



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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March 26, 2007

Control Number
ED-OIG/A09G0023

Dr. Noelia Vela, President
Cerritos Community College
11110 Alondra Boulevard
Norwalk, California 90650

Dear Dr. Vela:

This **Final Audit Report**, entitled *Cerritos Community College's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid*, presents the results of our audit. The purpose of the audit was to determine if Cerritos Community College completed verification of applicant data and accurately reported verification results to the U.S. Department of Education (Department) for the period July 1, 2005, through June 30, 2006 (award year 2005-2006).

BACKGROUND

Students apply for Federal student aid by completing a Free Application for Federal Student Aid (FAFSA), which is processed by the Central Processing System (CPS). The CPS uses the application information and the statutory needs analysis formula to calculate each applicant's expected family contribution (EFC). If the EFC is less than the student's cost of attendance, a student has financial need and may be eligible to receive financial aid under the Higher Education Act of 1965, as amended (HEA), Title IV programs.

The CPS selects applications for verification, which is the process used to ensure that students and parents report accurate financial and demographic data on the FAFSA. Verification is required under Subpart E of 34 C.F.R. Part 668. For enrolled students who were selected by the CPS for verification, the schools verify the accuracy of five items of data: adjusted gross income, U.S. income tax paid, household size, number of students in the household who are enrolled in college, and certain untaxed income benefits. Students must provide schools with income tax returns and other documents to support the reported data. The school has completed verification when it has either determined that the application data are correct or when the corrected data have been submitted to the CPS. The school must document verification and maintain a CPS document in its files showing the student's final EFC.

When a school disburses a Federal Pell Grant for a student, the school is required to report the verification status of the student's application to the Department's Common Origination and Disbursement (COD) system.¹ As described in the Federal Student Aid Handbook 2005-2006, "Application and Verification Guide," the verification status codes are—

- **V** – School completed verification of the student's application. This code is used for both applications selected by the CPS for verification and those the school chose to verify based on its own criteria.
- **S** – The CPS selected the student's application for verification, but the school did not verify the application information because 1) the school participates in the HEA, Title IV, Quality Assurance (QA) Program² and the student's application did not meet the school's verification criteria or 2) the school elected not to verify the student's application because the school had reached the 30 percent threshold for required verifications.³
- **W** – The CPS selected the student's application for verification and the school has elected to make an interim Pell Grant disbursement prior to completing the verification of the application data. The school updates the code to a **V** when verification is completed.
- **Blank** – Neither the CPS nor the school selected the student for verification.

Schools receive a monthly Pell Verification Status Report from the COD system that shows students who have been selected by the CPS for verification and have a blank or **W** status. In addition, schools can request a Pell Reconciliation Report that shows the verification status of all students who were selected by the CPS for verification.

Cerritos Community College (Cerritos) is a single-campus, public community college accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges. Cerritos has an enrollment of about 21,000 students and offers associate's degrees and certificates in more than 200 programs of study. Educational programs are provided on a standard-term calendar that is measured in semester credit hours.

¹ The Department's COD system performs a variety of functions related to awarding and disbursing Pell Grants, William D. Ford Federal Direct Loans, and funds from campus-based programs.

² Schools participating in the QA Program use their own criteria for selecting applications for verification that is tailored to their student population. QA schools are exempt from the requirement to verify 30 percent of student applications. Cerritos is not a participant in the QA Program

³ In an Electronic Announcement dated March 9, 2006, the Department explained that schools may report either an **S** or leave the verification status blank for students in the excluded category (i.e., incarceration, recent immigrant, spouse unavailable, parents unavailable, death of the student, applicant verified by another school, Pacific Island resident, or not an aid recipient). Schools are not required to complete verification for students in the excluded category.

Cerritos participates in the following HEA, Title IV programs: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Family Education Loan, and Federal Work-Study. During the period from July 1, 2004, through June 30, 2005, Cerritos disbursed about \$15.8 million in Title IV funds, which included about \$12.5 million from the Federal Pell Grant Program.

AUDIT RESULTS

Cerritos had policies and procedures that ensured FAFSA information was verified in accordance with the applicable HEA provisions, Federal regulations, and Department guidance. Our analysis of information in the Department's databases identified 2,790 Cerritos students who had an application selected by the CPS for verification and received a Pell Grant disbursement for award year 2005-2006. Our review of Cerritos' student financial aid files for a sample of 26 of the 2,790 students found that Cerritos properly performed verification by following its written policies and procedures, obtaining appropriate student-provided documentation, and accurately reporting changes in application information to the CPS. However, Cerritos did not accurately report the student's verification status to the Department's COD system for 25 of the 26 students in the sample. In its comments to the draft report, Cerritos concurred with our finding and recommendation. The comments are summarized at the end of the finding and the full text of Cerritos' comments is included as an attachment to the report.

FINDING – Cerritos Did Not Report Student Verification Status to the COD System

Only one of the 2,790 students identified in our analysis had a verification status other than blank in the COD system. The one student was accurately shown with a verification status of **V**. We reviewed Cerritos' student financial aid files for the other 25 students in our sample, who were randomly selected from the 2,789 students with a blank status in the COD system. Our review found that the school had completed the verification of those student applications. Thus, the verification status in the COD system for the 25 students should have been **V** rather than blank.

The correct verification status code was not reported to the COD system because the financial aid specialists did not perform a final step in the school's verification procedure. Cerritos implemented a new software application for processing student financial aid for award year 2005-2006. The final step of the verification procedure under the new software application was to enter **V** in the verification status field of the database used to transmit information to the COD system. Financial aid specialists had received training on use of the new application, but the specialists did not receive information on the use of the verification status field.

Also, Cerritos staff were unaware that the Department had been transmitting COD Verification Status Reports to Cerritos through the new software application. Since May 2006, the Department had been sending reports for award year 2005-2006 that listed the students who were selected for verification by the CPS and received a Pell Grant disbursement, but were shown in

the COD system with a blank verification status code. Since Cerritos had not been accessing the reports, it was unaware that the verification statuses were incorrect in the COD system.

In response to our finding, Cerritos appropriately updated the verification status for the 25 sampled students from a blank to a **V** in the COD system. Our review of information in the COD system found that Cerritos had also changed the verification statuses for other students. Cerritos' Acting Financial Aid Director advised us that staff are now regularly obtaining the COD Verification Status Report to ensure that student verification status is accurately recorded in the COD system.

Recommendation

- 1.1 We recommend that the Chief Operating Officer for Federal Student Aid take appropriate action to ensure that Cerritos' financial aid specialists are properly recording the verification status in the school's database and regularly reviewing the COD Verification Status Reports to ensure that the verification status is being accurately reported to the COD system.

Cerritos' Comments

Cerritos concurred with the finding. Cerritos stated that its Financial Aid Office has implemented new business processes for verification and that staff have received training on recording verification status in the school's database and performing regular reviews of the COD Verification Status Reports. Cerritos also stated that a copy of the OIG audit report had been provided to its independent public accountant (IPA) and that the IPA will include steps in its review to confirm that staff are properly recording verification status and reviewing the COD reports.

OIG Response

The actions described in Cerritos' comments should address our finding, if properly designed and implemented. We have revised the recommendation that was included in our draft report to address potential conflicts with audit requirements in Office of Management and Budget Circular A-133 and to provide FSA with more flexibility in selecting the method used to confirm that Cerritos appropriately implemented the needed corrective action.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to determine if Cerritos completed verification of applicant data and accurately reported verification results to the Department. The audit covered award year 2005-2006. To accomplish our objective, we—

- Gained an understanding of applicable laws, regulations, and the Department's *Federal Student Aid Handbook 2005-2006*, "Application and Verification Guide."
- Reviewed Cerritos' audited financial statements prepared by its independent public accountant for the fiscal years ended June 30, 2004 and 2005, a recent guaranty agency report, and correspondence from Cerritos' accrediting agency.
- Gained an understanding of Cerritos' internal control for the verification process by 1) reviewing Cerritos' written policies and procedures, 2) obtaining information on the manual and electronic processes applicable to verification and reporting of the verification status to the COD system, and 3) interviewing financial aid staff involved in the verification process.
- Evaluated documentation in student financial aid files related to the verification of applicant data.

To evaluate Cerritos' procedures and compliance with verification requirements, we reviewed documentation in student financial aid files for 26 of the 2,790 Cerritos students who had an application selected for verification by the CPS and who received a Pell Grant disbursement for award year 2005-2006. We reviewed the files for the one student that had a verification status code of **V** and 25 students randomly selected from the remaining 2,789 students with blank verification status codes in the COD system.

We relied on data extracted from the CPS and the Department's National Student Loan Data System to identify the Cerritos students who had an application selected for verification by the CPS and who received a Pell Grant disbursement for award year 2005-2006 (sampling universe). To assess the completeness of the extracted data, we compared the total records on the extract to totals reported on Department management information reports. During our review of student financial aid files for the 26 students, we confirmed that the documentation showed that CPS had selected the students for verification. We concluded that the extracted data were sufficiently reliable for use in selecting the sample of students reviewed in the audit.

We reviewed information in the COD system to confirm that Cerritos, in response to our finding, had properly updated the student verification statuses for the 25 sampled students who had a verification status code of **V**.

We performed our fieldwork at the Cerritos campus in Norwalk, California. We held an exit briefing with Cerritos officials on August 3, 2006. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Theresa S. Shaw
Chief Operating Officer, Federal Student Aid
U.S. Department of Education
Union Center Plaza, Room 112G1
830 First Street, NE
Washington, D.C. 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Gloria Pilotti
Regional Inspector General for Audit

Attachment

Cerritos Community College's Comments to Draft Report



Cerritos College

February 20, 2007

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

Dear Ms. Pilotti,

Thank you for the Audit Report, dated January 25, 2007. Cerritos College concurs with the finding of the audit. As cited in the Audit Report, we appreciate the fact that the audit team from the Office of Inspector General (OIG) recognized that the Financial Aid Office had policies and procedures in place to "ensure FAFSA information was verified in accordance with the applicable HEA provisions, Federal regulations, and Department guidance." We also appreciate that the OIG audit team recognized that "Cerritos College implemented a new software application for processing student financial aid for award year 2005-2006 and that the specialists did not receive information on the use of the verification status field."

As cited in the report, once informed of the central issue with the verification process, "Cerritos appropriately updated the verification status for the 25 sampled students from a blank to a V in the COD system." These records were sent to COD during the week of the program review. Once these records were verified, we at Cerritos College proceeded to update the remaining 2,764 students. These records were updated and successfully sent to COD on August 3, 2006. Since then the Financial Aid Office has continued to submit to COD the V code for all files that were selected for verification.

As part of the corrective actions, the Financial Aid Office has implemented new business processes for verifying records selected for verification. Staff has been trained on the following:

- Properly record verification status in PeopleSoft (school's database)
- Regularly review the COD Verification Status Reports

We also concur with the recommendation, "that the Chief Operating Officer for Federal Student Aid require Cerritos College to have its independent public accountant, as part of the next scheduled audit, confirm that financial aid specialists are properly recording the verification status in the school's database and regularly reviewing the COD Verification Status Reports to ensure that the verification status is being accurately reported to the COD system." We provided our independent public accountant with a copy of this audit report. The accountant confirmed that the steps required in order to review the verification process would be taken. The firm will also verify that the Financial Aid Office is regularly reviewing the COD Verification Status Reports.

Once again, thank you. We assure you that the responsible managers and staff of the College will continue to provide appropriate training to the Financial Aid staff in order to apply, monitor, and meet federal regulations.

Sincerely,

Dr/Noelia Vela
President/Superintendent

Cerritos Community College District

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