email addresses were provided on the FAFSA, were notified via email or letter on or around July 1, 2006, and directed to either visit an FSA website or call the Federal Student Aid Information Center for an additional eligibility assessment.

² A similar process is not used for the National SMART Grant because the FAFSA does not require students to identify their majors or major program GPA – key criteria for the grant. Without this information, it would be very difficult to effectively narrow down the list of applicants to only those who might be eligible for a National SMART Grant. Furthermore, schools should have this information readily available in their student records.

During AY 2006-2007, approximately \$242 million in ACG funds were disbursed to 310,000 students, and approximately \$206 million in National SMART Grant funds were disbursed to 64,000 students. As of May 9, 2008 – 10 months into AY 2007-2008 – approximately \$284 million in ACG funds have been disbursed to 391,000 students, and approximately \$184 million in National SMART Grant funds have been disbursed to 64,000 students.

AUDIT RESULTS

Except as noted below, we found FSA has generally established adequate processes and controls over the ACG and National SMART Grant programs.³ Specifically, we found FSA has instituted an effective process for identifying and notifying potentially eligible applicants and applicable schools, and ensuring only eligible students have received grants. However, we noted FSA did not conduct sufficient follow-up with non-participating schools to ensure those required to participate in the ACG and/or National SMART program were doing so, including but not limited to verifying statements regarding school eligibility. As a result, funds may not have been made available to students who were eligible for an ACG or National SMART Grant.

In its response to the draft audit report, FSA concurred with the finding and its associated recommendations. FSA also provided corrective actions designed to improve its oversight of school compliance with the mandatory institutional participation requirement. The complete text of the response is included as an Attachment to this report.

FINDING – FSA Needs To Improve Its Oversight of School Compliance with the Mandatory Institutional Participation Requirement

Improvement is needed in FSA’s monitoring of schools for compliance with the ACG and National SMART Grant mandatory institutional participation requirement. Specifically, we noted FSA did not conduct sufficient follow-up with non-participating schools to ensure those required to participate in the programs were doing so.

We reviewed information on school outreach provided by FSA, as well as AY 2006-2007 disbursement data obtained from the COD System, and noted the following:

ACG Program

- Of the 640 non-participating, potentially ACG-eligible schools on FSA’s outreach list, 330 (52 percent) never responded.

³ Conclusions on the adequacy of controls are limited to those controls in place at FSA and do not include controls in place at the individual institutional level.

- We selected a random sample of 75 (23 percent) of these schools and, through a review of available institutional data, found that 62 (83 percent) appeared to be eligible to participate in the ACG program.
- Of the 310 potentially ACG-eligible schools that responded when contacted by FSA, 70 (23 percent) stated their non-participation was due to the school itself being ineligible.⁴
 - We reviewed available data for all 70 of these schools and found that 51 (73 percent) appeared to be eligible to participate in the ACG program.⁵

National SMART Grant Program

- Of the 425 non-participating, potentially National SMART Grant-eligible schools on FSA's outreach list, 218 (51 percent) never responded.
 - We selected a random sample of 67 (31 percent) of these schools and, through a review of available institutional data, found that 18 (27 percent) appeared to be eligible to participate in the National SMART Grant program.
- Of the 207 potentially National SMART Grant-eligible schools that responded when contacted by FSA, 64 (31 percent) stated their non-participation was due to the school itself being ineligible.
 - We reviewed available data for all 64 of these schools and found that 14 (22 percent) appeared to be eligible to participate in the National SMART Grant program.

Under 34 C.F.R. § 691.7(a) and (b),⁶ an institution that offers one or more eligible programs, as defined in § 691.2(d), for purposes of the ACG and/or National SMART Grant program(s), and that participates in the Federal Pell Grant program under 34 C.F.R. Part 690, must participate in the ACG and/or National SMART Grant program(s).

An eligible program, for purposes of the ACG program, is defined at 34 C.F.R. § 691.2(d)(1) as any program that leads to an associate's degree or a bachelor's degree; is a two-academic-year program acceptable for full credit towards a bachelor's degree; or is a graduate degree program that includes at least 3 academic years of undergraduate education.

An eligible program, for purposes of the National SMART Grant program, is defined at 34 C.F.R. § 691.2(d)(2) as any program that leads to a bachelor's degree in an eligible major or is a graduate degree program in an eligible major that includes at least 3 academic years of undergraduate education. An eligible major is defined at 34 C.F.R. § 691.17(a) and (b) as any

⁴ Other common responses, in addition to "no eligible students", were: (1) technical issues, i.e., rejected submissions, problems with upgrades, etc.; (2) use of a homegrown system/no CIP [Classification of Instructional Program] codes; (3) personnel issues, i.e., lack of training, new financial aid staff, etc.; and (4) slow screening of students.

⁵ For both programs, we did not select for review schools that stated they had no eligible students, technical issues, personnel issues, etc., as these reasons for non-participation could be verified only by site visits to the individual schools.

⁶ The Department issued interim final regulations on July 3, 2006, effective for the 2006-2007 AY, and final regulations on November 1, 2006, effective for the 2007-2008 AY (and the 2006-2007 AY, at the institution's discretion).

major in one of the physical, life, or computer sciences; mathematics; technology; engineering; or a critical foreign language, as determined through consultation with the DNI, that has been designated by the Secretary as eligible for the National SMART Grant program.

A coordinating technical amendment at 34 C.F.R. § 690.7(a)(1) and (2) – the Federal Pell Grant program regulations – states that an institution may not participate in the Federal Pell Grant program if the institution offers at least one eligible program for purposes of the ACG and/or National SMART Grant program(s), as defined in 34 C.F.R. § 691.2(d), but does not participate in the ACG and/or National SMART Grant program(s).

To track non-participating schools, we noted FSA relied solely on an Excel spreadsheet, edited by multiple individuals and based on information obtained through telephone calls to financial aid administrators. We found comments regarding the reasons schools did not report disbursements were sometimes phrased in such a way as not to allow for a clear determination regarding school eligibility, and/or provided insufficient information or reasoning. We also noted this field was often left blank, suggesting follow-up did not occur, and, as stated above, later determined that over 50 percent of the schools contacted by FSA never responded.

We learned FSA had relatively little time to implement the programs on both the regulatory and operational levels. As a result, certain processes related to compliance monitoring, including school outreach, were not formalized.

Recently, FSA and the Office of Postsecondary Education discussed an outreach plan for AY 2007-2008 that involved collecting certifications from non-participating schools. E-mails were subsequently disseminated to schools that appeared to be eligible for at least one of the programs but had not yet submitted disbursement records. The e-mails requested that each affected school review its records and complete a certification stating whether it (1) has no eligible students, (2) has identified eligible students and will send origination and disbursement records by a specified date, or (3) will not be participating in the ACG and/or National SMART Grant program(s) and will consequently withdraw from the Federal Pell Grant program. Schools with no eligible students were also asked to indicate whether they have procedures in place to review all students who may be ACG or National SMART Grant-eligible in future award years. The notification further stated schools that fail to participate when they have eligible students would be referred to FSA's School Participation Team and the Office of Administrative Action and Appeals for a possible fine. FSA officials stated this certification system would replace the spreadsheet system used for AY 2006-2007.

Because potentially eligible schools did not participate in the programs, funds may not have been made available to students who were eligible for an ACG or National SMART Grant. Of the \$790 million appropriated for these programs for FY 2006, approximately \$448 million (57 percent) was disbursed.⁷ Under-participation may have also contributed to the Administration's proposal to rescind \$652 million in unobligated balances in its FY 2009 budget, as it is thought remaining balances are sufficient to meet estimated demand in these programs through the 2010-2011 academic year.

⁷ An additional \$850 million was appropriated for these programs for FY 2007. According to FSA, as of May 9, 2008, approximately \$468 million (55 percent) has been disbursed.

Recommendations

We recommend that the Acting Chief Operating Officer take the following actions to ensure schools required to participate in the ACG and/or National SMART Grant programs do so:

- 1.1 Establish and implement procedures for a formal, rigorous outreach and assessment process, to include the recent certification process.
- 1.2 Establish a program of administrative action under 34 C.F.R. Part 668, Subpart G, to include fines and suspension or termination from the Federal Pell Grant program, for schools that offer eligible programs and enroll eligible students but do not participate in the ACG and/or National SMART Grant programs.

FSA Response

In its response to the draft audit report, FSA concurred with the finding and its associated recommendations. FSA stated it views the results of the audit as an opportunity to further enhance school participation rates and to strengthen the effectiveness of its procedures for monitoring schools' compliance with participation requirements. This includes the collection of certifications from potentially eligible but non-participating schools, as well as the referral of eligible, non-participating schools for adverse administrative action. FSA noted the recently-enacted "Ensuring Continued Access to Student Loans Act of 2008" (Pub. L. No. 110-2270) made important changes to the ACG and National SMART Grant programs concerning eligibility, effective January 1, 2009, and that it believes the expanded criteria will reduce the administrative barriers that may have contributed to school participation rates during the first two years of the programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to identify and assess the adequacy of processes and controls established by FSA to ensure (1) students potentially eligible for an ACG or National SMART Grant are appropriately identified and notified, as well as applicable schools; (2) only eligible students have received grants under these programs; and (3) schools required to participate in the ACG and/or National SMART Grant programs are doing so.

To accomplish our objectives, we performed a review of internal control applicable to the Department's process for disbursing ACG and National SMART Grants. We reviewed statutory and regulatory requirements, policies and procedures, operational guidance, and Dear Partner Letters. We held discussions with FSA officials to obtain an understanding of the award, disbursement, and monitoring processes. We reviewed prior audits concerning the Federal Pell Grant disbursement process in FSA for possible vulnerabilities. We reviewed data from various

financial aid systems and other materials related to the ACG and National SMART Grant programs as further described below.

The scope of our review included AYs 2006-2007 and 2007-2008, with a particular focus on program implementation in AY 2006-2007.

To achieve our first objective, we discussed with FSA the process for identifying and notifying potentially eligible students using data available in CPS, reviewed related procedures, and obtained templates of notification emails and letters sent to students and parents at the start of AY 2006-2007. Copies of actual communications were not retained.

For our second objective, we obtained AY 2006-2007 ACG and National SMART Grant recipient data from the COD System and evaluated each universe for potentially ineligible students by verifying citizenship and Federal Pell Grant receipt using IDEA data analysis software. We also confirmed disbursements were made to students in appropriate grade levels for the award received and, for the ACG program, reviewed for information on recipient ages to identify any outliers. In addition, we obtained from FSA data on schools that received a warning message for students who received grants under the ACG and National SMART Grant programs but no corresponding Federal Pell Grant. Our analysis of the COD System data also enabled us to determine the number of unique recipients, total funds disbursed, and number of schools that made disbursements under each program.

To achieve our third objective, we reviewed information on school outreach conducted by FSA in April/May 2007 to determine the reasons potentially eligible schools gave for not participating in the programs. We then compared this data with school funding data from the COD System to determine whether any of these schools later made disbursements, and removed those that did from the outreach lists. We used the National Center for Education Statistics' Integrated Postsecondary Education Data System (IPEDS) and school websites to research those schools that stated they did not participate because they did not offer eligible degree programs. We reviewed 70 potentially ACG-eligible schools, out of 310 total responders (23 percent). For the potentially National SMART Grant-eligible schools, we reviewed only those that did not appear to have a religious, art, or medical affiliation, as it was deemed likely these schools would not offer National SMART Grant-eligible majors. There were 64 such schools, out of 207 total responders (31 percent).

We also randomly selected 75 out of 330 (23 percent) potentially ACG-eligible schools and 67 out of 218 (31 percent) potentially National SMART Grant-eligible schools that did not respond to FSA's outreach efforts, and reviewed associated IPEDS data and school websites to determine whether they were eligible to participate in the programs.

To achieve our objectives, we relied on computer-processed data obtained from CPS, COD, the National Student Loan Database System, IPEDS, and PEPS. To test the reliability of this data, we compared detailed system data to available summary data. Based on our analysis, we determined the computer-processed data was sufficiently reliable for the purposes of our review.

We conducted fieldwork at Department offices in Washington, DC, during the period October 2007 through March 2008. We provided our audit results to FSA staff during an exit conference conducted on May 12, 2008. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 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 finding 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 audits that remain unresolved after six months from the date of issuance.

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.

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.

We appreciate the cooperation given us during this review. If you have any questions, please call Michele Weaver-Dugan at (202) 245-6941.

Sincerely,

Keith West /s/
Assistant Inspector General for Audit Services

cc: Martha Benjamin, Audit Liaison Officer, FSA
Marge White, Audit Liaison Officer, FSA
Pat Howard, Director, Student Financial Assistance Advisory and Assistance Team, OIG

Attachment



JUL 22 2008

TO: Keith West
Assistant Inspector General for Audit Services

FROM: Lawrence A. Warder
Acting Chief Operating Officer
Federal Student Aid

SUBJECT: Draft Audit Report
Department's Process for Disbursing Academic Competitiveness Grants and
National Science and Mathematics Access to Retain Talent Grants
ED-OIG/ A19-H0011

Thank you for the opportunity to respond to the draft audit report, Control Number ED-OIG/A19-H0011, entitled Department's Process for Disbursing Academic Competitiveness Grants and National Science and Mathematics Access to Retain Talent Grants.

Federal Student Aid concurs with the findings and recommendations as presented in the report. The OIG has acknowledged that Federal Student Aid has generally established adequate processes and controls over the ACG and National SMART Grant programs, specifically noting that Federal Student Aid has instituted an effective process for identifying and notifying potentially eligible applicants and applicable schools, and largely ensuring only eligible students have received grants. Federal Student Aid was presented with a particularly difficult implementation challenge for the 2006-2007 award year that was the focus of the OIG's investigation.

Federal Student Aid views the results of the OIG audit as an opportunity to further enhance school participation rates and to strengthen the effectiveness of our procedures for monitoring schools' compliance with participation requirements. Our response to the OIG's audit follows with the noted exceptions:

Finding 1: FSA Needs To Improve Its Oversight of School Compliance with the Mandatory Institutional Participation Requirement

830 First St. N.E., Washington, DC 20202
www.FederalStudentAid.ed.gov
1-800-4-FED-AID

Recommendation 1.1: Establish and implement procedures for a formal, rigorous outreach and assessment process, to include the recent certification process.

Federal Student Aid Response: Federal Student Aid agrees with this recommendation and has begun a more formal process for ensuring that eligible schools are participating in the two programs. For the 2007-2008 award year, Federal Student Aid began collecting certifications from apparently eligible schools that were not yet participating schools. E-mails were subsequently disseminated to schools that appeared to be eligible for at least one of the programs but had not yet submitted disbursement records. The e-mails requested that each affected school review its records and complete a certification stating whether it (1) has no eligible students, (2) has identified eligible students and will send origination and disbursement records by a specified date, or (3) will not be participating in the ACG and/or National SMART Grant program(s) and will consequently withdraw from the Federal Pell Grant program. Schools with no eligible students were also asked to indicate whether they have procedures in place to review all students who may be ACG or National SMART Grant-eligible in future award years. The notification further stated schools that fail to participate when they have eligible students would be referred to Federal Student Aid's School Participation Team and the Office of Administrative Actions and Appeals for a possible fine.

Recommendation 1.2: Establish a program of administrative action under 34 C.F.R. Part 668, Subpart G, to include fines and suspension or termination from the Federal Pell Grant program, for schools that offer eligible programs and enroll eligible students but do not participate in the ACG and/or National SMART Grant programs.

Federal Student Aid Response: Federal Student Aid agrees and plans on making such referrals for administrative action before the end of the 2008-2009 award year. Recently, President Bush signed into law the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) (Pub. L. No 110-2270). ECASLA made important changes to ACG and National SMART Grant programs effective January 1, 2009 that will make part-time and eligible non-citizens eligible. In addition, students in certificate programs will also be eligible for ACG and 5th year students will be eligible for National SMART Grants. We believe these expanded eligibility criteria will reduce the administrative barriers that may have contributed to school participation rates in these programs. Given these changes we believe that Spring 2009 is the best timeframe to assess institutional participation and begin compliance activities.

If you have any questions please contact Kathleen Wicks Director, Grant Operations at (202) 377- 3110.