



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL  
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September 28, 2001

ED-OIG/A06-B0009

Dr. Jerome H. Supple  
President  
Southwest Texas State University  
601 University Drive  
San Marcos, Texas 78666-4615

Dear Dr. Supple:

This **Final Audit Report** (Control Number ED-OIG/A06-B0009) presents the results of our audit of Southwest Texas State University's (SWT's) compliance with the Title IV, Student Financial Assistance, verification requirements. The objectives of our audit were limited to determining if SWT completed verification of applicant data and accurately reported verification results to the Department of Education for the period July 1, 1999, through June 30, 2000.

A draft of this report was provided to SWT. In its response, SWT concurred with the audit recommendations. We have summarized SWT's comments after the recommendations. A copy of the complete response is enclosed with this report.

## **BACKGROUND**

SWT is a public university located in San Marcos, Texas. It received initial approval to participate in the Title IV, Student Financial Assistance programs on December 1, 1965. The Commission on Colleges of the Southern Association of Colleges and Schools accredits the school. SWT offers bachelor degrees in business, education, liberal and fine arts, sciences, applied arts, and health professions, as well as master and doctoral degrees in various fields. From July 1, 1999, through June 30, 2000, SWT disbursed almost \$52 million in Title IV aid, including \$7.3 million in Federal Pell Grants, \$663,624 in Federal Supplemental Educational Opportunity Grants (FSEOG), \$1.3 million in Federal Work-Study, \$11.7 million in Federal Stafford Loans, and \$30.9 million in William D. Ford Federal Direct Loans (Direct Loans). The Department's Central Processing System (CPS) selected for institutional verification 2,156 of the SWT's 3,917 Federal Pell Grant recipients during that year.

## AUDIT RESULTS

SWT did not always complete the required verification or report accurate verification results. We concluded that verification was incomplete for eight (16 percent) of fifty sampled Federal Pell Grant recipients. SWT disbursed \$11,200 in unallowable Title IV aid to the eight recipients. SWT also incorrectly reported the verification results for five (10 percent) of the fifty sampled recipients.

### Verification Requirements

Verification of information submitted by applicants for Title IV assistance is governed by Subpart E of Title 34, Code of Federal Regulations (34 CFR), Part 668. Applicants must submit information on income, family size, and other data to the CPS. The CPS uses the information to determine each applicant's expected family contribution (EFC) and Title IV eligibility. To ensure the information is correct, the CPS selects certain applications for verification based on edits specified by the Secretary.

Pursuant to 34 CFR § 668.54, schools must require each applicant selected for verification to complete the verification process, except no school is required to verify more than 30 percent of its total number of applicants. Schools are required to verify five major data elements reported by students on their financial aid applications (34 CFR § 668.56). These elements are adjusted gross income, income tax paid, household size, number enrolled in college, and certain untaxed income/benefits. Schools and applicants must complete verification by established deadlines or the applicants forfeit their Federal Pell Grant for the award year, may not receive any other Title IV disbursements, and must repay to the institution any FSEOG or Federal Perkins Loan disbursements received. The institution must return to the lender or the Secretary, in the case of Direct Loans, any Federal Stafford Loan or subsidized Direct Loan proceeds that would otherwise be payable to the applicants and return to the appropriate program account any Federal Pell Grant, FSEOG, or Federal Perkins Loan disbursements not repaid by the student.

For the Federal Pell Grant Program, the school has completed verification when it has corrected the applicant's data or determined that the application data are correct. Except for the Federal Stafford Loan and Direct Loan programs, schools are allowed to make an interim disbursement before verification is completed as long as the school has no reason to believe the application information is inaccurate. The school must document the verification and have on file the final and valid federal output document showing the student's official EFC.

When a school disburses a Federal Pell Grant, it must report the disbursement and the results of verification to the Department's Recipient and Financial Management System (RFMS). Schools use verification status codes to report verification results. Proper reporting of these codes shows that the verification procedures have been followed and allows the Department to gather information on the effectiveness of the verification requirements. Verification results do not have to be reported for loan only students.

## **Incomplete Verification**

SWT did not complete verification for eight (16 percent) of the fifty sampled recipients primarily because it did not correct errors identified in the recipients' applications. The school obtained the required documents from the recipients that supported verification was performed. The documents identified errors in the recipients' applications but SWT did not obtain a valid output document with an official EFC by submitting the corrected data to the CPS. For example, one recipient reported on his application \$7,681 for both adjusted gross income and federal taxes paid. SWT obtained a copy of the recipient's tax return that showed \$99 of federal taxes paid. The school did not correct the federal taxes paid amount, which would have reduced the recipient's Title IV eligibility, and disbursed \$1,450 in unallowable Federal Pell Grant funds.

School officials agreed that verification for the eight recipients was not completed and that the application errors should have been corrected. The officials were unable to explain why the verification was not completed.

Incomplete verification for the eight recipients resulted in SWT disbursing \$11,200 in unallowable Title IV aid, including \$7,075 of Federal Pell Grants, \$1,500 of FSEOG, and \$2,625 of subsidized Federal Stafford Loans. Based on our sample results, we estimate 345 recipients could have received about \$480,000 in unallowable Title IV grants and subsidized loans during the period July 1, 1999, through June 30, 2000.

## **Inaccurate Results**

SWT also incorrectly reported to the RFMS the verification results for five (10 percent) of the fifty sampled recipients. SWT reported that it identified errors in verifying the applications for the five recipients and that it corrected and reprocessed applications for four of the recipients (SWT reported that the errors for one recipient were not significant enough to require reprocessing). We determined that the school had obtained documentation for all five recipients that supported the accuracy of the five major data elements required to be verified. As a result, the recipients' applications did not require reprocessing. Although SWT did find and correct minor errors in other data (such as students' grade levels), the Department does not require that data be verified. Finding and correcting errors in data elements not required to be verified and reporting those corrections as a verification result limits the usefulness of RFMS data for monitoring the effectiveness of the required verification process.

## **RECOMMENDATIONS**

We recommend that the Chief Operating Officer for Student Financial Assistance require SWT to:

1. Return to the Department \$7,075 in Federal Pell Grant and \$1,500 in FSEOG funds and to the lender \$2,625 in subsidized Federal Stafford Loans disbursed for students for whom verification was not completed.

2. Strengthen its management controls to ensure that the required verifications are completed and accurate results reported to the Department.
3. Perform a review of recipients who had verification results reported to RFMS and who were not included in our audit for award year 1999-00 through the current period and return any additional Title IV aid disbursed as a result of the incomplete verification. The amount to be returned should include interest and special allowance that the Department paid on the subsidized Federal Stafford Loans disbursed.

## **SWT'S COMMENTS TO THE DRAFT REPORT**

SWT stated that it was in the process of returning the Title IV funds that we identified were disbursed as a result of incomplete verification. SWT explained that it had completed a review of a random sample of 200 student files for the 1999-00 award year and identified additional Title IV funds disbursed as a result of incomplete verification that would be returned. SWT further noted that in January 2002 it would begin a random sample review of student files for the 2000-01 award year. SWT's response also described the corrective actions taken to strengthen its management controls.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

The objectives of our audit were limited to determining if SWT completed the verification of student financial aid applications and reported accurate verification results to the Department. Our audit did not include a review of other Title IV compliance requirements. We selected SWT for audit because the SWT reported it had identified and corrected errors in 89 percent of Federal Pell Grant recipients' applications that were verified.

To accomplish our objectives, we obtained background information about SWT. We interviewed SWT officials and reviewed the school's policies and procedures relating to verification. We reviewed SWT's financial aid files for 50 randomly selected recipients from the universe of 2,156 Federal Pell Grant recipients who were selected for verification in award year 1999-00 (July 1, 1999, through June 30, 2000). The sample represented 2.3 percent of the universe.

We relied on computer-processed data obtained from the RFMS for background information and to select a random sample of Federal Pell Grant recipients for review. We performed limited tests of the data to verify reliability by comparing the data to information in SWT's student files. Based on the results of these tests, we concluded that the computerized data was sufficiently reliable to formulate conclusions associated with the objectives of our audit.

Our audit covered the period from July 1, 1999, through June 30, 2000. We performed fieldwork during November 27 through December 1, 2000, at SWT in San Marcos, Texas. We had our exit conference on November 30, 2000. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

## **STATEMENT ON MANAGEMENT CONTROLS**

As part of our review, we assessed SWT's management controls, policies, procedures, and practices applicable to the scope of the audit. We assessed the level of control risk for determining the nature, extent, and timing of our substantive tests. For the purposes of this report, we assessed and classified the significant management controls into the following categories: (1) completion and documentation of verification, and (2) reporting verification results to the Department.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in management controls. However, our assessment disclosed weaknesses related to completing verification and reporting verification results to the Department. These weaknesses are 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 U.S. Department of Education official, who will consider them before taking final Departmental action on the audit:

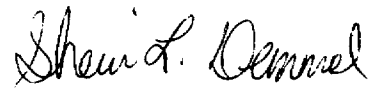
Mr. Greg Woods, Chief Operating Officer  
Student Financial Assistance  
U.S. Department of Education  
ROB-3, Room 4004  
7<sup>th</sup> and D Streets, SW  
Washington, DC 20202-5132

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, we request receipt of your comments within 30 days.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, 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 or wish to discuss the contents of this report, please contact me at 214-880-3031. Please refer to the control number in all correspondence related to this report.

Sincerely,

A handwritten signature in black ink that reads "Sherri L. Demmel". The signature is written in a cursive style with a large initial 'S' and a distinct 'L'.

Sherri L. Demmel  
Regional Inspector General for Audit

Enclosure

ENCLOSURE



Office of the President

August 23, 2001

Ms. Sherri L. Demmel  
Regional Inspector General for Audit  
U. S. Dept. of Education  
Office of Inspector General  
1999 Bryan St. Suite, 2630  
Dallas, TX 75201-6817

Dear Ms. Demmel:

Enclosed please find Southwest Texas State University's (SWT) response to the draft audit report (Control Number ED-OIG/A06-B0009) regarding our compliance with Title IV, Student Financial Assistance verification requirements.

We are taking the necessary corrective actions recommended and are hopeful you will find them satisfactory.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Jerome H. Supple'.

Jerome H. Supple  
President

JHS:mg

Enclosure:

**Southwest Texas State University**

601 University Drive San Marcos, Texas 78666-4615

Telephone: 512-245-2121 Fax: 512-245-8088

SWT is a member of the Texas State University System.

**Recommendation 01:**

Return to the Department \$7,075 in Federal Pell Grant and \$1,500 in FSEOG funds and to the lender \$2,625 in subsidized Federal Stafford loans disbursed for students for whom verification was not completed.

**Management's Response:**

SWT is in the initial stages of returning funds and expects to have this done no later than September 28, 2001. Because 1999-2000 Pell has been closed out, we may need assistance from the Department as to reimbursement of Pell funds.

**Recommendation 02:**

Strengthen its management controls to ensure that the required verifications are completed and accurate results reported to the Department.

**Management's Response:**

As soon as the data entry errors were brought to the attention of the Financial Aid Office (FAO), the supervisor in the Central Processing area conducted additional training for the staff responsible for data entry. In addition, the one staff member responsible for a number of the data entry errors was given additional training in February 2001. Not seeing substantial improvement in data entry accuracy, this individual was reassigned to perform other duties in March, 2001. Data entry no longer is her primary function.

A second staff member who performed a high number of data entry errors for the 1999-2000 year was terminated on June 6, 2000.

Data entry for 2000-2001 began in March of 2000 and was conducted primarily by one of our retired staff member who returns to assist us during the summer peak time. Her error rate was negligible.

In addition, at the start of processing 2001-2002 applications (March, 2001) the Financial Aid Office instituted a procedure where random quality control spot checks are conducted on a regular basis.

As of July, 2001 procedures have changed so incorrect items such as college classification will not be coded as "R." Furthermore, SWT will communicate with SCT, the software vendor, regarding enhancement to its system generated reports.



## ENCLOSURE

### **Recommendation 03:**

Perform a review of recipients who had verification results reported to RFMS and who were not included in our audit for award year 1999-2000 through the current period and return any additional Title IV aid disbursed as a result of the incomplete verification.

### **Management's Response:**

With the assistance of SWT's internal auditor, a random sample of more than 200 files has been selected for review. Based upon the review, additional Title IV aid disbursed as a result of incomplete verification will be returned. We expect to complete the review and reimburse funds by December 1, 2001.

The review of 2000-2001 applications selected for verification and the reimbursement of inappropriately released funds should commence in mid-January, 2002 and be completed no later than March 15, 2002. As with the 1999-2000 applications, this will be done through a random selection of applicants as determined by SWT's internal auditor.