



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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Dr. James F. Melville Jr., President
Technical Career Institutes
320 W. 31st Street
New York, New York 10001

Dear Dr. Melville:

This **Final Audit Report**, entitled *Technical Career Institutes' 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 Technical Career Institutes completed verification of applicant data and accurately reported verification results to the U.S. Department of Education (Department) from 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 a 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, 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 has been submitted to the CPS. The school must document the verification and maintain a CPS document in its files showing the student's final EFC.

As described in the *Federal Student Aid Handbook 2005-2006*, "Application and Verification Guide," 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 The student verification status remains blank when the school has not performed verification because the application was not selected for verification.

Technical Career Institutes (TCI) is a single-campus, proprietary school accredited by the Middle States Commission on Higher Education. TCI has an enrollment of about 3,000 students and offers associate's degrees and certificates in various areas of technology, including business administration and accounting, health information, digital media arts, facilities maintenance, electronics, and automotive. Educational programs are provided on a standard-term calendar that is measured in semester credit hours.

TCI participates in the following HEA, Title IV programs: Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Family Education Loan, William D. Ford Federal Direct Loan, Federal Perkins Loan, and Federal Work-Study. During the period from July 1, 2004 through June 30, 2005, TCI disbursed about \$21.8 million in Title IV funds, which included about \$10.7 million from the Federal Pell Grant Program.

AUDIT RESULTS

TCI 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 760 TCI 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 TCI's student financial aid files for a random sample of 50 of the 760 students found that TCI 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 and student verification statuses to the COD system.

¹ The Department's COD system performs a variety of functions related to awarding and disbursing Pell grants, direct loans, and funds from campus-based programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objective was to determine if TCI completed verification of applicant data and accurately reported verification results to the Department for 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 TCI's audited financial statements prepared by its independent public accountant (IPA) for the fiscal year ended December 31, 2005; Compliance Attestation reports prepared by its IPA covering the period October 1, 2003, through December 31, 2005; a program review report issued by the Department's Federal Student Aid, dated April 3, 2000; and correspondence from the accrediting agency.
- Gained an understanding of TCI's internal control for the verification process by 1) reviewing 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 TCI's procedures and compliance with verification requirements, we reviewed documentation in student financial aid files for 50 of the 760 TCI students who had an application selected for verification by the CPS and received a Pell Grant disbursement for award year 2005-2006. To select the sample, we stratified the 760 students into two groups: a) the 562 students whose application contained only one record in the CPS (i.e., no application changes) and had a verification status code indicating that the College verified the application and b) the 198 students whose application either contained two or more records in the CPS (i.e., application changes) or had a verification status code indicating that the application was not verified by the College. 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 TCI students whose application was selected for verification by the CPS and 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 the 50 student financial aid files, we confirmed that the documentation showed that CPS had selected the students for verification. We concluded that the extracted data was sufficiently reliable for use in selecting the sample of students reviewed in the audit.

We performed our fieldwork at the TCI campus in New York, New York. We held an exit briefing with TCI officials on September 18, 2006. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTER

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

We appreciate the cooperation and assistance extended by your staff during the audit. If you have any questions, please contact me at (916) 930-2399.

Sincerely,

/s/

Gloria Pilotti

Regional Inspector General for Audit