



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
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DALLAS, TEXAS 75201-6817
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September 28, 2001

ED-OIG/A06-B0013

Dr. Charles Hathaway
Chancellor
University of Arkansas at Little Rock
2801 South University
Little Rock, Arkansas 72204-1099

Dear Dr. Hathaway:

This **Final Audit Report** (Control Number ED-OIG/A06-B0013) presents the results of our audit of the University of Arkansas at Little Rock's (UALR's) compliance with the Title IV, Student Financial Assistance, verification requirements. The objectives of our audit were limited to determining if UALR 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

UALR is a public university located in Little Rock, Arkansas. It received initial approval to participate in the Title IV, Student Financial Assistance programs on December 1, 1965. The North Central Association of Colleges and Schools accredits the school. UALR 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, UALR disbursed almost \$34 million in Title IV aid, including \$5.4 million in Federal Pell Grants, \$362,476 in Federal Supplemental Educational Opportunity Grants (FSEOG), \$167,843 in Federal Work-Study, and \$28 million in Federal Stafford and Federal PLUS Loans. The Department's Central Processing System (CPS) selected for institutional verification 1,372 (47.2 percent) of the school's 2,907 Federal Pell Grant recipients during that year.

AUDIT RESULTS

UALR reported incorrect verification results for 17 (34 percent) of 50 sampled Federal Pell Grant recipients. UALR reported that the applications of 14 of the recipients contained errors that were corrected and the applications reprocessed. We determined that UALR should have reported 10 of the applications were accurate and four had minor errors that were not corrected.

For the remaining three recipients, UALR reported that their applications were accurate. We determined that UALR should have reported that it corrected errors in the applications of the three recipients.

We also determined that UALR did not correct an error that it found in verifying the application of one sample recipient, resulting in a \$1,172 unallowable Federal Pell Grant disbursement.

UALR's Registrar agreed that incorrect verification results were reported to the Department. The school's Vice Chairman for Student Services said that the incorrect reporting occurred when the school started using new computer software to process Title IV applications. We confirmed that UALR began using the new software during the 1999-00 award year. We also confirmed for the prior award year (1998-99), that UALR had not reported a large number of applicants for whom verification was started but not completed. UALR agreed that the error in the one recipient's application had not been corrected and provided documentation that \$1,172 of Federal Pell Grant funds were refunded to the Department. A copy of UALR's response is enclosed with this report. Based on the actions UALR took in response to our findings, our only recommendation is that the Chief Operating Officer for Student Financial Assistance confirm that UALR is currently reporting correct verification results to the Department.

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 William D. Ford Federal Direct Loans (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.

RECOMMENDATION

We recommend that the Chief Operating Officer for Student Financial Assistance confirm that UALR is reporting correct verification results to the Department.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were limited to determining if UALR 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 UALR for audit because the school reported that verification had been started but was not completed for 29 percent of its Federal Pell Grant recipients who were selected for verification.

To accomplish our objectives, we obtained background information about the school. We reviewed UALR's financial aid files for 50 randomly selected recipients from the universe of 1,372 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 UALR's compliance audit report for its fiscal year ended June 30, 1999.

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 UALR'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 March 12-15, 2001 and conducted an exit meeting on March 15, 2001 at UALR in Little Rock, Arkansas. 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 UALR'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:

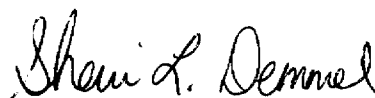
Mr. Greg Woods, Chief Operating Officer
Student Financial Assistance
U. S. Department of Education
ROB-3, Room 4004
7th and D Streets, SW
Washington, DC 20202-5132

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, you should provide the above official with 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.

We appreciate the cooperation and assistance extended by your staff during the audit. If you desire to discuss this report, please call me at 214-880-3031. Please use the control number in all correspondence related to this report.

Sincerely,

A handwritten signature in cursive script that reads "Sherri L. Demmel".

Sherri L. Demmel
Regional Inspector General for Audit

Enclosure

U·A·L·R

ENROLLMENT PLANNING SERVICES

June 8, 2001

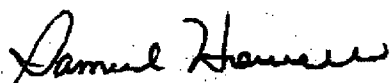
Ms. Sherri Demmel
Inspector General, Region VI
U. S. Department of Education
1999 Bryan Street
Dallas, Texas 75201-6817

Dear Ms. Demmel:

This letter is in response to the Office of Inspector General audit of the effectiveness of the Department's Title IV Student Financial Aid Application Verification Process conducted at the University of Arkansas at Little Rock during the week of March 12. UALR agrees to forego the draft letter process and accept the final audit.

If you have any questions, please contact me.

Sincerely,



Samuel Howell, Ed.D.
Division Chief, Enrollment Planning Services

U·A·L·R

ENCLOSURE

ENROLLMENT PLANNING SERVICES
April 16, 2001

EDITED

Auditor, Region VI, Office of Audit
1999 Bryan Street
Suite 2630
Dallas TX 75201-6817

RE: March 12-15, 2001 visit - resolution of discrepancies

Dear EDITED :

Thank you for the opportunity to respond to findings of your recent verification review of student financial aid files.

During the course of the review a limited number of discrepancies were noted in the files of three students. This letter summarizes the action(s) taken by the University of Arkansas at Little Rock for each of those students.

1. EDITED

Discrepancy

Reported EFC 1971

Verified EFC 2230

Explanation

Verification was completed on the UALR Banner system software, but the correction was never forwarded to CPS.

Resolution

The student never attended UALR, and did not receive Pell funds for 1999/2000 from this institution.

2. EDITED

Discrepancy

Reported EFC 0

Verified EFC 3855

Explanation

Verification was completed on the UALR Banner system software, but the correction was never forwarded to CPS.

Resolution

The student's Pell award of \$1,172 was cancelled and funds returned to the grant. UALR paid the student \$1,172 in institutional funds to offset the debit to her account.

The student's loan eligibility of \$1,313 remains unchanged.

Letter to **EDITED**
 Auditor, Region VI, Office of Audit
 April 16, 2001
 Page 2

Cost of Attendance	\$12,301
EFC	<u>-3,855</u>
Need	\$ 8,446
Loan eligibility	\$ 1,313

3. **EDITED**

Discrepancy

Reported earnings from work for year 1998	\$8,160
Verified earnings from work for year 1998	not in file

Explanation

The student reported \$7,000 in earnings on the FAFSA. Her file contained documentation of the student's status as a non-tax filer. We believe UALR also received documentation of the student's earnings and completed the verification process by sending corrections to CPS. However, we were unable to locate any documentation stating the amount of her earnings from work.

Resolution

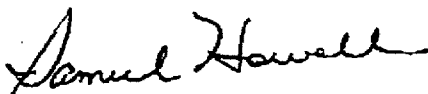
We contacted the student and requested she bring us a duplicate copy of her 1998 earnings from work. The student has submitted a copy of her 1998 federal tax return, filed on May 25, 2000.

The 1998 return lists her total wages as \$8,160. This figure documents the student's earnings from work, and therefore completes the verification process. We believe this resolves the discrepancy. A copy of the 1998 federal form 1040EZ is attached.

NOTE: The student's status as a non-tax filer is not affected. At the time verification was completed, on April 28, 2000, the student still had not filed. Her file contains documentation of her non-filer status as verified by IRS on 4/27/00.

Please feel free to contact me if you have questions or need more information.

Sincerely,



Samuel Howell, Ed. D.
 Division Chief and Registrar

Attachments:

1998 1040EZ, **EDITED**
 Documentation of Non-Tax Filer status, **EDITED**

c: Dr. Charles Donaldson
 Student's file

Credit Limit

ID: **EDITED** **EDITED**

User: **GPSIDGELL**

Holds:

ENCLOSURE

Dets		Account Details					
	Description	Term	Charge	Payment	Balance	S	Effective Date
A135	UALR Grant	199960		586.00	0.00	F	15-MAR-2001
A135	UALR Grant	199960		586.00	0.00	F	15-MAR-2001
A103	Pell Grant 2000/	199960		-1172.00	0.00	F	15-MAR-2001
C101	Cash	199960		6.00	0.00	T	15-OCT-1999
M121	Transcript Fee	199960	8.00		0.00	T	15-OCT-1999
R101	Financial Aid Dis	199960	1259.90		0.00	T	21-SEP-1999
A106	Stafford Loan-Su	199960		1273.61	0.00	F	17-SEP-1999
M104	Book Store Char	199960	13.71		0.00	T	07-SEP-1999
C102	Check	199960		103.97	0.00	T	01-SEP-1999

Query Balance	Account Balance	Amount Due	Memo Balance	Auth Aid Balance	NSF Rcpt?
0.00	0.00	0.00	0.00	0.00	0 N