
PROFESSIONAL JUDGMENT AT THE UNIVERSITY OF COLORADO

FINAL AUDIT REPORT



**Audit Control Number 06-70009
July 1998**

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U.S. Department of Education
Office of Inspector General
Dallas, TX



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July 17, 1998

Audit Control Number 06-70009

Jerome Sullivan, Director of Financial Aid
University of Colorado at Boulder
Campus Box 106
Boulder, Colorado 80309-0106

Dear Mr. Sullivan:

This is our audit report, *Professional Judgment at the University of Colorado*. The report incorporates the comments you provided in response to a draft which was provided to you. 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 U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

Dr. David A. Longanecker
Assistant Secretary for Postsecondary Education
ROB-3, Room 4082
7th and D Streets, SW
Washington, DC 20202-5101

Office of Management and Budget Circular A-50 directs Federal agencies 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 is requested.

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Please refer to the above audit control number in all correspondence relating to this report.

Sincerely,

Daniel J. Thaens
Western Area Manager
Dallas, Texas

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PROFESSIONAL JUDGMENT AT THE UNIVERSITY OF COLORADO

EXECUTIVE SUMMARY

The University of Colorado used professional judgment to modify the statutory needs analysis formula for certain students based on their place of residence. The modification involved the use of a *cost of living adjustment* for students who were from locations that were designated as high cost living areas by the American Chamber of Commerce Researchers Association. The Higher Education Act does not grant Financial Aid Administrators authority to make modifications to the statutory formula because they feel a student's place of residence constitutes a financial hardship. We also identified other inappropriate uses of professional judgement. We are questioning professional judgment actions for 34 percent of 100 students sampled. The questioned actions resulted in \$15,082 in additional Pell Grants being disbursed in award years 1994-95 through 1996-97.

The University also did not report all professional judgment actions to the Department's Central Processing System. The University reported using professional judgment for 296 students in award year 1995-96. We estimate professional judgment was used but not reported for an additional 371 students in that year.

We are recommending the University: 1) establish procedures for using professional judgment only after determining on an individual student basis that special circumstances exist and the actions do not modify or replace allowances already included in the statutory needs analysis formula, (2) refund the \$15,082 in additional Pell Grants disbursed as a result of the unreasonable professional judgment actions for the sample students, 3) perform a 100 percent review of the professional judgment actions not included in our audit for award year 1994-95 through the current period and refund any additional Pell Grants disbursed as a result of the unreasonable use of professional judgment (a statistically valid sample review may be substituted for a review of all actions), and (4) establish procedures which ensure all professional judgment actions are reported to the Central Processing System which at a minimum should include an after-the-fact review to ensure that all actions have been properly input.

The University disagreed that professional judgment was used improperly. Although the University agreed that the Higher Education Act prohibits general modifications to the statutory formula, officials stated there was no specific law which discussed whether the relative cost of a student's place of residence constitutes either a special circumstance or a general modification to the formula. The University emphasized they exercised the best judgment for their students under the authority given by Congress. We continue to believe that the University's actions constituted modification of the statutory formula and have not changed our recommendations. The University's response is summarized following our recommendations and included in total as an attachment to the report.

AUDIT RESULTS

The University of Colorado (University) reported using professional judgment for 1,655 or 16 percent of its 10,615 Pell Grant recipients for award years 1994-95 through 1996-97. By comparison, Financial Aid Administrators (FAAs) nationally reported using professional judgment for about 4 percent of their Pell Grant recipients. We reviewed a sample of 100 of the 1,655 students with reported actions and determined that 34 had one or more unreasonable professional judgment actions that resulted in total Pell Grant overpayments of \$15,082. Based on the sample results, we estimate 563 students may have received \$151,346 or as much as \$347,868 in Pell Grant overpayments.

We also determined that the University had not reported all professional judgment actions in award year 1995-96 to the Department's Central Processing System (CPS). The University reported using professional judgment for 296 students in that year. We estimate professional judgment was used but not reported for an additional 371 students. These students were not included in our initial sampling universe. However, based on a limited sample review of 38 students with unreported actions, we found no significant differences in types of actions taken for these students and the students in our initial sample. Therefore, we believe additional Pell Grant overpayments were made to the students with unreported professional judgment actions.

How Eligibility is Determined

Title IV, Part F of the Higher Education Act (Act) provides for the use of a needs analysis formula to determine eligibility for student financial aid. A family's financial resources are assessed to determine a reasonable amount that they should contribute to meet the student's postsecondary education costs. This amount is referred to as the Expected Family Contribution (EFC). The statutory needs analysis formula recognizes that part of a family's resources must be devoted to taxes, basic living costs, and other unavoidable expenses. Allowances for living expenses are made in the Income Protection Allowance (IPA). For example, the IPA includes an allowance for food, housing, transportation, clothing, and medical expenses. An allowance is also made for state and local taxes and varies depending on the state of residence.

FAAs are allowed by section 479A of the Act to, among other things, use their discretion or professional judgment on a case-by-case basis either to increase or decrease one or more of the financial elements used to calculate the EFC.

Congress recognized that a student or parent's financial situation may have changed or they may have other special circumstances. Special circumstances are conditions that differentiate an individual student from a whole class of students. For example, they may include lower earnings due to recent unemployment or illness and unusually high medical or dental expenses. Professional judgment may also be used to change a student's status from dependent to independent.

Section 479A does not grant the FAA authority to use professional judgment to make general modifications to the statutory formula. The FAA should not replace or modify formula values simply because the FAA believes that the values are generally not appropriate or adequate for Pell Grant applicants and their families. Individual special circumstances must exist, and be documented, before a FAA may make a professional judgment adjustment.

The University's Use of Professional Judgment

The University's usual practice was to initiate a professional judgment action after a student submitted a letter requesting such action and provided documentation of special circumstances. The University reduced the income of the student and/or parent by any unusual expenses or circumstances of the family. For students who were from locations designated as high cost living areas, the University would reduce the remaining income balance by a *cost of living adjustment* (COLA) obtained from the American Chamber of Commerce Researchers Association (ACCRA).

We agreed with the University's use of professional judgment when a family experienced special circumstances, such as a reduction in income due to unemployment, divorce, or illness. However, we disagreed with the University's use of professional judgment when it allowed COLAs and total medical and dental expenses. We do not consider place of residence to be a special circumstance, and normal or usual medical expenses are included in the IPA.

Cost of Living

The University's professional judgment actions included using a COLA to reduce income for 30 of the 100 sample

Adjustment (COLA)

students. The University applied a COLA to assist students in receiving additional aid based on living in an area designated as high cost.

The statutory formula included factors that considered the families' available income and net worth in determining the students' EFCs. The formula also provided for standard state and other tax allowances depending on where the family lived. Further, the formula considered the age of the older parent and provided a standard allowance, referred to as the IPA, for the basic living (including housing) costs of the family. For example, the IPA was \$17,150 in 1995-96 for a family of four with one in college.

The University's use of a COLA did not constitute special circumstances for individual students and provided an additional allowance for students based solely on where they lived. This practice resulted in the University's students being treated differently than similar students at other schools who did not use COLAs to reduce incomes. The following examples illustrate how the University's practice of using a COLA to reduce income resulted in students receiving excessive Pell Grants:

- , The FAA reduced the family's income by a COLA factor of 120 percent from \$28,994 to \$24,162. The student requested professional judgment and cited living in Telluride, Colorado, as a special circumstance. We disagreed with the University's practice of modifying the statutory formula for families residing in ACCRA designated high cost living areas. A place of residence was not a special circumstance that differentiated the student from a class of students. The income reduction enabled the student to receive an additional \$900 in Pell.

- , The FAA reduced another family's income from \$36,338 to \$33,709 by applying a COLA because the family lived in Denver. The student requested professional judgment on the basis of a loss of child support; however, since the student had not reported receiving any child support, no change was made. Apparently, the FAA approved the use of a 107.8 percent COLA obtained from the ACCRA index of high cost living areas in order to help the

student receive more aid. The income reduction enabled the student to receive an additional \$200 Pell Grant.

Total Medical and Dental Expenses

The University also accepted the total medical and dental expenses reported by families and used the amounts to reduce incomes for nine¹ of the 100 students sampled. While we agree that medical or dental expenses which are unusual and not covered by insurance could be a basis for using professional judgment, the University did not make such a determination. Further, the IPA provides an allowance for some medical expenses. For example, the IPA of \$17,150 in 1995-96 for a family of four with one in college includes an allowance of about \$1,700 for medical expenses.

The Free Application for Federal Student Aid lists unusual medical or dental expenses not covered by insurance as an example of a special circumstance, however, it does not discuss the fact that the IPA already included an allowance for some medical expenses. Prior to the Higher Education Amendments of 1992, an allowance was made for total medical and dental expenses that exceeded 5 percent of the family's total income. The statutory needs analysis formula used after 1992 did not include an allowance for unusual medical expenses. Nevertheless, Congress intended for unusual medical expenses to continue to be allowed through FAA's use of professional judgment. We believe an allowance for medical and dental expenses that exceed 5 percent of a family's income would constitute an unusual expense and allowed such in our calculation of Pell Grant overpayments.

¹The University also used professional judgment to include cost of living adjustments for eight of the nine students. The Pell Grant overpayments relating to the cost of living adjustments are included in the previous section on Cost of living adjustments and are not duplicated here.

The following examples illustrate the University's practice of allowing total medical and dental expenses reported by families:

- , A family with an income of \$25,872 reported medical expenses of \$773 (3 percent of income). The University used professional judgment to allow the entire \$773 as a reduction to income. Since the expenses did not exceed 5 percent of the family's income, we did not consider them unusual and did not include them in calculating a Pell Grant overpayment.
- , A family with an income of \$32,496 reported medical expenses of \$193 (.6 percent of income). The University used professional judgment to allow the entire expense as a reduction to income. We did not include the expenses in our calculation of a Pell Grant overpayment because the expenses were not unusual.

Other Inappropriate Uses

The University inappropriately used professional judgment for three other students. For example, the University did not include unemployment compensation as part of income when calculating the EFC for one student. This oversight enabled the student to receive an additional \$700 in Pell Grant funds.

Unreported Professional Judgment Actions

The University did not report an estimated 371 professional judgment actions to the CPS for award year 1995-96. The Department requires FAAs to report such actions. Our analysis of CPS data identified 598 Pell Grant recipients in award year 1995-96 whose records contained a reported change in income but not a professional judgment action. We selected a random sample of 61 of the 598 students and found 38 (62 percent) had income changes that were a result of the University's use of professional judgment. The remaining changes were corrections of income data previously reported by the students.

The University did not know why professional judgment actions went unreported. The Financial Aid Office flagged the 38 files as professional judgment before forwarding them to the University's computer center for transmittal to the CPS. CPS officials were unaware of any programming problems which would have caused rejection of properly submitted files during this time period. The University reported using professional judgment for 296 students in award year 1995-96. We estimate professional judgment was used but not reported for an additional 371 (598 x 62 percent) students in that year.

We performed a limited review of records for the 38 students and found no significant differences in types of actions taken for these students and the students in our initial sample. Therefore, we believe additional Pell Grant overpayments were made to students with unreported professional judgment actions.

RECOMMENDATIONS

We recommend the Department require the University to:

1. Establish procedures for using professional judgment only after determining on an individual student basis that special circumstances exist and the actions do not modify or replace allowances already included in the statutory needs analysis formula.
2. Refund the \$15,082 in Pell Grants disbursed as a result of the unreasonable professional judgment actions.
3. Perform a 100 percent review of the professional judgment actions not included in our audit for award year 1994-95 through the current period and refund any additional Pell Grants disbursed as a result of the unreasonable use of professional judgment (a statistically valid sample review may be substituted for a review of all actions).
4. Establish procedures to ensure all professional judgment actions are reported to the CPS which at a minimum should include an after-the-fact review to ensure that all actions have been properly input.

**AUDITEE
COMMENTS TO
DRAFT REPORT**

The University stated it did not agree with our interpretation of the professional judgment provisions of the Act and that it was inappropriate for us to *second guess* their professional judgment actions. Although the officials agreed that the Act prohibits making general modifications to the statutory formula, they stated there was no specific rule which discussed whether the relative cost of a student's place of residence constitutes either a special circumstance or a general modification to the statutory formula.

The officials further stated they have a practice in place for using professional judgment only after determining on an individual student basis that special circumstances exist and the actions do not modify or replace allowances already included in the statutory formula. The University said that since no specific guidance had been issued at the federal level to assist FAAs in making professional judgment determinations, it had internally defined reasonable criteria and has consistently applied the criteria in making determinations. Although the University agreed to refund a \$700 Pell Grant awarded to one student, officials disagreed with all other refund recommendations.

The University concurred *in principle* with the recommendations to establish procedures to ensure all professional judgment actions are reported. Officials said they were reviewing the feasibility of instituting an electronic procedure to further verify the accuracy of CPS records.

**OIG RESPONSE TO
COMMENTS**

We have not changed our recommendations based on the University's response. We did not question cases in which the University determined and documented on a case-by-case basis special circumstances (unemployment, illnesses, etc.), and the income reductions and additional expenses resulting from those circumstances. However, we did question cases where the University did not determine or document the specific additional expenses incurred by families but simply used COLAs to reduce income. COLA amounts were based solely on where the families lived. The COLA income reductions were generally in addition to other documented and allowable professional judgment actions. This practice constituted a modification to the statutory formula that resulted in University students being

treated differently than similar students at other schools that did not use COLAs to reduce incomes. The Act states that 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.

We allowed reductions in income for documented medical and dental expenses that exceeded 5 percent of the family's income. The income protection allowance already considered an allowance for a families' usual or normal medical expenses. Allowing a reduction for the total medical and dental expenses would have resulted in a duplicate reduction for a portion of the expenses.

BACKGROUND

The University of Colorado, a public institution of higher education founded in 1876, enrolls more than 25,000 students at its campus in Boulder, Colorado. The University offers over 2,500 different courses in over 150 fields of study. There are approximately 60 academic programs available at the bachelor's level, 50 at the master's level and 40 at the doctoral level. The University is governed by an elected, nine-member Board of Regents, charged by the state constitution with general supervision of the University. The University participates in the Federal Direct Student Loan, Federal Perkins Loan, Federal Supplemental Educational Opportunity Grant, Federal Work Study, and Federal Pell Grant programs. Pell Grants were awarded to 10,615 students totaling \$17,012,083 during award years 1994-95 through 1996-97.

OBJECTIVE, SCOPE AND METHODOLOGY

The purpose of this audit survey was to determine if the use of professional judgment resulted in appropriate Pell Grant awards to the students. We also determined if the University complied with various Student Financial Assistance (SFA) programs requirements. Because our survey work did not identify problems in the University's compliance with other SFA program requirements, our detailed audit work was limited to the use of professional judgment.

To accomplish our objectives, we reviewed a random sample of 100 students from a universe of 1,655 Pell Grant recipients for whom a professional judgment action was reported for award years 1994-95 through 1996-97. The sample was not sufficient to project the results, however, it represented about six percent of the universe. We identified the school's universe of Pell Grant recipients with professional judgment actions by reviewing each recipient's record maintained by the CPS. We also reviewed a random sample of 30 student files from the universe including

recipients with no professional judgment actions reported for award years 1995-96 and 1996-97 to test compliance with SFA program requirements.

We obtained computer generated data from the CPS and the Pell Grant Recipient System for background and to identify the universes of Pell Grant recipients from which our student samples were randomly chosen. We found that the CPS data for this school was incomplete because the University had not reported all professional judgment actions. We reviewed a random sample of 61 of 598 students whose CPS records showed a change in income but not a professional judgment action in award year 1995-96. Although the CPS data for this school was not reliable because not all professional judgment actions were reported, we were able to accomplish our audit objectives by using the data that was reported and by identifying and testing the unreported professional judgment actions. The failure to report all professional judgment actions is discussed in the AUDIT RESULTS section of this report.

We also interviewed University officials and reviewed working papers prepared by the school's independent public accountant. Further, we reviewed the professional judgment provisions of the Act and guidance the Department provided to schools in Counselor's Handbooks, Dear Colleague letters, and other documents. Our review was conducted in accordance with generally accepted government auditing standards appropriate to the scope described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures and practices applicable to the University's use of professional judgment. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant management controls into the following categories:

- identifying students for whom professional judgment will be used, and
- documenting and reporting the use of professional judgment.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in management controls. However, our assessment identified weaknesses which are discussed in detail in the Audit Results section of this report.

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**University of Colorado at Boulder****Office of Financial Aid**

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June 30, 1998

Daniel J. Thaens
Western Area Manager
United States Department of Education
Office of Inspector General
1999 Bryan Street, Harwood Center, Suite 2630
Dallas, Texas 75201-6817

Re: Audit Control Number 06-70009

Dear Mr. Thaens,

Enclosed is a copy of our draft audit response covering certain aspects of the Student Financial Assistance Program administered at the University of Colorado at Boulder for award years 1994-95 through 1996-97. This response is based on the understanding that the findings with respect to elementary and secondary school tuition expenses will be omitted from the final report as per a telephone conversation with Germaine Kropilak from your office.

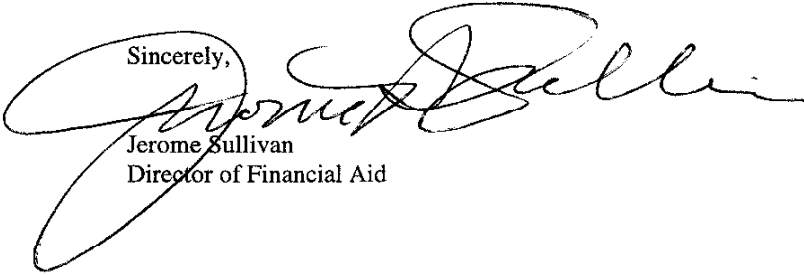
Certain statements presented in the report lead the reader to believe there are prescribed criteria embodied in rule or law to be applied when rendering professional judgment determinations. For example, the statement "the Higher Education Act does not grant financial aid administrators modifications to the statutory formula because they feel a student's place of residence constitutes a financial hardship." While we agree the Higher Education Act prohibits general modifications to the statutory formula, there is no specific rule or law which discusses whether the relative cost of a student's place of residence constitutes either a special circumstance or a general modification to the statutory formula. This is the OIG's interpretation of the law applied to Professional Judgment. In fact, Congress purposely left defining Professional Judgment to the discretion of aid administrators so they could assist families with unusual financial situations not accommodated in the need analysis formula.

The University of Colorado at Boulder Office of Financial Aid exercised its best judgment for the students involved under the authority given by Congress. It is our belief that our actions are reasonable and find it inappropriate to be "second guessed" on Professional Judgment cases that conform with the law as written, are consistent with our internal policy, and are thoroughly documented.

We also believe it important to note the Office of Inspector General performed a "general compliance review" of all policies and procedures and tested sample cases with no findings other than the alleged inappropriate Professional Judgment cases in question.

If you have any questions regarding this draft response, please contact Bob Collins at 303-492-5745.

Sincerely,



Jerome Sullivan
Director of Financial Aid

**University Of Colorado At Boulder Response To Draft Audit Report:
Audit Control Number A06-70009****Recommendation 1:**

Establish procedures for using professional judgment only after determining on an individual student basis that special circumstances exist and the actions do not modify or replace allowances already included in the statutory needs analysis formula.

The University agrees in principle with Recommendation 1 and believe we already have in place a practice to meet the objectives of this recommendation. No specific guidance has been issued at the federal level to assist aid administrators in making Professional Judgment determinations. In the absence of established, specific criteria with which to apply Professional Judgment, the University has internally defined reasonable criteria to use and has consistently applied them in making determinations. Written policies have been developed and are used to define and document those special circumstances which do not modify or replace allowances already included in the statutory needs analysis formula, and are used to adjust a data element on the student's application, as permitted by law. These determinations are only made on an individual student basis and as brought forth for consideration by the student.

Recommendation 2:

Refund the \$15,082.00 in Pell Grants disbursed as a result of the unreasonable professional judgment actions.

With respect to Recommendation 2, the University agrees to refund \$700 in a Pell grant awarded for one file that included Unemployment Compensation. The University disagrees with all other refund recommendations as the Professional Judgments made were consistent with the law as written, were in compliance with our internal policy, and were thoroughly documented. The University disagrees with the following assertions: a) that Cost of Living Adjustments constitute a general modification to the statutory needs analysis formula, b) that a portion of medical and dental expenses outside of routine and well care are considered normal or usual medical expenses as provided for in the Income Protection Allowance, c) that considering educational loan payments as well as the other miscellaneous adjustments are contrary to law.

Recommendation 3:

Perform a 100 percent review of the professional judgment actions not included in our audit for award year 1994-95 through the current period and refund any additional Pell Grants disbursed as a result of the unreasonable use of professional judgment (a statistically valid sample review may be substituted for a review of all actions).

The University disagrees with Recommendation 3 as we believe all Professional Judgments were consistent with the law as written, our internal policy, and thoroughly documented, except for the one case noted above.

Recommendation 4:

Establish procedures to ensure all professional judgment actions are reported to the CPS which at a minimum should include an after the fact review to ensure that all actions have been properly input.

The University concurs in principle with Recommendation 4, and has in place a process that verifies critical information is correctly input, such as the "bottom line" figures (i.e. the Total Family Contribution reported by the processor must match our internal calculation before further action is taken). To ensure all information provided the processor is input, we are reviewing the feasibility of instituting an electronic procedure to verify that records returned from the processor are accurately marked.