



**UNITED STATES DEPARTMENT OF EDUCATION**  
**OFFICE OF INSPECTOR GENERAL**

Audit Services  
Region IV, Atlanta

January 9, 2008

**Control Number**  
**ED-OIG/A04G0002**

Lawrence A. Warder  
Acting Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
830 First Street, NE, Suite 112G1  
Washington, DC 20002

Dear Mr. Warder:

This **Final Audit Report**, entitled *Resolution of Institutional Student Information Report (ISIR)/Student Aid Report (SAR) C Codes Generated by the Central Processing System's (CPS) Edit Check Process*, presents the results of our audit. The purpose of the audit was to 1) evaluate the effectiveness of the Department of Education's (Department) process for ensuring that institutions resolve ISIR/SAR C codes generated by the CPS, and 2) evaluate the effectiveness of Federal Student Aid's (FSA) process for monitoring and using data from comment codes. Our review covered the CPS' current edit check process and the Department's use of the information. Our audit period ended on August 28, 2006.

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## **BACKGROUND**

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CPS is the system that receives and processes application and correction information; as such, CPS initiates the process of determining the applicant's eligibility for Title IV, Student Financial Assistance. CPS is managed by Pearson Government Solutions under a contract with the Department's FSA.

Upon receipt of students' Free Application for Federal Student Aid (FAFSA), CPS completes a series of quality control checks on the application data, in an effort to identify incomplete or inconsistent data and to catch errors. Next, CPS performs database matches with the Department's National Student Loan Data System (NSLDS) and other Federal agency records through interagency matching agreements to screen for applicant eligibility. Specifically, CPS compares Social Security Number (SSN), selective service, citizenship, and veteran status

information on the FAFSA to other data available, including previous submissions, and data matches with the Social Security Administration (SSA), Department of Veterans Affairs (DVA), Department of Homeland Security (DHS), and the Selective Service (SS).

CPS calculates each student's Expected Family Contribution (EFC) using the applicant information and the Need Analysis formulas mandated in the Higher Education Act of 1965, as amended (HEA). Then, CPS generates and sends a SAR to the aid applicant, and an electronic ISIR to the postsecondary institutions that are listed on the student's FAFSA.

Both the SAR and the ISIR contain the same information, which include the FAFSA information, EFC, the student's NSLDS history, and correction flags indicating corrections to FAFSA data. The SAR and ISIR also contain comment codes, such as reject, ISIR/SAR C, warning, and assumption codes.

- Reject codes are generated by CPS when critical information in the FAFSA is found to be incorrect or questionable. The system does not calculate an EFC on the rejected FAFSAs. Without an EFC, Title IV aid cannot be awarded. It is the student's responsibility to resolve the items in question and resubmit the FAFSA. Examples of incorrect or questionable data provided in the FAFSA that would result in reject codes include – a date of birth between 1900 and 1930; missing first or last name; name match but no SSN match; an unusually high number of family members; marital status inconsistent with reported incomes; missing student signature; report of no taxes paid and/or taxes equal to, or greater than, the adjusted gross income; and SSN matched to an SSN with a date of death.
- Other comment codes, such as, ISIR/SAR C codes, warning codes, and assumption codes are generated by CPS through data matches to point out a possible question about FAFSA data or to inform the applicant that an assumption was made on missing or inconsistent FAFSA data. Resolution of ISIR/SAR C codes or submission of correction data is not required for the system to calculate an EFC; however, institutions are required to retain documentation of ISIR/SAR C code resolution. Examples of questionable data from the data match that would result in ISIR/SAR C codes include – Pell grant or federal loan overpayments; no confirmation for qualifying veteran; no confirmation of U.S. citizenship; no confirmation for eligible non-citizen status; not registered for Selective Service; and a FAFSA response indicating drug related convictions.

The school Financial Aid Administrators (FAA) use the ISIR information to determine applicant eligibility, and to calculate and award financial aid to students.

Most CPS development and customer service work is done at Pearson Government Solutions in Coralville, Iowa, while CPS printing and production are done in Cedar Rapids, Iowa. Computer Sciences Corporation operates the CPS database, which resides at the Virtual Data Center (VDC) in Meriden, Connecticut. Application Processing is the division in FSA that oversees CPS operations.

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## AUDIT RESULTS

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We found that FSA does not have a process to effectively monitor ISIR/SAR C code data to ensure it receives the most accurate data from applicants. Specifically, FSA does not require institutions to provide information on the resolution of ISIR/SAR C codes. Instead, FSA holds institutions accountable for complying with applicable laws and program requirements under their Participation Agreements. In addition, FSA does not use ISIR/SAR C code data to determine which institutions should be selected for program reviews based on high occurrences of these codes, nor does it have a tracking mechanism to monitor institutions with high occurrences of ISIR/SAR C codes. As a result, FSA does not have effective controls to ensure that applications with ISIR/SAR C codes are resolved, and that institutions are making eligibility determinations based on accurate applicant data.

In its comments to the draft report, FSA did not specifically state whether or not it concurred with our finding and related recommendations. However, FSA stated that its current audit and program review processes for monitoring the resolution of ISIR/SAR C codes are effective, indicating that FSA does not concur with our finding. FSA also indicated that it did not concur with two of the three recommendations.

FSA had several concerns about facts presented in the report. Specifically, FSA disagreed with our statement that FSA's only monitoring mechanism for assuring institutions' resolution of ISIR/SAR C codes is through program reviews. FSA stated that it also uses schools' annual compliance audits to monitor the resolution of ISIR/SAR C codes. In our response, we explain why FSA cannot rely on the annual compliance audits as a tool to monitor resolution. FSA also disagreed with our statement that over \$1.5 billion of Federal Aid was disbursed to students whose eligibility may have been affected if ISIR/SAR C codes were not resolved. FSA stated that this risk is overstated. Although we did not test the \$1.5 billion at schools, our estimate is based on the actual dollar amount of the FAFSAs in CPS with unresolved ISIR/SAR C codes that could affect student eligibility. In the absence of revised/corrected FAFSA data in CPS, FSA has no assurance that schools resolved the ISIR/SAR C codes. FSA's response to the draft report did not require us to change our finding or recommendations.

FSA commented that it is currently developing a new system, Integrated Partner Management (IPM), to integrate, modernize, and reengineer FSA's monitoring and oversight functions. FSA's comments and OIG's response are summarized after the finding. The complete text of FSA's comments is included as an attachment to the report.

### **Use of ISIR/SAR C Code Data Could Ensure More Accurate FAFSA Data**

CPS matches FAFSA data to information in NSLDS and information available in other Federal agencies' databases to ensure that FSA obtains the most accurate data from applicants. CPS

generates comment codes<sup>1</sup> signifying that the data matches identified errors or inconsistencies in the applicant's FAFSA data. FSA receives reports<sup>2</sup> showing the types of FAFSA errors being made by applicants and the frequency of the error occurrences. According to the FSA Application Processing Acting Director, occasionally, the School Participation Teams, formerly Case Management and Oversight, request an individual institution's comment code activity. This is the only instance in which FSA will run an individual institution's comment code activity report.

Although ISIR/SAR C codes do not require resolution for CPS to calculate an EFC, institutions are required to retain documentation of ISIR/SAR C code resolution because these codes indicate missing or inconsistent information that could impact eligibility determinations. However, we found that FSA does not have a process for ensuring that institutions resolve ISIR/SAR C codes and retain the necessary documentation to support the determination of eligibility.

FSA's only monitoring mechanism or internal control for assuring institutions' resolution of ISIR/SAR C codes is through institutional program reviews performed by FSA's School Participation Teams. However, out of 6,000 schools that participate in the federal student aid program, the School Participation Teams completed less than 250 institutional program reviews each year (FY 2004 – 224 reviews and FY 2005 – 219). Of the program reviews completed in FY 2005, 78 were focused reviews<sup>3</sup> that would not necessarily have included a step to review institution's resolution of ISIR/SAR C codes.

In addition, FSA is not using ISIR/SAR C code data to select which institutions should be targeted for program reviews. FSA can run reports to identify comment code activity for all institutions with ISIR/SAR C codes. Such reports could be used to select institutions that should be monitored (through a program review) for ISIR/SAR C code resolution.

The 2001 Program Review Guide, published January 2002, states that

The ISIR plays a very important role in identifying possible eligibility problems. When reviewing the ISIR, reviewers should look for "C" codes/comments and check the NSLDS section.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) states that

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<sup>1</sup> Comment codes include reject, ISIR/SAR C, assumption, and warning codes (see Background section for definitions and examples).

<sup>2</sup> FSA receives reports from CPS' edit checks, including an Edit System Analysis Report, a Reject Reason Analysis Report, a Management Information Systems (MIS) report, a Highlight Analysis Report, and a Web Edit Analysis Report. These reports present the frequency and percent of times a particular mainframe compute edit is triggered, compares reject codes generated over multiple time periods, presents correction behavior of rejected applicants, describes relationship of verification vs. corrections, describes correction behavior for electronically submitted corrections vs. paper SAR submitted corrections, and makes a recommendation on whether to retain, discard, or modify edits.

<sup>3</sup> Focused reviews are program reviews that focus on particular issues or subjects and do not include a comprehensive review such as general program reviews.

[Control activities] help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews...

Activities may be classified by specific control objectives, such as ensuring completeness and accuracy of information processing.

FSA does not receive reports on the occurrence of ISIR/SAR C codes by institution, but rather requests specific institutions' ISIR/SAR C code data on a case-by-case basis. FSA lacks an effective process to ensure that institutions resolve ISIR/SAR C codes, which is an internal control weakness. In addition, FSA lacks the use of data on ISIR/SAR C codes in selecting institutions for program reviews, which is a weakness in FSA's risk assessment process. According to FSA officials, the occurrence of ISIR/SAR C codes alone does not provide a basis for selecting institutions for program reviews. However, FSA does not have effective controls for monitoring and using ISIR/SAR C code data to assure institutions' compliance with laws and regulations for student eligibility. As a result, FSA cannot ensure that the school FAAs are making eligibility determinations based on accurate applicant data.

### **Missed Opportunity to Identify Ineligible Applicants**

Since FSA does not track whether institutions resolve ISIR/SAR C codes and it does not use the ISIR/SAR C code data to determine which institutions should be targeted for program reviews, we performed a data analysis of selected comment codes associated with ISIR/SAR C codes to determine if institutions are resolving ISIR/SAR C codes on subsequent FAFSA submissions (2004-2005 year). We identified six codes that, if not resolved, would affect the eligibility determination. Those codes are as follows.

- 030-SS (applicant not registered with Selective Service)
- 038-NSLDS (Pell overpayments associated with applicant)
- 056 (applicant answered yes to Drug Conviction question on FAFSA)
- 144-DHS (applicant's non-citizenship eligibility has yet to be confirmed)
- 146-SSA (applicant's U.S. citizenship cannot be confirmed)
- 254-NSLDS (award over loan limits associated with applicant)

As shown in Table 1 below, the percentage of students that did not have these selected ISIR/SAR C codes resolved on a subsequent FAFSA and were not verified<sup>4</sup> ranged from 3 to 73 percent.

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<sup>4</sup> Verification is the process in which FAAs are required to verify the following five major data elements on a student's FAFSA: household size, number enrolled in college, adjusted gross income, U.S. income tax paid, and certain unearned income and benefits. For verification an applicant must produce tax returns and/or other

According to FSA officials, institutions are not required to submit revised FAFSAs in resolution of ISIR/SAR C codes, but rather are required to maintain documentation verifying that the code had been resolved. Also, officials added that FSA had no requirement for selecting FAFSAs with ISIR/SAR C codes for verification. In our analysis, we classified revised and/or verified FAFSAs (containing ISIR/SAR C codes) as applicants having ISIR/SAR C codes resolved and/or student eligibility verified, and excluded them from the counts for unresolved codes included in the table below.

**Table 1 – Total Comment Code Results**

Selected SAR/ISIR C comment code (listed on the previous page)	Number of students receiving code	Number of students not having code resolved on a subsequent FAFSA <sup>5</sup> <b>and not</b> reported as verified	Percent of students not having code resolved on a subsequent FAFSA <b>and not</b> reported as verified	Amount of Federal Aid disbursed to students not having code resolved on a subsequent FAFSA <b>and not</b> reported as verified
030-SS	108,838	58,162	53%	\$447,767,791
038-NSLDS	61,510	26,065	42%	\$ 69,803,927
056	18,265	477	3%	\$ 3,460,033
144-DHS	11,792	1,827	15%	\$ 10,934,088
146-SSA	118,711	86,246	73%	\$812,849,201
254-NSLDS	45,146	16,500	37%	\$168,975,507
<b>Total</b>	<b>364,262</b>	<b>189,277</b>		<b>\$1,513,790,547</b>

Because FSA does not track or monitor whether the institution maintained documentation on ISIR/SAR C code resolution, the number of unresolved ISIR/SAR C codes identified in our analysis indicate that institutions may not be resolving all ISIR/SAR C codes.<sup>6</sup> As a result, for the 2004-2005 school year, over \$1.5 billion<sup>7</sup> of Federal aid was disbursed to students whose eligibility may have been affected if ISIR/SAR C codes were not resolved.

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documentation, for the institution to verify information on the FAFSA, as it relates to student eligibility. FAAs must verify all applications the CPS selects for verification up to 30 percent of the institution’s total number of federal aid applicants. Schools report the FAFSAs verified from the list of FAFSAs selected for verification.

<sup>5</sup> We also validated that the two ISIR/SAR C codes (144-DHS and 146-SSA) related to citizenship remained unresolved through subsequent data matches with the other federal agencies.

<sup>6</sup> An applicant not having a code resolved on a subsequent FAFSA does not mean an institution did not resolve a code. It means that the resolution information was not reflected in a corrected FAFSA.

<sup>7</sup> We did not test the \$1.5 billion at the schools to determine whether the FAAs had corrected the ISIR information in school files; however, we found no revised/corrected data in CPS.

In addition, for selected ISIR/SAR C codes -- 030-SS, 038-NSLDS, 056, 144-DHS, 146-SSA, 254-NSLDS, we identified the five institutions that had the highest concentrations of students not having the code resolved on a subsequent FAFSA or in CPS.<sup>8</sup>

To determine whether the identified institutions had program reviews during the 2004-2005 and 2005-2006 years, we searched the Postsecondary Education Participants System (PEPS), which is a system that in part, contains program review information for postsecondary institutions that participate in federal education programs. We found that none of the identified institutions had program reviews for the 2004-2005 year and only one had a program review for the 2005-2006 year. The program reviewer for the one institution that had the program review said that she did not test the comment code resolution as part of the program review.

We surveyed program reviewers in three randomly selected regions and were informed that reviewers generally follow the review guide's direction to verify that ISIR/SAR C codes are resolved at the institution. However, program reviews are infrequent and often limited in scope. As previously stated, out of approximately 6,000 participating schools, the School Participation Teams completed 224 program reviews in FY 2004 and 219 program reviews in FY 2005. Of those completed in FY 2005, 78 were limited scope reviews.

## RECOMMENDATIONS

We recommend that the Acting Chief Operating Officer for FSA require Application Processing to

- 1.1 Periodically obtain reports to track the frequency of ISIR/SAR C codes by school and identify institutions that are not resolving those codes.
- 1.2 Use these reports to select institutions for a program review that focuses solely on the resolution of ISIR/SAR C codes.
- 1.3 Develop and implement a policy that requires follow-up with institutions that have excessively high rates of unresolved ISIR/SAR C codes.

## FSA Response

In its comments to the draft report, FSA did not specifically state whether or not it concurred with our finding and related recommendations. However, FSA stated that its current audit and program review processes for monitoring the resolution of ISIR/SAR C codes are very effective, indicating that FSA does not concur with our finding. FSA also indicated that it did not concur with two of the three recommendations.

FSA stated that program reviews are not the only monitoring mechanism or internal control for assuring institutions' resolution of ISIR/SAR C codes. In addition to program reviews, FSA uses schools' annual compliance audits to monitor the resolution of ISIR/SAR C codes. FSA stated

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<sup>8</sup>An FAA can go on-line in CPS and correct the data without submitting a revised FAFSA.

that a school's independent auditor is required to review student eligibility and other items associated with ISIR/SAR C codes. FSA stated that if the independent auditor finds that the school failed to resolve ISIR/SAR C codes, then it would be identified as a finding in the school's compliance audit. FSA's audit resolution procedures require schools to conduct a full file review of Title IV recipients with ISIR/SAR C codes if their annual compliance report identifies unresolved ISIR/SAR C codes exceeding an established threshold.

FSA stated that the risk to over \$1.5 billion suggested by our report is overstated. According to FSA, based on its review of 93 institutions' audit and program review findings, the occurrence of ISIR/SAR C code data alone does not support OIG's contention that institutions may not be resolving these codes. FSA maintained that it is unlikely that any students are receiving aid to which they are not entitled due to the failure of schools to resolve ISIR/SAR C codes. FSA stated that it reviewed the audit and program review findings from 2001 to present for the 93 institutions and did not identify any findings related to the failure to resolve the ISIR/SAR C codes. Based on this review, FSA concluded that schools were resolving ISIR/SAR C codes.

In response to recommendation 1.1, FSA stated that it is in the process of developing the Integrated Partner Management (IPM) system to integrate, modernize, and reengineer FSA's monitoring and oversight functions. FSA stated that recently in its IPM efforts, it has developed a new risk module that includes excessively high rates of unresolved ISIR/SAR C codes as a risk factor. FSA stated that it will use this new risk module to augment their existing procedure for monitoring the resolution of ISIR/SAR C codes.

In response to recommendation 1.2, FSA stated that its review of the 93 institutions' audit and program review findings did not result in the identification of findings related to a school's failure to resolve ISIR/SAR C codes. As such, FSA stated that the effectiveness of their processes for monitoring the resolution of ISIR/SAR C codes is supported, and that no further action is required.

Finally, in response to recommendation 1.3, FSA stated that it currently has a policy providing procedures for appropriate follow-up with institutions to resolve audit findings. FSA stated that this includes findings related to ISIR/SAR C codes that exceed the established threshold for error.

### **OIG Comments**

FSA provided no additional information to cause us to change our finding or recommendations. FSA stated that in addition to program reviews it also uses schools' annual compliance audits to monitor the resolution of ISIR/SAR C codes; however, FSA has no assurance the ISIR/SAR C codes are selected and tested for resolution. Although FSA stated that it relies on the annual compliance audits, we did not change our statement that program reviews are FSA's only monitoring mechanism, because program reviews are the only monitoring mechanism initiated and performed by FSA.

In addition, annual compliance audits cannot be relied on to ensure resolution of ISIR/SAR C codes for the following reasons –



- According to the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*, for annual compliance audits of proprietary schools, auditors must use a random sample of at least 50 students<sup>9</sup> to test student eligibility compliance requirements. However, FSA has no assurance that the sample will include any unresolved ISIR/SAR C codes since the selection process does not have a mechanism to ensure inclusion.
- According to the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, entities that receive less than \$500,000 in Federal funds, are not required to have a single audit performed. Therefore, FSA cannot use annual compliance audits to monitor the resolution of ISIR/SAR C codes for institutions that receive less than \$500,000.
- Some non-profit and public schools' Title IV programs may not be selected for review for auditing purposes under OMB Circular A-133 because the programs are not considered major programs<sup>10</sup>. In such cases, FSA cannot use single audits to monitor the resolution of ISIR/SAR C codes for the Title IV programs not reviewed because the auditor cannot attest to the resolution of the codes within those programs.
- The OMB Circular A-133 Compliance Supplement does not require minimal sample sizes or random samples. Thus, only a few students may be selected for review of student eligibility, and FSA has no assurance that a student with unresolved ISIR/SAR C codes is selected for testing.

Based on our review of the guidance for compliance audits, FSA cannot rely on annual compliance audits as a tool for monitoring resolution of ISIR/SAR C codes. FSA needs additional tools for monitoring and oversight to ensure institutions resolve ISIR/SAR C codes. As mentioned in the finding, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) states that

Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews...

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<sup>9</sup> There is an exception to the number if universe of students is less than 200, in which case, the auditors must select a minimum random sample of 25 percent of the universe.

<sup>10</sup> Major programs are federal programs that the auditor has identified as 1) Type A programs (may exclude if low-risk) and 2) high risk Type B programs. Type A programs are Federal programs with large Federal awards expended during the audit period that exceed established thresholds set forth in OMB Circular A-133 Subpart B.520. Type B programs are Federal programs not labeled as Type A.

The absence of audit findings in the audits reviewed by FSA cannot support a conclusion that the risk associated with unresolved ISIR/SAR C codes is overstated. In addition, the absence of program review findings in program reviews reviewed by FSA cannot support the conclusion that the risk associated with unresolved ISIR/SAR C codes is overstated. FSA did not provide any information regarding how many of the 93 institutions actually had a program review performed during the time period reviewed, nor did FSA provide information on how many of the program reviews were focused reviews and may not have necessarily included a review of ISIR/SAR C code resolution. As presented in our finding, relying on program reviews is not effective because of the limited number performed, and the frequency of ISIR/SAR C codes is not a basis for schools selected for program reviews. The absence of findings does not provide assurance that schools in fact resolved ISIR/SAR C codes.

FSA stated that it has a process in its audit resolution for following up with institutions that have audit findings consisting of excessively high rates of unresolved ISIR/SAR C codes, including requirements that schools with rates above a set threshold perform full file reviews. However, we did not limit the recommended follow up action in Recommendation 1.3 to resolution of audits that may have findings related to high rates of unresolved ISIR/SAR C codes. To develop effective controls, FSA should use the reports obtained in response to Recommendation 1.1 to take effective, affirmative follow up action to ensure that ISIR/SAR C codes related to statutory conditions for proper payment for Title IV aid are resolved. FSA had system reports available during our audit period to monitor ISIR/SAR C codes, but did not use those reports to monitor resolution or to select schools for program reviews. FSA should do more than passively await the receipt of audit findings related to unresolved ISIR/SAR C codes. We acknowledge FSA's current development efforts of the IPM system that will recognize excessively high rates of unresolved ISIR/SAR C codes as a risk factor for program review selection. However, FSA should develop additional controls to track and monitor schools that do not resolve ISIR/SAR C codes.

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

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The objectives of our audit were to 1) evaluate the effectiveness of the Department's process for ensuring that institutions resolve ISIR/SAR C codes generated by the CPS, and 2) evaluate the effectiveness of FSA's process for monitoring and using data from comment codes.

We audited CPS data for FAFSA submissions in the 2004-2005 year. We conducted our fieldwork between November 2005 and August 2006, which included site work at FSA headquarters in Washington, DC, during November 2005. We identified the policies, procedures, and internal controls established regarding the use and resolution of CPS comment codes and edit checks. We also conducted interviews of an Application Processing official, the CPS Project Manager, Management Program Analyst, and a Schools Participation Management official. We reviewed the HEA, regulations, and written policies and procedures pertaining to comment code data and the resolution of comment codes, including the SAR/ISIR Comment

Codes and Text 2004-2005 and 2005-2006, the ISIR Guide 2004-2005 and 2005-2006, and the 2004-2005 Federal Student Aid Handbook.

We performed an analysis of selected ISIR/SAR C codes to determine whether or not documentation existed to indicate that institutions were resolving the codes – an updated FAFSA, corrected information in CPS, or FAFSA verification. Specifically,

- From a universe of 51 comment codes associated with ISIR/SAR C codes for the 2004-2005 CPS processing year, we identified the following six codes<sup>11</sup> that could affect the eligibility of the applicant, if not resolved.
  - 030-SS
  - 038-NSLDS
  - 056
  - 144-DHS
  - 146-SSA
  - 254-NSLDS
- We used the assistance of our Computer Assisted Assessment Technology group to select all ISIR records with these codes, which totaled 364,262 as detailed in Table 1.
- We compared the SSN of the applicant with 2004-2005 disbursement data in NSLDS to determine if aid was disbursed.
- For the ISIR records that had a corresponding aid disbursement, we reviewed subsequent FAFSAs to determine if there was a change to the data element relating to the ISIR/SAR C code on the original FAFSA.<sup>12</sup>
- We identified those applications for which the questionable data element was not changed in subsequent FAFSAs, which totaled 189,277 as detailed in Table 1.
- We sorted the identified applications by institution where the aid was disbursed. We determined if there were any patterns of unresolved ISIR/SAR C codes occurring more often at specific institutions.

For the 2004-2005 and 2005-2006 program years, we determined through a review of information in PEPS whether program reviews were performed for institutions identified in our analysis.

To achieve our audit objectives, we relied on computer-processed data obtained from the CPS to determine the number of FAFSAs receiving selected ISIR/SAR C codes. We tested the reliability of the data by matching student data obtained from NSLDS (name and SSN). We performed additional analyses of subsequent application identification information, verification data, loan

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<sup>11</sup> The codes were judgmentally selected as the six most likely to affect eligibility determinations based on the nature of the code.

<sup>12</sup> An applicant not having a code resolved on a subsequent FAFSA does not mean an institution did not resolve a code. It means that the resolution information was not reflected in a corrected FAFSA.

amounts and disbursement dates. We concluded that the data was sufficiently reliable to be used in meeting the audit's objectives.

An exit conference was held on January 26, 2007. On June 20, 2007, we contacted FSA and verified that the condition contained in the audit had not changed, and that no changes had taken place within FSA that would have a significant impact on the condition as discussed in the exit conference. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

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## ADMINISTRATIVE MATTERS

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Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). The Department's policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report. An electronic copy of this report has been provided to your Audit Liaison Officer(s).

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

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.

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.

If you have any questions, please call Denise M. Wempe at 404-562-6477.

Sincerely,

/s/

Keith West

Assistant Inspector General for Audit

Attachment



CHIEF OPERATING OFFICER

TO: George A. Rippey  
Acting Assistant Inspector General for Audit Services  
Office of Inspector General

FROM: Lawrence A. Warder /s/  
Acting Chief Operating Officer

SUBJECT: Response to Draft Audit Report – *Resolution of Institutional Student Information Report (ISIR)/Student Aid Report (SAR) C Codes Generated by the Central Processing System's (CPS) Edit Check Process*  
Control Number ED-OIG/A04G0002

Thank you for providing us with an opportunity to review and respond to the Office of Inspector General's draft audit report, *Resolution of Institutional Student Information Report (ISIR)/ Student Aid Report (SAR) C Codes Generated by the Central Processing System's (CPS) Edit Check Process*. The report concludes that Federal Student Aid does not monitor and effectively use Free Application for Federal Student Aid (FAFSA) comment code data to ensure it receives the most accurate data from applicants.

Federal Student Aid recognizes the importance of internal controls to program integrity and continually seeks to improve the effectiveness of our processes. As such, we are currently developing a new system, Integrated Partner Management (IPM), to integrate, modernize, and reengineer Federal Student Aid's monitoring and oversight functions.

Recently, in IPM development, we completed requirements for a new risk module to identify schools that have excessively high rates of unresolved ISIR/SAR C codes. This process will augment our existing procedure for monitoring the resolution of C codes. When issues are identified, appropriate follow up action is initiated to identify the nature of the problem and whether the best course of action is to conduct a program review at the school, or provide training or technical assistance.

We do have several concerns about the facts presented in the draft report that we would like you to consider as you prepare your final report.

### **Program Reviews Are Not Federal Student Aid's Only Monitoring Mechanism**

The draft report states that Federal Student Aid's only monitoring mechanism or internal control for assuring institutions' resolution of ISIR/SAR C codes is through program reviews. In fact, Federal Student Aid uses schools' annual compliance audits to monitor the resolution of the codes. Both the SFA Audit Guide and the A-133 Compliance Supplement (see <http://www.ed.gov/about/offices/list/oig/nonfed/nfteam.html>)

([http://www.ed.gov/about/offices\\_list/oig/nonfed/sfa.html](http://www.ed.gov/about/offices_list/oig/nonfed/sfa.html)) require the school's independent auditor to review student eligibility and review the items that would be associated with the C codes identified in this report. (Please see Attachment B to this response for examples of SAR and ISIR comment codes as well as the guidance schools are required to follow.)

The school's failure to resolve ISIR/SAR codes would be identified as a finding in the school's compliance audit. If the failure to resolve C codes meets a set threshold, Federal Student Aid's audit resolution procedures require the school to conduct a full file review of all Title IV recipients whose ISIR/SAR codes contained C codes and provide documentation to support resolution of the C code prior to disbursing Title IV funds. Based on the actual disbursements made to the student aid recipients, a liability would be established for all funds disbursed for which the C code(s) had not been resolved.

### **Risk Suggested by the Report is Overstated**

The report suggests that for the 2004-2005 school year over \$1.5 billion of Federal Aid was disbursed to students whose eligibility may have been affected if ISIR/SAR codes were not resolved.

Federal Student Aid does not believe that the occurrence of C code data alone supports OIG's contention that institutions may not be resolving these codes. In fact, Federal Student Aid analyzed the school data OIG provided at the exit conference, indicating 18 institutions with the highest occurrences of C codes that were unresolved on a subsequent FAFSA. The 18 schools included two large school systems with many affiliated schools, a total of 93. We reviewed the audit and program review findings from 2001 to present for all 93 schools that had separate OPE ID numbers, and we did not identify any findings related to the failure to resolve the C codes resulting in a liability.

Based on this research, schools are resolving C codes. Therefore, it is unlikely that any students are receiving aid to which they are not entitled due to the failure of schools to resolve C codes. Furthermore, we feel our current audit and program review processes for monitoring the resolution of C codes are very effective.

That said, Federal Student Aid is continuously implementing new measures to strengthen its monitoring and oversight of schools, including identifying the ISIR/SAR C code as one of several risk indicators in the new IPM risk management module.

Attachment A provides our response to each recommendation. Again, we appreciate the opportunity to review and comment on the draft report.

Attachments

cc: Denise M. Wempe, Regional Inspector General Atlanta  
Patrick J. Howard, Director, Student Financial Assistance Advisory & Assistance Team

**Attachment A—Federal Student Aid’s Response to Recommendations**  
Resolution of ISIR/SAR C Codes Generated by the CPS’ Edit Check Process  
(A04-G0002)

Finding: Federal Student Aid Does not Have a Process to Effectively Monitor ISIR/SAR C Code Data to Ensure It Receives the Most Accurate Data from Applicants.

**Recommendation 1.1:** *Periodically obtain reports to track the frequency of SAR C codes by school and identify institutions that are not resolving those codes.*

**Federal Student Aid’s Response:** Federal Student Aid has completed requirements for the IPM risk management module that will identify ISIR/SAR C codes as a risk indicator that will be used in conjunction with other risk factors to determine what kind of action is required. Appropriate action may include program reviews, technical assistance, or training, as warranted. Requirements for this module were completed August 6, 2007.

**Recommendation 1.2:** *Use these reports to select institutions for a program review that focuses solely on the resolution of ISIR/SAR codes.*

**Federal Student Aid’s Response:** Federal Student Aid has conducted an analysis of audit and program review findings related to ISIR/SAR C codes to identify schools that may not be resolving these codes. The analysis included findings from 2001 to present for all 93 schools that had separate OPE ID numbers identified in the OIG audit. We did not identify any findings related to the failure to resolve the C codes that resulted in a liability. The analysis was conducted February 1, 2007, and supports the effectiveness of our current processes for monitoring the resolution of C codes. As a result, no further action was required.

**Recommendation 1.3:** *Develop and implement a policy that requires follow-up with institutions that have excessively high rates of unresolved ISIR/SAR codes.*

**Federal Student Aid’s Response:** Federal Student Aid’s Compliance Audit Standards currently provide procedures for appropriate follow up with institutions to resolve audit findings, including findings related to ISIR/SAR C codes, that exceed the established threshold for error. The procedures were implemented February 2, 2006.

Attachment B—ISIR/SAR Codes and Associated Requirements/Guidance  
Resolution of ISIR/SAR C Codes Generated by the CPS' Edit Check Process  
(A04-G0002)

When a Free Application for Federal Student Aid (FAFSA) is submitted to the CPS for processing, CPS will match the application data with the external agencies listed below:

- Social Security Administration (SSA)
- Department of Homeland Security (DHS)
- Selective Service (SS)
- Veteran's Affairs (VA)
- National Student Loan Data Systems (NSLDS)
- Department of Justice (DOJ)

If there was a problem with the match, the SAR and ISIR will have a C code and comment explaining the nature of the data matching error and information about how to resolve it.

C codes must be resolved before the school can disburse aid to the student. Federal Student Aid provides guidance to the school in the ISIR Guide regarding the steps the student needs to follow and documentation the student needs to provide to document that the C code has been resolved.

The school is responsible for collecting and maintaining the documentation that verifies the data matching error that resulted in the C code has been resolved. The school does not send in any electronic notification to the CPS to indicate that the data has been collected in order to generate a new transaction eliminating the C code.

In some cases, a C code can be eliminated from a subsequent transaction. If the student makes a correction to fields related to the match, the FAFSA information will go through the external match again. If the external system that indicated the failed match on a prior transaction has been updated, the C code could be eliminated.

The table on the following pages provides examples of SAR and ISIR Comment Codes that would result in a C code as well as the procedures schools must follow.



Comment Code	Instructions in ISIR Guide for Resolution	Guidance to Schools
030- Selective Service Match C-Code Match Flag – N (Match conducted. Applicant not in Selective Service database)	Resolution required.  In order to resolve SAR C Code student must: <ul style="list-style-type: none"> <li>• Register with Selective Service,</li> <li>• Present appropriate confirmation (for example, his Selective Service Registration Acknowledgement or letter of registration) that he is already registered, or</li> </ul> Qualify for a waiver or exemption.	If the student is not registered, is 26 years or older, and does not qualify for an exemption from registration, the school may not disburse aid to the student until it determines, based on relevant evidence/documentation, that the student did not knowingly and willfully fail to register.  Except for students who are 18 to 25 who don't match SS's database, and who make a correction on their SAR requesting ED to register them for selective service, there is no way for the student or school to eliminate the SAR C Code.
038 – NSLDS Match C – Code Match Flag – 3 (Match conducted. Overpayment held by school)	Resolution required.	A student generally isn't eligible for FSA funds if s/he owes an overpayment on an FSA grant and has not made satisfactory repayment arrangements.  Schools must document that the overpayment has been resolved before disbursing aid. Documentation is a written communication from the school that holds the overpayment.  <b>Only the school where the overpayment occurred can change the overpayment data in NSLDS.</b>  <b>Neither the student nor the new school can eliminate the SAR C Code.</b>

Comment Code	Instructions in ISIR Guide for Resolution	Guidance to Schools
<p>056 – Drug Conviction C- Code (Applicant response to Question 31 was “Yes” on the paper FAFSA)</p>	<p>Resolution required.</p> <p>Applicant is not eligible for federal aid.</p> <p>If the response to the drug conviction question is incorrect, applicants should follow the directions in the comment text to make a change to the question.</p>	<p><b>If school gets documentation from the student (e.g., completion of drug rehabilitation program), the school can disburse aid to the student.</b></p> <p>We have not instructed schools to update answers to the drug question because changes could result in inadvertent and incorrect disbursement of aid to students (e.g., for students who submitted documentation of completing a drug rehabilitation program, changing a “3” to a “1” would make it appear that the student was eligible for the entire year, when in fact they regained eligibility on the date they completed the program. A “3” response to this question, along with a SAR C Code makes it clear to schools, including transfer schools, that they need to collect documentation from the student about the drug conviction before disbursing aid.</p>

Comment Code	Instructions in ISIR Guide for Resolution	Guidance to Schools
<p>144 – DHS Primary Verification C – Code Match Flag – N (Match conducted. DHS did not confirm applicant’s non-citizen eligibility)</p>	<p>Resolution required.</p> <p>DHS will conduct the Secondary Confirmation process based on the applicant’s identifier and Primary Verification information. The next steps will depend on results from Secondary Confirmation match results.</p>	<p>The primary DHS match can lead to “false” non-matches because the DHS database is not complete.</p> <p>A secondary confirmation process finds records that could not be found during the automated primary verification process.</p> <p>In more than a few cases where primary and secondary confirmation do not confirm eligible non-citizenship status, schools must use the paper G-845S confirmation process.</p> <p><b>As a result of the G-845S paper process, some students will have their eligible non-citizenship status confirmed, but neither the school nor the student can eliminate SAR C Codes resulting from the DHS match.</b></p>

Comment Code	Instructions in ISIR Guide for Resolution	Guidance to Schools
<p>146 – SSA Match for Citizenship C – Code Match Flag - B, C, D, E, F, or * (Match conducted. SSA did not confirm U.S. Citizenship)</p>	<p>Resolution required.</p> <p>If the student is a U.S. Citizen, the student should provide a birth certificate, passport, or other documents to the school to prove citizenship. Voter registration cards are not adequate proof of citizenship since many localities do not require proof of citizenship.</p> <p>If the student is an eligible non-citizen, s/he should correct the citizenship question on the FAFSA/SAR to indicate that s/he is an eligible non-citizen and provide a valid Alien Registration Number. CPS will send the record to DHS. If DHS confirms the student's eligible non-citizen status, comment 146 and related C Code will be suppressed, and no further resolution is necessary.</p>	<p><b>Naturalized citizens and students born abroad to U.S. citizens are also U.S. citizens, but periodically the student's citizenship status is not captured correctly in SSA's database and the student fails the citizenship match.</b></p> <p>Students can document citizenship by providing the school with a "Naturalization Certificate," a "consular Report of Birth Abroad," or a "Certification of Report of Birth."</p> <p>There is nothing the school can do to eliminate the SAR C Code for this match.</p>
<p>254 – NSLDS Match C – Code (Subsidized or Combined Loan Total exceeds loan limits based on NSLDS Loan Limit Flags)</p>	<p>Resolution required.</p> <p>In general, students who borrow in excess of aggregate loan limits are ineligible to receive further Title IV assistance; however, if the school determines that the student inadvertently borrowed in excess of the limits, the student may regain eligibility by either repaying the amount borrowed in excess of the aggregate limits, or making repayment arrangements for the excess amount that are satisfactory to the holder of the loan.</p>	<p><b>Students must provide schools with documentation that they have affirmed with their lender that they will repay the excess funds.</b></p> <p><b>The excess funds will remain as an overage and the SAR C Code can never be eliminated.</b></p>