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ABSTRACT

The extent to which colleges are complying with the 1982-1983 Pell Grant validation requirements was assessed. Fall 1982 financial aid data were drawn from a representative sample of 3,490 Pell Grant recipients at 317 colleges that are part of the Regular Disbursement System. Key findings show: (1) the vast majority of institutions collect the required verifying documentations for their students who are "flagged" for validation by the U.S. Department of Education; (2) about 78 percent of the flagged recipients satisfied the validation requirements by providing a signed copy of their federal tax return or other verification; (3) the great majority of institutions appeared to be identifying incorrect application entries in the cases of recipients flagged for validation; (4) for most of the documented cases, the application item discrepancies were small; (5) about 2 percent of the documented flagged cases had out-of-tolerance differences that would lead to a change in the student's expected award; and (6) about 6 percent of the documented flagged cases had differences within tolerance that would lead to a payment change. Appended are study findings and information on the sampling methodology. (SW)

PRELIMINARY REPORT ON ASSESSMENT OF 1982-83 PELL GRANT VALIDATION PROCEDURES

Submitted To

OFFICE OF STUDENT FINANCIAL ASSISTANCE
DEPARTMENT OF EDUCATION

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EXECUTIVE SUMMARY

The purpose of this study is to provide the Department of Education (ED) an early measure of the extent to which postsecondary institutions are complying with the 1982-83 Pell Grant validation requirements. Data for the study were drawn during fall, 1982 from the financial aid files of a statistically representative sample of 3,490 Pell Grant recipients at 317 institutions on the Regular Disbursement System (RDS).[1] Key findings show:

- **The vast majority of institutions collect the required verifying documentation for their students who are "flagged" for validation by ED.** As Figure 1 indicates, only 6 percent of all flagged recipients did not have the required documents in their files as of fall, 1982.

- Approximately 76 percent of the flagged recipients, as Figure 1 also indicates, satisfied the validation requirement by providing a signed copy of their Federal tax return; 2 percent submitted an acceptable alternate to a tax return; 15 percent signed a statement asserting that no tax return was, or would be, filed; and 1 percent had no verifying documentation because they were exempt from validation.

- **The great majority of institutions appear to be identifying incorrect application entries in the cases flagged for validation.** Adjusted gross income (AGI) was correct in 89 percent of the cases and U.S. taxes paid was correct in 85 percent of the cases when values from verifying documents were compared with values on the application, as indicated on the flagged recipients' most current Student Aid Report (SAR).

- **For most of the documented cases, the application item discrepancies were small.** Only 7 percent of the documented flagged cases had item discrepancies that when taken individually and/or summed exceeded the ED-established tolerances. AGI exceeded tolerance in 3 percent of the cases while U.S. taxes paid exceeded tolerance 3 percent of the time.

- **Approximately 2 percent of the documented flagged cases had out-of-tolerance differences which would lead to a change in the student's expected award.** For the 1.7 million recipients represented by the sample, these changes translate into an estimated net overpayment of $3.4 million. This dollar figure can be viewed as an estimate of the level of institutional noncompliance as of fall, 1982.

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[1] Institutions on the RDS disburse Pell funds to their students and are responsible for validation of application information. A small number of institutions, not represented in this study's sample, are on the Alternate Disbursement System (ADS). These schools do not handle Pell funds and are not responsible for validation.

- **Approximately 6 percent of the documented flagged cases had differences within tolerance which would lead to a payment change.** These changes translate into an estimated net overpayment of $1.6 million as of fall, 1982. This dollar figure can be viewed as an estimate of the dollar savings to the program not captured as a result of the existing validation tolerances.

- **Public institutions appear to be most diligent in complying with the validation regulations, followed in order by private and proprietary institutions.** Roughly 5 percent of the files of flagged students at public institutions were incomplete, while 8 percent of the private institution files and 19 percent of the proprietary institution files were incomplete.

- **Many institutions are voluntarily taking steps to improve the quality of application data.** Figure 2 indicates that institutions collected a Federal tax return from 28 percent of their unflagged recipients, an alternate to a tax return from 1 percent, and a statement saying no tax return was, or would be, filed from 10 percent. A file comparison between the validating document and the student's SAR showed that for these unflagged cases, AGI was accurate 89 percent of the time and U.S. taxes paid 91 percent of the time.

- **Institutions rarely verified those application items that are optional for validation.** For example, the asset items were documented in less than 0.2 percent of the flagged cases.

- **Early indications are that institutions in 1982-83 are less likely to be out of compliance with the validation requirements than institutions in 1980-81.** Approximately 11 percent of the flagged recipient files reviewed during the 1980-81 Quality Control study had no verifying documentation of AGI. In roughly 10 percent of the files, U.S. taxes paid was not documented. In 1982-83, 4 percent had no documentation of AGI and 6 percent were missing documentation of U.S. taxes paid.

Results of this study are limited due to the timing of the data collection. Institutions under current validation rules have considerable freedom in making initial Pell Grant disbursements to students before completing the validation process. An institution that appeared to be out-of-compliance when their files were reviewed in the fall may, in fact, have chosen to complete validation after their fall disbursements; therefore, it is not possible to assert with confidence that an institution has made an error until its files are reviewed in the winter or spring of the academic year.

One purpose of the full replication of the 1980-81 Quality Control study, to be conducted in spring, 1983, is to answer many of the policy-relevant questions regarding the effectiveness of the 1982-83 validation scheme that were left

unanswered by this narrowly focused study. Among the questions that will be addressed in the upcoming study are:

- How effective was 1982-83 validation in removing payment error?
- How much payment error and what types of payment error remained after validation?
- What was the burden of validation on the institution? On the student?

FIGURE 1

INCIDENCE OF FILE DOCUMENTATION:
FLAGGED RECIPIENTS

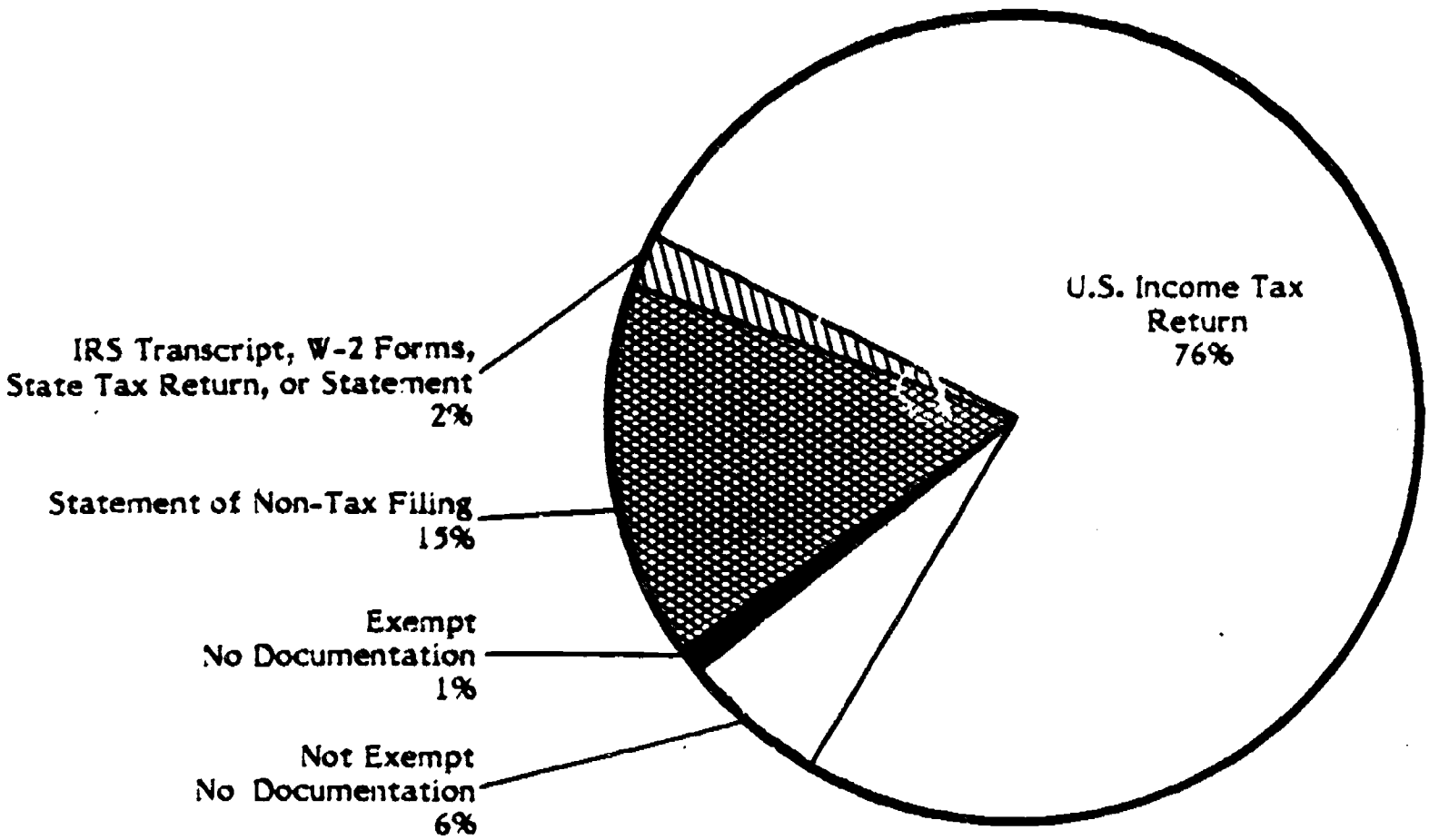
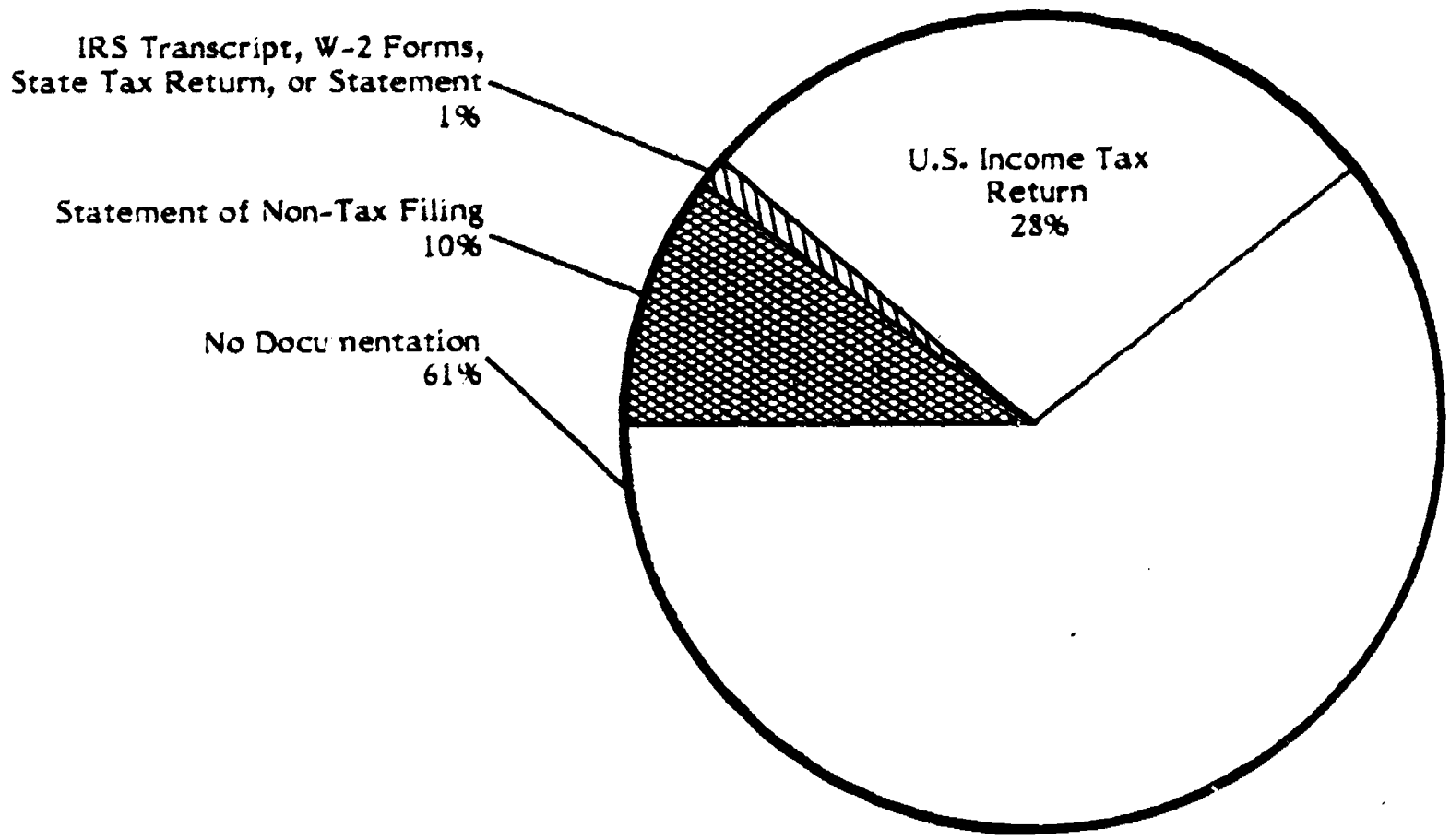


FIGURE 2

INCIDENCE OF FILE DOCUMENTATION:
UNFLAGGED RECIPIENTS



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INTRODUCTION

Background

The Pell Grant Quality Control study of the 1980-81 award year identified significant overpayments and underpayments that were being made to students as a result of misreporting on the Pell application. The findings indicated that student misreporting resulted in an average net overpayment of $247 per Pell Grant recipient. For all recipients represented in the sample, this translated into a net overpayment of $246 million. Moreover, the study indicated that a substantial portion of this net overpayment was due to the misreporting of a single application item—adjusted gross income (AGI).

In response to these findings, the Department of Education (ED) took corrective action by greatly expanding the validation requirement under which participating postsecondary institutions must verify student application information against certain documentation, such as Federal income tax returns, before making a disbursement. In past years, ED "flagged" for validation the applications of only 10 percent of all eligible applicants. For each flagged application, institutions were required to verify the accuracy of at least seven application items. These items included AGI, U.S. taxes paid, nontaxable income, household size, number in postsecondary education, dependency status, and the dependent applicant's income. For 1982-83, ED is selecting roughly 60 percent of all eligible applicants for a somewhat less intensive validation procedure.[1] During the current year, ED requires that schools verify at least two application items, AGI and U.S. taxes paid. A third item, parental Social Security

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[1] Prior to June 16, 1982, all eligible applicants were selected for validation. Beginning on that date, only applications meeting one of a series of selection criteria (known as Pre-established Criteria, or PECs) have been selected. As of October 1982, roughly 13 percent had been selected according to the PECs and 87 percent had been selected randomly.

benefits, is required for validation when student application information does not match information from the Social Security Administration (SSA).[2] Finally, a fourth item, all other income and benefits, is required if certain line items on the collected Federal tax return conflict with information on the application.

Purpose and Limitations of Study

The purpose of this report is to provide ED with a preliminary assessment of the 1982-83 validation procedures. Specifically, the preliminary study was designed to:

- Measure the extent to which institutions are complying with the new validation requirement; and
- Identify areas of noncompliance.

This study does not present a thorough evaluation of the 1982-83 validation scheme. The following are among its limitations:

- Data were collected for the assessment during fall, 1982, an early point in the Pell Grant processing cycle. During 1982-83, institutions have considerable leeway in making disbursements to flagged students. Institutions, at their own risk, may make first disbursements to flagged applicants before collecting verifying documents. In fact, roughly 22 percent of the institutions polled in the study sample said that they followed this practice either on a regular basis or occasionally. Therefore, until the second disbursement has been made (normally in the winter or spring) it is not possible to assert with confidence that an institution has made an error.

- The study was unable to measure several possible effects of the 1982-83 validation scheme. For example, a student with errors who had been notified that his case was selected for institutional validation could have responded in one of three ways:

  -- The student, knowing he seriously understated income or overstated expenses and deductions, drops out of the system.
  -- The student corrects his flagged Student Aid Report (SAR) immediately and arrives at his chosen institution in the fall with a SAR containing correct data for income, expenses, and family composition.
  -- The student is told by the school, after he has brought in documentation, to submit corrections to the processor. The corrected SAR is in the file by the time the data are collected for the preliminary study.

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[2]The Pell Grant application processor matches the Pell application computer tape with the SSA tape. It is expected that roughly 26,000 eligible applicants will be required to verify parental Social Security benefits during 1982-83.

In these three cases, validation has had the desired effect of preventing erroneous payments, but this study was not able to measure the error removed under each of these three situations.

- This preliminary study, unlike the 1980-81 Quality Control Study, does not measure the level of student payment error. Only a few data items were verified during the data collection with documents whose authenticity was not ensured.

- Neither does this study adequately measure the burden of the validation requirement on students and institutions. Appendix C provides anecdotal evidence collected from financial aid administrators regarding the burden of validation. In addition, from data collected to create a student sample for the spring, 1983, replication of the 1980-81 Quality Control study, it can be estimated that roughly 15 percent of the eligible Pell applicants expected to be paid by spring, 1983, had not in fact, been paid at the time of the fall site visits. This 15 percent, however, does not necessarily reflect a backlog of unpaid students created solely by validation. Anecdotal evidence suggests that late delivery of the final 1982-83 Pell Grant Payment Schedule and Validation Handbook may have also contributed to this backlog of unpaid students. Moreover, many of these students in the "expected to be paid" category were likely recent applicants or registrants at their institution who had not as yet been affected by validation.

In the longer run, the Department needs more detailed information concerning the cost-effectiveness of the new validation scheme. The full replication of the 1980-81 Quality Control study, the findings of which will not be available until fall, 1983, will provide much of the information needed to fully evaluate the 1982-83 validation initiative. The last section of this report shows how the results of this limited study and the results of the full replication fit into a broader research agenda for validation issues.

Description of the Data

The findings presented in this report are drawn from sample data collected for the 1982-83 Pell Grant program year. The sample was selected to be representative of the Pell Grant recipient population attending schools on the Regular Disbursement System (RDS)[3] as of fall, 1982.[4] The data for the analysis come from 3,490 student

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[3]Students attending institutions on the RDS receive funds directly from the institution. Institutions on the RDS have responsibility for validation. A small number of institutions are on the Alternate Disbursement System (ADS). ADS institutions were excluded from the preliminary study sample since they are not responsible for validation.

[4]Details on the sample design are found in Appendix B.

record abstracts drawn from the financial aid files of the 317 institutions the recipients attend. The data were collected in November and December, 1982. Figure 1-1 presents a profile of the study sample by dependency status and whether or not the sampled cases were flagged for validation.

	Independent* Cases	Dependent** Cases	Total
Cases Flagged For Validation	798 23%	1,317 38%	2,115 61%
Cases Not Flagged For Validation	649 18%	726 21%	1,375 39%
TOTAL	1,447 41%	2,043 59%	3,490 100%

*Independent recipients receive little or no financial support from their parents; therefore, the parents' income and household information is not used in calculating the independent recipient's need for a Pell Grant.

**Dependent recipients recieve significant financial support from their parents; therefore, the parents' income and household information is used in calculating the dependent recipient's need for a Pell Grant.

FIGURE 1-1

PROFILE OF STUDY SAMPLE

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FINDINGS

This chapter presents the findings of the preliminary study. The following specific research questions were formulated in collaboration with senior OSFA officials in order to meet the study's objectives:

1. How many recipients flagged for validation had complete file documentation?

2. What type(s) of documentation did institutions collect?

3. How does the incidence of file documentation in 1982-83 compare with the incidence of documentation in 1980-81?

4. For recipients flagged for validation with file documentation, what were the differences between the document values and the application values, as indicated on the most current SAR, for AGI, U.S. taxes paid, and Social Security benefits?

5. How many recipients flagged for validation were within validation tolerances for the three items and for the sum of the three items?

6. How does the rate at which flagged recipients are out-of-tolerance in 1982-83 compare with the rate in 1980-81?

7. For recipients flagged for validation, how often were items other than AGI, U.S. taxes paid, and Social Security benefits documented? How often did documented values not agree with SAR values?

8. For recipients flagged for validation, what are the Student Aid Index (SAI) changes and potential payment consequences (award errors) associated with the documented discrepancies?

9. What were the characteristics of the institutions having files with incomplete documentation? What were the characteristics of the institutions that awarded flagged students who had out-of-tolerance discrepancies?

10. How many recipients not flagged for validation by ED were validated by the institution nevertheless? What were the results?

In the remainder of this chapter, the findings as they address each of the ten research questions are presented and discussed.

Question 1: How many recipients flagged for validation had complete file documentation?

At a minimum, ED requires institutions to collect a signed copy of the independent applicant's or dependent applicant's parents' tax return. If the student or parents did not or plan not to file a tax return, a statement from the student (and parent) attesting to that fact is required. When a tax return has been filed but cannot be obtained, the institution, under certain conditions, may accept alternate documents such as a transcript from the IRS, a state tax return, or W-2 forms. As a last resort, an institution may accept a statement from the student or parent certifying the amount of earned income, its source, and why a tax return or alternate document is not available. For a small percentage of dependent applicants, ED requires that the institution collect a statement from the Social Security Administration (SSA) verifying the amount of benefits the student's parents received.

When each sampled recipient's student aid file was reviewed, a determination was made as to whether the documentation was "complete" or "incomplete." A file was considered incomplete if either (1) required documents were missing or (2) documents were present but they failed to meet the minimum standards set forth in the **Pell Grant Validation Handbook 1982-83.**[1] For example, a file was considered incomplete in each of the following situations: if the tax return was unsigned, if the statement of nonfiling was not signed by the proper person(s), if the tax return was completely illegible, or if a copy of only one side of the two-sided 1040 tax return was present in the file.

The data in Figure 2-1 indicate a high level of compliance among institutions

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[1] Financial aid administrators are not obliged to go beyond what is required by the **Validation Handbook** to determine the authenticity of the tax return copies and other documentation. Likewise, an independent effort to authenticate the file documentation was beyond the scope of this study. In the Pell Grant Quality Control Study of the 1980-81 academic year, a comparison of tax return data from the IRS with tax return data in student aid files showed that file data for AGI was incorrect 8 percent of the time.

	Cases	Percent
Total Recipients Flagged for Validation	2,115	100%
Exemptions	29	1%
Complete Documentation	1,956	93%
Incomplete Documentation	130	6%

FIGURE 2-1

INCIDENCE OF FILE DOCUMENTATION FOR PELL GRANT RECIPIENTS FLAGGED FOR VALIDATION

with this validation requirement. According to the figure, only 6 percent of flagged recipients did not have the required documentation in their files as of fall, 1982, a relatively early point in the Pell processing cycle. Complete documentation had been collected for 93 percent while 1 percent met at least one of seven conditions under which the student was exempted from validation.[2]

Note that the 6 percent with incomplete file documentation does not necessarily reflect institutional noncompliance. Under the existing validation provisions, institutions are granted considerable leeway in making initial disbursements to flagged applicants. An institution has the option of making a disbursement of up to one-half the amount of the student's expected award for the entire academic year before collecting any verifying documentation. (The institution exercises this option at its own risk since it is liable for any overpayment that is discovered following validation.) Therefore, until more than one-half of the student's award has been disbursed--normally occurring with the second disbursement in the winter or spring of the academic year--it is not possible to assert that an institution has not complied.

Question 2: What type(s) of documentation did institutions collect?

Figure 2-2 divides flagged cases according to whether Social Security benefit documentation was required (column 2) or whether it was not (column 1). The results indicate that for the few cases where Social Security benefit documentation was required, a tax return was rarely missing but that financial aid officers often neglected to collect a statement from the SSA. Anecdotal information collected during the field work (see Appendix C) suggest that many aid officers are having

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[2] If an aid administrator can document that the flagged student is a legal resident of one of the U.S. Territories, has filed a Special Condition Application, has completed validation at another school, is incarcerated, has parents who reside in and are citizens of another country, is a recent refugee to the United States, or is dead, that student need not go through the validation process.

	Cases Flagged for Tax Return	Cases Flagged for Tax Return and SSA Statement	Total Flagged Cases
Recipients Flagged for Validation	2,093	22	2,115
Percent Exempt	1%	5%	1%
Percent with Complete Documentation:			
- With Tax Return	76%	32%	76%
- With IRS Transcript	1%	-	1%
- With State Tax Return	*	-	*
- With W-2 Forms	*	-	*
- With Statement from Student/ Parent	*	-	*
- With Statement of Nonfiling	15%	14%	15%
Percent with Incomplete Documentation:			
- Missing Tax Return or Acceptable Alternative	6%	9%	6%
- Missing SSA Statement	Not Applicable	27%	*
- Missing Both	Not Applicable	14%	*

*Less than 0.5%

FIGURE 2-2

INCIDENCE OF FILE DOCUMENTATION FOR PELL GRANT RECIPIENTS FLAGGED FOR VALIDATION BY TYPE OF CASE

difficulty validating Social Security benefits either because of confusion over program regulations or because of lack of cooperation from the SSA.

Figure 2-2 also details the types of verifying documents that institutions collect to satisfy the minimum validation requirement. As the figure indicates, **76 percent submitted a signed copy of a tax return while 15 percent submitted a statement attesting that a tax return was not or would not be filed.** For a very small portion, a tax return was filed but could not be obtained so an alternate document was used for validation. A transcript from the IRS itemizing AGI and U.S. taxes paid was the most commonly submitted alternate document. The least reliable acceptable alternate document, a written statement from the student or parent attesting to the amount of income and Federal taxes paid, was collected for less than 0.5 percent of the cases.

Question 3: How does the incidence of file documentation in 1982-83 compare with the incidence of documentation in 1980-81?

As part of the Pell Grant Quality Control study of the 1980-81 academic year, student financial aid files for a representative sample of institutions were reviewed in spring, 1981. Figure 2-3 compares the percent of recipients in 1980-81 with the percent in 1982-83 who had no file documentation for the two most critical validation items, AGI and U.S. taxes paid. **The data suggest that institutions in 1982-83, when ED is requiring validation for roughly 60 percent of all recipients, are far more diligent in collecting the required documents than they were in 1980-81, when ED required validation for roughly 10 percent of all recipients.** Note that the comparison is not perfect. Files for 1982-83 were reviewed in the fall and files for 1980-81 were reviewed in the spring. One would expect that the percentage of files with incomplete documentation will decrease when the files are reviewed in spring, 1983, for the full replication of the 1980-81 study.

Question 4: For recipients flagged for validation with file documentation, what were the differences between the document values and the application values, as indicated on the most current SAR, for AGI, U.S. taxes paid, and Social Security benefits?

Application Item	Percent of Recipients With No File Documentation	
	1980-81 (N = 1074)	1982-83* (N = 2115)
Adjusted Gross Income (AGI)	11.2%	4.3%**
U.S. Taxes Paid	9.6%	5.9%**

* Note that information here is not directly comparable with information in Figure 2-2. Data in Figure 2-2 indicate case documentation while this figure indicates item documentation. For example, in Figure 2-2 a case may be considered incomplete yet have valid documentation for one item and not the other.

** A statement of nonfiling was considered to be valid documentation for the purpose of this table.

FIGURE 2-3

COMPARISON OF 1980-81 AND 1982-83
INCIDENCE OF FILE DOCUMENTATION

During each file review, values on verifying documents were compared with corresponding values on the sampled recipient's most current SAR. Figure 2-4 shows the results of this comparison for the three critical validation items.[5] The figure indicates that AGI was the most often correct of the three, with only 7 percent of the documented cases having differences possibly producing an overpayment and 4 percent having differences possibly leading to underpayment. The data reveal that for roughly 78 percent of the documented cases, the sum of the differences between the SAR and documented values for the three validation items was less than $5. (This is a net figure in which positive and negative differences cancel each other out.)

Question 5: How many recipients flagged for validation were within validation tolerances for the three items and for the sum of the three items?

The strict definition of accuracy in Figure 2-4 (within $5) may distort the significance of item discrepancies. In many cases, a difference greater than $5 between a document value and a SAR value will not alter the size of the student's expected award. For this reason, ED has established a tolerance option whereby validated students with a minimal likelihood of receiving an overpayment do not have to have their inaccurate application information corrected by the Pell Grant application processor. If the school finds that no single item difference is greater than $300 for dependent students or $200 for independent students and that the sum of all differences leading to an overpayment is not greater than $600 for dependent students or $400 for independent students, then the student's SAR does not need to be corrected. A case that exceeds tolerances need not be reprocessed if the school opts to calculate a new Student Aid Index (SAI) for the eligible applicant based on the correct information.

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[5] Detailed tables with discrepancy rates expressed in dollar ranges are found in Appendix A.

Item	Percent of Documented Cases with Differences Possibly Leading to Underpayments	Percent of Documented Cases Accurate Within $5	Percent of Documented Cases with Differences Possibly Leading to Overpayments	Total Cases with Documentation*
Adjusted Gross Income (AGI)	4%	89%	7%	1,706
U.S. Taxes Paid	5%	85%	9%	1,674
Social Security Benefits	34%	38%	27%	55
Net Sum of Differences of Three Items	8%	78%	14%	1,744

*Note that information here is not directly comparable with information in Figure 2-2. Data in Figure 2-2 indicate case documentation, while this figure indicates item documentation. For example, a case might have valid documentation for AGI yet be considered incomplete for the purpose of Figure 2-2.

FIGURE 2-4

DOCUMENTED DIFFERENCES BETWEEN SAR VALUES AND DOCUMENTED VALUES: CASES FLAGGED FOR VALIDATION

Figure 2-5 reveals a high level of compliance among institutions with this validation requirement. Roughly 3 percent of the files with documentation for AGI exceeded the $300 (or $200) tolerance and had no evidence of an institutional SAI recalculation; likewise 3 percent of the documented U.S. taxes paid cases exceeded tolerance and lacked an institutional recalculation. Roughly 4 percent of the cases were outside of the $600 (or $400) tolerance when only those differences leading to overpayment were summed. Independents, the data indicate, are more likely to be out-of-tolerance than dependents. Independents comprise roughly one-third of the cases with documentation of at least one of the three items, yet account for nearly one-half of the out-of-tolerance cases. The fact that more restrictive tolerances are applied to independents may explain this result.

Question 6: How does the rate at which flagged recipients are out-of-tolerance in 1982-83 compare with the rate in 1980-81?

Figure 2-6 compares the out-of-tolerance rates for AGI and U.S. taxes paid discovered in 1980-81 and 1982-83. Note that the comparison is imperfect. The tolerance for independents was more restrictive in 1980-81 ($100) than in 1982-83 ($200) and the tolerance for dependents was less restrictive ($500 in 1980-81 compared to $300 in 1982-83). Nevertheless, the data suggest that financial aid administrators have become far more diligent since 1980-81 in identifying and acting on AGI and U.S. taxes paid discrepancies.

Question 7: For recipients flagged for validation, how often were items other than AGI, U.S. taxes paid, and Social Security benefits documented? How often did documented values not agree with SAR values?

Institutions are required to use the collected tax return to check the consistency of the application item "all other income and benefits" with respect to certain line items on the return. These line items are the interest and dividends exclusion and the untaxed portions of unemployment compensation, capital gains, and other pensions and annuities. Institutions may also use the tax return to document exemptions, how much

Item	Percent of Documented Cases Exceeding Tolerances: Without Institution Recalculation of SAI	Percent of Documented Cases Exceeding Tolerances: With Institution Recalculation of SAI	Percent of Documented Cases Within Tolerances	Total Cases With Documentation**
Adjusted Gross Income (AGI)				
Independent	2%	*	31%	33%
Dependent	1%	-	65%	67%
Total	3%	*	96%	1,706 (100%)
U.S. Taxes Paid				
Independent	1%	*	31%	32%
Dependent	2%	*	65%	68%
Total	3%	*	96%	1,674 (100%)
Social Security Benefits***	16%	-	84%	55 (100%)
Sum of Differences of Three Items				
Independent	2%	*	30%	33%
Dependent	2%	*	65%	67%
Total	4%	1%	95%	1,744 (100%)

*Less than 0.5 percent.
**See footnote to Figure 2-4 for guidelines in interpreting this data.
***Only dependent students answer this item on the Pell application.

FIGURE 2-5

DOCUMENTED DIFFERENCES BETWEEN SAR VALUES AND DOCUMENTED VALUES BY TOLERANCE LEVEL: CASES FLAGGED FOR VALIDATION

	Validation Tolerances	Percent of Documented Flagged Cases Exceeding Tolerance	
		AGI	U.S. Taxes Paid
1980-81	Independent $100	10.2%	10.6%
	Dependent $500	8.7%	6.8%
1982-83*	Independent $200	2.0%	1.4%
	Dependent $300	1.4%	2.0%

*Includes only cases with no institutional recalculation.

FIGURE 2-6

COMPARISON OF THE INCIDENCE OF OUT-OF-TOLERANCE DIFFERENCES BETWEEN 1980-81 AND 1982-83

of the earned income was earned by each parent (for a dependent student) or by the student and spouse (for an independent student), dependent student and spouse's income, itemized deductions, and medical and dental expenses. Institutions may also choose to collect documentation which verifies other application items, such as statements from public agencies, financial institution records, statements from a third party such as a lawyer or accountant, or statements from the student or parent themselves.

Figure 2-7 shows the incidence of file documentation for selected application items and the rate at which document values agreed with SAR values. Several items, as the data indicate, were rarely documented. Of particular interest, very few financial aid administrators appear to have verified the student's household size and number in postsecondary education--two very important items in the eligibility formula which were both required for validation prior to the 1982-83 academic year. However, this result may be misleading. Anecdotal information collected during the field work suggest that many institutions check the consistency of household size and number in postsecondary education against information on institutional aid applications and other institutional forms already in the student's file. For the purpose of this study, however, institutional forms routinely collected from all aid applicants were not considered documentation. Instead, the intent was to find out the extent to which institutions requested a more reliable form of verification, such as a statement from a third party or a certified statement from the student and parents. Apparently, few do.

Figure 2-7 also indicates that all other income and benefits was the most discrepant item with over half the documented cases having differences which could possibly lead to an overpayment. This suggests that many institutions are not verifying the consistency of this item with respect to the four applicable line items on the tax return: the interest and dividends exclusion and the untaxed portions of unemployment compensation, capital gains, and other pensions and annuities.

A. NON-MONETARY ITEMS

Application Item	Percent Where Documented Value Is: Less than SAR Value	Equal to SAR Value	Greater than SAR Value	Total Cases with Documentation
Household Size	6%	94%	-	16
Number of Exemptions	2%	93%	5%	1,594
Number in Postsecondary Education	-	100%	-	8

B. INCOME ITEMS

Application Item	Percent Where Documented Value Less SAR Value Is: Zero or Less	$1 to $200	$201 or Greater	Total Cases with Documentation
Father/Student Income Portion	76%	16%	8%	491
Mother/Spouse Income Portion	76%	13%	10%	391
AFDC/ADC	77%	9%	13%	75
Dependent Student's Income	47%	17%	36%	125
Student Social Security Educational Benefits	81%	13%	6%	47
VA Educational Benefits	100%	-	-	7
All Other Income and Benefits	29%	45%	26%	371

C. DEDUCTIONS

Application Item	Percent Where Documented Value Less SAR Value Is: Zero or Greater	-$1 to -$200	-$201 or Less	Total Cases with Documentation
Medical/Dental Expenses	64%	21%	14%	265

FIGURE 2-7

PRESENCE OF DOCUMENTATION AND DIFFERENCES FROM SAR VALUES FOR FLAGGED CASES: SELECTED APPLICATION ITEMS*

*The following items were documented less than 0.2 percent of the time and therefore were not included in this figure: home assets, business assets, investment assets, cash and savings, dependent student's assets, and unreimbursed tuition.

Anecdotal information collected during the field work suggest confusion over this validation requirement. Apparently, many financial aid administrators either (1) do not understand the requirement or the IRS tax rules, or (2) are not aware of the requirement.

Question 8: For recipients flagged for validation, what were the Student Aid Index (SAI) changes and potential payment consequences (award errors) associated with the documented discrepancies?

For each case with a documented discrepancy, a new SAI was computed on the basis of the new documented values. Using information on cost of attendance, enrollment status, and social security and veteran's educational benefits collected from institutions, each student's expected award was recalculated using the recomputed SAI.

Figure 2-8 shows the results of these calculations for independent and dependent cases flagged for validation. As the figure indicates, roughly one-fifth of all documented cases had discrepancies which when recalculated would lead to SAI change. However, for most the change was small and therefore the size of their expected payment was unaffected. **Only 8 percent of all documented cases had item discrepancies which would lead to a payment change. These changes resulted in an average net overpayment of $88. For the 1.7 million recipients represented by the sample, this translates into an estimated net overpayment of $5 million as of the fall of the 1982-83 Pell Grant processing year.**

The reader should be very cautious when interpreting the data in Figure 2-8. **The $5 million figure does not measure institutional noncompliance** because (1) it includes in-tolerance discrepancies that institutions are not required to correct; and, (2) it is likely that the figure will change before the end-of-year account reconciliation as institutions discover the discrepancies and make award adjustments. **Neither does the $5 million figure measure 1982-83 student error** because only a few data items, only

	Independents	Dependents	Total
Total with Documentation	567	1,177	1,744
Total Percent with SAI Changes*	10%	25%	20%
With No Payment Change	6%	16%	13%
With Payment Change	4%	10%	8%
Average Net Payment Change**	$ 134	$ 78	$ 88
Aggregate Net Payment Change**	$ 1.3M	$ 3.7M	$ 5.0M

*Excludes cases where there was evidence of institutional recalculation of the student's SAI in the file.
**A positive change indicates a possible overpayment.

FIGURE 2.3

PAYMENT CONSEQUENCES OF APPLICATION DATA DISCREPANCIES:
CASES FLAGGED FOR VALIDATION WITH SAI CHANGES

for flagged students, are verified with documents whose authenticity has not been ensured. Instead, the $5 million figure should be viewed as a snapshot estimate of net overpayments remaining after the verification by institutions of a limited number of application items in flagged student files early in the 1982-83 Pell processing cycle.

Figure 2-9 compares the payment consequences of item discrepancies within tolerance and the item discrepancies out-of-tolerance for cases where there was no evidence that the institution recalculated an SAI. As the bottom panel indicates, 7 percent of all documented flagged cases had out-of-tolerance differences. The majority of these cases had differences which resulted in no SAI change. Out-of-tolerance independents, the data indicate, were more likely than dependents to have no SAI change.

The data also reveal that 2 percent of all documented cases had out-of-tolerance differences which resulted in a payment change. For the 1.7 million recipients represented in the sample, these payment changes translate into an estimated net overpayment of $3.4 million as of fall, 1982. This $3.4 million figure can be viewed as the level of institutional noncompliance as of fall, 1982. (Note that this figure will change as adjustments are made before the end-of-year account reconciliation.)

The top panel of Figure 2-9 considers the cases with documented differences within the validation tolerance. As the data indicate, 6 percent of all flagged recipients with documentation had in-tolerance discrepancies which resulted in payment changes. These changes, when weighted to the 1.7 million recipient pool as of fall, 1982, translate into an estimated net overpayment of $1.6 million. This figure can be interpreted as the dollar savings to the program not captured as a result of the existing validation tolerances.

Question 9: What were the characteristics of the institutions having files with incomplete documentation? What were the characteristics of the institutions that awarded flagged students who had out-of-tolerance discrepancies?

	Independents	Dependents	Total
Total with Documentation	567	1,177	1,744
Percent With In-Tolerance Differences:			
Total With SAI Change*	8%	22%	17%
- With No Payment Change	5%	14%	11%
- With Payment Change	3%	8%	6%
Average Net Payment Change**	$ (7)	$ 42	$ 35
Aggregate Net Payment Change**	$ (0.5M)	$ 1.6M	$ 1.6M
Percent With Out-of-Tolerance Differences:			
Total*	9%	5%	7%
- With No SAI Change:			
With Zero SAI	6%	2%	3%
With Positive SAI	-	-	-
- With SAI Change:			
With No Payment Change	1%	1%	1%
With Payment Change	1%	2%	2%
Average Net Payment Change**	$ 439	$ 231	$ 284
Aggregate Net Payment Change**	$ 1.3M	$ 2.1M	$ 3.4M

*Excludes cases where there was an institutional recalculation of the student's SAI.
**A positive change indicates a possible overpayment; a negative change indicates a possible underpayment.

FIGURE 2-9

PAYMENT CONSEQUENCES OF APPLICATION DATA DISCREPANCIES: CASES FLAGGED FOR VALIDATION BY IN-TOLERANCE AND OUT-OF-TOLERANCE

Of the 317 institutions in the sample, 200 are public, 84 are private and non-profit, and 33 are proprietary institutions. The distribution of types of institutions as opposed to control is as follows: 21 are less than two-year institutions, 111 are two-year institutions, and 185 are four-year or more than four-year institutions. Figure 2-10 reports the differences in the incidence and payment consequences of institutional noncompliance at public, private, and proprietary institutions. **The findings suggest that public institutions are most diligent in complying with validation requirements while proprietary institutions are the least.** Roughly 5 percent of the sampled flagged cases at public institutions had incomplete documentation while 19 percent of the flagged files at the relatively few proprietary institutions in the sample were incomplete. Only 1 percent of the recipients with documentation at public schools had out-of-tolerance differences resulting in a payment change while the figure for proprietary institutions was 7 percent. Moreover, recipients at public institutions, who make up three-fourths of the population with verifying documentation , accounted for one-half of the net payment change and recipients at proprietary institutions, who are only 3 percent of the population, accounted for one-fourth of the payment error.

Figure 2-11 shows the distribution of noncompliance by less than two-year, two-year, and four-year institutions. **The findings suggest that four-year institutions are most compliant and two-year and less than two-year schools are least compliant.** Four-year schools, the data indicate, seldom had files with incomplete documentation and rarely made payments to students with out-of-tolerance discrepancies. Recipients at these institutions make up three-fourths of the population with verifying documentation yet accounted for only one-half of the total net payment change.

Question 10: How many recipients, not selected for validation by ED, were validated by the institution nevertheless? What were the results?

An institution may choose to validate eligible Pell applicants not selected for validation by ED. The data in Figure 2-12 suggest that many institutions are

	Public	Private	Proprietary
Total Recipients	1604	425	86
Percent With Incomplete File Documentation	5%	8%	19%
Total Files With Verifying Documentation	1,340	343	61
Percent With Out-of-Tolerance Differences Resulting in Payment Change	1%	2%	7%
Average Net Payment Change	$ 224	$ 265	$ 522
Aggregate Net Payment Change	$ 1.8M	$ 0.8M	$ 0.9M
Percent of Total Net Payment Change	51%	23%	26%
Percent of Population With Verifying Documentation	77%	20%	3%

FIGURE 2-10

INCIDENCE OF NONCOMPLIANCE AT PUBLIC, PRIVATE, AND PROPRIETARY INSTITUTIONS

	Less than 2-Year	2-Year	4-Year
Total Recipients	43	509	1563
Percent With Incomplete File Documentation	16%	10%	5%
Total Files With Verifying Documentation	34	406	1,304
Percent With Out-of-Tolerance Differences Resulting in Payment Change	3%	2%	2%
Average Net Payment Change	$ 100	$486	$ 200
Aggregate Net Payment Change	$0.04M	$1.7M	$ 1.7M
Percent of Total Net Payment Change	1%	49%	49%
Percent of Population With Verifying Documentation	2%	23%	75%

FIGURE 2-11

INCIDENCE OF NONCOMPLIANCE AT LESS THAN TWO-YEAR, TWO-YEAR, AND FOUR-YEAR INSTITUTIONS

	Cases	Percent
Recipients Not Flagged for Validation	1,375	100%
Complete Documentation:		
- With Tax Return	384	28%
- With IRS Transcript	9	1%
- With State Tax Return	1	*
- With W-2 Forms	2	*
- With Statement from Student/Parent	2	*
- With Statement of Nonfiling	139	10%
Missing or Incomplete Documentation	838	61%

*Less than 0.5 percent.

FIGURE 2-12

INCIDENCE OF FILE DOCUMENTATION FOR
PELL GRANT RECIPIENTS
NOT FLAGGED FOR VALIDATION

voluntarily taking steps to improve the quality of application data: nearly 40 percent of the unflagged cases in the sample had complete validation documentation in their files.[6] The tax return, the data indicate, was the most often collected document while the IRS transcript was the most common alternative to a tax return.

Figure 2-13 shows how often file documentation for AGI, U.S. taxes paid, and Social Security benefits disagreed with the information on the student's most recent SAR.[7] The data suggest that, once documentation has been collected, institutions are as diligent in identifying item corrections for unflagged cases as they are for flagged cases. In 89 percent of the documented unflagged cases, the document and SAR values for AGI were accurate within $5. In 91 percent of the cases, U.S. taxes paid was accurate within $5.

Figure 2-14 shows the payment consequences of these item discrepancies. The data reveal that 17 percent of all unflagged documented cases had differences which resulted in an SAI change. For most of these cases, however, the change was inconsequential; only 6 percent of all unflagged documented cases had discrepancies which resulted in a payment change. Unflagged dependents, the data indicate, were far more likely than independents to have item discrepancies which resulted in a payment change. Moreover, item discrepancies for dependents resulted in an average net overpayment of $153, while independent discrepancies resulted in a net underpayment of $114.[8]

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[6] See the discussion under Question 1 for the definition of "complete documentation" used in this study.

[7] Detailed tables with discrepancy rates expressed in dollar ranges for the three validation items and for other application items are found in Appendix A.

[8] Interpretation of these findings are subject to the same limitations as the data in Figure 2-8. See discussion under Question 8.

Item	Percent of Documented Cases with Differences Possibly Leading to Underpayments	Percent of Documented Cases Accurate Within $5	Percent of Documented Cases with Differences Possibly Leading to Overpayments	Total Cases with Documentation
Adjusted Gross Income (AGI)	4%	89%	7%	431
U.S. Taxes Paid	5%	91%	4%	408
Social Security Benefits	50%	25%	25%	16
Net Sum of Differences of Three Items	8%	82%	11%	443

FIGURE 2-13

DOCUMENTED DIFFERENCES BETWEEN SAR VALUES
AND DOCUMENTED VALUES:
CASES NOT FLAGGED FOR VALIDATION

	Independents	Dependents	Total
Total With Documentation	172	271	443
Total Percent With SAI Changes*	10%	22%	17%
- With No Payment Change	5%	15%	11%
- With Payment Change	5%	6%	6%
Average Net Payment Change**	$(114)	$ 153	$ 61
Aggregate Net Payment Change**	$(0.4M)	$ 1.1M	$ 0.07M

*Excludes cases where there was evidence of an institutional recalculation in the student's file.
**A positive change indicates a possible overpayment; a negative change indicates a possible underpayment.

FIGURE 2-14

PAYMENT CONSEQUENCES OF APPLICATION DATA DISCREPANCIES:
CASES NOT FLAGGED FOR VALIDATION WITH SAI CHANGES

CHAPTER 3

TOWARD A LONG RUN RESEARCH AGENDA FOR VALIDATION ISSUES

The findings dicusssed in the previous section can be interpreted as answers to specific validation questions.

A broader set of policy issues encompassing these questions can be identified as falling into three major areas: the role of validation, comparisons among alternative validation schemes, and the evaluation of a specific validation approach. These broad issue areas and derivative research questions represent the overall policy research context in which the results of this preliminary effort must be interpreted. The purpose of the fall study was to gather information about early effects of the 1982-83 validation scheme. From the outset, the focus of the fall study was necessarily narrow. Given the limited objectives of this effort, it is useful to demonstrate how these early results fit into a broader research agenda of validation issues.

What follows is a preliminary research agenda which will be expanded during the next few months.

Preliminary Research Agenda and Data Analysis Plan

Developing a research agenda and data analysis plan involves four steps:

1. Enumerate the broad issue areas or major policy questions.
2. For each major policy question, develop specific researchable questions or hypotheses.
3. Develop data collection methods, sources, and procedures required by each question or hypothesis.
4. Specify measures, statistical procedures, and methods for addressing each of the detailed policy questions.

In the following sections we provide the groundwork for the first three steps. The last step, a data analysis plan, will follow after the research agenda is complete.

Identifying Broad Policy Issues

There are three broad issues which the Department faces in making decisions about validation:

- What is the proper role of validation in Federal Student Aid programs?
- What is the appropriate methodology for comparing and choosing among alternative validation schemes?
- What is the best way to measure the effects on program error of a particular validation scheme once implemented?

The findings presented in this report fall into the third category. The timing of the data collection and the resulting nature of the data were such that only a subset of the questions under this category could be answered.

Developing Researchable Policy Questions and Hypotheses

The specific policy questions developed to date include:

Role of Validation

- How does validation relate to program goals?
- What are the trade-offs between simplification and validation?
- What is an acceptable level and distribution of error in the student aid programs?
- What are the alternatives to validation?

Choosing Among Alternatives

- What are the features which must be specified in order to completely describe a validation scheme?
  - How many students should be validated?
  - Which students should be selected?
  - Which application items should be validated?
  - How should these items be validated?
  - Who should do the validation?
- How effective is a particular scheme?
  - How much application error is deterred?
  - How much error is removed from submitted applications?
  - How much error remains?
  - What are distributional consequences of error deterred, error removed, and error remaining?

- What are the costs and burdens of alternative validation schemes?

  - Student burden
  - Institutional burden
  - Departmental burden
  - Third-party burden

Measuring Effectiveness of a Particular Scheme

- Are institutions complying with the requirements of the validation scheme?

  - How many students flagged for validation have complete documentation?
  - Are schools collecting tax forms or alternative AGI documentation?

- How effective is the scheme in identifying and correcting errors?

  - How often does a case involve tax non-filers?
  - How are documented errors distributed with respect to tolerances?
  - How often do out-of-tolerance differences lead to payment or SAI changes?

- Are schools requiring students to make corrections?

  - What differences exist between documented and application values?
  - What are associated payment consequences?

- Do schools do more than what is minimally required?

  - How many non-flagged students are validated?
  - How often do schools document items other than AGI, taxes paid, and Social Security benefits?

- How effective is the scheme in deterring and removing error? How much error remains?

- What are the costs and burdens of the scheme.

As noted earlier, this preliminary report only addressed a limited number of specific policy questions under the third broad issue--measuring effectiveness of a particular scheme. For example, the last two questions above remain unanswered. In addition, some of the findings can only be considered as early indications. More complete measures will be available in fall, 1983, after the spring data collection activities are completed.

Developing Data Collection Methods, Sources and Procedures

There are eleven major data collection activities, sources, or procedures. These are enumerated and described in Figure 3-1. It should be noted that only one of these data sources (student's financial aid file) was available and used to develop the findings discussed in this report.

Source/Mode	Nature of Data
Fall 82, File Abstract	Review of financial aid files for: 1. Presence and types of documentation 2. Documented values of formula elements 3. Application values of formula elements 4. Exemption from validation 5. Extent of differences on formula elements
Spring 83, Student Record Abstracts	Site visits to various institutional offices: Financial Aid Office 1. Presence and types of documentation 2. Documented values of formula elements 3. Application values of formula elements 4. Expected disbursement and scheduled awards 5. Satisfactory academic progress 6. 6 - month program 7. Approved program of study 8. Statement of Educational Purpose 9. Financial Aid Transcript Registrar/Records 1. Enrollment status/courseload 2. Satisfactory progress 3. Cost of attendance 4. Half-time enrollment Admissions Office 1. Citizenship 2. Transcripts 3. B.A./B.S. Other Offices 1. Housing arrangement and cost of attendance
Spring 83, Institutional Questionnaire	Structured interview with financial aid administrator: 1. Institutional procedures 2. Institutional policies a. academic progress b. packaging

FIGURE 3-1

PELL GRANT QUALITY CONTROL DATA SOURCES, COLLECTION MODES, AND TYPES OF DATA

Source/Mode	Nature of Data
	c. validation d. eligibility determination and benefit calculation
	3. Institutional practices 4. Institutional perspectives 5. Institutional costs and burdens 6. Characteristics of institution and student body a. calendar b. types of programs c. credit measurement system d. FTE enrollment e. student mix
	7. Financial aid office operations and staffing a. degree of automation b. documented procedures c. number, background, and experience of staff d. participation in on-going training e. staff turnover f. quality control procedures
Winter 83, Parent Questionnaire	Face-to-face interview with parent(s): 1. Values of parental application items (AGI, taxes paid, Social Security, other nontaxable income, family size, assets, debts, etc.) 2. Review of documentation for values of application items 3. Problems with application process 4. Problems with validation process
Winter 83, Student Questionnaire	Face-to-face interviews with students: 1. Values of student application items 2. Documentation of student application items 3. Problems with application process 4. Problems with validation process

FIGURE 3-1 (continued)

PELL GRANT QUALITY CONTROL DATA SOURCES,
COLLECTION MODES AND TYPES OF DATA

Source/Mode	Nature of Data
Winter 83, Second Party Sources	Record checks with: 1. Internal Revenue Service (AGI, taxes paid) 2. Financial institutions (savings, checking) 3. Tax assessor records (home value)
Computed Applicant Records	Complete history and transactions for sampled students via magnetic tape: 1. Initial application values 2. Corrections behavior 3. Final application values 4. Student Aid Index values
Corrections Control Group I: Nonsampled Students at Selected Schools	History and transactions on nonsampled students (experimental bias): 1. Frequency of corrections 2. Submittal of current transactions 3. Magnitude of SAI changes established through corrections
Corrections Control Group II: Students at Nonsampled Schools	History and transactions on students at nonsampled schools: 1. Frequency of corrections 2. Consequences of corrections in terms of SAI changes
Institutional Master File	1. School characteristics 2. Sampling information
Student Validation Roster	Final reconciled disbursements

FIGURE 3-1 (continued)

PELL GRANT QUALITY CONTROL DATA SOURCES, COLLECTION MODES AND TYPES OF DATA

APPENDIX A

STUDY TABLES

Application Item	Dependency Status	Cases with Differences Possibly Leading to Underpayment	Cases Accurate Within $5	Cases With Differences Possibly Producing Overpayment						
				$6 $100	$101 $200	$201 $300	$301 $400	$401 $500	$501 $600	$600+
Adjusted Gross Income										
	Independent	26	475	17	6	6	2	3	2	29
	Dependent	46	1,038	19	8	5	-	3	2	19
	Total	72	1,513	36	14	11	2	6	4	48
U.S. Taxes Paid										
	Independent	28	453	18	23	9	6	4	4	3
	Dependent	62	977	22	19	10	5	11	3	16
	Total	90	1,430	40	43	19	11	15	7	19
Parental Social Security Benefits										
	Dependent	19	21	3	2	1	1	1	-	7

FIGURE A-1

DOCUMENTED DIFFERENCES BETWEEN SAR VALUES AND DOCUMENTED VALUES: NON-EXEMPT CASES FLAGGED FOR VALIDATION

Application Item	Dependency Status	Cases with Differences Possibly Leading to Underpayment	Cases Accurate Within $5	Cases With Differences Possibly Producing Overpayment $6 $100	$101 $200	$201 $300	$301 $400	$401 $500	$501 $600	$600+
Adjusted Gross Income										
	Independent	8	149	4	2	-	-	1	-	8
	Dependent	8	235	3	3	1	1	-	-	8
	Total	16	384	7	5	1	1	1	-	16
U.S. Taxes Paid										
	Independent	9	146	6	-	-	-	-	-	-
	Dependent	11	225	2	6	1	1	-	-	1
	Total	20	371	8	6	1	1	-	-	1
Parental Social Security Benefits										
	Dependent	8	4	-	-	-	1	1	-	2

FIGURE A-2

DOCUMENTED DIFFERENCES BETWEEN SAR VALUES AND DOCUMENTED VALUES: NON-EXEMPT CASES NOT FLAGGED FOR VALIDATION

A. NON-MONETARY ITEMS

Application Item	Percent Where Documented Value Is: Less than SAR Value	Equal to SAR Value	Greater than SAR Value	Total Cases with Documentation
Household Size	-	100%	-	8
Number of Exemptions	2%	91%	6%	386
Number in Postsecondary Education	-	100%	-	8

B. INCOME ITEMS

Application Item	Percent Where Documented Value Less SAR Value Is: Zero or Less	$1 to $200	$201 or Greater	Total Cases with Documentation
Father/Student Income Portion	78%	11%	11%	126
Mother/Spouse Income Portion	76%	10%	14%	91
AFDC/ADC	77%	4%	19%	48
Dependent Student's Income	48%	17%	35%	46
Student Social Security Educational Benefits	78%	5%	17%	18
VA Educational Benefits	100%	-	-	3
All Other Income and Benefits	23%	47%	30%	80

C. DEDUCTIONS

Application Item	Percent Where Documented Value Less SAR Value Is: Zero or Greater	-$1 to -$200	-$201 or Less	Total Cases with Documentation
Medical/Dental Expenses	71%	13%	15%	52

FIGURE A-3

PRESENCE OF DOCUMENTATION AND DIFFERENCES FROM SAR VALUES FOR NOT FLAGGED CASES: SELECTED APPLICATION ITEMS*

*The following items were documented less than 0.2 percent of the time and therefore were not included in this figure: home assets, business assets, investment assets, cash and savings; dependent student's assets, and unreimbursed tuition.

APPENDIX B

SAMPLING METHODOLOGY

APPENDIX B

SAMPLING METHODOLOGY

RATIONALE

The primary objective of the sample design was to choose a probability sample of Pell Grant recipients enrolled at educational institutions participating in the 1982-83 Pell Grant program. The statistically representative sample was used to document the rate at which institutions complied with the 1982-83 Pell Grant validation requirements. To do this, data was obtained from student financial aid files at educational institutions. In spring, 1983, this sample will be used to document, compute, and analyze the program-wide error rates. Data in the spring will be collected from students and their parents, as well as from institutions.

An important goal in the sample design was to organize available information for drawing the sample in order to reduce the variability of the characteristics of possible samples. One design feature used to achieve this goal was sample selection with probability proportional to a measure of size (MOS) that was presumed to be correlated with the statistics being estimated. In the institution stage of sample selection, the measure of size was the number of Pell Grant recipients reported by the institution in the October 1981 progress report. The October 1981 progress report was used for two reasons: (1) it satisfied the need for a sample of students receiving grants in the fall; and (2) current year (1982-83) progress reports were incomplete.

Sample Size and Precision

The choice of sample size was mainly determined by the budget and time constraints on the study. The maximum number of institutions that could be contacted in the six-week field period for the institutional data collection was about 300.

Based on the data available from Stage One of the Quality Control study and some basic assumptions on parameters that were not available at that time, the precision that could be expected with 300 institutions and an average of 12 students per institution was estimated. A student characteristic such as absolute dollar error ($\bar{x}$) could be looked at as the product of two variables to be estimated from the survey: the average absolute dollar value of the error given that an error was made ($\bar{e}$) and the proportion of cases in error (P), thus

$$\bar{x} = P\bar{e}$$

The relvariance (square of the coefficient of variation) from a cluster sample was approximated by:

$$V^2_{\bar{x}} = \frac{1}{m\bar{n}} V^2 \left[1 + \rho(\bar{n} - 1)\right]$$

where

V^2 = $V^2_{\bar{e}} + (1-P)$, relvariance, between students, of the amount of error; $\frac{\bar{e}}{P}$

$V^2_{\bar{e}}$ = unit relvariance of the amount of error for those cases which are in error;

P = proportion of cases in error;

m = number of clusters;

ρ = intra-cluster correlation coefficient; and

$\bar{n}$ = average cluster size.

Estimates of the coefficient of variation (CV) for several values of P are presented in Figure B-1. The following parameter values are assumed:

ρ = .5 (variance estimates from Stage One suggest that the intra-class correlation between students in a school is quite high);

$V^2_{\bar{e}}$ = 1 (derived from Stage One variance estimates);

$m\bar{n}$ = 3600.

FIGURE B-1

EXPECTED COEFFICIENT OF VARIATION FOR AVERAGE ABSOLUTE DOLLAR VALUE OF ERROR, ASSUMING DIFFERENT VALUES OF P

	Proportion of students who had some error			
	P = .8	P = .6	P = .4	P = .2
Coefficient of variation	.052	.065	.085	.127

Design Objectives

In terms of survey implementation, the proposed sample design had the following objectives:

- Limit the amount of field travel;
- Control the number of students and separate institutions selected; and
- Insure the representation of a variety of institution types.

The procedures described below yielded a sample meeting these objectives.

INSTITUTION SAMPLE: SCHOOLS USING REGULAR DISBURSEMENT SYSTEM(RDS)

Sampling Frame

The sampling frame for the RDS institution sample was constructed from the Pell Grant Program Institution Universe file and the October 1981 Progress Report Error/Unreasonable file. The following steps were taken in the construction of the frame.

Selection of a Single Report Per Institution

A single report per institution was extracted from the Progress Report (PR) file which contained progress reports for October and Ad Hoc or update reports. The Ad Hoc report was retained if one was available, otherwise, the initial October report was retained. Branches of institutions reporting through a central office had no PR record

because the central office accounted for their Pell Grant recipients. Details on the treatment of multi-branch campuses where the central office reports for all branches are given in a section to follow.

Eligible Institutions

After a single PR record was extracted from each institution, these records were merged with the Universe (U) file, by institution ID, and only in-scope institutions were retained in the frame. For purposes of this survey, institutions were considered in-scope if:

- They were in the conterminuous United States (excludes Puerto Rico, Alaska, Hawaii and the Virgin Islands).
- Had RDS participation code--position 240 on Universe file--of either 1 (participating, independent campus), 2 (central office for participating branch campus system), or 3 (branch campus participating through a central office).
- Had eligibility code--position 239 on Universe file--of 1 (eligible for Pell Grant).
- Had institutional status code--position 494 on Universe file--of 1 (active institution which may or may not be funded).

Imputation of Recipients (Measure of Size)

Eligible institutions which were on the U file but not on the PR file, other than those reporting through a central office, were flagged for imputation of the number of recipients. Two hundred and forty-two institutions were in this group. Based on 4,676 institutions that had data on the number of recipients, undergraduate enrollment, institution type, and institution control, a regression function to predict recipients as a function of the other three variables was estimated. In the estimation, dummy variables for institution type and control categories were generated and the most general model, which included two-way and three-way interactions, was used. The R^2 obtained was .72 (proportion of the variance in the dependent variable explained by the regression); a very good fit for cross-section data. Sixty-three institutions had no reported recipients and no undergraduate enrollment figure and thus imputation with

the regression function was not possible. These institutions were listed for inspection, and since they were fairly small schools (such as "Pedigree School of Dog Grooming"), they were assigned a value of 8 recipients to be used as a measure of size.

Treatment of Campuses where the Central Office Reports for all Branches

Institutions where the central office reported for all the branches (Participation Code = 2)--the individual branches had no PR record and data on October recipients--were handled as follows:

- For campuses broken down by branches in the "Education Directory - Colleges and Universities 1982-83," the recipients reported by the central office was allocated among the main campus and branches according to their respective enrollments; that is:

$$\text{Recipients}_B = (\text{Enrollment}_B/\text{Total Enrollment}) \times \text{Total Recipients}$$

- For other institutions, if the central office was selected, the school was called and a determination was made if records of Pell Grant recipients were kept at the central office or at the individual branches. If records were kept at the central office, students from the central office files were sampled, and individual branches were not distinguished.

- For institutions that kept records at the individual branches, we obtained the breakdown of number of participants by branch and selected one branch within the institution, probability proportionate to size (PPS), using the recipients at the branch as the measure of size.

Determination of Certainty Institutions

To obtain a final sample of about 300 cooperating schools, allowing for 2 percent out-of-scope institutions and 95 percent institution cooperation, required an initial sample of 322 institutions. Institutions with reported recipients greater than the overall institution selection interval (total measure of size/322) were drawn into the sample with certainty.

The certainty cutoff was set at 3,740 or approximately 70 percent of the school selection interval. That is,

$$\frac{\text{Total Recipients}}{\text{School Sample}} \times .70 = \frac{1,746,131}{322} \times .70 \doteq 3740$$

This certainty cutoff yielded 34 certainty institutions, 4 of which were central offices.

Selection of Noncertainity Institutions

Design Overview

The sample design for the noncertainty portion of the sample was basically a double sampling procedure with PPS selection of clusters and implicitly stratified PPS selection of all schools included in the sample cluste . . The sample design called for:

- Ordering the file by geographic code and forming clusters of consecutive schools from the ordered frame of about 8 schools each.
- Sampling clusters with probability proportional to total recipients in the cluster.
- Assigning an adjusted measure of size (AMOS) to schools within sampled clusters where

  $AMOS_{ij} = IMOS_i/CMOS_j$

  i = school;

  j = cluster;

  IMOS = the institution measure of size; and

  CMOS = the cluster measure of size.

- Ordering the schools in sample clusters, ignoring the cluster identifier, by the following type-control strata:

  School control

  Public
  Private
  Proprietary

  School type

  Offering 1 to 2-year programs
  Offering 2 to 3-year programs
  Offering 4-year (or more) programs

- Sampling schools systematically from the ordered file with probability proportional to the adjusted measure of size (AMOS).

Zip Recode

After obtaining a frame for the noncertainty portion of the sample in which all institutions had a value for the measure of size and recipients, it was merged with the zip-code-recode file. The zip-code-recode step attached a serpentine geographic code (GEOCODE) to each institution and removed invalid (those that did not match the master list) three-digit zips for verification and correction.

Formation of Cluster

To limit the amount of field travel, institutions were clustered in geographically contiguous three-digit zips. The file was sorted by GEOCODE and a cluster was defined as a set of 8 consecutive schools with a total minimum measure of size to insure an average of 12 recipients per institution. The minimum measure of size was achieved by all clusters. The clustering process resulted in 632 clusters of 8 schools each, with an average of 2,470 recipients per cluster.

Sample of Clusters

Out of the 632 clusters in the frame, 72 clusters were sampled, PPS, with total number of recipients in the cluster as the measure of size (CMOS). The 72 sampled clusters contained 576 schools. None of the clusters' sizes exceeded the sampling interval of 21,713 which would have required their selection with certainty at this stage.

Sample of Institutions

To ensure adequate representation of different institution types in the second stage of sampling, institutions were stratified by control (public, private and proprietary) and type (less than 2 years, 2 to 3 years, and 4 years or more). The measure of size for a PPS selection was the ratio of the institution's MOS to the measure of size of the cluster from which the institution came (CMOS). That is,

$$AMOS_{ij} = IMOS_{ij}/CMOS_{j}$$

as defined in an earlier section. The 576 institutions in the 72 sample clusters were

sorted by the type and control strata defined above and a systematic sample of 288 institutions was selected with probability proportional to the adjusted measure of size (AMOS). A considerable number of institutions (171 or 59.3%) had a measure of size larger than the sampling interval and were conditional certainties at this state; these were removed from the frame before the remaining 117 noncertainty institutions were drawn.

Distribution of the Sample Among Type-Control Strata

As a result of the sample design, the final distribution of the sample among type-control strata was close to proportional to the distribution of the universe measure of size among the strata. Figure B-2 below compares both distributions. Clearly the design goal was satisfactorily achieved.

FIGURE B-2

COMPARISON OF DISTRIBUTION OF RECIPIENTS IN INSTITUTION UNIVERSE TO SAMPLED INSTITUTIONS

Institution Type	Public		Private		Proprietary		Total	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Less than 2 yrs.								
Universe MOS	10,343	.6	3,126	.18	92,704	5.3	106,173	6.1
Sample Count	2	.6	--	--	22	6.8	24	7.5
2-to-3 years								
Universe MOS	451,443	25.9	34,663	1.9	46,416	2.7	532,522	30.5
Sample Count	88	27.3	10	3.1	14	4.3	112	34.7
4 years or more								
Universe MOS	759,500	43.5	342,776	19.6	5,160	.3	1,107,436	
Sample Count	111	34.5	74	23.0	1	.3	186	57.8
Total								
Universe MOS	1,221,286	70.0	380,565	21.7	144,280	8.3	1,746,131	100.0*
Sample Count	201	62.4	84	26.1	37	11.4	322	100.0*

*Rounded

SELECTION OF STUDENTS FROM SAMPLE RDS INSTITUTIONS

To obtain a sample of about 3,600 Pell Grant recipients (300 institutions with an average of 12 students per school) required an initial sample of about 4,040 recipients, assuming a 90 percent combined institution/recipient response rate. The overall recipient sampling fraction required to achieve an equal probability sample of the desired size is given by:

$$f = \frac{n_I}{TMOS} = \frac{4040}{1746131} = \frac{1}{432.21}$$

where

f = overall sampling fraction;

TMOS = total number of recipients (total measure of size) computed from the October 1981 progress report file;

n_I = the required initial sample of recipients.

Consequently, the weight associated with each sample recipient, the reciprocal of the overall sampling rate, is 432.21

The overall sampling fraction in conjunction with the first- and second-stage sampling fractions specified by the sample design yielded a specific within-institution sampling fraction as follows:

$$f = f_C \times f_I \times f_{WI} = \frac{1}{432.21};$$

thus

$$f_{WI} = \frac{1}{432.21} \times \frac{1}{f_C} \times \frac{1}{f_I}$$

where

f_{WI} = recipient sampling fraction within sample institution;

f_C = sampling fraction of the cluster from which the institution came; and

f_I = institution sampling fraction within a sample cluster.

Sampling Frame

The sampling frame was the list of Pell Grant recipients, at each of the sample institutions, from which the recipient sample was drawn. At the time the school was contacted to set up an appointment for the data collector's visit, the school was requested to prepare a list of current and pending recipients to be used as sampling frame.

Whether the list was available or the data collector had to compile it, special care was taken to insure that no Pell Grant recipient was knowingly excluded. Also, the list was checked for duplicates.

Selection Procedure

Recipients were selected from the sampling frame systematically with equal probability. For this purpose a sampling worksheet was produced for each institution. The sampling worksheet included all the information necessary for drawing the sample, such as sampling interval and pregenerated selection numbers.

After the data collectors obtained a list that included all Pell Grant recipients eligible for the study, they numbered sequentially the students on the list. Then, they selected those students with sequence numbers corresponding to the selection numbers given on the sampling worksheet.

WEIGHTED ESTIMATES

Students

The sample of Pell Grant recipients from RDS schools was an equal probability, self-weighting sample; before adjustments for nonresponse, all students had the same weight.

Let x_i be the value of a variable x for the i^{th} student, and w_i the weight associated with that student. After adjustment for nonresponse, an estimate of the

universe total for the x variable is given by:

$$X = \sum_{i=1}^{n} w_i' x_i$$

where

w_i' = weight associated with the i^{th} student after nonresponse adjustment.

Y can similarly be defined for another variable, y. In particular, if y takes the value of 1 for every student, the ratio X/Y estimates either an average or a proportion depending on whether X is an indicator variable or a multi-valued variable. For example, if X is the student's income, X/Y is the average income of Pell Grant recipients.

Institutions

The use of institution estimates is not recommended, especially for subsets of institutions, because the sample was designed to estimate student characteristics. However, institution estimates can be generated as follows:

- Let x_{ij} be the value of a characteristic of the i^{th} institution in the j^{th} cluster at the first stage of selection. (Certainty institutions may be considered in a "certainty cluster" in which all institutions in the cluster were drawn into the sample with certainty.)
- The weight (after nonresponse adjustment) associated with the i^{th} institution in the j^{th} cluster is w_{ij}'.
- An estimate of an institution total, X, is given by

$$X = \sum_{ij} w_{ij} x_{ij}$$

APPENDIX C

SUMMARY OF COMMENTS FROM FINANCIAL AID ADMINISTRATORS AND DATA COLLECTORS

During the field work, many financial aid administrators (FAAs) offered their complaints and suggestions to the data collectors who visited their institutions. The following comments stem from two sources. The first are concerns voiced by FAAs during the sampling and compiling of data in the field. The other, a summary of the comments provided by the data collectors during a debriefing held on December 11, 1982. The comments have been organized by the following five topics:

- Administrative Problems
- Communication Problems with ED Regarding all Issues, Including Validation
- Problems with the Pell Grant Application Process
- Problems with Validation Procedures
- Recommendations to Improve Validation Procedures

Overview

The majority of FAAs who commented from the sampled institutions acknowledge the positive effects of the expanded validation effort, however, they feel that the many problems and delays caused by costly, inconsistent, and unrefined validation procedures cannot be overlooked. A variety of factors, ranging from overburdened financial aid office staffs and inadequate communication with ED, to difficulty in obtaining documentation from government agencies, contribute to the dissatisfaction of many FAAs. These complaints and suggestions are targeted at program inefficiency and not at the merits of the validation effort. In fact, many FAAs consider the problems associated with increased validation inevitable and actively seek to resolve them. One FAA's remark that "the new validation is a burden,

however, it is acceptable if it does provide more money for the neediest students" sums up the attitude of many. It is important to note that FAAs who in the past validated 100 percent of their students had significantly fewer complaints and reacted positively to the expansion of validation.

During the debriefing, the data collectors reinforced and expounded upon the opinions expressed by FAAs concerning expanded validation. Some of the data collectors reported that small schools could handle 100 percent validation but that large schools were overwhelmed. Others, however, found that "it depends very much on the personality of the financial aid officer and their efficiency . . . on how they view their job." Many institutions were already doing something very similar to validation for all their aid recipients to control institutional funds (especially at private institutions) or in response to the requirements of state programs. Many proprietary schools, aware that they are suspected of waste or fraud because of a few well-known cases, were especially scrupulous. Only one college was reported to disagree fundamentally with validation. As one data collector observed, "I don't think their argument is with validation itself. I . . . pinned them down on it . . . it's the process. They all, I think, see the need of validation."

Generally, FAAs stress the need for more money to alleviate administrative burdens, for clear and explicit guidelines to eliminate inconsistent regulations and forms, and for timeliness of ED changes and announcements. As one FAA asserted: "Application and validation procedures result in declining student participation," hence, undermining the goals of the Pell Grant program. Because problems of validation ultimately harm student applicants, FAAs see the need for immediate improvements.

Administrative Problems

Despite the general acceptance of expanded validation, many FAAs found costs and administrative burdens excessive. There has been a reported increase in the

amount of paperwork and the cost which the institutions must bear in order to complete validation. Many administrators report that this is placing a substantial financial burden on the institutions. There is "concern over the increasing expense to institutions for . . . validations, etc. FAAs agree with the need to validate, but may have difficulty in funding positions to take care of the work if it continues to increase."

There is strong interest among administrators in providing a cost allowance for validation and decreasing the overall cost to the institutions. Some FAAs fear that the money which ED provides for administration of the Pell Grant program is not being used for its intended purpose. "ED should specify that any administrative allowance paid to schools must be allocated to the direct benefit of the financial aid office." FAAs suggest "institutions be reimbursed for students who are processed, but receive no award."

In addition, some FAAs are wondering if the expense of validation has "proved to be justified by dollar changes on SARs." They are uncertain if much money has been saved by validating because of the expense of reprocessing and the cost to institutions.

Additional cost allowances would not be helpful in all instances. Reporting on both their personal experience as financial aid administrators and on their conversations in the field, the data collectors generally agreed that the financial aid office itself often does not benefit directly from the administrative cost allowance. This allowance "goes into institutional money and it may go to the library, or it may go to the business office, it does not go back to the aid office." Even designating that the Federal money must be used only for administration of financial aid programs would not help since "there is no aid office I know of that can exist on Federal payment..." If the administrative cost allowance were increased, institutional funding would be reduced in proportion. Nevertheless, increasing the administrative cost allowance would reduce the overall institutional burden and obviate complaints by upper-level

administrators that the government was imposing prodedures for which it would not pay.

Communication Problems with ED Regarding all Issues, Including Validation

Aside from increased administrative burdens brought on by expanded validation, the FAOs who commented during the study revealed much concern over inadequate communication between ED and themselves. One FAA remarked that he could not "accurately inform students and the community with any certainiy about validation" as a result of confusing procedures outlined by ED. Several of the FAAs from sampled schools were critical of changes made by ED which were not effectively transmitted to them. One FAA echoed the sentiment of many in his statement that "institutions must receive, in a timely manner, all information including payment schedules, validation handbooks, etc. . ." to avoid unnecessary delays which prove to be detrimental to students. A member of the field staff concurred: "I think a big help . . . would be for the Department of Education to get their handbooks and their schedules out in a timely manner . . . that would improve validation more than any other factor."

More specifically, changes in regulations by ED were considered untimely and confusing by many FAAs. Despite the long range benefits promised by expanded validation, FAAs were confronted with immediate problems leading to waiting and frustration by staff and students. For example, in one financial aid office "payment schedule revisions resulted in a loss of activity by students in the office due to frustration because services were not provided when originally promised." Another FAA observed that "mid-year regulation changes caused confusion and unnecessary burdens on the FAAs, and negatively affected service to students," while one FAA added that "the changes are frustrating and are contributing to burnout and rapid FAA turnover."

This observation is supported by one data collector who reported that the morale of even the best-informed FAAs has been devastated by frequent, rapid changes in regulations. Another of the field staff reported "a trainer, who had withdrawn as being a trainer because . . . he couldn't accurately represent from minute to minute what the student aid process was because it was changing so frequently, and he said, '. . . I can't go out there and tell people this is what you should do when the next week is going to be different or the previous week had a change I don't know about.' "

Many felt that issuance of retroactive changes by ED must be avoided. One FAA suggested giving FAAs an 18 month lead time for regulation changes which would allow for staff and student adjustment and would lessen confusion considerably.

The magnitude of problems arising from regulation and policy changes varied among the FAAs at sampled schools. Those who already validate 100 percent seemed to adjust easily to ED's changes and did not report any adverse effects on students. The situation was different and more serious for other FAAs and students. One FAA claimed that "lateness of regulation changes conflicted with progress reports, and changes came so late that the situation made the colleges look bad. Holding up payments forced some students to stay out of school." Most FAAs agreed that providing "simple, English versions of ED changes" will expedite the IR efforts.

The **Validation Handbook** is another example of communication cited for improvement by FAAs at many of the sampled institutions. Above all, FAAs stress earlier delivery of the **Validation Handbook** so they will have ample time to adjust to changes and to inform applicants. As for the content of the handbook, comments focused on its "confusing" and "difficult" nature.

Many felt the **Validation Handbook** inadequately outlines the extent of the responsibility of the FAA for validation. As one FAA explained: "The **Validation Handbook** needs to make clear exactly which items must be validated beyond AGI and taxes." Apparently, FAAs are confused about which categories they must document,

and which fall under "optional data." One administrator believed that since "the school is responsible for all discrepancies between College Scholarship Service's Financial Aid Form (FAF) and the SAR, the handbook should state just that fact: all facts and figures must be checked." Clarification of the FAAs role in validation will eliminate much uncertainty, and consequently, will refine the Pell Grant delivery process.

A specific illustration of the need for improved communication is in the use of the tax return. A number of FAAs suggested that ED provide some type of training on the use of the tax return in Pell Grant validation. There is a perceived need for ". . . continuing in-service training for validation. . . emphasizing help in reading and understanding the 1040." Also, it has been requested that any workshops which ED sponsors be given ". . . after new forms are issued, not before."

The comments made during the debriefing accentuated the problems of FAAs further. Based on their interviews, most of the data collectors agreed that training that is offered is not sufficiently publicized or regarded as particularly effective. One of the data collectors had concluded from his field interviews that "forms are getting more sophisticated, FAAs are being asked to make all kinds of judgements, become tax experts, and yet there is little training offered by the Federal government . . ." Training and communications from ED were considered less reliable than private information: ". . . members of NASFAA . . . felt they had the most constant interpretation of the regulations and . . . the most security within their own operation about how to deal with validation . . . The schools that depended on the Department of Education did not feel secure with what they were doing."

Also, FAAs believed that there was a lack of support for their institutions by ED as a result of poor communication. Several concrete examples of this emerged at the debriefing of the data collectors. FAA credibility was damaged by conflicting policy or regulatory interpretations by ED staff: a student who was told one thing by his

FAA could get a different answer by calling ED. Payment options were another sore point. Schools that were not in a financial position to take Option 2 tell their students that they must complete validation before receiving their grants, but the students then call ED and are told that the regulations permit the school to release the money in advance. Apparently it is not made clear to these students that the school has a right to excercise Option 1. Schools also complain that if they "found some real reason for concern that the application was deliberately filed inaccurately they would generally . . . give the student the opportunity to make the corrections needed and say, 'If you do not, then we will be required to turn this over to the Department of Education . . ." But cases referred to ED are never prosecuted, so "it's sort of an empty threat."

Problems With the Pell Grant Application Process

Comments made by FAAs concerning the Application for Federal Student Aid and the Student Aid Report (SAR) touched on many aspects of the application process. There are several areas in which there is strong agreement among the sampled institutions as to changes which can be implemented to improve this process. These areas include: the need for more explicit directions for the applicants, the need for more comprehensive instructions for FAAs, and improvement of the edit system.

The comment most frequently made by FAAs was that the directions for applicants should be much ore explicit. "Most students don't read and understand the application. . . Most errors found are from misinterpretation of instructions--very seldom from deliberate attempts to defraud." For example, more comprehensive instructions for FAAs are requested so that ". . . the division of assets for separated or divorced parents or applicants filing joint returns can be determined. . .," as well as other items for validation such as "all other income and benefits" and the student's dependency status.

During the debriefing, some of the data collectors highlighted similar problems students encountered with the Pell Grant application instructions. They considered it especially important to emphasize that students should report taxes paid rather than taxes withheld, a common error. Some students confuse Social Security benefits with social service benefits such as AFDC, so that too is an area which needs emphasis. The comments section of the SAR is another area where instructions could use improvement. "Students do not read it." Therefore, the FAAs would like the comment about taking the 1040 to the financial aid office "in a block in bold type" separated from other items. One of the data collectors suggested the the "last two paragraphs are usually extraneous . . . there are only a couple of key paragraphs . . ." For filling out the application, some FAAs suggested "a line-by-line correspondence rather than having to think about it. Just say 'take this line from the attached return and put it here.' "

It was noted that ". . . more clarity is needed in defining independent student status. Distinction between dependent and independent students, based on the previous year, is too limiting. Some students use the parents' address simply as a mail drop." This point of view was echoed in concern about perceived ". . . inequities to many independent students living in the parents' home, but paying rent. More questions about dependency status should be in the application." It was suggested that consideration be given to the idea of requiring the tax forms for the previous two years in order to determine the student's dependency status. Dependency status is a point of confusion since FAAs find it difficult to categorize students living with relatives other than their parents. In this situation it is also difficult to determine the student's financial strength.

The problems with identifying dependency status were also mentioned at the debriefing. In fact, one of the data collectors thought that "the financial aid administrators I spoke to were probably most concerned about the abuse of

independent status. The current definition hurts these students who live at home but get no support. Yet it seems unfair that there are many students whose parents make very large incomes who, after one year in college, will declare themselves independent and get three years of aid in independent status."

FAAs ask that ED "make reporting requirements for income stricter." There is a problem with " . . . income in IRAs, deductions, and nonreporting of capital gains. People with business 'values' of zero, such as consultants, may actually have large incomes which become small taxable incomes due to deductions. This makes it difficult for their eligibility (for Federal student aid) to be ascertained."

FAAs want much clearer instructions for the reporting of other specific income items. "Clearer instructions are needed for Social Security benefits. There should be differentiation between all kinds of benefits: SSI, disability, etc. The definition of disability income for item 27C of the application should be given in order to avoid confusion with Social Security disability benefits."

The confusion over completing the application has caused some students to hesitate filling out the form. "Many students fear filling out the application. They are afraid of the consequences of a mistake. They also fear that the information which they provide will not be held confidential by the application processor." One FAA said, "The Federal financial aid system and its assortment of forms . . . discourage some students from applying for financial aid."

A change which could facilitate the application process is refining the edit system. The majority of FAAs who commented considered the SAR reprocessing delays to be one of the largest problems they face. One FAA described the turn-around time for SARs as "excessive, particularly with increased validation," while another FAA claimed "delays in reprocessing are not worth the small changes in money awards." Most FAA's comments focused on the adverse effects of reprocessing delays on students, and acknowledge the unfortunate result that "often low-income families

fall out of the Pell Grant process because of difficulty in processing forms." One financial aid office "receives the same edit problem over and over" thus increasing the delays in processing their students' awards. At another institution, the FAA found the central processor "often provides inconsistent, misleading, and incorrect advice to schools, that does not conform to regulations," thus perpetuating delays in processing. According to many FAAs who commented, some students complained that the central processor even lost their SARs. As expected, the "unreasonable" burdens placed on schools and students by these delays and errors prompted suggestions from FAAs to "reinstate the toll-free number" for questions, and to "switch to the College Scholarship Service (CSS) or similar processors to handle operations."

Some FAAs chose to comment on how the processing problems affected their role. One FAA believed that "FAAs are now perceived by parents and students as barriers to education, not as helpers, as a result of needless delays and conflicting policies." One FAA went so far as to say that "the delays in reprocessing are deliberate attempts to discredit FAAs because of the resulting confusion." Despite differing opinions about the origins and effects of SAR reprocessing delays, a generally negative attitude prevails.

Problems with Validation Procedures

According to data collectors at the debriefing, the sheer amount of time required for validation proved to be an obstacle for some students. If the Pell Grant is included in a financial aid package with money from other programs, such as SEOG, having to return the SAR to the processor can delay the whole package by six to twelve weeks. By then, the school has reallocated the Campus-Based or institutional funds and the student has to turn to the GSL program for the additional money needed.

Many FAAs suggested that ED continue to concentrate validation efforts on broad scale items such as AGI and U.S. taxes paid. Because ED's perspective is much wider, they realize the importance of every possible validation category, however,

many FAAs place a high priority only on the categories which they believe most profoundly affect students' awards, and thus set priorities accordingly. For example, one FAA commented that "medical and dental expenses rarely have an effect (on student's award); therefore, we never validate it." From the viewpoint of many FAAs, validation is a means to correct and prevent gross discrepancies, and not to be used as a control or policing mechanism for relatively minor ones.

Some field representatives added that concentrating on high-priority items reduces the burden on the institutions. In one case last year, an award was held up for a student from Iran because the item for Veterans education benefits had been left blank, although it is difficult to conceive how such a student could have any VA benefits. Concentrating on "abuses that are upfront, like independent status," is a better investment of time and money than worrying about items that are rarely in error or would not affect the award.

However, it was revealed at the debriefing that some FAAs simplified validation procedures to the point of noncompliance. The data collectors observed that "some schools when they do find a discrepancy . . . will recalculate it but they won't write anything down to document it." At many institutions, only corrections that affected the aid index or the amount of the award were noted on the SAR.

It was suggested by a number of FAAs that an attempt be made to " . . . end the confusion over interest income exclusion and the SAR tolerances. Since SAR tolerance is $300 (for dependent students), the interest exclusion of $400 caused many SAR errors. Therefore, many cases had to be reprocessed. This misunderstanding is costly and could be avoided by making SAR tolerance and interest exclusion compatible . . . . The expense of reprocessing a tolerance of $300 is not cost effective . . . . "

Government agencies, namely the Social Security Administration (SSA), the Internal Revenue Service (IRS), and the Veteran's Administation (VA), are targets of

blame for delays in the validation process. Because "government agencies such as Social Security do not provide documents with alacrity to schools," and an "average turnover time for the IRS is four to five weeks," many FAAs at the sampled institutions were legitimately frustrated. The repercussions of late documentation from such agencies ultimately reaches students, many of whom cannot afford delays in obtaining Pell Grant funds.

Field representatives reported that Federal agencies caused other problems with validation besides mere delay in responding to information requests. SSA would not give information directly to the institutions, but gave the wrong information to students; nor would it use forms that one state developed for its public institutions to validate Social Sercurity benefits. Some local offices of the Immigration and Naturalization Service (INS) refused to provide copies of alien registration cards while others cooperated. Local welfare agencies seem to be particularly notorious for long delays in documenting welfare benefits received by students.

Many FAAs also noted the untimeliness of Social Security regulation changes. As with other cases of misinformation, FAAs found they had an increased workload and more delays in disbursing Pell Grants as a result of retroactive changes. Cases wherein a student was determined to be eligible for Social Security benefits after already having been processed were cited by some FAAs. This type of problem contributes to much program inefficiency and is burdensome for everyone involved. One FAA asserted that it is "the regional Social Security offices which do not inform local offices of regulation changes," and consequently, tie up information needlessly.

Regulation changes regarding Veteran's benefits contributed further to delays in disbursing Pell Grants. The greatest point of contention was that regulation changes created administrative problems and kept some students out of school. Retroactive changes which made some veterans eligible (and others ineligible) in mid-year were the chief source of complaints. "Some students stayed out of school for a semester--many

were dissatisfied. Problems were created with documentation saying a veteran was originally eligible for a Pell Grant, but was declared ineligible due to a change in regulations. The mid-year regulation change caused confusion and resentment among veterans receiving educational benefits."

Many veterans find it difficult to understand why Veterans benefits are shown as income "while Job Corp and CETA income are not reported. . ." This difficulty creates an area of conflict with veterans who perceive inconsistency of policy in the different criteria for reporting income. Several FAAs suggested Veterans Benefits again be included in the calculation of the SAI. The exclusion of Veterans Benefits from the calculation is being seen as "a reduction in the (Pell) Grant."

Along with delays caused by regulation changes, FAAs had problems obtaining and using documentation. These problems stem from a number of causes including: documentation which is incomplete, lack of documentation, and documentation which some FAAs find insubstantial. A good deal of the comments addressed the use of the 1040 and 1040A. Many FAAs suggest ED require the 1040, 1040A, or alternative as part of the application for Federal student aid.

FAAs also discussed some of the problems which they are having in obtaining documentation, and the amount of emphasis placed on the documentation obtained from tax return filers versus nonfilers. It was stressed that there is a need to have ". . . nonfilers sign a notarized statement regarding the amount of their nontaxable income in addition to the statement of nonfiling." Some FAAs suggested to our data collectors that a statement of nonfiling be included as a section of the application. Institutions then would not have to devise their own forms and go through a special procedure for students who had not filed. One FAA asked: "Why not verify all income such as ADC? The tax filers are looked at much more closely than nonfilers."

Institutions in the Southwest are having problems in obtaining documentation because the parents and/or spouses of many students are employed in Mexico. This

leads to the problem of converting the income amount to U.S. dollars when documentation is obtained. There are also problems, on a more general basis, with obtaining documentation from students with parents residing abroad.

There is also the problem of documenting a student's past financial aid. It has been suggested that the matter of the financial aid transcript be addressed. FAAs find themselves in a peculiar situation since they have no way of knowing if a student attended another school and received financial aid. "The student in default at one school can still get a Pell Grant somewhere else. Even if a student defaulted on a loan at another school, the present school cannot hold up the Pell payment."

Finally, FAAs have commented that many families do not keep documents. Students from low-income families often do not keep documentation and therefore cannot complete validation. This is of particular concern to FAAs since they want to assist in getting money to the neediest students.

Such difficulties in obtaining documentation contribute to abuses of the Pell Grant program. Several particular abuses emerged during the debriefing of the field staff. For one, "it was very easy to cheat if students just signed the statement of nonfiling because the FAA had very little recourse to find out whether or not they actually had income." One financial aid director contacted the IRS after it transpired during interviews that a nonfiler had considerable income, but the IRS "just couldn't do anything . . . just didn't give them any names." At a school in the midwest, "claiming that parents are deceased" is "the latest scam"; the financial aid director wants to ask for death certificates next year. In general, "the more you institutionalize validation the more institutionalized the cheating may become . . . The more we do this on a regular basis, the more we ask it of everybody, the more we're getting systematic cheating." Another data collector reported that some FAAs feel that "before, the presumption was that the students were honest and . . . some people . . . are ripping us off, but now the presumption is that students are dishonest and now we're trying to

prove that they are honest . . . they feel the cheating has actually gone up because people . . . feel they are expected to cheat."

Recommendations to Improve Validation Procedures

One session of the debriefing was devoted to recommendations for improvement of validation procedures. There was general agreement on the usefulness of simply requiring every student to submit a copy of his tax return (and his parents', if dependent) with the SAR. Some FAAs thought that the 1040 should be submitted to the processor (central or MDE) with the application and checked there; the institutions should not have to collate the application and tax data. Some schools suggested that they should be "certified and be able to do (validation) themselves . . . they would like to work like SEOG and get audited afterwards if they mess up." (Schools in California, for instance, have to compile comparable data for their state programs.) Validation would be smoother if they could just do it once.

A second discussion focused around incentives for institutions. Under current regulations, an institution which discovers overawards saves the Federal government money, but does not help the institution or its honest or accurate applicants. Allowing the institution to keep some of the savings for administrative costs would provide an incentive for doing 100 percent validation and doing it well.

A third suggestion was to combine extensive validation for a small sample of students with validation of only a small number of items--no more than four--for everyone else. Many of the items that are supposed to be validated, such as assets, either cannot be done at all or are so difficult as to be impractical to do universally.

Other suggestions cited during this debriefing session have been incorporated elsewhere in the appendix.