



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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March 26, 2007

Control Number
ED-OIG/A09G0027

Mr. Anthony Jones, President
School of the Art Institute of Chicago
37 South Wabash
Chicago, Illinois 60603

Dear Mr. Jones:

This **Final Audit Report**, entitled *School of the Art Institute of Chicago'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 the School of the Art Institute of Chicago 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.

School of Art Institute of Chicago (SAIC) is a private nonprofit institution, accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools. SAIC has an enrollment of about 2,500 students and offers bachelor's and master's degrees, and post baccalaureate certificates in various areas of art study. Educational programs are provided on a standard-term calendar that is measured in semester credit hours.

SAIC participates in the following HEA, Title IV programs: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Family Education Loan, Federal Perkins Loan, and Federal Work-Study. During the period from July 1, 2004, through June 30, 2005, SAIC disbursed about \$20 million in Title IV funds, which included about \$1.4 million from the Federal Pell Grant Program

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

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

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

AUDIT RESULTS

SAIC 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 328 SAIC 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 SAIC's student financial aid files for a sample of 50 of the 328 students found that SAIC 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, SAIC did not accurately report the student's verification status to the Department's COD system for 25 of the students in the sample. In its comments to the draft report, SAIC generally concurred with our finding and stated that our recommendations had been implemented. SAIC's comments are summarized at the end of the finding and the full text of the comments is included as an attachment to the report.

FINDING – SAIC Reported Incorrect Student Verification Status to COD

Of the 328 students identified in our analysis, 167 had a verification status of **S** in the COD system (i.e., selected for verification by CPS, but not verified). Our review of SAIC's student financial aid files for a random sample of 25 of those 167 students found that the school had completed the verification of the student applications. Thus, the verification status in the COD system should have been **V** for the 25 students (i.e., verification completed).

The verification status was not correct in the COD system because SAIC's software for processing student financial aid improperly entered a verification status of **S** (i.e., selected, but not verified) in the information transmitted to the Department when SAIC sent a correction on a student application to the CPS⁴. The verification status code should have remained blank until SAIC had completed the verification process. When the verification process was completed for the student, SAIC staff updated the verification status in the school's database to "Reprocess." "Reprocess" was a verification status used under the Department's prior Pell disbursement system to report that verification was completed.⁵ When SAIC transmitted the change in status to the Department, the **S** status previously reported for the student did not update to a **V** status in the COD system.

⁴ For the other sample of 25 students, the verification status was accurate in the COD system. SAIC did not transmit changes beyond the first updated file to CPS for these students, and thus, did not transmit an **S** to the COD system.

⁵ The prior Pell disbursement system, called the Recipient and Financial Management System, used seven verification statuses. Schools used "Reprocess" when verification was completed and the record was found to be incorrect. The record was corrected and reprocessed, and the school disbursed Pell Grant funds based on the reprocessed data.

SAIC's financial aid director advised us that a step has been added to its verification procedures to ensure that the student verification status in the COD system is updated to a **V** when the school completes the verification process. He stated that SAIC is researching options available in its software to eliminate the initial transmission of the improper **S** code to the Department. In addition, SAIC staff will obtain and review monthly COD Reconciliation Reports to confirm the accuracy of student verification statuses in the COD system.

In response to our finding, SAIC appropriately updated the verification status for the 25 sampled students from an **S** to a **V** in the COD system. Our review of information in the COD system found that SAIC had also changed the verification statuses for other students.

Recommendations

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

- 1.1 Require SAIC to confirm that the verification statuses for all its students are accurately reported in the COD system for award year 2005-2006.
- 1.2 Take appropriate action to ensure that SAIC's financial aid staff are reporting the proper verification status to the COD system for award year 2006-2007 and that SAIC is regularly reviewing COD reports to ensure that verification status is properly recorded in the COD system.

SAIC's Comments

While SAIC generally concurred with the finding, it suggested changes to the wording of the report to emphasize that SAIC had "completed verification with 100% accuracy" for all 50 sampled students. In regard to the inaccurate reporting to the COD system, SAIC suggested that the report "acknowledge the role of the software in contributing to this situation" SAIC stated that, in the future, the standard practice of SAIC will be to manually compare the school's records against the COD reports to identify and correct any discrepancies in students' verification status. SAIC requested that the OIG eliminate the Recommendation 2.1 since SAIC had reviewed students' verification statuses for award year 2005-2006 and made corrections by the September 30th cutoff for changes to the 2005-2006 award year.

OIG Response

We did not incorporate SAIC suggested wording changes in the final report. The initial paragraph of the AUDIT RESULTS section of the report already states that SAIC properly performed verification for the 50 sampled students and the second paragraph of the finding attributes the reporting errors to the software.

We did make a change to Recommendation 1.2 to clarify that the recommendation was to confirm that the corrective action was fully implemented during the subsequent award year. We have also revised this recommendation 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 SAIC appropriately implemented the needed corrective action.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to determine if SAIC 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 SAIC's audited financial statements and Single Audits prepared by its independent public accountants for the fiscal years ended June 30, 2004 and 2005, and correspondence from SAIC's accreditation agency and the Department.
- Gained an understanding of SAIC's internal control for the verification process by 1) reviewing the written policies and procedures, 2) gaining an understanding of the manual and electronic processes applicable to verification and reporting of the verification status to COD, 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 SAIC's procedures and compliance with verification requirements, we reviewed documentation in student financial aid files for 50 of the 328 SAIC students who had an application selected for verification by the CPS and who received a Pell Grant disbursement for award year 2005-2006. To select the sample, we stratified the 328 students into two groups: a) the 167 students that had a verification status code of **S** and b) the 161 students with a verification status of **V** or blank. We randomly selected 25 students from each group.

We relied on data extracted from the CPS and the Department's National Student Loan Data System to identify the SAIC 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 50 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 SAIC, in response to our finding, had properly updated the student verification status for the 25 sampled students that had a verification status code of **S** in the COD system.

We performed our fieldwork at SAIC's financial aid office in Chicago, Illinois. We held an exit briefing with SAIC officials on August 25, 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

Attachment:

**School of the Art Institute of Chicago's Comments
On the Draft Audit Report**



February 23, 2007

Control Number
ED-OIG/A09G0027

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

Dear Ms. Pilotti,

I have received and reviewed a copy of the Draft Audit Report dated January 25, 2007, entitled "School of the Art Institute of Chicago's Verification of Applicant Information Submitted on the Free Application for Federal Student Aid." I also had an opportunity to speak with (OIG Auditor) at the conclusion of her campus visit and have spoken extensively with Patrick James, Director of Financial Aid at the School. As a result, I have several comments regarding the draft report both in terms of fact and tone.

1. As you know, the one finding in the report is outlined on page three and relates to the verification status code and not to verification itself. I believe that the report should do more to acknowledge the fact that, for all 50 of those sampled, verification was successfully completed. I would like to suggest that the last sentence of the section entitled "Background", the sentence that begins, "However, SAIC did not accurately..." be removed given that similar information appears at the outset of the following paragraph under the heading, "Finding." I would appreciate replacing this with a sentence that reads something like, "Based upon the sample, SAIC has completed verification with 100% accuracy."
2. With regard to the finding itself, I believe that there are a couple of points worth noting. Of the 50 selected files, 25 had the correct verification status code and 25 did not. As we reviewed this situation, we determined that the 25 files that were correct were situations where verification had occurred prior to submission of the first payment record and we had updated the status code from "S" to "V". For all the remaining cases, we searched for a code that would indicate that we were in the process of completing verification. The verification status code options appear in the audit. None accurately reflected that we were in the process of completing verification (a situation that (OIG Auditor) agreed was a problem) so we opted to leave the code as an "S" for these individuals and later entered a "V" code once verification was complete.

Only subsequently did we learn that this information was not transmitted to the Department's Common Origination and Disbursement (COD) system. This apparently is a failing of the software that we are currently utilizing. The School is using Peoplesoft's Student Administration product and we understand that there is a glitch in the product that relates to the status code field. Apparently, while changes to other fields are reflected in our database and are automatically transmitted to COD, changes to the status code are reflected in our database but are not automatically transmitted to COD.

- (OIG Auditor) was aware that similar situations had arisen at other Peoplesoft institutions and we have since spoken to colleagues at DePaul University, a neighboring Peoplesoft school that has reported a similar phenomenon. If this is indeed the case, it would seem that the audit should acknowledge the role of the software in contributing to this situation while still noting that ultimately this was a situation where we should have manually compared our records against the COD reports which would have allowed us to identify and correct any discrepancies thus ensuring that the verification status was properly recorded in the COD system. In the future, this will become standard practice.
3. In terms of the "Recommendations", please note that that we have already completed Item 1.1. All of the verification statuses for all of the relevant students have been reviewed and were updated where necessary. Please also note that the review and subsequent corrections were made ahead of the September 30th cutoff for changes to the 2005-06 award year. As a result, I am asking if there is a possibility of eliminating the second finding altogether since, in essence, we were in compliance at the end of the reporting period.

As is mentioned in the audit, we have already taken steps to ensure that the problem of incorrect status codes does not occur again. Given that the root cause of the issue with the status code was due to a technical problem beyond our control, I am hoping that we can highlight the positives - namely that the verification process was completed satisfactorily - and reflect that there are mitigating circumstances with regard to the single finding that the audit surfaced. If you need any additional information, please feel to contact me.

Yours sincerely,

Jonathan Lindsay
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Chicago, IL 60603

Cc. Dr. Anthony Jones, CBE, President
Patrick James, Director of Financial Aid
Ed McNulty, Senior Vice President and Chief Operating Officer