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Session 44

The Verification Selection Process

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Agenda

- Overview of verification
- Status of income verification match with IRS
- ED studies to estimate errors
- Development of verification selection criteria
- Improvements for 2002-2003
- The 30% verification limit option
- The Verification Tracking Flag



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Overview of Verification

- Quality Control studies conducted in the early 1980's showed significant applicant error
- To minimize applicant error, in 1986-87 ED implemented an integrated verification process for Title IV programs
- CPS edits developed to select applications with potential errors
- Current verification process not perfect:
 - Cumbersome for students and schools
 - Does not “catch” all students who have made errors and “catches” some who did not

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IRS Match

- Provision added to 1998 Higher Education Amendments authorizing ED to confirm with IRS AGI, taxes paid, number of exemptions, and tax filing status reported on FAFSA
- Treasury Department has determined that Internal Revenue Code (IRC) must be amended before IRS match with ED can be implemented
- IRS income match is one of ED's top priorities
- ED and Treasury working together to draft revised IRC language to forward to Congress



Studies Conducted to Estimate Extent and Impact of Misreporting

- In 1995-96, ED's Inspector General conducted study comparing *student's* FAFSA income information to IRS data
- IG's study focused primarily on Federal Pell Grant over-awards
- IG's findings --
 - Extensive discrepancies between FAFSA and IRS income data
 - Significant erroneous Federal Pell Grant payments made as a result



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ED/IRS Statistical Study

- In 2001, ED and the IRS conducted joint statistical studies to --
 - Determine frequency of income misreporting on the FAFSA
 - Calculate Pell Grant awards that would have been awarded had IRS income been used in need analysis
 - Estimate extent of Pell Grant over and under-awarding
- Study compared both *students' and parents'* FAFSA AGI and taxes paid information to IRS



ED/IRS Statistical Study

- IRS provided aggregated statistical tables to ED
- Results similar to IG's study and show significant --
 - Discrepancies between FAFSA and IRS income
 - Erroneous payments in the Federal Pell Grant Program (over- and under-awards)



Improvements to 2002-2003 Verification Process

- To protect integrity of the Title IV programs, ED used findings from the IRS study to strengthen verification selection process
- ED also used data from QA Program to improve selection criteria



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Improvements to 2002-2003 Verification Process

- In 2002-2003, selection focuses more on errors affecting grant award amounts
- Changes will --
 - Significantly improve error detection and prevention
 - Result in some schools seeing change in percentage of their applicants selected for verification
- ED encourages schools to verify all selected applicants



Development of Verification Selection Criteria

■ Annual Process

- New selection criteria developed
- Designed to evaluate and strengthen the verification approach
- Thorough statistical and empirical analysis performed



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Development of Verification Selection Criteria

■ Objectives

- Goal of selecting minimum effective number of applicants who have the most error
- Total misallocated payments considered (over and under awards)



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Development of Verification Selection Criteria

■ Data Used

- Minimum of 2 years applicant and payment data used in analysis
- Criteria depend on stability across years
- Income-related variables used as main predictors
- Includes calculation of estimated taxes and comparison to reported taxes



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Development of Verification Selection Criteria

- Use of Random and Immune groups
 - 2.5% of applicants selected randomly
 - 2.5% of applicants not selected even if criteria are met (held immune from selection)
 - Used as control groups to measure effectiveness of targeted selection



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Development of Verification Selection Criteria

- Applicants excluded from analysis
 - QA schools
 - Schools who do 100% verification



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Development of Verification Selection Criteria

■ Analysis Approach

- Automatic Interaction Detection is current statistical technique used
- Produces tree diagram to define mutually exclusive and collectively exhaustive groups
- Identifies groups where difference between selected students in group and immune students in group is as large as possible based on correction behavior



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Development of Verification Selection Criteria

- Analysis Approach (cont.)
 - Groups defined using application variables in various combinations
 - Household size, income, taxes paid, tax discrepancy, marital status, type of tax form, non-taxable income, grade level, application receipt date, etc.



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Development of Verification Selection Criteria

- Analysis Approach (cont.)
 - Also use current criteria and CPS edits, as well as input from financial aid community
 - Focus groups, Customer Service, e-mails, EAC conferences, etc.
 - 147 groups defined for dependents
 - 150 groups defined for independents



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Development of Verification Selection Criteria

- Analysis Approach (cont.)
 - Index comparing dollar error for selected applicants with non-selected applicants used to derive criteria
 - 33 Targeted Criteria identified for 2002-2003
 - Criteria prioritized to select 30% of applicants with the most potential error, and that error would result in significant change in grant award



Development of Verification Selection Criteria

- Analysis Approach (cont.)
 - As a final step, the number of applicants that will meet criteria is projected using most recent applicant data
 - Pell award amounts are estimated using Pell payment data



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Improvements for 2002-2003

- Use of characteristics identified in 2000-2001 IRS study
 - Dependency and tax filing status
 - Dependency and marital status
 - Reported income ranges



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Improvements for 2002-2003

- Use of data collected by QA schools to identify misreporters
 - Grade level
 - Taxes paid as percentage of AGI
 - Marital status and income ranges



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30% Verification Limit Option

- If CPS selects fewer than 30% of school's applications for federal aid, school must verify all selected applicants
- If CPS selects more than 30%, school has options --
 - Verify all applicants selected, or
 - Limit verification to 30% of total number of federal aid applicants at the school



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30% Verification Limit Option

- ED strongly encourages verification of all selected students
- Schools choosing to verify more than 30% can --
 - Follow verification requirements outlined in the Application and Verification Guide for all selected applicants (see chapter 3), or
 - Follow federal verification requirements for 30% of applicants, but use own procedures for those beyond 30%



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ISIR Verification Tracking Flag

- New two-character field on ISIR (positions 1560-1561)
- Identifies priority of selection criteria for each selected applicant
- Values are A, B, 01-33



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ISIR Verification Tracking Flag

- A and B are highest priority, followed by 01-33
- Lower number has higher priority
- Recommend using this field to prioritize applicants for selection if you are using 30% verification limit option



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Conclusion

- Changes ED has made to verification selection process necessary to protect and maintain integrity of the federal student aid programs
- Using accurate data when awarding aid ensures continued public and political support for the programs
- ED continues to work toward implementation of a match with the IRS



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Questions or Comments?

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