DOCUMENT RESUME

ED 243 404 HE 017 315

TITLE Quality in the Pell Grant Delivery System. Executive Summary.
INSTITUTION Advanced Technology, Inc., Reston, VA.
SPONS AGENCY Office of Student Financial Assistance (ED), Washington, DC.
PUB DATE 30 Apr 84
CONTRACT 300-80-0952
NOTE 34p.; For related documents, see ED 217 788-791. For Volumes 1, 2, and 3 of this report, see HE 017 316-318.
PUB TYPE Reports - Evaluative/Feasibility (142)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Compliance (Legal); *Delivery Systems; Error Patterns; Federal Aid; *Federal Programs; *Grants; Higher Education; National Surveys; Program Evaluation; Program Validation; *Quality Control; *Resource Allocation; Sampling; *Student Financial Aid
IDENTIFIERS *Pell Grant Program

ABSTRACT

The Pell Grant Quality Control Study of 1982-83, the third stage of a contract with the Department of Education, was designed to identify program error rate, to measure the impact of increased validation activity, and to propose corrective actions to reduce the misallocation of program funds. A nationally representative sample of approximately 4,000 students was drawn from a stratified random sample of 317 participating institutions. The results showed that Pell Grant recipients in 1982-83 were granted $129, or 13 percent, more than they should have been. Both student and institutional error dropped between 1980-81 and 1982-83. The study confirmed that institutions complied with the revised validation requirements for the Pell Grant program in 1982-83, reflected in a $22 million reduction in the net Adjusted Gross Income error. Several correction action alternatives are presented to further reduce both student and institutional error. Stage One of this study determined program-wide rates of discrepancy between actual awards and what should have been awarded. Stage Two began the design of a quality control system for the Pell program, performed some error analyses, and prepared corrective action recommendations for specific features of related student aid programs. Stage Three, a replication with significant improvements of Stage One, has the additional objective of determining changes in program error over time. Stage Three also includes an assessment of the degree to which institutions are fulfilling their responsibilities with regard to the expanded validation requirement. (Author/LB)

QUALITY IN THE PELL GRANT DELIVERY SYSTEM: EXECUTIVE SUMMARY

Submitted to

OFFICE OF STUDENT FINANCIAL ASSISTANCE
DEPARTMENT OF EDUCATION

CONTRACT NO. 300-80-0952

APRIL 30, 1984

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INTRODUCTION

The Pell Grant Quality Control Study of 1982-83, the third stage of a contract with the Department of Education, is designed to identify program error rate, to measure the impact of increased validation activity, and to propose corrective actions that might further alleviate the misallocation of program funds.

A nationally representative sample of approximately 4,000 students was drawn from a stratified random sample of 317 participating institutions. The upward trend in error between 1978-79 and 1980-81 has been turned around. However, findings suggest that overall error in the Pell Grant program remains high. Pell Grant recipients in 1982-83 were granted $129, or 13 percent, more than they should have been. Both student and institutional error dropped between 1980-81 and 1982-83. Net overall error per recipient, net student error per recipient, and net institutional error per recipient were down 24, 9, and 49 percent respectively from the 1980-81 levels. The conclusion is that one or more of the elements of corrective action and regulatory change implemented by the Department of Education since 1980-81 have been successful in reducing but not eliminating error.

The study confirmed that institutions did a relatively good job of carrying out the revised validation requirements for the Pell Grant program in 1982-83. That work is reflected in a significant reduction (58 percent or $22 million) in the amount of net AGI error when the application accurately represented dependency status and produced validation of income from the proper person(s). Further, students selected for validation showed a markedly higher likelihood to change their application in ways that would decrease their eligibility than did those not selected for validation. Savings in addition to those measured by the study accrue from the deterrent effect of the threat of validation on the false filing of applications by ineligible students. However, the data also show that the revised validation requirements, which did not adequately address cases where the dependency status was incorrect, failed to alleviate the problem of improper self-classification of students as independent.

Several corrective action alternatives are presented as a means of further reducing program-wide error in general and student error in particular. These corrective actions are focused on reducing the $129 average error. Resulting savings and benefits can be reprogrammed to increase the maximum grant size, to provide for more reasonable levels of administrative allowances, or to reduce the Federal deficit.

Background

Since its inception in the 1973-74 academic year, the Pell Grant Program--known as the Basic Educational Opportunity Grant (BEOG) Program until 1981--has experienced significant growth in the number of students served and dollars expended, going from 185,000 recipients of $50 million in the initial year to an estimated 2.53 million recipients and $2.425 billion in 1982-83. Along with that growth has come an increasing concern about the integrity of the program. Pell Grants represent a substantial portion of the Department of Education's budget, are received by a large number of participants, and thus have a high degree of visibility in both the Congress and the Executive Branch.

Over the years, a number of steps have been taken by the Office of Student Financial Assistance to enhance the quality of Pell Grant delivery, including:

- Comprehensive computer edits of application data
- Selective validation of application data by financial aid administrators
- Data matches with other Federal sources of financial information
- Expanded use of program reviews and financial audits
- Continued training opportunities for institutional financial aid and fiscal personnel
- Periodic redesign of the Pell Grant application form and instructions, including extensive field testing
- Several studies of program administration ("targets of opportunity"), both internal and external to the Department of Education
- Increased awareness of the importance of quality control among Department of Education employees
- The inclusion of quality control requirements in contracted work relating to the Pell Grant Program
- Expanded use of technology to improve both the speed and accuracy of processing.

In September, 1980, the Office of Student Financial Assistance (OSFA) of the U.S. Department of Education contracted with Advanced Technology, Inc., of McLean

and Reston, Virginia, to continue the C[illegible]assurance initiatives with a three-year study to assess the accuracy and re[illegible] of the Pell Grant Program and recommend administrative changes to imp[illegible]. Westat, Inc., of Rockville, Maryland, has served as a subcontractor to Advan[illegible] Technology throughout the study.

During Stage One of the study--the first year of the contract (1980-81)--Advanced Technology and Westat examined a n[illegible]onal sample of Pell Grant recipients to determine eligibility and award calculation e[illegible]. Westat drew the national sample of 4,500 recipients and interviewed them and their parents about their eligibility and financial situation, examining documentation at the same time. Advanced Technology staff visited the institutions attended by these students, examined the records on the students and any supporting documents on file, and interviewed the financial aid administrators. This same data collection procedure was followed in Stage Three--the third year of the contract (1982-83)--and is described below.

The Stage One study determined program-wide rates of discrepancy between actual awards and what should have been awarded according to program rules and the documents examined. These discrepancies were then allocated to institutions, recipients or their parents, and application processors. On the basis of these discrepancy rates, the study identified error-prone groups of recipients. Finally, Stage One suggested feasible corrective management activities to reduce error rates for every area in which error rates were excessive.

During Stage Two (October, 1981 to December, 1982), Advanced Technology began the design of a quality control system for the Pell Program and performed some error analyses and prepared corrective action recommendations for specific features of related student aid programs.

Stage Three of the study (1982-83) has essentially been a replication with significant improvements of Stage One, with the additional objective of determining changes in program error over time, especially changes potentially brought about by the expanded validation requirement. Stage Three also included an assessment of the degree to which institutions were fulfilling their responsibilities with regard to that expanded validation requirement.

Copies of the three-volume, final report for Stage Three will be available through Educational Resources Information Clearinghouse (ERIC) as was done for the three-volume, final report from Stage One.

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METHODOLOGY

Sources of Data

In the fall of 1982, Advanced Technology and Westat selected 317 institutions participating in the Regular Disbursement System for inclusion in the study. A random sample of institutions, stratified by type and control and geographically clustered, was used for the study. The geographic cluster technique was used to expedite data collection and minimize study costs. An additional sample of students attending Alternate Disbursement System institutions was also selected on a simple random sample basis. Upon selection of the institutions, Advanced Technology field staff visited each institution during a four week period and selected the student sample and assessed institutional compliance with new validation requirements.

Two control groups, one from among only sampled institutions and totaling about 800 recipients, and one from among all institutions and totaling about 10,000 recipients, were drawn to test for experimental bias. The first group was used to determine if the corrections behavior of unsampled recipients at sampled institutions was any different than that of sampled recipients. The second group was used both to augment the first group and to determine if the corrections behavior of recipients at sampled institutions was any different than that of recipients at unsampled institutions.

The data for Stage Three were collected from several sources, including:

- Institutional Questionnaires
- Student Record Abstracts
- Institution Control Group Forms
- Student Interviews
- Parent Interviews

- IRS Tax Returns
- Financial Institution Records
- Tax Assessor Records
- Computed Applicant Records of Student Aid Report

Advanced Technology field staff collected the first three documents during visits to each sampled institution during the spring of 1983. Westat interviewers collected the student and parent interview data during a comparable, but somewhat longer, period. In addition, they collected the needed releases for the tax returns, financial institution records, and tax assessor records at the time of interview. The computed applicant records were obtained directly from the Pell Grant central processor.

Data from all nine sources were cleaned through a series of manual and computer edits and "marginal" tabulations to identify illogical values. The seven files with student and parent data (all except the Institutional Questionnaire and the Institution Control Group) were then merged by a complex process to prepare for "best value" selection. After determining the most appropriate dependency status for each case, the computer program developed for this purpose selected the best available value for each data element used to determine the Pell Grant. "Best value" was determined by a detailed set of priorities agreed to in advance. In each instance, the most highly documented source of that particular data element available to the study was assigned the highest priority.

The best value selections were then used to recompute the Student Aid Index for each case. That index was then used, in conjunction with the best values for cost of attendance, eligibility, and enrollment status, to compute the most correct Pell Grant award. That most correct award was then compared to the award amount paid or scheduled to be paid, with any difference being labeled as the payment error for that particular case.

Mean error per recipient and mean error per recipient with error were then calculated for the sampled recipients and program-wide error was extrapolated from these mean values. All data were adjusted for nonresponse.

Further analysis was performed to identify specific sources of error reflected in

the aggregate data. Specifically, program error was categorized into:

- Student error
- Institutional error

Each of these was in turn decomposed into types or sources of error that contribute to the total. Program-wide estimates of error attributable to the various types and sources of error were also made.

A more detailed description of the methodology used is found in Quality in the Pell Grant Delivery System: Volume 3, Procedures and Methods.

Limitations

There will undoubtedly be a great temptation to attempt direct comparisons between the results of the 1982-83 Pell Grant Study and the findings of studies which preceded it, especially the 1980-81 assessment it was designed to replicate. Such comparisons should be done with extreme caution, however, for a number of reasons.

The first limitation to comparison is that the program legislation/regulations underwent some changes between the two years under study. Those aspects of change that could, and probably did, influence the results to some unknown degree are as follows:

- Social Security and VA Educational Benefits became, for 1982-83 only, a direct adjustment to the Pell award, rather than being used as elements in the Student Aid (formerly Eligibility) Index computations.
- For 1982-83, dependent student estimated income was used instead of the previous year's income when the estimate was less than 60 percent of the previous year's reported income.
- The maximum award for each 1982-83 was $1,800, compared to $1,750 in 1980-81, thus expanding the potential impact of error in maximum grant cases by $50 each.
- The Student Aid Index computation formula was changed with regard to Standard Parental Contribution from Income, moving from a flat 10.5 percent "taxation" rate in 1980-81 to a progressive "taxation" rate

ranging from 11 to 25 percent in 1982-83; this increased the impact of misreported income on the Aid Index and, consequently, on the Pell Grant award amount determined to be in error.

- Institutions were permitted to use average costs for tuition, fees, and institution-provided room and board, rather than the actual charges required in 1980-81.

- The Statement of Educational Purpose (SEP) was printed directly on the institutional copy of the Student Aid Report, to lessen the likelihood of overlooking the submission of that required document.

The second limitation to comparison results from continued expansion of the program funding and participation. All aggregate dollar differences must be viewed carefully because there is a different base for the two years. For example, program-wide estimates of error for 1982-83 are based upon 2.53 million Pell recipients, 7 percent more than the 2.36 million in the 1980-81 study. Thus, the $650 million estimated absolute case error (the sum of the absolute values of both overawards and underawards of more than $2 per case) for 1980-81 would have been approximately $695 million had the number of recipients in 1980-81 been comparable to the 1982-83 participant level. For this reason, mean error per recipient and mean error per recipient with error, along with the percent of cases with error, are the most meaningful and accurate bases for comparisons with results of previous studies.

The third limitation is the study design and methodology used. Although there are many similarities in methodology, especially between 1980-81 and 1982-83, there were some important enhancements made for 1982-83. More experienced and knowledgeable personnel were used to abstract student records at institutions, using an expanded data collection instrument. More effort was made to obtain official copies of IRS returns, especially from the parents of applicants filing as independent students. Student and parent interviewers were more experienced (many were repeaters) and presumably more adept at ferreting out confirming or conflicting data during the course of the interview. More sensitive best value selection methods were used. Thus, we were probably more successful in identifying discrepancies in 1982-83 than in any previous study.

Finally, comparability is limited by environmental changes beyond the boundaries of the Pell Grant program or the quality control study. For example, tax law changes between the two years created an exclusion for interest income in 1981, which made it

more likely for applicants to underreport nontaxable income on their 1982-83 application. The reductions in Social Security educational benefits, and applicant uncertainities as to what their reduced benefits would be, may have caused more applicants to overstate their assistance from this source than they would have otherwise. Additionally, there may have been any number of economic conditions that caused applicants to behave differently in 1982-83 than in 1980-81.

These points do not make the 1982-83 results any less meaningful, but they do suggest the need for caution in interpreting any comparison of those results with the results of previous studies.

One additional point should be considered in interpreting the findings. Estimates of error are based on data collected during the spring. There is the possibility that institutions will correct some errors during the normal end-of-the-year self-correction (reconciliation of accounts) process. However, the 1980-81 BEOG Quality Control Study suggested that the net effect of these self-corrections on estimated program-wide error is minimal.

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FINDINGS

The findings of the 1982-83 study will be considered in three parts, overall error, student error, and institutional error. For purposes of this study, error has been defined as it was in 1980-81, i.e., a discrepancy of more than two dollars (in either direction) between the award amount paid or scheduled to be paid at the time of data collection and the award amount computed with the best values described in the methodology section. The Glossary of Terms provided in the Appendix defines all error terms used in this study.

Overall Error

The following statements summarize the findings related to overall program-wide estimate of error in the 1982-83 Pell Grant Program.

- Absolute case error (adding underawards and overawards together) is estimated to be $605 million, or 25 percent of the dollars awarded in the program.
- Absolute case error averages $239 per recipient.
- Net case error (allowing overawards to be offset by underawards) is estimated to be $326 million, or 13 percent of the dollars awarded.
- Net case error averages $129 per recipient.
- About 63 percent of all cases have award error beyond the $2 tolerance level.
- Absolute total error, which does not allow student and institutional errors in the same case to offset each other, is $649 million, or 27 percent of total program expenditures.
- Net total error, where student and institutional error can offset each other, is $316 million, or, like net case error, 13 percent of program expenditures.
- Total overaward error is estimated to be $482 million, while total underaward error is $166 million.

- Case overaward error is estimated to be $465 million, while case underaward error is $139 million.

These and other overall error findings are presented in Table 3-1, on the Total and Case rows of each grid.

Student Error

In developing corrective actions, it is important to identify the source of the error. The student component of overall error is that which is attributable to discrepancies in application values submitted by students and/or their parent(s). Key findings in this area are the following:

- The program-wide estimate of student error is $328 million, composed of $272 million in overawards and $55 million in underawards.
- Absolute student error per recipient averages $129.
- The program-wide estimate of net student error is $217 million.
- Net student error per recipient averages $86.
- Student error is present in 39.4 percent of all recipients, 30.6 percent of the time involving an overaward, and 8.8. percent of the time involving an underaward.

To be most meaningful, student error needs to be further decomposed to identify the types of student error that are most prevelant. The following points highlight the results presented in Table 3-2 regarding the types of student error that were identified.

- The most costly student error type is attributable to improper income and asset reporting associated with error in dependency status. This Dependency Status error totaled an estimated $64 million of net error. Most of these cases, which were of low frequency but high dollar impact, were students claiming to be independent when they did not, based upon best values, qualify. Only a small proportion were independent students claiming to be dependent.
- Other Nontaxable Income discrepancy is the second most costly item of net student error, totaling $46 million. Of that total, unemployment compensation, child support, other welfare benefits, and excluded interest are the most significant contributors, in that order. Excluded interest

TABLE 3-1

A SUMMARY OF AMOUNTS AND RATES OF ERROR

ABSOLUTE ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	321	13	127	33.5	379
Student	328	14	129	39.4	328
Total	649	27	256	62.7	408
Case	605	25	239	62.7	381

NET ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	99	4	39	33.5	117
Student	217	9	86	39.4	217
Total	316	13	125	62.7	199
Case	326	13	129	62.7	205

OVERAWARD ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	210	9	83	15.7	528
Student	272	11	108	30.6	351
Total	482	20	190	41.5	459
Case	465	19	184	41.5	444

UNDERAWARD ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	-111	5	-44	17.8	-247
Student	-55	2	-22	8.8	-249
Total	-166	7	-66	21.2	-309
Case	-139	6	-55	21.2	-259

[a] Amount of Pell awards is $2.4 billion for 1982-83.

[b] Error is defined as a discrepancy of plus or minus $2 from the best award.

TABLE 3-2

STUDENT ERROR BY APPLICATION ITEMS

Application Item	Program-Wide Estimate of Net Award Error ($ Millions)	Rank
Adjusted Gross Income/Dependency Status*	80	-
Adjusted Gross Income	16	7.
Dependency Status**	64	1
Other Nontaxable Income	46	2
Household Size	34	3
Number in Postsecondary Education	23	4
Home Equity	18	5
Dependent Student's (and Spouse's) Assets	17	6
Dependent Student's (and Spouse's) Income	12	8
U.S. Taxes Paid	2	9
Spouse's/Mother's Earned Income	2	10
Real Estate/Investment Equity	2	11
AFDC/ADC	2	12
VA Educational Benefits	1	13
Marital Status (Parent)	1	14
Business/Farm Equity	1	15
Cash/Savings/Checking	1	16
Medical/Dental Expenses	+ 0	17
Applicant's/Father's Earned Income	- 0	18
Elementary/Secondary Tuition	- 1	19
Marital Status (Student)	- 1	20
Social Security Benefits (Parent)	- 3	21
Social Security Educational Benefits	- 17	22

* In 1980 - 1981 Adjusted Gross Income/Dependency Status Error were presented together as Adjusted Gross Income (AGI) Error with an explanatory footnote. The rationale for this was that Dependency Status Error represented use of the incorrect AGI and other application values. In the interest of a greater clarity, we are presenting AGI Error and Dependency Status Error separately, since they are, in fact, errors that represent different problems. For purposes of comparison, we have shown the combined AGI/Dependency Status Error for 1982 - 1983.

** Dependency status error is computed in the same way as overall student error (an approach which is more accurate but cannot be used with individual application items). The figure reported here treats dependency status switchers with SEP/FAT/Invalid SAR error as ineligible. If they were considered eligible, dependency status switcher error would be $70 million.

is the most frequent discrepancy, but averages less than $180 per case. Misreported child support, on the other hand, averages about $2,400 per case.

- The third most costly discrepancy is Household Size ($34 million), followed by Number in Postsecondary Education ($23 million), and Home Equity ($18 million).
- Misreporting of Dependent Student's (and Spouse's) Assets accounts for $17 million in net student error.
- Misreporting of Adjusted Gross Income for cases not involving an error in dependency status accounts for an estimated $16 million, which puts that type of error in seventh place.
- The only other net student error exceeding $10 million of program cost is Dependent Student's (and Spouse's) Income, which is estimated to be $12 million in error.

Institutional Error

Institutional error is that which is attributable to discrepancies in determining student general eligibility, enrollment status, and/or cost of attendance, or an error in calculating the award amount (including misreading of the payment schedule) or making an improper disbursement. Table 3-1 shows the aggregate institutional error findings, while Table 3-3 summarizes the institutional error components. The following points highlight the institutional error which was identified.

- Absolute institutional error is estimated to be $321 million, or approximately 13 percent of total program expenditures.
- The average absolute institutional error per recipient is $127.
- Net institutional error program-wide is $99 million, or about 4 percent of total expenditures.
- Net institutional error averages $39 per recipient.
- Approximately $210 million of the institutional error is in the form of overawards, while underawards account for an estimated $111 million of the total.
- Institutional overawards constitute 15.7 percent of the cases, whereas 17.8 percent of the cases are underawards; however, the average amount of the overaward error is more than twice that of the average underaward.

TABLE 3-3

COMPONENTS OF INSTITUTIONAL ERROR

	ABSOLUTE ERROR				NET ERROR		
	Mean Error per Recipient ($)	Mean Error per Recipient W/Error ($)	Program-Wide Estimate ($ Millions)	Cases W/Error (%)	Mean Error per Recipient ($)	Mean Error per Recipient W/Error ($)	Program-Wide Estimate ($ Millions)
Eligibility Error	56	1,078	142	5.2	56	1,078	142
Insufficient Program Length	*	79	.1	.03	*	79	.1
Nondegree Program	5	1,051	13	.49	5	1,051	13
Not Parent Institution	2	1,018	5	.21	2	1,018	5
Default on Loan	*	505	.4	.03	*	505	.4
Less Than Half Time	*	601	1	.09	*	601	1
Unsatisfactory Academic Progress	2	656	6	.38	2	656	6
Invalid SAR	3	855	8	.36	3	855	8
No Statement of Educational Purpose	4	1,043	10	.39	4	1,043	10
No Financial Aid Transcript	37	1,168	95	3.2	37	1,168	95
No SAR in File	2	1,725	4	.10	2	1,725	4
Has Bachelor's Degree**	--	--	--	--	--	--	--
Not a Citizen or Eligible Noncitizen**	--	--	--	--	--	--	--
Disbursement Error	77	255	193	30.2	-15	-50	-38
Cost of Attendance Error	19	180	49	10.8	-8	-76	-21
Enrollment Status Error	58	260	147	22.3	-16	-71	-39
Calculation/Accounting Error	22	182	57	12.3	9	77	24

*Less than $1.

**There were no instances of these errors in the sample used.

- The most prevalent form of institutional discrepancy is Enrollment Status error, estimated to constitute $147 million of absolute program-wide error and more than 22 percent of the cases.

- Calculation and accounting discrepancies are the second most frequent occurrences, representing slightly more than 12 percent of the cases and an estimated $57 million of absolute program-wide error.

- Cost of Attendance error accounts for about $49 million of absolute program-wide error and about 11 percent of the cases.

- The only other type of institutional error that involves more than 1 percent of the cases with error is the absence of the Financial Aid Transcript, which occurs in 3.2 percent of the cases. If each of these awards is considered to be entirely in error, the program-wide cost is estimated to be $95 million, or the second most expensive institutional error found.

- Other than FAT error, very little discrepancy based upon general eligibility requirements was found.

It seems advisable to make a distinction concerning overall institutional error related to the absence of the Statement of Educational Purpose (SEP), the Financial Aid Transcript (FAT), or a valid Student Aid Report (SAR) in the institution's record system. Thus far, all discussion has considered such cases to have the total amount of the award in error. Clearly, the failure to have a valid SAR or SEP on file is a violation of program requirements. However, it is a procedural error that may not make the amount of the award incorrect. The error associated with the absence of a FAT for a transfer student is more difficult to judge. First, disbursements may be made in the first payment period without the FAT in hand, so considering the entire award in error (as we have done) overstates the case. Second, a high percentage of recipients would maintain their eligibility for the full amount of their otherwise properly calculated award if the FAT were to be received within that academic year. The only awards that would be potentially in error if the FAT were received would be those made to mid-year transfers who had previously used some of their 1982-83 entitlement at their previous institution. All other FAT error cases would have legitimate awards upon presentation of the required transcript.

For these reasons, we have provided an additional table which excludes SEP/FAT/Invalid SAR error cases. Table 3-1, which has already been presented, tends to overstate institutional error by an amount equal to at least the disbursements made in the first payment period for transfer students. Table 3-4, which presents the same

TABLE 3-4

A SUMMARY OF AMOUNTS AND RATES OF ERROR TREATING CASES WITH SEP/FAT/INVALID SAR ERRORS AS ELIGIBLE

ABSOLUTE ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	217	9	86	30.6	281
Student	345	14	137	41.1	332
Total	562	23	223	61.1	364
Case	517	21	204	61.1	334

NET ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	-13	.5	-5	30.6	-17
Student	231	10	91	41.1	222
Total	217	9	86	61.1	141
Case	226	9	89	61.1	146

OVERAWARD ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	102	4	40	12.2	331
Student	288	12	114	32.0	355
Total	390	16	154	39.1	394
Case	371	15	147	39.1	375

UNDERAWARD ERROR

Error	Program-Wide Estimate ($ Millions)	Program-Wide Estimate (% of $ Awarded)[a]	Mean Error per Recipient ($)	Cases W/Error[b] (%)	Mean Error per Recipient W/Error ($)
Institutional	-115	5	-46	18.4	-248
Student	-57	2	-23	9.1	-250
Total	-173	7	-68	22.0	-310
Case	-145	6	-57	22.0	-261

[a] Amount of Pell awards is $2.4 billion for 1982-83.

[b] Error is defined as a discrepancy of plus or minus $2 from the best award.

information found in Table 3-1 excluding cases with SEP/FAT/Invalid SAR error, understates the error to the extent that some (probably few) cases without an FAT would prove to have, upon receipt of an FAT, an incorrect award amount.

One other point of clarification should be made regarding these findings. The tolerance level used to define error, $2 over or under the correct award, is recognized as quite stringent. It is used to enhance comparability with prior findings. However, we have computed alternative amounts and rates of error at various tolerance levels. While the percentage of cases with error is reduced substantially by increasing the tolerance level, estimated absolute and net dollar error do not change significantly. These alternate figures are shown in Table 3-5, which follows.

TABLE 3-5

AMOUNTS AND RATES OF ERROR WITH SELECTED TOLERANCE LEVELS OF NO ERROR

	Program-Wide Estimate		Estimated Cases with Error (%)
	Absolute ($ Millions)	Net ($ Millions)	
Case Error ($)			
± 2	605	326	62.7
± 25	598	320	55.8
± 50	591	318	49.7
± 100	577	316	42.4
Student Error ($)			
± 2	328	217	39.4
± 25	323	212	36.0
± 50	318	209	30.9
± 100	307	207	25.8
Institutional Error ($)			
± 2	321	99	33.5
± 25	318	98	27.5
± 50	315	99	24.9
± 100	307	100	20.6

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EFFECTS OF VALIDATION

Beginning in the 1982-83 academic year, OSFA instituted new requirements for institutional validation of Pell Grant applicants. The proportion of students selected for validation rose from less than 10 percent, mostly chosen on the basis of pre-established criteria or PECs, to more than 60 percent, including a period of time when all apparently eligible applicants were selected. At the same time, there was a change in emphasis of the validation. For most validated students, the institution was required only to verify a limited number of application values with a copy of the tax return for the previous year (1981) for independent students or the parents of dependent students. For those not filing a tax return, a signed statement of non-filing was required.

Completely estimating the savings attributable to validation is not possible with existing data. Savings accrue for several reasons:

- Ineligible students, knowing that they may be validated, do not apply for a Pell Grant
- Ineligible applicants do not alter their applications in order to lower their SAI and falsely appear to be eligible
- Eligible applicants do not falsely alter their applications in order to increase their eligibility.

The data base only allows us to measure the second two components, thus the following magnitudes should be considered as lower-bound estimates.

The data from the 1980-81 study projected a substantial $101 million program-wide error attributed to use of incorrect Adjusted Gross Income (AGI) in the determination of the Student Eligibility (now Aid) Index. It was noted in the Final Report that this estimate of error consisted of two types, cases where the incorrect AGI for the correct individual was reported on the application, and cases involving the

use of erroneous AGI (and other application items) because of incorrect selection of the proper dependency status category.

To achieve greater clarity for the 1982-83 data, it was decided to separate these two components of error that were reported jointly in 1980-81. This better identifies the possible sources of the error and provides a more precise indication of the effectiveness of validation. By separating misreported AGI for cases with proper dependency status from those with improper dependency status, and reconstructing the same decomposition for 1980-81, the following results were identified:

	1980-81	1982-83
Combined AGI/Dependency Status Error	$101 million	$ 80 million
AGI Error (correct dependency status selected)	38 million	16 million
Dependency Status Error (causing wrong AGI to be reported)	63 million	64 million

Thus, while validation apparently reduced, by 58 percent, AGI error where the correct dependency status was involved, the Dependency Status error was relatively unaffected by the expanded validation requirements. Because the validation procedures for independent students (who constituted 93 percent of erroneous dependency status cases for 1982-83) required collection of only the independent applicant's tax return, the inappropriateness of a claim of independent status would likely not be discovered by validation. Had the parents' tax return been requested, as it was in the 1982-83 study procedures, some 33 percent of the dependency status errors would have probably been discovered and corrected. The balance of such errors appear to result from misreporting of support received from parents or time residing with parents, which are likely not to be discovered by review of IRS forms when the student was not claimed as an exemption.

The value of validation in detecting errors other than Dependency Status, however, was confirmed. Key findings are:

- Net AGI error is 81 percent lower among students selected for validation and validated compared to those neither selected nor validated
- The vast majority of institutions collected the required verifying documentation for their students who were "flagged" for validation by ED. The Federal tax return was the predominant form of documentation
- Validated students were more likely to revise their Adjusted Gross Income (AGI) and Federal taxes paid initial application data than were non-validated students. Further, those selected for validation and making revisions were more likely to raise their AGI and reduce their taxes paid--revisions that tend to lower eligibility--than were those not selected for validation
- Among those recipients who made corrections to their application, 44 percent of those randomly selected for validation made changes that decreased their eligibility while only 18 percent made changes that increased their eligibility. In comparison, of those not selected for validation only 9 percent made changes that decreased their eligibility while 44 percent made changes that increased their eligibility.

This change in correction behavior, which is counter to the self-interest of the applicants, can be attributed primarily to validation.

The changed requirements and increased number of students to be validated in 1982-83 did result in some problems however. Household size, number in college, and other nontaxable income showed increases in net error per recipient between 1980-81 and 1982-83 of 1 percent, 63 percent, and 114 percent, respectively. These items were required to be valdiated for those selected for validation in 1980-81, but not in 1982-83. Also, while the majority of institutions collected the required verifying documents in 1982-83, most believed that they were unduly burdened by the changed nature of the process. The reasons cited most often were delays, extra work, or confusion due to the late arrival of the Validation Handbook, difficulty in verifying Social Security and Veterans Administration benefits, and difficulty in obtaining documentation from students.

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RECOMMENDED CORRECTIVE ACTIONS

The major thrust of any quality control study should be the development of corrective actions. These corrective actions should be directed toward economies associated with those few items that cause the most error ("the vital few") rather than the less optimal approach which attempts to cover the "trivial many" souces of error.

Volume 2 of the Final Report reviews the role of corrective actions within the context of a quality control effort, evaluates the apparent effectiveness of prior corrective actions taken by the Department, and provides a series of recommendations for reducing specific application and institutional processing errors, as well as general delivery system enhancements. Ten specific error types, which account for a vast majority of the student and institutional errors identified by the study, were the focus of the recommendations. More broadly-based recommendations for improvement were directed at keeping error out of the system through simplifying and improving the application process and through formalizing the role of the institution as the focus of quality control. The recommendations advanced in Volume 2 are summarized in the following sections.

SPECIFIC ERROR CORRECTIVE ACTIONS

Our specific recommendations are of two types, one to reduce application or student error, and another to reduce institutional error.

Application or Student Error

In addressing the six application error areas, two themes were followed:

- Targeting validation toward the types of students (e.g., first-time independent students under 20 years of age) or types of error (e.g., income) that would have the highest payoff. As discussed in Section 1.1, this is a form of remedial corrective actions.

- Improving the application form by either clarifying definitions (e.g., nontaxable income) or requesting clarifying information (e.g., names of household members). This is a form of preventative corrective actions.

Six recommendations address errors made by applicants in completing their applications for Pell Grant assistance.

- Reduce the improper applicant determination of dependency status by expanded validation of first-time independent applicants and more stringent documentation requirements for those validated.
- Enhance the accuracy of reporting other income and benefits through expanded itemization of the several components of this application item to reduce accidental omissions and modified validation selection criteria to identify cases where other income sources are suggested by reported data.
- Maximize the accurate reporting of household size by requiring that applicants list by name, age, and relationship the individuals being included in household size. The Department should also consider replacing household size with number of tax exemptions.
- Improve the accuracy in reporting the number of family members in postsecondary education by including the institution to be attended by the aforementioned list of family members and clarifying the instructions as to whether the parents of dependent students who may be attending are to be included in the reported number.
- Continue to improve upon the accurate reporting of AGI by encouraging, but not requiring, the completion of the Federal tax return before completion of the Pell application and using more refined validation selection criteria to focus upon the most error-prone applicants.
- Maximize the accuracy of reported dependent student income by validating each applicant projecting a drop exceeding 50 percent in income from the base year to determine the reasonableness of the projection.

Institutional Error

In addressing the four areas of high institutional error, two other themes were followed:

- Simplifying procedures and policies, for example, of enrollment status regulations and the payment schedule
- Putting more emphasis on the institution as the focus of quality control.

Four recommendations are aimed at the reduction of institutional processing error.

- Investigate the feasibility of a date-certain for the determination of Pell recipient enrollment status, with the institution "held harmless" for changes of status after that date each enrollment period, as a means of reducing the occurrence of erroneous status projections without confirmation.

- Institute a more structured cost of attendance formula that reduces the amount of variation occurring from mid-term changes in credit hour load and room and board arrangements, and investigate the desirability of establishing a date-certain for determining the cost of attendance to be used for a given enrollment period.

- Develop an individualized payment schedule for each official Student Aid Index, to be incorporated on the Student Aid Report, as a means of further reducing the misreading of the current payment schedule during institutional processing.

- Consider eliminating the current requirement for obtaining a Financial Aid Transcript (FAT) from each transfer Pell recipient except those transfering during an award year, as a means of reducing the error resulting from the unavailability of this document in institutional files; alternatively, consider allowing a "proxy" FAT to document reasonable attempts to secure a hardcopy transcript.

Implementation Costs and Burdens

All of these recommendations can be implemented by either ED administrative action or regulatory revision. Most of the proposed corrective actions involve a decreased burden or little or no change in the current requirements for all participants.

FURTHER IMPROVEMENTS IN THE PELL GRANT DELIVERY SYSTEM

In addition to the preceding recommendations to address specific types of errors identified by this study, most of which could be considered short-term actions with minimal implementation burdens, a number of more broadly based and potentially longer range recommendations for improving the overall delivery system were also developed. These proposals also follow from the two sets of themes used to develop the specific recommendations for application and institutional errors. Furthermore,

these broad-based recommendations can be organized around the following more general themes:

- Keeping error out of the system through simplifying and improving the application process
- Formalizing the role of the institution as the focus of quality control.

Recommendations for Keeping Error Out of the Application Process

In this arena, there were five prospective actions identified as having potential for improving the accuracy and efficiency of the delivery of Pell Grants to eligible students. These recommended enhancements were:

- Overall simplification of the application form to reduce confusion on the part of the applicant, perhaps through a technique already field-tested by the Department and known as the "split form," a separate form and instructions for dependent and independent applicants in a common packet.
- Modification and possible redefinition of dependency status, primarily through substituting criteria which ascertain whether the applicant has provided or will provide his or her own residence and was or will be self-supporting, rather than the current criterion of not residing with a parent or being supported by parental resources.
- Simplification of the Family Contribution Schedule through the deletion from the Pell formula of financial data elements which are difficult for applicants to provide easily and accurately, difficult to document, and contribute little to the reliability, sensitivity, and equity of the formula.
- Establishment of a firm cut-off date for student-initiated corrections and the screening of those corrections by a financial aid administrator to reduce resubmission of data intended to artificially increase eligibility.
- Prohibition of corrections subsequent to completion of validation of previously submitted data.

Formalization of the Role of the Institution in Quality Control

In addition to the specific recommendations regarding simplification of the application process, an administrative action that formalizes the institution as the focal point for quality control is needed. Several steps are desirable if this responsibility is to be placed clearly upon the institutions, including:

- Quality control regulations that provide the necessary authority for delegating such responsibilities to institutions and require a minimal quality control plan to be developed and implemented.

- Incentives for institutions to reduce error and maintain it at an acceptably low level, perhaps through a variable administrative expense allowance.

- Substantial levels of technical assistance in the form of a quality control handbook, inclusion of quality control modules in training programs, and the availability of quality control specialists to assist schools in developing and implementing effective quality control plans.

These further refinements in the delivery system, in conjunction with the error-specific recommendations advanced in the Final Report, should reduce the level of student and institutional error in the Pell Grant program. The financial aid community working as the focal point of quality control should be able to bring about improvements in quality as has been done in other Federal entitlement programs. The AFDC error rate has fallen to 7.3 percent from 9.4 percent between 1978 and 1982. For the 1981-82 program year the national overpayment error rate for the food stamps program was 9.8 percent. Finally, the Medicaid error rate has been reduced to 3 percent from nearly 7 percent during the 1978 to 1982 time period.

APPENDIX

APPENDIX
GLOSSARY OF TERMS*

The use of error terms has been standardized throughout this document. The definitions of these terms are as follows:

Overaward	-	amount of award that is greater than its calculation based on verified values would indicate
Underaward	-	amount of award that is less than its calculation based on verified data would indicate
Student error	-	error attributable to discrepancy in application value(s) by the student or the student's parent(s)
Institutional error	-	error attributable to 1) discrepancy by institution in determining student's eligibility, enrollment status, and/or cost of attendance and/or 2) discrepancy by institution in calculating or disbursing award
Case error*	-	error in award per recipient, regardless of the source to which it is attributable (See absolute case error and net case error below for further distinctions.)
Case overaward	-	overaward per recipient or case, regardless of its source
Case underaward	-	underaward per recipient or case, regardless of its source
Absolute case error	-	case overawards plus the absolute value of case underawards
Net case error	-	case overawards minus case underawards
Total error	-	error attributable to students and institutions (See absolute total error and net total error below for further distinctions.)
Total overaward	-	sum of institutional and student overawards
Total underaward	-	sum of institutional and student underawards
Absolute total error	-	sum of institutional and student error for overawards plus the absolute value of the sum of institutional and student error for underawards
Net total error	-	sum of institutional and student error for overawards minus the sum of institutional and student error for underawards

*Case error is usually less than absolute total error because of overlapping contributions of students and institutions to error or because underawards attributed to one source may be offset by overawards to another.