University of Houston’s Compliance with Verification and Reporting Requirements

November 30, 2018
ED-OIG/A06S0007
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. The appropriate Department of Education officials will determine what corrective actions should be taken.

In accordance with Freedom of Information Act (Title 5, United States Code, Section 552), final reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.
November 30, 2018

Dr. Renu Khator  
President  
University of Houston  
212 E. Cullen Building  
Houston, Texas 77204-2018

Dear Dr. Khator:

Enclosed is our final audit report, “University of Houston’s Compliance with Verification and Reporting Requirements,” Control Number ED-OIG/A06S0007. This report incorporates the comments you provided in response to the draft report. 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 Department of Education official, who will consider them before taking final Departmental action on this audit:

   James F. Manning  
   Acting Chief Operating Officer  
   Federal Student Aid  
   U.S. Department of Education  
   830 1st Street, NE  
   Washington, D.C. 20202

The U.S. Department of Education’s policy is to expedite audit resolution by timely acting on findings and recommendations. Therefore, if you have additional comments, we would appreciate receiving them within 30 days.

Sincerely,

/s/

Alyce Frazier  
Regional Inspector General for Audit

Enclosure
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Results in Brief

What We Did

Our audit objectives were to determine whether the University of Houston completed verification of applicant data in accordance with Federal requirements and accurately reported verification results to Federal Student Aid (FSA). Our audit covered award year 2016–2017 (July 1, 2016, through June 30, 2017).

To answer the objectives, we gained an understanding of the school’s processes for verifying applicant data, reporting the results of verification to the U.S. Department of Education’s (Department) Central Processing System and Common Origination and Disbursement System, and disbursing student aid funds authorized by Title IV of the Higher Education Act of 1965, as amended (Title IV), to students selected for verification. We selected a statistical random sample of 60 students from the 5,164 students who received a Federal Pell Grant Program (Pell) disbursement and whose applications were selected for verification for award year 2016–2017. For each student, we reviewed the records that the University of Houston obtained during its verification process to determine whether the student provided acceptable documentation and the records supported the information in the student’s Institutional Student Information Record.

We also compared the information in the University of Houston’s records to the information in the Department’s Central Processing System and Common Origination and Disbursement System for all 60 students in our sample. We compared the information to determine whether the school accurately reported the appropriate verification status codes in FSA’s systems and updated those systems when a student’s information changed as a result of the verification process.

What We Found

We found that the University of Houston completed verification of applicant data in accordance with Federal requirements for 55 of the 60 students in our sample for award year 2016–2017. However, we found the University of Houston did not properly perform verification of applicant data in accordance with Federal requirements for 5 of the 60 students (See Finding 1). Because the University of Houston did not properly perform verification for five sampled students, it improperly disbursed $14,004 in Pell funds for four students.

The University of Houston accurately reported verification results to FSA for 59 of 60 students included in our random sample and for whom the school performed verification. (See Finding 2).
What We Recommend

We recommend that the Acting Chief Operating Officer for FSA confirm that the University of Houston returned to the Department $14,004 of Pell funding improperly disbursed, and developed and implemented control activities to ensure proper management of subsequent Institutional Student Information Reports.

Lastly, we included in the other matter section of this report a suggestion that the University of Houston update and implement its written policies and procedures to ensure its use of professional judgement is properly coded in the Central Processing System.

University of Houston Comments

The University of Houston agreed with the findings stating that it returned to the U.S. Department of Education the $14,004 that the school improperly disbursed for the four students in our sample. The University of Houston also stated that it has taken actions to prevent future verification findings.

We revised the recommendations based on the corrective actions reported in the University of Houston’s comments. Other than revising the recommendations, we did not make any changes to the report as a result of the University of Houston’s comments. We summarized the University of Houston’s comments at the end of each finding and the other matter. We have included the University of Houston’s comments at the end of this report (see Appendix C. University of Houston Comments). We have excluded the University of Houston’s Appendix A which contained personally identifiable information.
Introduction

Background

The University of Houston is part of the State-supported system of higher education in Texas, known as the University of Houston System, and is accredited by the Southern Association of Colleges and Schools Commission on Colleges. The University of Houston has campuses in Sugar Land, Pearland, Katy, and Northwest Houston. In the fall of 2016, the University of Houston enrolled more than 43,000 undergraduate and graduate students. The University of Houston System also includes the universities of Houston-Clearlake, Houston-Downtown, and Houston-Victoria.

Federal Assistance Programs and Funding Information

The purpose of the Title IV programs is to provide loans, grants, and work-study financial assistance to students and their parents. During award year 2016–2017, the University of Houston participated in the following Title IV programs:

- William D. Ford Federal Direct Loan: Provides loans to postsecondary school students and their parents to help defray the costs of education at participating schools.
- Pell: Provides eligible students who have demonstrated financial need with grant assistance to help pay undergraduate educational expenses.
- Federal Supplemental Educational Opportunity Grant: Provides need-based grants to eligible students to help meet undergraduate educational expenses.
- Federal Work-Study: Provides part-time employment to eligible students to help meet undergraduate educational expenses and encourage students receiving program assistance to participate in community service activities.
- Teacher Education Assistance for College and Higher Education Grant: Provides grants for graduate and undergraduate students who intend to teach full-time in high-need subject areas for at least four years at schools that serve students from low-income families.
- Federal Perkins Loan: provides low-interest loans to help needy students finance the costs of postsecondary education.

For award year 2016–2017, the University of Houston disbursed over $241 million in Title IV funds (see Table 1).
Table 1. Title IV Program Funds Disbursed by the University of Houston for Award Year 2016–2017

<table>
<thead>
<tr>
<th>Program</th>
<th>Funds Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>William D. Ford Direct Loan</td>
<td>$181,297,094</td>
</tr>
<tr>
<td>Pell</td>
<td>$57,940,771</td>
</tr>
<tr>
<td>Federal Work Study</td>
<td>$1,448,459</td>
</tr>
<tr>
<td>Federal Supplemental Educational Opportunity Grant</td>
<td>$1,243,075</td>
</tr>
<tr>
<td>Teacher Education Assistance for College and Higher Education Grant</td>
<td>$24,677</td>
</tr>
<tr>
<td>Federal Perkins Loan</td>
<td>$6,500</td>
</tr>
<tr>
<td>Total</td>
<td>$241,960,576</td>
</tr>
</tbody>
</table>

SOURCE: NATIONAL STUDENT LOAN DATABASE SYSTEM

Verifying Applicant Data and Reporting the Results

Students apply for Title IV funds by completing a Free Application for Federal Student Aid (FAFSA). The FAFSA is processed by the Central Processing System. This system uses the FAFSA information to calculate each applicant’s expected family contribution. After processing the FAFSA, the Central Processing System produces two output documents. An Institutional Student Information Record is issued to the school, and a Student Aid Report is issued to the student. Both documents show the student’s applicant data, expected family contribution, and other information, including whether the student was selected for verification.

Verification is the process FSA requires schools to use to ensure that students and parents report accurate financial and demographic data on the FAFSA. During processing of the FAFSA, if the student’s data meets certain established criteria, the Central Processing System assigns a verification tracking flag, indicating that the student has been selected for verification.

The verification tracking flag on a student’s Institutional Student Information Record identifies which applicant data elements the school must verify for that student. Each award year, the Department publishes in the Federal Register a notice announcing the FAFSA data elements that a school and an applicant might be required to verify. For the award year 2016–2017 notice, see 80 Federal Register 36783 (June 26, 2015).

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1 For the award year 2016–2017 notice, see 80 Federal Register 36783 (June 26, 2015).
verify those elements. See Table 2 for a list of the verification tracking flags and the corresponding data elements that schools were required to verify for award year 2016–2017.

**Table 2. Verification Tracking Flags and Data Elements to be Verified for Award Year 2016–2017**

<table>
<thead>
<tr>
<th>Flag*</th>
<th>Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>V1</td>
<td>Adjusted gross income, U.S. income tax paid, untaxed portions of individual retirement account distributions, untaxed portions of pensions, individual retirement account deductions and payments, tax-exempt interest income, education tax credits, income earned from work (for nontax filers), number of household members, number of household members in college, Supplemental Nutrition Assistance Program benefits received, and child support paid.</td>
</tr>
<tr>
<td>V4</td>
<td>High school completion status, identity/statement of educational purpose, Supplemental Nutrition Assistance Program benefits received, and child support paid.</td>
</tr>
<tr>
<td>V5</td>
<td>All elements under V1 and V4.</td>
</tr>
<tr>
<td>V6</td>
<td>All elements under V1; payments to tax-deferred pension and retirement savings plans; child support received; housing, food, and other living allowances paid to members of the military, clergy, and others; veterans’ noneducation benefits; money received or paid on the applicant’s behalf; resources or benefits not appearing on the FAFSA, such as in-kind support from a relative or government agency; and other untaxed income.</td>
</tr>
</tbody>
</table>

*Verification tracking flags V2 and V3 were not used for award year 2016–2017.

A school has completed the verification process when it has either determined that the applicant data are correct or when the corrected data have been submitted to the Central Processing System. The school must retain records of its verification processes and records showing the student’s final expected family contribution as recorded in the Central Processing System.

When a school disburses Pell 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 System. As described in the “Federal Student Aid Handbook 2016–2017, Application and Verification Guide 2016-2017,” the verification status codes were as follows.

- **V**—The school has verified the student’s information. This includes the students selected by the Central Processing System and students selected by the school based on its own criteria.
W—The student was selected for verification by the Central Processing System or the school, and the school chose to make a first disbursement of Pell funds without the required verification documentation. The school must update the code once it completes verification; otherwise, the Common Origination and Disbursement System will reduce the student’s Pell amount to zero.

S—The Central Processing System selected the student for verification but the school did not verify him or her, either because the school determined that the student satisfied an exclusion or the school participated in the Quality Assurance Program and the student’s application did not meet the school’s verification criteria.²

Blank—The school did not complete verification, either because the student was not selected for verification or because the student ceased being enrolled at the school and all Pell disbursements had already been made.

In addition, for an Institutional Student Information Record with a verification tracking flag of V4 or V5, a school must report the verification results of identity and high school completion status to the Central Processing System using one of the following numeric codes.

- 1—Verification completed in person; no issues found.
- 2—Verification completed using notary; no issues found.
- 3—Verification attempted; issues found with identity.
- 4—Verification attempted; issues found with high school completion.
- 5—No response from applicant or unable to locate.

² Schools do not need to complete verification if a student (1) died before verification could be completed, (2) did not receive Title IV funds for reasons other than failure to complete verification, (3) was only eligible for an unsubsidized William D. Ford Federal Direct Loan Program loan, (4) completed verification for the award year at another school, or (5) was selected for verification after ceasing enrollment at the school and after all disbursements had been made.
Finding 1. The University of Houston Did Not Always Properly Perform Verification of Applicant Data

We found that the University of Houston completed verification of applicant data in accordance with Federal requirements for 55 of the 60 students in our sample. However, the school did not properly perform verification for 5 of the 60 students. For the 2016–2017 award year, 5,164 University of Houston students received a Pell disbursement and were selected for verification. We selected a statistical random sample of 60 students from the 5,164 students and reviewed the school’s enrollment and financial assistance records. For each student, we reviewed the records that the University of Houston obtained during its verification process to determine whether the student provided acceptable documentation and whether the records supported the information in the student’s Institutional Student Information Record.

We found the University of Houston did not complete verification for one student and did not properly perform verification for four students. The University of Houston did not complete verification for one student (student number 27) after the school received a subsequent Institutional Student Information Report. The student applied for Federal aid on April 3, 2016, and was not originally selected for verification. The student was subsequently selected for verification tracking flag V1 on August 19, 2016. The University of Houston received the student’s subsequent Institutional Student Information Report and placed it in suspense status within its internal student information system and left the Institutional Student Information Report unprocessed. The student had two unprocessed Institutional Student Information Reports in suspense status: one with the University of Houston’s school code, dated August 19, 2016, and another with a school code for the University of Houston-Clear Lake, also dated August 19, 2016. The University of Houston made the student’s first Pell disbursement on September 8, 2016, and made a second Pell disbursement on February 3, 2017. The University of Houston made both disbursements without reporting a verification status code for verification tracking flag V1 for award year 2016–2017. The total Pell disbursement for this student was $5,815.

In addition, the University of Houston did not properly verify some of the information required to be verified for four students selected for verification. Table 3 describes each of the four students and the FAFSA information that the school did not properly verify. The total Pell disbursement for these four students was $9,643.
Table 3. FAFSA Information Not Properly Verified

<table>
<thead>
<tr>
<th>OIG Sample Number</th>
<th>Verification Flag</th>
<th>Data Not Properly Verified</th>
<th>Description</th>
<th>Pell Amount Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>V1</td>
<td>Income</td>
<td>Parent’s 2014 tax return was used instead of the 2015 tax return.</td>
<td>$3,865</td>
</tr>
<tr>
<td>11</td>
<td>V1</td>
<td>Income</td>
<td>Parents of dependent student used same address and both filed head of household status on 2015 tax returns. Only mother’s income used for Pell eligibility determination.</td>
<td>$1,417</td>
</tr>
<tr>
<td>26</td>
<td>V6</td>
<td>Income</td>
<td>Dependent student’s household income was not amended to include the mother’s correct income. Recalculation of the expected family contribution to include the mother’s corrected income did not change the expected family contribution or the Pell award amount.</td>
<td>$1,454</td>
</tr>
<tr>
<td>49</td>
<td>V1</td>
<td>Supplemental Nutrition Assistance Program</td>
<td>Dependent student verification worksheet indicated Supplemental Nutrition Assistance Program benefits were received; however, these benefits were not verified as required.</td>
<td>$2,907</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$9,643</td>
</tr>
</tbody>
</table>

Based on the results of our statistical random sample, we estimate that the University of Houston did not properly perform verification for 8.3 percent of the 5,164 Pell recipients selected for verification for award year 2016–2017.³

According to the Department’s verification regulations at 34 Code of Federal Regulations (C.F.R.) § 668.54, a school must require an applicant whose FAFSA information is selected

³ We are 90 percent confident that Houston did not properly perform verification for between 3.3 and 16.7 percent of the Pell recipients selected for verification for award year 2016-2017.
for verification to verify the information specified by the Department. The school must also require the selected applicant to verify the information specified by the Department if the applicant is selected for a subsequent verification of FAFSA information. The Department’s Pell Grant regulations at 34 C.F.R. §690.79(a)(2) state that a school is liable for a Pell overpayment if the overpayment occurred because it failed to follow the procedures and the school must restore an amount equal to the overpayment to its Pell account.

Section 2(g)(2) of the Improper Payments Information Act of 2002, as amended, defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

According to the “Federal Student Aid Handbook 2016-2017, Application and Verification Guide 2016-2017”, Chapter 5—Special Cases, schools are generally required to review all subsequent transactions for a student for the entire processing year even if earlier transactions have been verified. In addition, schools should check for any updates, corrections, or whether the verification tracking group has changed. If the expected family contribution changes and the pertinent data elements were not verified, then schools must investigate. The Application and Verification Guide 2016-2017 and 34 C.F.R. §668.54(a)(2) also state that, if the school has any reason to believe a student’s application information is inaccurate, it must verify the accuracy of that information. The Application and Verification Guide 2016-2017 further states that if the school discovers discrepancies after disbursing FSA funds, the school must still reconcile the conflicting information and take appropriate action under the specific program requirements. Verification is complete when the school has received all the requested documentation and a valid Institutional Student Information Report (one on which all the information is accurate and complete).

In addition, according to the Application and Verification Guide 2016-2017, Chapter 4—Verification, Updates, and Corrections, as well as the University of Houston’s Verification Process Manual for 2016–2017, if a student is selected for verification on a subsequent transaction after the student has been paid based on the previous unselected Central Processing System transaction, the University of Houston must verify the application before making further disbursements.

The University of Houston creates a monthly internal system report called an After Packaging Report to manage subsequently received Institutional Student Information Reports. The University of Houston’s Verification Process Manual addressed neither the school’s process for placing Institutional Student Information Reports in a suspense status nor its After Packaging Report. The school performs verification only on
Institutional Student Information Reports that are loaded into student files for processing.

The University of Houston lacked control activities to ensure staff processed subsequent Institutional Student Information Reports identified in its After Packaging Report. According to the University of Houston’s Assistant Director of Federal Processing, the school did not perform verification for the student after a subsequent Institutional Student Information Report was received because school policy is not to load Institutional Student Information Reports initiated by another school into its student accounts. As a result, the school did not verify information on the student’s Institutional Student Information Reports. However, as stated above, the student had two unprocessed Institutional Student Information Reports in suspense status, including one with the University of Houston’s school code that should have been included on an After Packaging Report. The University of Houston’s Executive Director of Scholarships and Financial Aid agreed that the student’s subsequent Institutional Student Information Reports should have been reviewed and verification performed.

The University of Houston’s Assistant Director of Federal Processing agreed that the school did not properly verify some of the information required to be verified for the four students in Table 3 and indicated this happened because of human error.

Because the University of Houston did not properly perform verification for five sampled students, it improperly disbursed $14,004 in Pell funds for four students. The University of Houston agreed with the issues noted for all five students, and replaced $8,189 of improperly disbursed Pell funds with institutional funds for three of the four students.

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4 Pell funds disbursed to the five students totaled $15,458, of which $1,454 was disbursed to student number 26 in Table 3 for whom verification resulted in no change in the expected family contribution. The remaining $14,004 disbursed to four students were improper payments. The total amount disbursed to three (student numbers 8, 11, and 49 in Table 3) of the four students was $8,189. The University of Houston disbursed the remaining $5,815 to student number 27 for whom the school did not complete verification.

U.S. Department of Education
Office of Inspector General
ED-OIG/A06S0007
Recommendations

We recommend that the Acting Chief Operating Officer for FSA confirm that the University of Houston—

1. Returned to the Department $14,004 of Pell funding improperly disbursed to the four students for whom the University of Houston did not perform the required verification.
2. Developed and implemented control activities to ensure subsequent Institutional Student Information Reports requiring verification are loaded into its system and processed.

University of Houston Comments
The University of Houston stated that, in addition to returning $14,004 to the Department, it has instituted quality control measures to prevent such findings from occurring in the future and to increase the accuracy and efficacy of its verification program. Further, the University of Houston stated that it has developed a business process to identify subsequent Institutional Student Information Reports received from component institutions within the University of Houston System that would need to be verified using the University of Houston’s routine verification process (see Appendix C. University of Houston Comments).

OIG Response
The University of Houston’s corrective actions, if properly implemented, should address our recommendations.
Finding 2. The University of Houston Accurately Reported Verification Results

For each of the 60 students in our statistical random sample, we compared the school’s enrollment and financial assistance records with the records in the Department’s Central Processing System and Common Origination and Disbursement System. We found that the University of Houston accurately reported verification results to FSA for the 59 students for whom the school performed verification. Specifically, the University of Houston updated the Central Processing System and the Common Origination and Disbursement System with accurate verification results.

Because we did not identify noncompliance with Federal verification reporting requirements for the 59 students for whom the school performed verification, we are 90 percent confident that the University of Houston accurately reported verification results for at least 96 percent of award year 2016–2017 Pell recipients selected for verification by the Central Processing System and for whom the school performed verification. We do not have any recommendations for corrective actions.

University of Houston Comments
The University of Houston agreed with the finding (see Appendix C. University of Houston Comments).

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5 As reported in Finding 1, of the 60 students in the sample, the University of Houston did not perform verification for student number 27.
Other Matter. The University of Houston Did Not Properly Report its Use of Professional Judgement

The University of Houston did not properly report in the Central Processing System its use of professional judgement to award aid to 1 of the 60 students in our sample. While the University of Houston performed and completed verification of the required FAFSA information and reported verification results to the Department’s Common Origination and Disbursement system, the University of Houston did not properly code the corrected Institutional Student Information Report to indicate it used professional judgement for one student.

According to FSA’s Application and Verification Guide 2016-2017, a school’s financial aid administrator may use professional judgement on a case-by-case basis to adjust a student’s cost of attendance or the data used to calculate expected family contribution to account for special circumstances of a student. The school must submit a change electronically via Financial Aid Administrator Access to the Central Processing System and must select “[expected family contribution] EFC adjustment requested” for the professional judgement field. When this step is done correctly, the next Institutional Student Information Report will indicate professional judgement was used. The financial aid administrator must document the reason for the adjustment and the reason must relate to the special circumstances that differentiate the student. Schools must also have written policies that include the procedures that the school will follow to correct FAFSA data.

According to the University of Houston’s Assistant Director of Federal Processing, it used a document titled “Financial Reconsideration Appeal” to indicate it used professional judgement; however, it did not use the professional judgement code to report it in the Central Processing System. The University of Houston’s written policies and procedures did not include details on how to document and code professional judgement in accordance with FSA guidance.

Because the University of Houston did not properly code professional judgement in the Central Processing System, the Central Processing System information did not indicate that the University of Houston considered special circumstances in its Title IV eligibility determination for the student in accordance with Federal requirements.

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6 Entering a code for the use of professional judgement is not part of the verification process, as verification must be completed before a school may exercise professional judgement.
We suggested the University of Houston update and implement written policies and procedures regarding financial aid administrators’ proper coding of professional judgement in the Central Processing System.

University of Houston Comments
The University of Houston indicated that it has revised its professional judgment procedures to include the requirement that the use of professional judgment is properly reported in the Central Processing System (see Appendix C. University of Houston Comments).

OIG Response
The University of Houston’s corrective action, if properly implemented, should address our suggestion.
Appendix A. Scope and Methodology

We evaluated the University of Houston’s processes for verifying applicant data, reporting the results of verification, and disbursing Title IV funds for students selected for verification for award year 2016–2017. We first gained an understanding of the Title IV regulations in 34 C.F.R. Part 668, Subpart E, “Verification and Updating of Student Aid Application Information;” the notice of FAFSA Information To Be Verified for the 2016–2017 Award Year, 80 Federal Register 36783 (June 26, 2015); Department guidance (dear colleague letters, electronic announcements, “Federal Student Aid Handbook 2016–2017,” “Application and Verification Guide;” and “Common Origination and Disbursement 2016–2017 Technical Reference”) relevant to the audit objectives.

We then reviewed Title IV information on the National Student Loan Database System to identify the Title IV programs in which the University of Houston participated during our audit period. We also reviewed the University of Houston’s website and documents and records that school officials provided us to gain an understanding of the school’s history and organizational structure. We interviewed the University of Houston officials and reviewed the school’s financial aid policies and procedures to gain an understanding of the processes that the school designed for verifying applicant data, reporting the results of verification to the Central Processing System and Common Origination and Disbursement System, and disbursing Title IV funds to students selected for verification.

To identify any findings or recommendations included in prior audits or reviews and relevant to our audit objectives, we reviewed the schools’ audited financial statements and compliance audit reports prepared by the State of Texas Comptroller of Public Accounts (State of Texas Comprehensive Annual Financial Report, For the Year Ended August 31, 2017, and State of Texas Comprehensive Annual Financial Report, For the Year Ended August 31, 2016), and the Department’s Final Program Review Determination issued September 28, 2017, for award years 2011–2012 and 2012–2013.

Internal Control

Based on our review of the above information, we determined that the control activities component of internal control was relevant to our audit. Therefore, we gained an understanding of the University of Houston’s control activities relevant to verifying applicant data, reporting verification results, and disbursing Title IV funds to students selected for verification. After gaining an understanding of these control activities, we compared the school’s verification policies and procedures to the requirements.

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7 Control activities are the policies, procedures, and mechanisms management establishes to achieve objectives and respond to risks.
established by 34 C.F.R. §668.53 and determined that the school’s policies and procedures included all of the necessary elements. Then, we evaluated whether the school implemented the relevant control activities by assessing the school’s compliance with the verification, reporting, and disbursing requirements for 60 randomly selected students. We found that the University of Houston’s policies and procedures were not sufficient to provide reasonable assurance that the school completed verification of applicant data in accordance with Federal requirements (see Finding 1).

**Sampling Methodology**

We used sampling to achieve our audit objectives. We obtained from the National Student Loan Data System the population of 5,164 students who received at least one Pell disbursement for award year 2016–2017 and whose applications the Central Processing System selected for verification. To ensure that we could estimate the extent of the school’s compliance with a margin of error not exceeding 10 percent at the 90 percent confidence level, assuming a sample error rate not exceeding 20 percent, we selected a statistical random sample of 60 of the 5,164 students.

**Analysis Techniques**

To determine whether the University of Houston complied with Federal requirements relevant to verifying applicant data, reporting the results of verification, and disbursing Title IV funds, we reviewed the student data and records in the school’s information system for the 60 students in our random sample. We also reviewed the records that the University of Houston obtained from each of the 60 students for whom it completed its verification, reporting, and disbursing procedures. We reviewed the records to determine whether they demonstrated that the school completed verification in compliance with 34 C.F.R. § 668.54 through § 668.57 and 80 Federal Register 36783 (June 26, 2015). We concluded that the University of Houston complied with requirements if it verified all of the required data elements for a student, obtained records supporting the data, and obtained records specified in the Federal Register.

We also compared the records in the University of Houston’s information systems to the data recorded in the Common Origination and Disbursement system for each of the 60 students to determine whether the school reported the results of verification in compliance with “Federal Student Aid Handbook 2016–2017, Application and Verification Guide 2016–2017” and “Common Origination and Disbursement 2016–2017 Technical Reference.” We concluded that the school complied with these requirements if it updated the Common Origination and Disbursement System when a student’s Institutional Student Information Record information changed and reported the appropriate verification status code to the system. For students selected under verification tracking flags V4 and V5, we concluded that the school complied with
requirements if it reported the correct code (1 through 5) in the Central Processing System.

Finally, we reviewed the enrollment and financial assistance information in the University of Houston’s information systems for each of the 60 students to determine whether the school disbursed Title IV funds in compliance with 34 C.F.R. § 668.58 through § 668.61. We concluded that the school complied with requirements if (1) the student’s Pell award was based on the expected family contribution shown on the student’s final Institutional Student Information Record for award year 2016–2017 and (2) the school adjusted the student’s Title IV award if the student’s information changed after the student had already received Title IV funds or if the student did not provide documentation within the required timeframe.

Use and Reliability of Computer-Processed Data

We relied, in part, on data that the University of Houston retained in its information systems. We assessed the reliability of the school’s data by comparing it with the records that the school obtained to verify applicant data for the 60 students in our random sample. We also compared the school’s data for the 60 students to the data that we extracted from the National Student Loan Data System and the Central Processing System. The records that the school obtained to verify applicant data agreed with the data in the school’s information systems for all 60 students. Additionally, the school’s data for all 60 students matched the Department’s data. Therefore, we concluded that the school’s data were sufficiently reliable for use in our audit.

Compliance with Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

We conducted our audit at the University of Houston’s Financial Aid offices in Houston, Texas, and our offices from May 2018 through August 2018. We discussed the results of our audit with the University Houston officials on September 4, 2018.
# Appendix B. Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>C.F.R.</td>
<td>Code of Federal Regulations</td>
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<td>Department</td>
<td>U.S. Department of Education</td>
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<td>FAFSA</td>
<td>Free Application for Federal Student Aid</td>
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<td>FSA</td>
<td>Federal Student Aid</td>
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<td>Pell</td>
<td>Federal Pell Grant Program</td>
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<tr>
<td>Title IV</td>
<td>Title IV of the Higher Education Act of 1965, as amended</td>
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October 30, 2018

Ms. Alyce Frazier  
Regional Inspector General for Audit  
United States Department of Education  
400 Maryland Avenue, S.W.  
Washington, DC 20202-1510

Control Number ED-OIG/A06S0007

Dear Ms. Frazier:

Attached please find the University of Houston's response to the Office of Inspector General's draft audit report dated September 28, 2018.

The University of Houston agrees with the findings, has returned the required funds to the US Department of Education, and has taken corrective actions to prevent further findings, all of which is detailed in this document.

Thank you for the opportunity to respond; we do appreciate the professional manner in which this audit was conducted. If you have any questions or concerns, please do not hesitate to contact me directly at 832-842-3701.

Best regards,

[Signature]

Brigit A. Jans  
Executive Director

U.S. Department of Education  
Office of Inspector General  
ED-OIG/A06S0007
Finding 1
The University of Houston Did Not Always Properly Perform Verification of Applicant Data

The Office of the Inspector General's Draft Audit Report cites the University for failing to properly perform verification of applicant data.

The University concurs with this finding, and has determined that human error led to improper completion of verification of five students, and resulting improper disbursements of Pell funds to four of those students.

Based on these findings, the University took the following actions:

Sample #8
Issue: Income was not properly verified. The University used the incorrect tax year document when verifying income leading to an improper disbursement of $3,865.
Resolution: The University returned Federal Pell Grant funds in the amount of $3,865 and replaced with institutional funds to hold the student harmless. (See Appendix A.)

Sample #11
Issue: Income was not properly verified. The University did not adequately verify with which parent the student lived for a longer period of time, thus the incorrect parent and incorrect income were used to complete verification.
Resolution: The University returned Federal Pell Grant funds in the amount of $1,417 and replaced the funds with institutional funds to hold the student harmless. (See Appendix A)

Sample #26
Issue: Income was not properly verified. The University did not use amended income information to complete verification.
Resolution: The University did not return Federal Pell Grant funds, as it was not required because the student's EFC did not change as a result of using the amended income information. (See Appendix A.)
Sample #27

Issue: The University did not complete verification. UH paid Federal Pell Grant funds on the initial ISIR. The student's subsequent ISIR went into a suspense status after another school in the UH system initiated a correction.

Resolution: The University returned Federal Pell Grant funds in the amount of $5,815 and replaced with institutional funds to hold the student harmless. (See Appendix A)

Sample #49

Issue: The University did not complete verification properly. The University did not verify Supplemental Nutrition Assistance Program (SNAP) benefits, leading to an incorrect Federal Pell Grant disbursement.

Resolution: The University returned Federal Pell Grant funds in the amount of $2,907 and replaced with institutional funds to hold the student harmless. (See Appendix A)

Corrective Actions

In addition to returning all required funds to the US Department of Education, the University of Houston has instituted quality control measures to prevent such findings from occurring in the future and to increase the accuracy and efficacy of our verification program. Beginning in March 2018, one key staff member has been assigned to a quality control process, in which he pulls biweekly samples, thoroughly reviews them, sends any identified errors back to the original staff member to make the corrections, and creates a report for management to review. In addition, a business process has been developed which will appropriately identify subsequent ISIRs received from component institutions within the University of Houston System to determine if a previously unselected ISIR now requires verification. ISIRs identified thru the new business process will then be subject to the University's routine verification process.
Finding 2
The University of Houston Accurately Reported Verification Results

The Office of the Inspector General found that the University accurately reported verification results for 59 of 60 students in the sample. The one student for whom verification results were not reported was Sample # 27, as identified in Finding 1; the University did not complete verification for this student.

Corrective Action:
Though no corrective action was recommended, the University takes this responsibility seriously and has developed a query to better identify students attending other UH System institutions who have subsequently been selected for verification. We are currently implementing a new process to manually review these students.
Other Matters

The University of Houston Did Not Properly Report its Use of Professional Judgment

The Office of the Inspector General found that for one of the students in the sample UH had completed verification and considered special circumstances, after the student's submission of a Financial Reconsideration Appeal, but the use of professional judgment to determine the student's eligibility was not reported to the Department via the Central Processing System.

Corrective Action

The University has addressed this matter by rewriting its professional judgment procedures to include the requirement that professional judgments are properly reported via the Central Processing System.