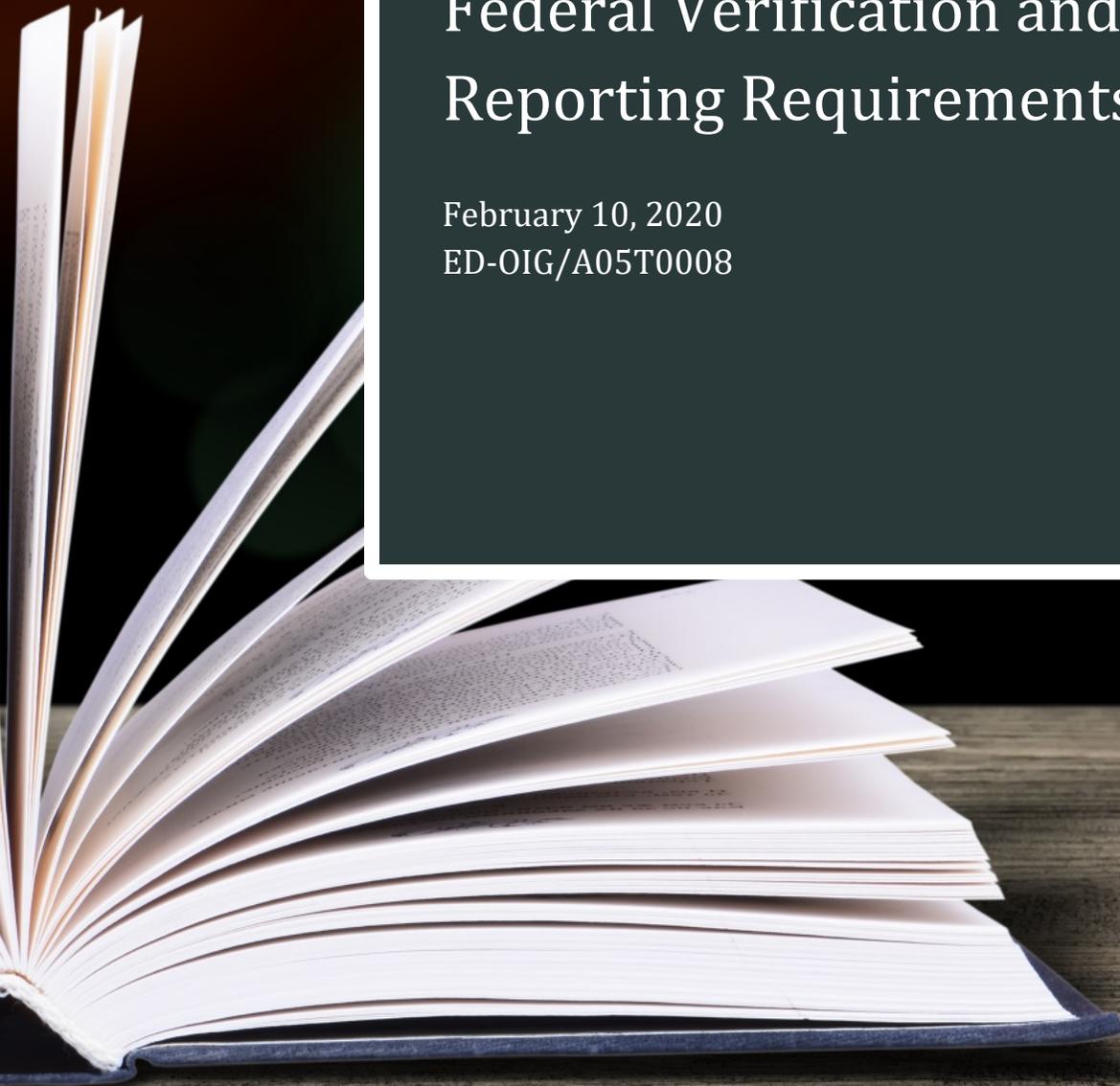




U.S. Department of Education  
Office of Inspector General

# The University of Southern California's Compliance with Federal Verification and Reporting Requirements

February 10, 2020  
ED-OIG/A05T0008



## NOTICE

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 U.S. Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

Audit Services

February 10, 2020

Dr. Carol L. Folt  
President  
University of Southern California  
Office of the President  
Los Angeles, California 90089

Dear Dr. Folt:

Enclosed is our final audit report, "The University of Southern California's Compliance with Federal Verification and Reporting Requirements," Control Number ED-OIG/A05T0008. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe might have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official who will consider them before taking final departmental action on this audit:

Mark A. Brown  
Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
830 1<sup>st</sup> 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, the action official would appreciate receiving them within 30 days.

We appreciate the courtesy and cooperation shown by the University of Southern California officials and employees throughout the audit.

Sincerely,

/s/

Gary D. Whitman  
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 Southern California completed verification of applicant data in accordance with Federal requirements and accurately reported verification results to Federal Student Aid. The audit covered award year 2017–2018 (July 1, 2017, through June 30, 2018).

To answer the objectives, we gained an understanding of the university's processes for verifying applicant data, reporting the results of verification to the U.S. Department of Education's 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), for students selected for verification. We selected a statistical random sample of 60 students from the population of 1,534 University of Southern California students who received a Federal Pell Grant Program (Pell) disbursement and whose applications were selected for verification for award year 2017–2018. For each of the 60 students, we obtained and reviewed the records that the university obtained during its verification process. We then determined whether the student provided the required documentation and whether the records supported the information in the student's Institutional Student Information Record.

We also compared the information in the University of Southern California's information systems with the information in the Central Processing System and Common Origination and Disbursement System for all 60 students in our sample. We completed this comparison to determine whether the university accurately reported verification status codes to the systems and updated those codes when a student's information changed as a result of the verification process.

### What We Found

The University of Southern California did not complete verification of applicant data in accordance with Federal requirements for 7 of the 60 students included in our statistical random sample. As a result, the university improperly disbursed \$21,530 in Title IV aid to four students and improperly disbursed \$1,000 less in Title IV aid than one student was eligible to receive. There was no effect on the amount of Title IV aid disbursed for the other two students. Based on the results of our statistical random sample, we estimate that the University of Southern California did not complete verification in

accordance with Federal requirements for 184 (12 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.<sup>1</sup>

The university did not complete verification in accordance with Federal requirements because of human error. The university did not detect the errors because its quality control process was not designed to detect and correct noncompliance with Federal requirements for verifying applicant data (see [Finding 1](#)).

We also found that the University of Southern California did not accurately report verification results to the Central Processing System and Common Origination and Disbursement System for 8 of the 60 students included in our statistical random sample. Based on the results of our statistical random sample, we estimate that the University of Southern California did not accurately report verification results for 199 (13 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.<sup>2</sup>

The university did not accurately report verification results to Federal Student Aid because its information system contained errors in the programming logic used to automatically create a report with verification updates that the university would submit to the Central Processing System (see [Finding 2](#)).

## What We Recommend

We recommend that the Chief Operating Officer for Federal Student Aid require the University of Southern California to—

- correct the \$22,530 in improper payments;
- revise its quality control process to ensure that students selected for verification are a separate category of students for sample selection purposes;
- review its records for the 1,474 students who received a Pell disbursement and whose applications were selected for verification for award year 2017–2018 but were not included in our sample, determine whether the university has records to support that verification of applicant data was completed in accordance with

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<sup>1</sup> We are 90 percent confident that the University of Southern California did not complete verification in accordance with Federal requirements for between 86 (5.6 percent) and 319 (20.8 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.

<sup>2</sup> We are 90 percent confident that the University of Southern California did not accurately report verification results for between 104 (6.8 percent) and 350 (22.8 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.

Federal requirements, correct any improper payments, and ensure that verification results were reported to Federal Student Aid;

- review the programming logic for its information system and implement any necessary changes to the system logic to provide reasonable assurance that all verification updates are submitted to the Central Processing System; and
- implement a process to evaluate whether the Central Processing System accurately reflects verification updates.

### **University of Southern California's Comments**

The University of Southern California agreed with both findings and stated that it made or plans to make changes to address all but one of the draft report recommendations. The university stated that it returned \$14,390 in overpayments to the Department and will await guidance from Federal Student Aid about returning an additional \$7,140 in overpayments. The university also stated that the \$1,000 Pell underpayment was an oversight. However, the university stated there was no harm to the student because all financial needs of undergraduate students are met using school-funded grants. In addition, the University of Southern California stated that it made changes to its quality control process, fixed its system logic to provide reasonable assurance of accurate reporting of verification results, and retrained staff on verification policies and procedures.

The University of Southern California disagreed with the draft report recommendation that the university be required to review the records for the 1,474 student files that the OIG did not review and determine whether there were any other instances of noncompliance with Federal verification requirements. The university stated that this type of review would be overly burdensome and unnecessary.

The University of Southern California's comments are summarized at the end of each finding. The full text of the university's comments is included at the end of this report (see [University of Southern California's Comments](#)).

### **OIG Response**

In response to the University of Southern California's comments, we made a minor technical change. However, the university did not provide records to show that it took the corrective actions as described in its comments on the draft of this report. Therefore, we did not change our recommendations. If the university has implemented the corrective actions, they would generally be responsive to our recommendations.

# Introduction

## Background

The University of Southern California is a private, nonprofit university located in Los Angeles, California. Students may earn bachelor's degrees, master's degrees, doctoral degrees, and certificates. During academic year 2017–2018, more than 47,000 students were enrolled in the university. The Western Association of Schools and Colleges, Senior College and University Commission, accredited the University of Southern California.

In 1985, the university began participating in the U.S. Department of Education's Institutional Quality Control Pilot Project. The project was an experiment under which a school could volunteer to design and implement a quality control system for administering the Title IV programs and would be exempt from various requirements under the verification regulations.<sup>3</sup> The goals of the experiment were to (1) improve the accuracy of Title IV awards, (2) increase schools' flexibility in managing Title IV funds while maintaining accountability for proper use of those funds, (3) encourage the development of innovative management approaches, and (4) place responsibility for quality control and quality improvement on the participating schools. The U.S. Department of Education (Department) encouraged schools participating in the experiment to employ a continuous cycle of assessing and improving their quality control systems for verifying applicant data. The university participated in this experiment through award year 2016–2017, after which the Department ended the experiment. Beginning in award year 2017–2018, the university had to comply with the same verification and reporting requirements as all other schools.<sup>4</sup>

## 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 2017–2018, the University of Southern California participated in the following Title IV programs:

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<sup>3</sup> The 1992 amendments of the Higher Education Act of 1965 reauthorized the project and changed the name to "Quality Assurance Program."

<sup>4</sup> Federal Student Aid provided financial aid professionals guidance on the Federal verification requirements in November 2015. This guidance described the Federal verification requirements with which schools participating in the project would have to comply starting July 1, 2017.

- Pell: Provides eligible students who have demonstrated financial need with grant assistance to help pay undergraduate educational expenses.
- William D. Ford Federal Direct Loan (Direct Loan): Provides loans to postsecondary school students and their parents to help defray the costs of education at participating schools.
- 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.
- Federal Perkins Loan: Provides low-interest loans to help needy students finance the costs of postsecondary education.

During award year 2017–2018, the University of Southern California disbursed more than \$650 million in Title IV funds (see [Table 1](#)).

**Table 1. Title IV Program Funds Disbursed by the University of Southern California During Award Year 2017–2018**

Program	Funds Disbursed
Pell	\$19,414,560
Direct Loan	\$617,081,916
Federal Supplemental Educational Opportunity Grant	\$1,730,643
Federal Work-Study	\$6,720,818
Federal Perkins Loan	\$5,802,180
Total	\$650,750,117

*SOURCE: THE DEPARTMENT'S GRANTS MANAGEMENT SYSTEM (G5) AND THE UNIVERSITY OF SOUTHERN CALIFORNIA'S FISCAL OPERATIONS REPORT AND APPLICATION TO PARTICIPATE (FISAP).<sup>5</sup>*

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<sup>5</sup> The Catalog of Federal Domestic Assistance numbers for the Title IV programs are 84.063 (Pell), 84.268 (Direct Loan), 84.007 (Federal Supplemental Educational Opportunity Grant), 84.033 (Federal Work-Study), and 84.038 (Federal Perkins Loan).

## Verifying Applicant Data and Reporting Verification 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 sent to the school, and a Student Aid Report is sent to the student. Both documents show the student’s application data, expected family contribution, and other information, including whether the student was selected for verification.

Verification is the process that Federal Student Aid 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 application data meet the criteria established by the Department, 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 indicates the FAFSA 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 and listing the types of documentation that schools must obtain.<sup>6</sup> 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 2017–2018.

**Table 2. Verification Tracking Flags and Data Elements to Be Verified for Award Year 2017–2018**

Flag*	Elements
V1	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, and number of household members in college.
V4	High school completion status, identity, and statement of educational purpose.

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<sup>6</sup> For the award year 2017–2018 notice, see 81 Federal Register 18843-18847 (April 1, 2016), “Free Application for Federal Student Aid (FAFSA) Information To Be Verified for the 2017–2018 Award Year.”

Flag*	Elements
V5	All elements under V1 and V4.

*\*Verification tracking flags V2, V3, and V6 were not used for award year 2017–2018.*

A school has completed the verification process when it has either determined that the FAFSA data elements 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 funds for a student, it 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 2017–2018, Application and Verification Guide 2017–2018,” the verification status codes were as follows.

- V—The school has verified the student’s information. This includes 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 the student’s information because the school determined that the student satisfied an exclusion.<sup>7</sup>
- 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 to the Central Processing System the results of

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<sup>7</sup> Schools did 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 eligible for only unsubsidized Title IV funds, or (4) completed verification for the award year at another school.

verifying the student's identity and high school completion status 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.
- 6—Verification attempted; issues found with both identity and high school completion.

## Finding 1. The University of Southern California Did Not Complete Verification of Applicant Data In Accordance with Federal Requirements

The University of Southern California did not complete verification of applicant data in accordance with Federal requirements. For award year 2017–2018, 1,534 University of Southern California students received a Pell disbursement and were selected for verification. To determine whether the university complied with Federal verification requirements, we selected a statistical random sample of 60 of the 1,534 students and reviewed the university’s enrollment and financial assistance records. For each of the 60 students, we determined whether the university obtained all required documentation during its verification process. We also determined whether the records that the university obtained supported the information in the student’s Institutional Student Information Record.<sup>8</sup>

We found that the University of Southern California did not complete verification of applicant data in accordance with Federal requirements for 7 of the 60 students.<sup>9</sup> The university did not accurately identify the (1) income earned for four students, (2) parents’ income taxes paid for two students, and (3) number of household members enrolled in eligible postsecondary schools on at least a half-time basis for one student. The university disbursed a total of \$69,844 in Title IV funds for award year 2017–2018 for these seven students. As a result of not completing verification of applicant data, the university improperly disbursed \$21,530 in Title IV aid for four students. It also improperly disbursed \$1,000 less in Title IV aid than one student was eligible to receive. The amounts of Title IV aid disbursed for the other two students were not affected by the university’s not completing verification.<sup>10</sup> [Table 3](#) describes the information that the university did not verify in accordance with Federal requirements for the seven students

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<sup>8</sup> We concluded that the university complied with requirements if it verified all the required data elements for a student, obtained records supporting the data elements, and obtained documentation specified in the 81 Federal Register 18843-18847 (April 1, 2016).

<sup>9</sup> For all seven students, the university was required to verify all the elements under verification tracking flag V1.

<sup>10</sup> 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.

and the resulting improper payment amounts for the five students whose awards were affected by the noncompliance.

**Table 3. Applicant Data Not Verified in Accordance with Federal Requirements**

OIG Sample Number	Information Not Verified	Description	Improper Payment Amount*
14	Student's Earned Income	The student did not file taxes but earned income in 2015 and had more than one Internal Revenue Service Form W-2 to support the amount of income earned. The university used information from only one W-2.	\$0
36	Parents' Income Taxes Paid	The university applied professional judgment and decided to use the parents' 2016 tax return instead of their 2015 tax return. However, instead of using income taxes paid, the university incorrectly used the tax credit from the parents' 2016 Internal Revenue Service Form 1040.	\$250
38	Number of Household Members Enrolled in Postsecondary Education	The university did not include the student's sibling when determining the number of household members enrolled in postsecondary education on at least a half-time basis.	-\$1,000
47	Parents' Income Taxes Paid	To support income taxes paid, the university used the "Tentative Tax Per Computer" from the parents' Internal Revenue Service 1040A transcript. It should have used "Tentative Tax Per Computer" and subtracted "Total Credits Per Computer."	\$300
50	Student's Earned Income	The university's information system showed a higher student income earned than supported by the student's Internal Revenue Form W-2 and signed nonfiling statement. The university's automated process incorrectly included Federal Work-Study wages from another period when transferring income earned data to the university's information system.	\$0

OIG Sample Number	Information Not Verified	Description	Improper Payment Amount*
51	Student's Earned Income	The university did not collect the information necessary to complete verification. The student did not file taxes but earned income in 2015. The student had a signed nonfiling statement indicating that the student had an Internal Revenue Service Form W-2 to support the amount of income earned. The university did not obtain the W-2 form and instead used the amount of earned income from the signed nonfiling statement.	\$6,920
56	Student's Earned Income and Parents' Tax Information	The university did not collect the information necessary to complete verification. The student did not file taxes but earned income in 2015. The student had a signed nonfiling statement indicating that the student had more than one Internal Revenue Service Form W-2 to support the amount of earned income. The university did not obtain the W-2 forms and instead used the amount of earned income from the signed nonfiling statement.  In addition, the university verified the parents' tax information using a tax return with the watermark, "Do Not File. Tax Scenario Analysis Only." The parents' tax return contained the preparer's name, address, preparer tax identification number, and employer identification number. However, the university did not obtain a copy representing the 2015 Federal tax return that the student's parents submitted to the Internal Revenue Service.	\$14,060

*\*The improper payment amounts for OIG Sample Numbers 36, 38, and 47 include only Pell funds. The improper payment amounts for OIG Sample Numbers 51 and 56 include all subsidized Title IV funds.*

Improper payments as a result of the university's noncompliance with Federal verification requirements most likely affected significantly more students selected for verification for award year 2017–2018 than the students included in our sample. Based

on the results of our statistical random sample, we estimate that the University of Southern California did not complete verification of applicant data in accordance with Federal requirements for 184 (12 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.<sup>11</sup> These 1,534 students received more than \$6 million in Pell funds for award year 2017–2018.<sup>12</sup>

## **Federal Verification Requirements and Guidance**

According to 34 C.F.R. § 668.54, a school must require an applicant who is selected for verification to verify the FAFSA data elements specified by the Department. For award year 2017–2018, schools could verify a tax filer’s earned income and income taxes paid with (1) a tax transcript obtained from the Internal Revenue Service that listed 2015 tax account information of the tax filer (81 Federal Register 18843-18847), (2) information obtained through the Internal Revenue Service’s data retrieval tool that has not been changed after the information was obtained (81 Federal Register 18843-18847), or (3) a signed paper copy of the 2015 tax return that the tax filer submitted to the Internal Revenue Service (Dear Colleague Letter GEN 17-04, April 24, 2017). Acceptable documentation for verifying the earned income of a nontax filer included (1) a signed statement certifying that the individual has not filed and is not required to file a 2015 Federal income tax return, (2) the sources of 2015 income earned from work and the amount of income from each source, and (3) a copy of the Internal Revenue Service Form W-2 for each source of 2015 employment income received or an equivalent document (81 Federal Register 18843-18847 and Dear Colleague Letter GEN 17-04).

Acceptable documentation for verifying the number of household members enrolled in eligible postsecondary schools on at least a half-time basis included a statement signed by (1) both the dependent student and one of the student’s parents or (2) only the independent student. The statement must have provided the name of each household member who is or will be attending an eligible postsecondary educational school as at least a half-time student in the award year, the age of each student, and the name of the school that each student is or will be attending (81 Federal Register 18843-18847).

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<sup>11</sup> We are 90 percent confident that the University of Southern California did not complete verification of applicant data in accordance with Federal requirements for between 86 (5.6 percent) and 319 (20.8 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.

<sup>12</sup> We designed our sample to estimate the percentage of students for whom the school either did not complete, or did not correctly report the results of, verification. We did not design the sample to project the total improper payments associated with the university’s noncompliance (see [Sampling Methodology](#)).

## **Deficiency in the Design of the University's Verification Processes**

The University of Southern California did not complete verification of applicant data in accordance with Federal requirements because of human error. The university designed policies and procedures for calculating a student's expected family contribution, which is used to determine a student's financial need. Those policies and procedures explained how to complete verification, apply professional judgment, and process financial need appeals. The policies and procedures for verification complied with Federal requirements, and the university provided financial aid employees with training on how to complete verification.

However, the University of Southern California did not design its procedures specifically to detect and correct failures to complete verification of applicant data in accordance with university policy. The university's quality control process evaluated whether financial aid employees followed policies and procedures. If an employee was new to the university, the quality control process would evaluate 100 percent of his or her work. For all other employees, only a sample of students would be selected. The university selected the sample from four categories of students: (1) new students, (2) continuing students, (3) no-need students, and (4) students whose expected family contribution had changed by \$3,500 or more. Students selected for verification was not a category that the university considered when selecting samples for its quality control process. Therefore, verification performed by experienced employees would be evaluated only if a student in one of the four categories happened to have been selected for verification. As demonstrated by the verification errors that we identified, the university's quality control process was not sufficient to provide reasonable assurance that employees were adhering to university policies and procedures for verifying applicant data.

## Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid require the University of Southern California to—

- 1.1 Correct the \$22,530 in improper Title IV payments.<sup>13</sup>
- 1.2 Revise its quality control process to ensure that students selected for verification are a separate category of students for sample selection purposes.
- 1.3 Review its records for the 1,474 students who received a Pell disbursement and whose applications were selected for verification for award year 2017–2018 but were not included in our sample and determine whether it has records to support that verification of applicant data was completed in accordance with Federal requirements. If not, require the university to identify the amount of Title IV funds that were improperly disbursed to students and correct any improper payments, and ensure that verification results were reported to Federal Student Aid.

## University of Southern California's Comments

The University of Southern California agreed with the finding but disagreed with draft report Recommendation 1.3, which would require the university to review the records for all 1,474 students who were not included in the OIG's sample. The university stated that such a review would be overly burdensome and unnecessary.

The university also stated that it returned \$14,390 in Title IV funds to the Department and will seek guidance from Federal Student Aid on the return of \$7,140 in Title IV funds that it improperly paid. It also stated that the \$1,000 Pell underpayment was an oversight but it was unable to make retroactive increases in Pell funds for award year 2017–2018 because the cycle had already closed. Although the cycle was closed, the University of Southern California asserted there was no harm to the student because the university meets all the financial needs of undergraduate students using school grants.

In addition, the University of Southern California stated that it plans to retrain employees on Federal verification policies and procedures; the university also plans to ensure that students selected for verification are included in the quality control sample

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<sup>13</sup> The \$21,530 in improper payments consisted of Pell funds (\$12,390), Federal Supplemental Educational Opportunity Grant funds (\$2,000), Federal Perkins Loan funds (\$4,390), and subsidized Direct Loan funds (\$2,750). The \$1,000 improper underpayment consisted only of Pell funds.

selection. Further, the University of Southern California stated that it plans to implement a new system for obtaining tax transcript data from the Internal Revenue Service for award year 2020–2021.

### **OIG Response**

Based on the University of Southern California’s comments, we added information to the description column of Table 3 for sample number 56, explaining that the parents’ tax return contained the preparer’s name, address, tax identification number, and employer identification number.

Because the university did not provide records to show that it took the corrective actions as described in its comments on the draft of this report, we did not change our recommendations. However, if the University of Southern California has implemented the corrective actions, they would be partially responsive to Recommendation 1.1 and responsive to Recommendation 1.2.

We did not change Recommendation 1.3 in response to the university’s comments because sampling can only provide an estimate of the overall amount of improper payments for the 1,474 students. A sample would not identify, or provide for remediation of, individual student accounts adversely affected by the university not completing verification in accordance with Federal requirements.

## Finding 2. The University of Southern California Did Not Accurately Report Verification Results

The University of Southern California did not accurately report verification results to Federal Student Aid. For award year 2017–2018, 1,534 University of Southern California students received a Pell disbursement and were selected for verification. To determine whether the university complied with the Federal verification reporting guidance, we selected a statistical random sample of 60 of the 1,534 students. To determine whether the university accurately reported verification results for each of the 60 students, we compared the university’s enrollment and financial assistance records with the records in the Central Processing System and Common Origination and Disbursement System.<sup>14</sup>

We found that the university did not accurately report verification results to Federal Student Aid for 8 of the 60 students.<sup>15</sup> Specifically, the university did not accurately report the (1) adjusted gross income for one student, (2) adjusted gross income for two students’ parents, (3) earned income for two students, (4) verification code for two students, and (5) number of members in household and number of household members attending an eligible postsecondary school for one student. [Table 4](#) describes the information that the university did not accurately report to Federal Student Aid.

**Table 4. Student Information Not Accurately Reported to Federal Student Aid**

OIG Sample Number	Information Not Accurately Reported	Description
1	Parents’ Adjusted Gross Income	The parents’ adjusted gross income was \$2,875 less than what was recorded in the Central Processing System.

<sup>14</sup> We concluded that the University of Southern California complied with verification reporting guidance if it updated the Common Origination and Disbursement System when a student’s Institutional Student Information Record information changed and if it reported the appropriate verification status code to the system. For students selected under verification tracking flags V4 and V5, we concluded that the university complied with verification reporting guidance if it reported the correct code (1 through 6) to the Central Processing System.

<sup>15</sup> For all eight students, the university was required to verify all the elements under verification tracking flag V1.

OIG Sample Number	Information Not Accurately Reported	Description
4	Student's Earned Income	The student's earned income was \$2,500 less than what was recorded in the Central Processing System.
8	Student's Earned Income	The student's earned income was \$2,487 less than what was recorded in the Central Processing System.
24	Parents' Adjusted Gross Income	The parents' adjusted gross income was \$24,839 less than what was recorded in the Central Processing System.
27	Number of Household Members and Number of Household Members Enrolled At Least Half-Time in a Postsecondary Institution	The student's number of household members and the number of household members enrolled at least half-time in a postsecondary school were five and two less, respectively, than what was recorded in the Central Processing System.
51	Incorrect Verification Code Reported	The university reported a V code to the Common Origination and Disbursement System, indicating that it had completed verification for this student. However, it did not collect the information needed to complete verification and should not have reported the V code.
54	Student's Adjusted Gross Income	The student completed a nonfiling statement indicating that the student had no earned income; however, the student also submitted a 2015 signed tax return showing adjusted gross income of \$610. The university incorrectly reported that the student did not have adjusted gross income.
56	Incorrect Verification Code Reported	The university reported a V code to the Common Origination and Disbursement System, indicating that it had completed verification for this student. However, it did not collect the information needed to complete verification and should not have reported the V code.

Based on the results of our statistical random sample, we estimate that the University of Southern California did not accurately report verification results to Federal Student Aid

for 199 (13 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.<sup>16</sup>

According to 34 C.F.R. § 668.59(a) and the “Federal Student Aid Handbook 2017–2018, Application and Verification Guide 2017–2018,” if students are selected for verification and are receiving subsidized Title IV funds, the student or school must submit for processing changes to the student's FAFSA as a result of verification. The student or school must submit changes as a result of verification if the changes are to a nondollar item or a single dollar item of \$25 or more.

Accurately reporting verification results to the Central Processing System and Common Origination and Disbursement System is important. Incomplete verification results reported to the Common Origination and Disbursement System could result in a student receiving Pell awards in excess of his or her lifetime Pell eligibility limit. Incomplete reporting also could lead to a student being deemed ineligible for a Pell award for which he or she is still eligible. For example, a student may receive the equivalent of six full-time Pell awards, with each award representing 100-percent eligibility used. The percentages used each award year are added together, and the student is no longer eligible for Pell awards once he or she reaches 600-percent eligibility used. If a student does not receive the full amount of a scheduled Pell award in an award year, he or she has used less than 100 percent of the annual limit and is eligible to receive the remaining percentage of that scheduled Pell award in the future.

The university inaccurately reported verification results because it did not ensure that the university's information system accurately reported all verification updates and that those updates were reflected in the Central Processing System. The university ran a program in its information system that automatically created a report that included verification updates. The university would then submit that report to the Central Processing System. When verification for students had been previously reported to the Central Processing System and subsequent revisions needed to be made, the subsequent revisions were not always included in the report that the university submitted to the Central Processing System because of errors in the information system's programming logic.

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<sup>16</sup> We are 90 percent confident that the University of Southern California did not accurately report verification results for between 104 (6.8 percent) and 350 (22.8 percent) of the 1,534 Pell recipients selected for verification for award year 2017–2018.

## **Recommendations**

We recommend that the Chief Operating Officer for Federal Student Aid require the University of Southern California to—

- 2.1 Review the programming logic for its information system and implement any necessary changes to the system logic to provide reasonable assurance that all verification updates are submitted to the Central Processing System.
- 2.2 Implement a process to evaluate whether the Central Processing System accurately reflects verification updates.

## **University of Southern California's Comments**

The University of Southern California agreed with our finding and stated that it made changes to the programming logic for its information system. The university also stated that it confirmed that the system was now accurately sending the required verification results to the Central Processing System.

## **OIG Response**

The university did not provide records to show that it took the corrective actions as described in its comments on the draft of this report. However, the University of Southern California's corrective actions, if implemented as described, should address our recommendations.

## **Other Matter. The University of Southern California Did Not Always Report its Use of Professional Judgment**

The university did not always report to the Central Processing System its use of professional judgment. For award year 2017–2018, the University of Southern California applied professional judgment for 13 of the 60 students in our statistical random sample.<sup>17</sup> The Institutional Student Information Record for 2 of the 13 students did not indicate the use of professional judgment.

According to “Federal Student Aid Handbook 2017–2018, Application and Verification Guide 2017–2018,” to account for special circumstances of a student and only on a case-by-case basis, a school’s financial aid administrator may use professional judgment to adjust a student’s cost of attendance or the data used to calculate a student’s expected family contribution. The school must electronically submit such a change to the Central Processing System. When this step is done correctly, the next Institutional Student Information Record will indicate the use of professional judgment. The financial aid administrator must document the reason for the adjustment, and the reason must relate to the relevant special circumstances.

The University of Southern California used a quality control process to evaluate the work of its financial aid employees who performed an analysis of each student’s financial need. However, the quality control process did not include an evaluation of whether employees correctly coded the professional judgment changes that they submitted to the Central Processing System. We suggest that Federal Student Aid confirm that the University of Southern California revised its quality control process so that it includes an evaluation of whether the university correctly coded professional judgment changes submitted to the Central Processing System.

### **University of Southern California’s Comments**

The University of Southern California stated that the programming logic changes that it implemented in response to Finding 2 addressed reporting of professional judgment to the Central Processing System.

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<sup>17</sup> Entering a code for the use of professional judgement is not part of the verification process. However, verification must be completed before a school may exercise professional judgement.

## **OIG Response**

The University of Southern California's corrective actions, if implemented as described, should address our suggestion.

## Appendix A. Scope and Methodology

We evaluated the University of Southern California’s processes for verifying applicant data, reporting verification results, and disbursing Title IV funds for students selected for verification for award year 2017–2018. To accomplish our audit objectives, we first gained an understanding of the following regulations and guidance relevant to the audit objectives and in effect for the audit period:

- 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 award year 2017–2018, 81 Federal Register 18843-18847 (April 1, 2016), “Free Application for Federal Student Aid (FAFSA) Information To Be Verified for the 2017–2018 Award Year;”
- the notice of award year 2017–2018 deadline dates for reports and other records associated with the FAFSA, 82 Federal Register 29058-29062 (June 27, 2017), “2017–2018 Award Year Deadline Dates for Reports and Other Records Associated With the Free Application for Federal Student Aid (FAFSA) . . .;” and
- Department guidance, including dear colleague letters, electronic announcements, “Federal Student Aid Handbook 2017–2018, Application and Verification Guide 2017–2018,” and “Common Origination and Disbursement 2017–2018 Technical Reference.”

We then reviewed information in the Department’s grants management system and the university’s “Fiscal Operations Report and Application to Participate” to identify the Title IV programs in which the University of Southern California participated during award year 2017–2018. In addition, we reviewed the university’s website, documents, and records to gain an understanding of the university’s history and organizational structure. Further, we interviewed university officials and reviewed financial aid policies and procedures to gain an understanding of the processes that the University of Southern California designed for verifying applicant data, reporting verification results to the Central Processing System and Common Origination and Disbursement System, and disbursing Title IV funds for students selected for verification.

To identify findings or recommendations included in prior audits and reviews that were relevant to our audit objectives, we reviewed reports on annual audits (financial and compliance) of the University of Southern California for the years that ended June 30, 2013, through June 30, 2017, conducted by PricewaterhouseCoopers LLP.

## Internal Control

After reviewing the Federal requirements relevant to verifying applicant data, reporting verification results, and disbursing Title IV funds for students selected for verification; prior audit reports; and other information relevant to the university and our audit objectives, we determined that the control activities component of internal control was significant to our audit objectives.<sup>18</sup> Therefore, we gained an understanding of the University of Southern California’s control activities relevant to verifying applicant data, reporting verification results, and disbursing Title IV funds to students selected for verification.

We then compared the university’s written verification policies and procedures with the requirements established by 34 C.F.R. § 668.53 and determined that the university’s policies and procedures covered all the requirements. Next, we evaluated whether the university implemented the relevant control activities by assessing whether the school followed them when completing verification, reporting verification results, and disbursing Title IV funds for 60 randomly selected students who were selected for verification.

We concluded that the University of Southern California’s control activities were not sufficient to provide reasonable assurance that the university completed verification of applicant data in accordance with Federal requirements and accurately reported verification results to Federal Student Aid. Specifically, the University of Southern California did not design its quality control process to provide reasonable assurance of detecting and correcting noncompliance with university policies and procedures for verifying applicant data (see [Finding 1](#)). In addition, the university did not implement a process to evaluate whether its information system accurately reported all verification updates to the Central Processing System and that those updates were reflected in the Central Processing System (see [Finding 2](#)).

## Sampling Methodology

We used sampling to achieve our audit objectives. From the National Student Loan Data System, we obtained the population of 1,534 students who received at least one Pell disbursement for award year 2017–2018 and whose applications were selected for verification by the Central Processing System. To ensure that we could estimate the extent of the university’s compliance with a margin of error not exceeding 10 percent at

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<sup>18</sup> Control activities are the policies, procedures, and practices that management establishes to achieve objectives and respond to risks.

the 90 percent confidence level, assuming a sample error rate not exceeding 20 percent, we selected a statistical random sample of 60 of the 1,534 students.

## **Analysis Techniques**

To determine whether the University of Southern California complied with Federal requirements relevant to verifying applicant data, reporting verification results, and disbursing Title IV funds for students selected for verification, we reviewed the enrollment and financial assistance records in the university's information systems and the records the university obtained for the 60 students included in our statistical random sample. We reviewed the records to determine whether they demonstrated that the university completed its verification procedures in accordance with 34 C.F.R. § 668.54 through § 668.57, 81 Federal Register 18843-18847, and 82 Federal Register 29058-29062. We concluded that the University of Southern California complied with requirements if it verified all the required data elements for a student, obtained records supporting the data elements, and obtained records specified in the Federal Register.

We also compared the University of Southern California's records with the information recorded in the Common Origination and Disbursement System for the 60 students to determine whether the university reported verification results in accordance with "Federal Student Aid Handbook 2017–2018, Application and Verification Guide 2017–2018" and "Common Origination and Disbursement 2017–2018 Technical Reference." We concluded that the University of Southern California complied with the guidance if it updated the Common Origination and Disbursement System when a student's Institutional Student Information Record information changed and if it reported the appropriate verification status code to the system. Also, for students selected under verification tracking flags V4 and V5, we concluded that the university complied with the guidance if it reported the correct code (1 through 6) to the Central Processing System.

Finally, we reviewed enrollment and financial assistance records in the University of Southern California's information systems for the 60 students to determine whether the university disbursed Title IV funds in accordance with 34 C.F.R. § 668.58 through § 668.61. We first calculated each student's 2017–2018 Pell award using the student's final expected family contribution, enrollment status, and cost of attendance. We then compared our calculated award amount to the Pell payment schedule to determine the amount of Pell funds that the student was eligible to receive for award year 2017–2018.<sup>19</sup> Next we compared the amount of Pell funds that the student was eligible to receive with the amount that the university disbursed for the student. We concluded that the University of Southern California disbursed the correct amount of Pell funds

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<sup>19</sup> "Payment Schedule for Determining Full-Time Scheduled Awards for 2017–2018 Award Year."

and complied with requirements if it (1) calculated the student's Pell award based on the expected family contribution shown on his or her final Institutional Student Information Record for award year 2017–2018 and (2) 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 of Computer-Processed Data**

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

### **Compliance with Auditing 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit at the university's offices in Los Angeles, California, and our offices from October 2018 through June 2019. We discussed the results of our audit with university officials on June 19, 2019, and received the university's comments on the draft of this report on November 14, 2019.

## Appendix B. Acronyms and Abbreviations

C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
FAFSA	Free Application for Federal Student Aid
Pell	Federal Pell Grant Program
Title IV	Title IV of the Higher Education Act of 1965, as amended

# University of Southern California's Comments



OFFICE OF FINANCIAL AID

November 14, 2019

Gary D. Whitman  
U.S. Department of Education  
Office of Inspector General  
*Via Email to Gary.Whitman@ed.gov*

**Re: University of Southern California's Response to the U.S. Department of Education  
Office of Inspector General's Draft Audit Report (A05T0008)**

Dear Mr. Whitman:

I am writing on behalf of the University of Southern California (USC) in response to the U.S. Department of Education Office of Inspector General's (OIG) draft audit report dated October 18, 2019. A response to each of the findings in the Report is set forth below.

#### **Finding 1: Verification of Applicant Data**

OIG's Report cites USC for not completing verification of applicant data for seven students.

USC concurs with this finding and has determined that human error led to incomplete verification of seven students. To provide context, USC participated in the Quality Assurance (QA) Program until it was discontinued at the conclusion of the 2016-17 award year. As you know, the QA program exempted USC from the verification regulations regarding acceptable documentation (34 C.F.R. § 668.57), among other regulations. When the QA program ended, the Financial Aid Office had to make numerous changes in our Student Information System (SIS), policies and procedures, and staff training to comply with the federal verification process in the 2017-18 award year.

In response to Recommendation 1.1, USC has taken the following actions to correct the files where an error led to financial impact:

- *Student 36*: The processor assessed line 55 instead of line 56 of the 1040 for taxes paid. USC returned \$250 in Pell Grant funds and replaced it with institutional funds to hold the student harmless.
- *Student 38*: It was an oversight to not include the student's sibling in the number in college. This student should have received \$1,000 more in Pell Grant funds, however, USC is unable to make retroactive increases in Pell Grant funds because the 2017-18

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Office of Inspector General  
ED-OIG/A05T0008

cycle is closed. In any event, there is no harm to the student because USC meets the full USC-determined financial need of undergraduate students. Therefore, any increase in Pell Grant funds would have resulted in a corresponding decrease in institutional grant.

- *Student 47:* To calculate the student's parents' income taxes paid, instead of taking the "Tentative Tax Per Computer" and subtracting "Total Credits Per Computer," the processor just used "Tentative Tax Per Computer." USC returned \$300 in Pell Grant funds and replaced it with institutional funds to hold the student harmless.
- *Student 51:* The processor did not obtain the W-2 form from the student to support income earned. Training our processors to request W-2s was one of the changes that took place during our transition from QA to federal verification. USC returned \$5,920 in Pell Grant funds and \$1,000 in Supplemental Educational Opportunity Grant funds. These amounts were replaced with institutional funds to hold the student harmless.

*Student 56:* The processor did not obtain the W-2 form from the student to support income earned. Training our processors to request W-2s was one of the changes that took place during our transition from QA to federal verification.

We request that OIG add to its description that the parents' tax return also contained the preparer's name, address, Preparer Tax Identification Number (PTIN), and Employer Identification Number (EIN)—not just the watermark. To our knowledge, there is no official guidance on how to handle the scenario of a return that is deemed signed with any type of watermark.

USC returned \$5,920 in Pell Grant funds and \$1,000 in Supplemental Educational Opportunity Grant funds. These amounts were replaced with institutional funds to hold the student harmless.

OIG included loans in the total improper payment amount for this student. Given USC's low cohort default rate (1.6% in FY2016), these loans are highly likely to be repaid. Before returning any loans to the Department of Education, USC seeks Federal Student Aid's determination of the estimated loss to the Department for the \$2,750 in Subsidized Direct Loans and guidance on how to resolve the \$4,390 in Perkins Loans.

The remaining two files did not result in an improper payment:

- *Student 14:* The processor included \$2,188 as student earned income from the first W-2, but missed assessing the second W-2 of \$96.75. USC was not required to adjust federal awards because the second W-2 of \$96.75 had no effect on the student's expected family contribution.

- *Student 50*: The W-2 amount of \$3,119 was correct (an additional \$143 was mistakenly added from a pay cycle that ended in 2015, but was paid in 2016). USC was not required to adjust federal awards because the additional \$143 had no effect on the student's expected family contribution.

In response to Recommendation 1.2, USC has taken steps to re-train staff on federal verification policies and procedures, including requesting and reviewing W-2s. We have updated our quality control process to ensure that students selected for federal verification are included in the sample for review with a focus on non-filers who report having earned income. For the 2020-21 award year, we plan to implement a new system of obtaining tax transcript information directly from the IRS via a third party vendor. Importing data directly from the IRS will reduce manual data entry errors and increase accuracy for all student files.

In response to Recommendation 1.3, USC disagrees with OIG's recommendation that the school review records for 1,474 students for award year 2017-2018 on the grounds that it is overly burdensome and unnecessary. It took multiple OIG auditors several weeks to review 60 student records. Assuming each record takes 2 hours, USC estimates this review would take two staff members working full-time almost a year to complete—resources that could be better invested in quality control of current files, implementing system improvements, or serving students. Moreover, the review is unnecessary because USC has already updated its processes to ensure that verification is completed in accordance with federal requirements.

If Recommendation 1.3 remains in the Final Report, USC would request a meeting with Federal Student Aid to explore alternatives to a full file review, such as incorporating these verification findings in the annual Uniform Guidance audit.

USC does not believe any of the findings were systemic or pervasive. Rather, they are the result of needing to adapt to the federal verification process for the first time in over 20 years and human error given the volume of files and meticulous detail required to complete federal verification.

### **Finding 2: Reporting of Verification Results**

OIG's Report cites USC for not accurately reporting verification results to the Department of Education's Central Processing System (CPS) for eight students.

USC concurs with this finding. It is worth noting that USC had documentation in its records to support the adjustments to expected family contribution for these students and that the lack of reporting did not impact federal award amounts.

In response to Recommendations 2.1 and 2.2, USC has implemented a fix to the system logic to ensure accurate reporting of verification results. We have confirmed that the system is sending ISIR updates, corrections, and professional judgment adjustments to CPS. We receive error reports when students' ISIRs are rejected so that those can be reviewed individually.

**Other Matters**

OIG found that USC did not properly report its use of professional judgment for two students. The fix to the system logic identified above included changes to address accurate reporting of professional judgment to CPS.

\* \* \*

USC appreciates the professional manner in which this audit was conducted and the opportunity to respond. We are committed to working with you to expedite the formal resolution of the audit.

Sincerely,



Thomas McWhorter  
Dean of Financial Aid  
USC Financial Aid Office