



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

JUL 23 2001

ED-OIG/A06-B0010

Dr. Dennis Michaelis
President
McLennan Community College
1400 College Drive
Waco, Texas 76708

Dear Dr. Michaelis:

This **Final Audit Report** (Control Number ED-OIG/A06-B0010) presents the results of our audit of McLennan Community College's (MCC's) compliance with the Title IV, Student Financial Assistance, verification requirements. The objectives of our audit were to determine if MCC completed the verification of applicant data and accurately reported verification results to the Department for the period July 1, 1999, through June 30, 2000.

BACKGROUND

MCC is a two-year public community college located in Waco, Texas. It received initial approval to participate in the Title IV, Student Financial Assistance programs on May 1, 1967. The Commission on Colleges of the Southern Association of Colleges and Schools accredits the school. MCC offers freshman and sophomore level courses in the arts and sciences. MCC also offers vocational and technical programs leading to associate degrees or certifications as well as continuing education programs. MCC disbursed over \$3.3 million in Federal Pell Grants and \$4.3 million in Federal Stafford Loans from July 1, 1999, through June 30, 2000. The Department's Central Processing System (CPS) selected for institutional verification 813 (42.7 percent) of the school's 1,906 Federal Pell Grant recipients during that year.

AUDIT RESULTS

MCC incorrectly reported the verification results for 32 (64 percent) of 50 sampled Federal Pell Grant recipients. MCC reported that the application data were accurate even though it had corrected errors and reprocessed applications for the 31 recipients and did not perform verification for one recipient. We also determined that MCC did not correct all errors for two sample recipients resulting in \$486 of unallowable Federal Pell Grant disbursements. Both recipients reported incorrect amounts of federal taxes paid.

MCC's Director of Financial Aid told us that MCC agreed incorrect verification results were reported to the Department and that the school had begun a process to ensure verification status codes were reported accurately. MCC also agreed that it had not corrected all of the errors identified as a result of verifying the two recipients' applications. The school provided documentation that showed it refunded the \$486 to the Department. A copy of MCC's response is enclosed. Based on the corrective actions MCC took in response to our findings, we have no recommendations in this report.

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 Pell Grant for the award year, may not receive any other Title IV disbursements, and must repay to the institution any FSEOG or Perkins Loan disbursements received. The institution must return to the lender or the Secretary, in the case of Direct Loans, any Stafford loan or subsidized Direct Loan proceeds that would otherwise be payable to the applicants and return to the appropriate program account any Pell Grant, FSEOG, or 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 William D. Ford Federal 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.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine if MCC completed the verification of student financial aid applications and reported accurate verification results to the Department. We selected MCC for audit because the school reported that it found the application data were accurate for all of its Federal Pell Grant recipients for whom verification was completed (MCC reported that it had not completed verification for one recipient).

To accomplish our objectives, we obtained background information about the school. We reviewed MCC's financial aid files for 50 randomly selected recipients from the universe of 813 Federal Pell Grant recipients who were selected for verification in award year 1999-00 (July 1, 1999, through June 30, 2000). We interviewed school officials and reviewed the school's policies and procedures relating to verification. We reviewed MCC's compliance audit report for its fiscal year ended August 31, 2000.

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 MCC'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 January 8-10, 2001, at MCC in Waco, Texas. We conducted our exit conference on January 10, 2001. 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 MCC'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 a weakness related to reporting verification results to the Department. This weakness is discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

The conclusions in this report represent the opinions of the Office of Inspector General. You are not required to respond to this report. However, if you have any comments or information that you believe may have a bearing on this audit, you should send them directly to the following Education Department official:

Mr. Greg Woods, Chief Operating Officer
Student Financial Assistance
ROB-3, Room 4004
7th and D Streets, SW
Washington, DC 20202-5132

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.

We appreciate the cooperation and assistance extended by your staff during the audit. If you desire to discuss this report, please call Sherri Demmel, Regional Inspector General for Audit, Dallas, Texas, at 214-880-3031. Please use the control number in all correspondence related to this report.

Sincerely,



Lorraine Lewis

Enclosure



McLennan Community College
Office of Financial Aid

Ms. Vanessa Walters
U. S. Department of Education
Office of Inspector General
300 East 8th Street, Rm. 964
Austin, TX 78701

May 11, 2001

Dear Ms. Walters:

This letter is in reference to our phone conversation of May 10, 2001 regarding the findings from the audit conducted at McLennan community College on January 8, 2001. I am in agreement with the findings requiring the College to repay \$486.00 for errors found in two of the reviewed files for the 1999-2000 school year and these funds have already been returned to the Department of Education. The return amounts are for students EDITED \$361.00 and EDITED \$125.00.

Additionally, we have begun a process to ensure that the payment transmittals are coded with the correct payment status.

I am in agreement per our discussion to having only a final report issued in this matter.

Sincerely;

James F. Kubacak
Director of Financial Aid

DISTRIBUTION SCHEDULE
Control Number OIG/A06-B0010

	<u>Copies</u>
<u>Auditee</u>	1
Mr. Dennis Michaelis, President McLennan Community College	
<u>Action Official</u>	1
Greg Woods, Chief Operating Officer Student Financial Assistance Department of Education ROB-3, Room 4004 7th and D Streets, SW Washington, DC 20202-5132	
<u>Other ED Offices</u>	
Chief of Staff, Office of the Secretary	1
Deputy Secretary, Office of the Deputy Secretary	1
Director, Budget Service, Office of the Under Secretary	1
Director, Office of Public Affairs	1
General Manager for Schools, Student Financial Assistance	1
Chief Financial Officer, Student Financial Assistance	1
Director, Case Management and Oversight, Student Financial Assistance	1
Area Case Director, Dallas Case Management Team, Case Management and Oversight, Student Financial Assistance	1
General Counsel, Office of the General Counsel	1
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Deputy Assistant Inspector General for Audit	1
Director, Student Financial Assistance	1
Regional Audit Offices	6
Dallas Regional Office	6
<u>Others</u>	
Texas Guaranteed Student Loan Corporation	1
Southern Association of Colleges and Schools	1



DATA INPUT SHEET



OFFCODE:

06

AUDIT TYPE:

A

A C N: B0010

PROJ MGR#

2000017

Proj Audits of Selected Postsecondary
Name: Institutions

AWPI

PI

STATEGIC GOAL #:

2

TITLE:

McClennan Community College

STATE

TX

(1, 2, 3)

PERIOD
AUDITED:

FROM

10/1 /99

TO

9/30/00

AUD SCOPE:

3

PROGRAM OFFICE:

3

DIRECT TIME (Y/N):

Y

JOB STATUS CODE:

6

ENTITY CODE #:

31

PLANNED START DATE:

2/2001

DATE NEEDED BY

AUDIT PLAN BUDGET:

(STAFF DAYS)

FY

1ST YR

INTIAL
SURVEY

AFTER
SURVEY

REVISED

2ND YR

TOTAL

50

LEAD AUDITOR:

Emp#: 2375

Name: Vanessa Walters

CFDA CODE:

84.032

84.063

FINAL REPORT (Check One)

ALTERNATIVE PRODUCT Code = 5

NO REPORT Code = 0

ISSUED W/FINDING Code = 1

ISSUED W/O FINDING Code = 2

REPORT CANCEL Code = 4

	<u>Planned Date</u>	<u>Actual Date</u>
1. Assignment Start		1/8/01
2. Planning Conf.		
3. Entrance Conf.		1/8/01
4. Survey Complete		1/24/01
5. Team Complete		5/11/01
6. Draft Report		
7. Comments Rec'd		
8. Final Report		7/23/01

PREPARER'S SIGNATURE _____

DATE

Approved By:



ACN: A06-B0010

DATA INPUT SHEET
(only to be used for finding code 1)



Questioned Costs

Number of Findings 1

Total \$486

<u>Finding Number:</u>	<u>\$ Amount</u>	<u>Significant</u>
1	486	<input type="checkbox"/>
		<input type="checkbox"/>
		<input type="checkbox"/>
		<input type="checkbox"/>

<u>Recommendation #</u>	<u>Significant</u>
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	<input type="checkbox"/>
	<input type="checkbox"/>
	<input type="checkbox"/>

Unsupported Costs

Number of Findings

Total \$

<u>Finding Number:</u>	<u>\$ Amount</u>	<u>Significant</u>
		<input type="checkbox"/>
		<input type="checkbox"/>
		<input type="checkbox"/>
		<input type="checkbox"/>

<u>Recommendation #</u>	<u>Significant</u>
	<input type="checkbox"/>
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