



**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
61 FORSYTH STREET, ROOM 18T71
ATLANTA, GEORGIA 30303**

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November 8, 2004

MEMORANDUM

TO: Theresa S. Shaw
Chief Operating Officer
Federal Student Aid

FROM: J. Wayne Bynum *J. Wayne Bynum*
Regional Inspector General for Audit
Office of Inspector General

SUBJECT: **FINAL AUDIT REPORT**
*Review of Student Enrollment, Professional Judgment Actions, and
Dependency Overrides at Salem College*
Control No. ED-OIG/A04-E0003

You have been designated as the action official for the resolution of the finding and recommendations in the attached final report. We also provided a copy to the auditee and to your audit liaison officer.

The Office of Inspector General is required to review and approve your proposed Program Determination Letter (PDL) and the Audit Clearance Document (ACD) before the PDL is forwarded to the auditee. Our review of these documents will be handled through the Department's Audit Accountability and Resolution Tracking System (AARTS).

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.

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 contact me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

Enclosure



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
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November 8, 2004

Dr. Julianne Still Thrift
President
Salem Academy and College
601 S. Church St.
Winston-Salem, NC 27108

Dear Dr. Thrift:

This **Final Audit Report**, Control Number A04-E0003, presents the results of our *Review of Student Enrollment, Professional Judgment Actions, and Dependency Overrides at Salem College*. Audit coverage included the period July 1, 2001, through June 30, 2003 (award years 2001-2002 and 2002-2003). Our objectives were to determine (1) whether Salem College enrolled as regular students only individuals who have a high school certificate or its equivalent or are beyond the age of compulsory school attendance and (2) whether Salem College's use of professional judgment and dependency override to make adjustments to estimated family contribution calculations resulted in appropriate Federal Pell Grant Program (Pell) disbursements to students.

AUDIT RESULTS

We did not identify any problems regarding (1) the enrollment as regular students only individuals who have a high school certificate or its equivalent or are beyond the age of compulsory school attendance or (2) the school's use of dependency overrides. However, we did determine that Salem College did not always maintain adequate supporting documentation for its professional judgment determinations.

FINDING No. 1 -- Salem College Did Not Maintain Adequate Supporting Documentation for Professional Judgment Actions

Salem College did not maintain adequate documentation to support all professional judgment decisions. This occurred because Salem College did not always follow established policies and procedures related to obtaining adequate documentation to support a student's claim of a special

circumstance as a means to being granted professional judgment. As a result, 12 students received \$26,400 in excessive Federal Pell Grant funds.

The Higher Education Act of 1965, as amended, Section 479A (1998) states:

Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students.

Salem College used dependency override actions to amend the estimated family contribution for two Pell Grant recipients during award year 2001-2002 and two Pell Grant recipients during 2002-2003. We reviewed the financial aid files for these four students and determined that there was adequate documentation to support the students' claim of a special circumstance. We also determined that the special circumstance for the dependency override action was substantiated.

Salem College used professional judgment actions to amend the estimated family contribution for 76 of its 351 Pell Grant recipients during award year 2001-2002 and 66 of its 356 Pell Grant recipients during award year 2002-2003.

We reviewed the financial aid files for 64 randomly selected students who were coded as having received professional judgment actions during award years 2001-2002 and 2002-2003. We reviewed the files to determine if there was adequate documentation to substantiate the students' claim of a special circumstance and of a case-by-case determination that the special circumstance justified deviating from the expected family contribution. We found that the documentation in the files was not adequate to support the professional judgment actions for 12 of the 64 students. Eleven of these 12 student files contained a signed letter or special request form explaining the special circumstance; however, the information provided did not substantiate the claimed special circumstance. For example, the documentation for an individual who stated he lost his job provided no information about where the individual worked. Another student file contained a record of a telephone conversation that the Financial Aid Director had with someone concerning the student's father's cutback in work hours; however, there was insufficient documentation to substantiate the information. Tables 1.1 and 1.2 below provide additional information regarding the results of our student file reviews.

Table 1.1 – Professional Judgment File Review for 2001-2002

Reason for Professional Judgment Decision	Students	Adequate Support Maintained in File	
		<i>YES</i>	<i>NO</i>
Excessive Medical/Miscellaneous Bills	10	9	1
Elimination of Child Support or Social Security Benefits	1	1	0
Student/parent/spouse loss of job or reduction in income	23	18	5
TOTAL	34	28	6

Table 1.2 – Professional Judgment File Review for 2002-2003

Reason for Professional Judgment Decision	Students	Adequate Support Maintained in File	
		<i>YES</i>	<i>NO</i>
Excessive Medical/Miscellaneous Bills	9	9	0
Separation of parents	1	1	0
Elimination of Child Support or Social Security Benefits	2	1	1
Student/parent/spouse loss of job or reduction in income	18	13	5
TOTAL	30	24	6

In summary, Salem College did not maintain adequate supporting documentation for 12 of the 64 student files reviewed (19 percent). These 12 students received \$36,050 in Pell Grant funds. As a result of the unsupported professional judgment actions, the 12 students received \$26,400 in excessive Pell grant disbursements.

Salem College had written policies and procedures for granting professional judgment; however, the policies and procedures were not consistently followed. Students who wished to be considered for special circumstances were to submit a Special Circumstance or Dependency Override Request form or a written request. The policy stated that appropriate documentation, such as a letter of termination from a job or copies of medical bills not covered by insurance, would help the Financial Aid Director in making a determination. The policy also stated that the Financial Aid Director may request additional data depending on the situation. If the special circumstance was approved, the Financial Aid Director adjusted key data elements on the students' Free Application for Federal Student Aid form (e.g., Adjusted Gross Income, number in household, number in college, etc.). The Financial Aid Director wrote a brief explanation of the decision and signed and dated the form. The Financial Aid Director also flagged the Financial Aid Administrator Adjustment field in EExpress to indicate the transaction was based on professional judgment, calculated a new expected family contribution, reprocessed the aid, and mailed a new award letter to the student.

RECOMMENDATIONS

We recommend that the Chief Operating Officer for Federal Student Aid require Salem College to-

- 1.1 Maintain adequate supporting documentation that substantiates a student's special circumstance and documents the reasons for the professional judgment actions.
- 1.2 Refund \$26,400 in Pell Grant funds disbursed as a result of inadequately documented professional judgment actions.
- 1.3 Perform a 100 percent review of the professional judgment actions not included in our audit for award years 2001-2002 and 2002-2003 through the current period and refund any additional Pell Grants disbursed as a result of inadequate support for professional judgment actions granted. The Chief Operating Officer should require verification of this calculation by the appropriate Case Management Team.

SALEM COLLEGE RESPONSE

Salem College disagreed with the finding and recommendations (see attachment). The response stated that the regulation and the *Federal Student Aid Handbook* does not define or give examples of "adequate documentation." The financial aid administrator has been given the authority to make this decision under the realm of professional judgment. Minimal Federal guidance concerning documentation requirements has resulted in many different interpretations of the regulation. Schools such as Salem College act in good faith when interpreting the regulations. Some students make projections of current year income, which is an estimate of earnings. Such figures cannot be proven or verified until the tax year is completed. In 7 of the 12 cases cited in the report, Salem College's professional judgment decisions were verified by additional supporting documentation, which proved the judgments were correct. Salem College disagreed with recommendation No. 1.2 to refund \$26,400 in Pell Grant funds.

Federal financial aid applicants and parents (where applicable) must sign a certification statement on the Free Application for Federal Student Aid (FAFSA) indicating that they can be fined and/or sent to prison for giving false or misleading information. This certification holds students and parents liable for the accuracy of the information provided in conjunction with the financial aid application (i.e., FAFSA data, verification, professional judgment, etc.). Salem College uses this certification as the basis for accepting professional judgment requests.

Recommendation No. 1.3 seeks 100 percent verification of the remaining professional judgment decisions. Statistical sampling methods indicate that a 45 percent sample (64 of 142) has a confidence level of 99 percent with a confidence interval of 12. Salem College disagrees with the recommendation because a confidence level of 99 percent is extremely high.

OIG COMMENTS

Salem College's comments did not lead us to change our finding. Section 479A of the Higher Education Act of 1965, as amended, prescribes that adequate documentation must "substantiate" the special circumstances of individual students. In our review, we looked for documentation to "substantiate" the circumstances of the student that would allow a financial aid advisor, on a case-by-case basis, to conclude that it was reasonable to "deviate from the contributions expected in the absence of special circumstances." For the 12 students in question, the notes and/or letters describing the students' special circumstance did not provide sufficient detail to substantiate the students' circumstances. None of the notes or letters regarding loss of income or job provided an employer's name, information on unemployment compensation, or prospects for additional employment.

The FAFSA certification statement pertains to the information included in the FAFSA and information that the student/parent will provide at a later date, if requested, to verify the accuracy of the completed form. A new FAFSA is not prepared and signed to support a professional judgment action. The FAFSA certification does not preclude the need to obtain adequate documentation at the time a student requests a professional judgment action. The statute requires financial aid administrators to maintain adequate documentation that substantiate the special circumstances of the student. In addition, as evident with the verification process that the Department uses to verify FAFSA information, the Department does not exclusively rely on the FAFSA certification statement.

Nineteen percent (12 of 64) of the professional judgment actions that we reviewed were not substantiated by supporting documentation. Therefore, it is probable that 27 professional judgment decisions are not substantiated by documentation (0.19 x 142 professional judgment decisions). Therefore, we recommend that the remaining 78 professional judgment decisions (142 decisions less 64 decisions reviewed by OIG) be reviewed to determine if additional Pell Grants were disbursed without adequate support for the professional judgment actions granted.

BACKGROUND

Salem College, the 13th oldest college in the Nation, is located in Winston-Salem, North Carolina. The Moravians started the school in 1772 as a school for girls. In 1890 it became Salem College (Salem Academy and College). The 57-acre campus is shared with the Academy (a college/preparatory boarding school for girls in grades 9-12).

Salem College is a private, non-profit, Liberal Arts College for women, accredited by the Southern Association of Colleges and Schools, the National Association of Schools of Music, and the North Carolina Board of Education. Salem College offers degree programs to undergraduate students and graduate students, and it also offers a Continuing Studies program and Pre-professional programs.

Enrollment at Salem College is approximately 1,027 students. Tuition is currently \$15,500 and room and board is \$8,870. Approximately 70 percent of the institution's students receive financial aid from programs such as Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Work Study (FWS), Federal Pell Grants (Pell), and Federal Family Education Loans (FFEL). Salem College received Title IV funding totaling \$3,693,482 during award year 2001-2002 and \$3,675,401 during award year 2002-2003. The table below provides a breakdown of Title IV funds received by program.

Award Year	PELL	FSEOG	FWS	FFEL	Total
2001-2002	\$774,161	\$69,000	\$74,221	\$2,776,100	\$3,693,482
2002-2003	\$895,799	\$94,044	\$94,699	\$2,590,859	\$3,675,401
Total by Program	\$1,669,960	\$163,044	\$168,920	\$5,366,959	\$7,368,883

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine (1) whether Salem College enrolled as regular students only individuals who have a high school certificate or its equivalent or are beyond the age of compulsory school attendance and (2) whether Salem College's use of professional judgment and dependency override to make adjustments to the estimated family contribution calculations resulted in appropriate Pell Grant disbursements to students. The scope of our audit included award years 2001-2002 and 2002-2003.

To evaluate institutional eligibility regarding the enrollment of high school students we-

- Reviewed the Higher Education Act of 1965, as amended, and applicable Title IV regulations.
- Reviewed the academic files for selected high school students.
- Reviewed State law regarding the age of compulsory school attendance
- Reviewed Salem College's policies and procedures regarding the enrollment of high school students.
- Reviewed a written agreement between Salem College and a local school board for the enrollment of high school students.
- Interviewed Salem College officials.

We reviewed the files for the 35 high school students that Salem College identified as being enrolled at Salem College during the audit period.

To evaluate Salem College's use of professional judgment and dependency override actions we-

- Reviewed financial aid files, student ledger cards, and other supporting documentation relating to professional judgment and dependency override.

- Reviewed Title IV of the Higher Education Act of 1965, as amended (particularly Sections 479A and 480(d)).
- Reviewed Salem College's OMB Circular A-133 audit reports for the years ended 2002 and 2003.
- Reviewed disbursement data, application records, and other student related data from the Department's National Student Loan Data System (NSLDS) and the Computer Science Corporation.
- Reviewed Salem College's drawdown and disbursement data using the Department's Grants Payment Administration System (GAPS) and Postsecondary Education Participants System (PEPS).
- Interviewed Salem College officials involved in professional judgment and dependency override actions.

To evaluate the adequacy of documentation maintained to support professional judgment actions, we reviewed a random sample of students who received Pell Grant awards and whose Student Aid Report (SAR)/Institutional Student Information Record (ISIR) reported comment code 027 (estimated family contribution adjustment). This code indicates that professional judgment had been applied. We identified a universe of 351 and 356 students who received Pell Grant funds during award years 2001-2002 and 2002-2003, respectively. Salem College reported professional judgment decisions for 76 of the 351 Pell recipients in award year 2001-2002 and 66 of the 356 Pell recipients in award year 2002-2003. Total Pell Grant awards distributed to the students who received professional judgment actions was \$167,338 for award year 2001-2002 and \$167,950 for award year 2002-2003. To evaluate Salem College's use of professional judgment actions, we selected a random sample of 34 student files from award year 2001-2002 and 30 student files from award year 2002-2003 for review. Total Pell Grant awards distributed to the sampled students was \$81,350 for award year 2001-2002 and \$81,050 for award year 2002-2003.

To evaluate the adequacy of documentation maintained to support dependency override actions, we reviewed the universe of students who received Pell Grant awards and whose SAR/ISIR reported comment code 164 (dependency override). This code indicates that a dependency override had been applied. We found that four students received Pell Grant funds and dependency overrides during award years 2001-2002 and 2002-2003 (two in each award year). Total Pell Grant awards distributed to the students who received dependency override actions was \$7,500 for award year 2001-2002 and \$5,525 for award year 2002-2003. We reviewed all four dependency override actions.

To evaluate the risk that professional judgment or dependency overrides were used, but not reported, we selected a random sample of students who received Pell Grant awards during the audit period and whose SAR/ISIR did not report the use of professional judgment or dependency override (i.e., no comment code 027 or 164). We identified a universe of 275 students in award year 2001-2002 and 290 students in award year 2002-2003 whose SARs/ISIRs were not coded as receiving professional judgment or dependency override. We selected a random sample of 33 students from award year 2001-2002 and 35 students from award year 2002-2003 for review.

During the audit, we relied in part on computer-processed data contained in Salem College's financial aid processing and disbursement systems. We tested the accuracy and completeness of the data by comparing Salem College's records to source documents and the data in the Department's systems. Based on these tests and assessments, we concluded that the data was sufficiently reliable for use in meeting the audit objectives.

We conducted our audit work during the period March through May 2004, and held an exit conference with Salem College on August 5, 2004. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON INTERNAL CONTROLS

We did not assess Salem College's internal control structure applicable to its institutional eligibility for participation in Title IV programs because it was not necessary to achieve our objective related to institutional eligibility.

As part of our audit, we gained an understanding of the controls over professional judgment and dependency override determinations. We did not assess the adequacy of the control structure applicable to the College's use of professional judgment and dependency overrides to determine the nature, extent, and timing of our testing. Instead, we relied on substantive testing of financial aid and accounting records. Our review of student files disclosed noncompliance with requirements for professional judgment that led us to believe material weaknesses existed in the College's controls over professional judgment. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

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
830 First Street, NE, Room 112G1
Washington, DC 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 greatly 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.

If you have any questions, please call me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

Sincerely,

J. Wayne Bynum

J. Wayne Bynum
Regional Inspector General

ATTACHMENT – WRITTEN RESPONSE TO THE DRAFT REPORT



Office of the President
Winston-Salem, North Carolina 27108-0548
336/721-2605 Fax: 336/721-2832

October 19, 2004

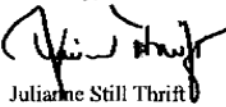
Mr. J. Wayne Bynum
Regional Inspector General for Audit
United States Department of Education
61 Forsyth St., Room 18T71
Atlanta, GA 30303

Dear Mr. Bynum:

This letter is in response to your draft audit report dated August 19, 2004, concerning the results of your ongoing review at Salem College. Enclosed you will find a detailed response from our Director of Financial Aid, Julie Setzer.

Should you have further questions, you may contact Ms. Setzer at (336) 917-5577 or setzer@salem.edu.

Thank you for your consideration.

Sincerely,

Julianne Still Thrift
President

JST/wrm

ATTACHMENT – WRITTEN RESPONSE TO THE DRAFT REPORT



October 19, 2004

Mr. J. Wayne Bynum
Regional Inspector General for Audit
United States Department of Education
61 Forsyth St., Room 18T71
Atlanta, GA 30303

Dear Mr. Bynum:

This letter is in response to your draft audit report dated August 19, 2004, concerning the results of your ongoing review at Salem College. Our institution does not concur with the finding noted on page 2 and recommendations 2 and 3 made on page 4.

The *Higher Education Act (As Amended Through October 2002)* states that:

“Sec. 479A(a) IN GENERAL.—Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. . . .”

We disagree with the finding listed on page 2 of the report. In our review of the 12 students in question, we maintain that our decisions were correct for each student, and we stand behind them. The regulation does not define or give examples of “adequate documentation,” nor does the *Federal Student Aid Handbook*. The financial aid administrator has been given the authority to make this decision under the realm of professional judgment. In fact, the regulation has no requirement to even collect written or signed statements from parents and/or students. Minimal Federal guidance concerning documentation requirements has resulted in many different interpretations of the regulation. Schools such as Salem College act in good faith when interpreting the regulations in order to make the right decisions for the unfortunate students who find themselves in need of additional assistance. Some of these students make projections of current year income, which is an estimate of earnings. These figures cannot be proven or verified until the tax year is completed. In 7 of the 12 cases, our professional judgment decisions were verified by additional supporting information which proved our judgments were correct. On this basis, we disagree with recommendation #2, which seeks to have Salem College refund \$26,400 in Federal Pell Grant funds as a result of the audit. Please note additional supporting information (see enclosures).

ATTACHMENT – WRITTEN RESPONSE TO THE DRAFT REPORT

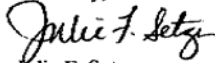
Page 2

Federal financial aid applicants and parents (where applicable) must sign a certification statement on the Free Application for Federal Student Aid (FAFSA) indicating “... **If you purposely give false or misleading information, you may be fined \$20,000, sent to prison, or both.**” This certification holds students and/or parents liable for the accuracy of the information provided in conjunction with the financial aid application (i.e. FAFSA data, verification, professional judgment, etc.). Salem College uses this certification, as do many other institutions, as the basis for accepting professional judgment requests. Because Federal guidance for professional judgment decisions and documentation is minimal, schools rely on the certification statement to hold students and parents accountable for requests they submit.

Recommendation #3 seeks 100% verification of the remaining professional judgment decisions. Using the population (N=142) and sample sizes (n=64) of the Salem College audit, statistical sampling methods indicate that a 45% sample has a confidence level of 99% with a confidence interval of 12. We disagree with this recommendation because a confidence level of 99% is extremely high.

We respectfully ask for reconsideration of your report.

Sincerely,



Julie F. Setzer
Director of Financial Aid

c: Dr. Julianne Still Thrift

Enclosures