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STATEMENT OF

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ON

ERROR IN THE PELL GRANT PROGRAM

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES



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Mr. Chairman and Members of the Subcommittee:

We are very pleased to be here today to discuss the findings from our review of validation in the Pell grant program.

As you know, this program, which awards grants for postsecondary education to students in financial need, receives more federal funds than any of the five other student aid programs funded under title IV of the Higher Education Act of 1965 and its amendments. In 1983-84, grants averaging \$988 per student were received by over 2.8 million students for a total of \$2.8 billion.

Because studies of the 1980-81 program had showed a large problem of inaccurate awards, the Department of Education raised the number of applicants who were required to document or "validate" their eligibility for Pell grant awards. As a result, in 1982-83, more than half the recipients of Pell grants -- that is, over 1-1/2 million people in a total of less than 3 million--were asked to validate their applications. This was five times the number required to do so the preceding year. Recognizing the burden this would entail, the Department also reduced the number of items to be verified from six to two.

In September 1983, Senator Paul Simon, then chairman of this subcommittee, asked the U.S. General Accounting Office to examine the costs of validation and its other effects on schools and students. In addition, he asked us for a broad range of related information to aid the subcommittee in understanding the problem of error in the Pell program, the Department's response to the

problem, and alternative approaches that might be tried. The related issues included the origins, goals, and costs of the Department's validation approach; the quality of the basic data on error that are available to the Department; the ways in which the Department decides on its goals and methods in this area and its consideration of burden while making decisions; the soundness of certain technical aspects of the current validation approach, the Department's evaluation of its methodology and its use of the results; and, finally, experiences of other agencies that might suggest solutions and alternative methods, or that might offer a better balance of positive and negative effects.

These issues reflect three basic concerns inherent in the design and oversight of the Pell program: a concern to give aid to those who have need, a concern to base awards on accurate data about need, and a concern to minimize the administrative costs and burdens for students and schools in meeting the objectives of the program.

Our review has been completed with data collection ending in the fall of 1984, and we expect to issue our final report to Senator Simon by the end of the summer.

In brief, our review has produced five major findings:

1. Expanded validation did have an impact on both institutions and students, but neither impact appears to have been large. Thus, the burdens imposed by the Department's method were not as great as had been expected.

2. On the other hand, the benefits of the mass validation were also not as great as had been expected. While expanded validation has somewhat reduced a small segment of the total error problem, sizeable error continues. This finding comes from credible data, and the problem does not go away under less stringent definitions of error.
3. The data on error do not show that applicants and schools simply make mistakes that benefit them. Underawards as well as overawards occur, as a result of errors by both applicants and institutions. Overawards are indeed sizable; however, there are also frequent and sizable underawards. Both types of error are important in terms of the basic program concerns I mentioned a moment ago. Underaward signifies a leakage from the program objective of giving aid to those who have financial need. Overaward signifies waste of program resources. Underaward and overaward taken together signify that program funds are misallocated to some degree and that aid is not accurately targeted on financial need. So both types of error must be addressed if program objectives are to be met.
4. Yet Department action has chiefly centered on those student errors leading to overawards, despite the facts that errors resulting in both overawards and underawards have persisted, and that underawards are caused twice as often by institutional errors as by student errors. Little has been done to address errors emanating from

institutions or to reduce the problem of underawards generally.

5. Our last major finding is that the Department's approach to Pell error has been unsystematic. It lacks clear goals and specific targets, it is reactive and sporadic, and it is hampered by partial strategies and uncoordinated management. These problems have resulted in data gaps which in turn have contributed to the adoption of corrective initiatives that have been largely unsuccessful in solving the error problem.

These findings lead us to raise two matters for the consideration of the subcommittee. First, it may be time to give the Department further guidance concerning the priority that should be placed on the problem of error. Second, it is important to identify and address the data gaps that currently impede a real understanding of that problem. The data now available are inadequate not only for understanding the problem, but also for tracking future development and monitoring the progress of solutions. We suggest that the Department refrain from adopting further technical solutions to error problems until underlying issues of information availability -- along with issues of goals, strategy, and management -- have been clarified.

In the remainder of this statement, I will present some of the details of our findings about the effects of validation on students and schools, and then I will summarize our review of the Department's data on validation problems and how the Department has gone about responding to error.

IMPACT OF VALIDATION ON SCHOOLS AND STUDENTS

Impacts on Schools

To obtain information about the impact of validation on schools, we conducted a national survey and individual case studies. First, we conducted a national mail survey of postsecondary institutions, asking them to report changes in institutional costs and burdens associated with validation in 1981-82, 1982-83, and 1983-84. The sample of 400 included all types of institutions in the Pell program that make their own disbursements to students. Over 80 percent responded to our survey, and our results can be generalized to about 4,000 schools. Second, we conducted in-depth case studies on all administrative costs for financial aid at 12 institutions. Nine of these 12 provided "before and after" cost information to show the dollar impact of expanded validation work in 1982-83. These two methods of data collection yielded four findings relevant to the subcommittee's concerns.

First, with regard to the extent of validation work, we found that it did increase substantially since 1981-82. The institutions responding to our national survey reported that they validated 64 percent of their Pell grant recipients in 1982-83 versus only 39 percent in 1981-82. We cannot determine exactly how much of the increase comes from the Department's requirements because some validation is voluntary. For example, the Department has never required 100-percent validation. Yet 32 percent of the institutions reported that they validated 100 percent of their Pell applications in 1982-83. This is a 52-percent in-

crease in the number that reported doing 100-percent validation in 1981-82.

Second, school officials were generally positive toward validation and willing to see it expanded in some form to other federal financial aid programs. However, they also reported some costs and other problems with the 1982-83 validation requirements.

Third, regarding costs, institutions reported that in 1982-83 they increased the resources they used for validation (whether required or voluntary). For example, on the average, institutions reported that the time staff spent on validation increased by one third across all types of staff. However, we did not find evidence of a shift in priorities among all the tasks and functions in the aid offices from before to after expanded validation, despite the extra work.

Together, our case studies and national survey suggest that the dollar cost of Pell validation to institutions averages about \$14 per case, but our case study data show that the cost varies widely -- from \$8 per case to \$47 per case in different schools. The case studies also suggest that costs per validation are higher for schools with a constant influx of new or first-time applicants (such as proprietary schools) and for schools that handle comparatively fewer validations.

Fourth, other less tangible costs were experienced, including delays and difficulties in obtaining documents. Ninety percent of the institutions reported that they had to delay awards. Sixty percent had problems obtaining documentation from

certain government agencies. Neither the support for validation, nor the reports of its problems, however, varied notably for different types of institutions.

Impacts on Students

We used three methods to obtain information about the impacts of validation on students. First, in our national mail survey of institutions, we asked financial aid officers about the effects of validation on 1982-83 students. These data are nationally representative. Second, to obtain in-depth information (although it is representative only of the schools we sampled), we conducted a mail survey of 1983-84 students at three very different schools. We surveyed both validated and unvalidated students about their experiences getting Pell grants at a community college, a private traditionally black four-year college, and a private university. Third, we conducted telephone interviews with validated and unvalidated Pell grant applicants for 1982-83 who had maximum eligibility but did not receive awards. Our analysis led to two findings.

First, on the process of validation as the students experienced it, institutions reported that students do have difficulties with certain steps, such as obtaining documents from government agencies (in cases where more than a tax form is needed). In addition, validated students at the three schools reported making more changes to their applications and experiencing more delay in their awards than nonvalidated students. However, validated students at the three schools generally reported that they did not have difficulty in providing the required

information and that validation was not the only cause of award delays. Very few students, regardless of validation status, reported that they found it difficult to obtain a Pell grant.

Second, when we looked for the consequences of problems with validation, we found that these problems -- whatever their cause -- do not seem to have wide impact on the academic plans of most students, although some students' plans may be affected. The institutions reported that about 5 percent of their validated students made changes in 1982-83 academic plans because of problems with validation. These included decisions to enroll late or to defer enrollment to the next term, to change from fulltime to part-time enrollment, and to enroll in another institution. Are some students deterred altogether? We asked institutions, and some eligible non-recipients. Their answers suggest that most applicants are not deterred from higher education by validation problems, although some may be. Overall, institutions estimated that about 69,000 students (and potential students) may have had their academic plans for 1982-83 affected by problems with validation. Students told us of some financial consequences when some who were validated had award delays; frequently those with delay had to borrow money.

EVIDENCE OF CONTINUING ERROR IN AWARDS

We did not gather new data on Pell grant error, because the Department was completing another in its series of occasional large-scale studies of Pell grant awards in 1982-83. We evaluated the research to see if it was well done and credible as

a basis for further action. We found that it was usable for our purposes (involving aggregate figures) but has some limitations. We then reviewed the research to see what it showed about error and the effects of validation. Our findings answered three main questions.

First, how large is the total problem of Pell error? The Department's review of 4,000 Pell grants in 1982-83, the year of the expanded validation, showed that error had declined somewhat compared to an earlier study done in 1980-81 but that substantial problems with award accuracy continued. In 1980-81, 71 percent of recipients had an award in error by at least \$2; the proportion went down to 63 percent in 1982-83. The estimated dollar total of all types of error (overawards plus underawards) in 1982-83 remained quite high at \$649 million, equivalent to about 27 percent of the \$2.4 billion awarded in grants that year. The net error (overawards minus underawards) is \$316 million, or slightly more than the amount recently added by the House in a supplemental appropriation for fiscal year 1985 to deal with shortfalls in Pell funds.

Second, where does error come from? The Department's data show that the two main sources are student (or application) error and institutional error. Students may make errors in completing an application and schools may make errors in determining eligibility, calculating awards, receiving and maintaining records, and the like. Errors by either can lead to students receiving more or less than they should. Student and institutional error are about equal in frequency and in the projected dollar cost.

Third, is the Department's policy having an effect? The Department's main corrective action in recent years -- expanded validation -- focuses on student error. However, we find that despite a substantial increase in validation of student applications, there was no overall reduction in student error. In one of the two application items validated in 1982-83, adjusted gross income, error did decline from a net error of \$38 million in 1980-81 to \$16 million in 1982-83, or a reduction of \$22 million. However, error in the second item (taxes paid) which was relatively slight to begin with, did not decrease after validation. Overall, student error stayed about the same because of increased error in other items that were not validated.

Student error was present in 38 percent of awards in 1980-81; and in 39 percent in 1982-83, following the expansion of validation. Of the 39 percent of awards in error, 30 percent were overawards and 9 percent were underawards. The total of overawards and underawards stemming from student error was \$328 million.

The Department has given little attention to institutional error. Nonetheless, it seems to have decreased somewhat, having been present in 42 percent of awards in 1980-81 and 34 percent in 1982-83. The major source of the reported decrease in institutional error was a reduction in the number of signed statements of educational purpose missing from school files. While this improvement was in fact attributable to action taken by the Department in consolidating forms, it did not save any money or make awards any more equitable. Our own analysis of error

using a less stringent definition, to be discussed in a moment, ignored this type of "error" altogether.

Overawards -- students receiving a larger grant than they should -- are twice as frequent as underawards -- 42 percent compared to 21 percent. Some errors are big: while 360,000 students received over \$550 more than they should have, 96,000 others received over \$550 less than they should have. The average overaward is \$444 while the average underaward is \$259. Overawards more often stem from student error; underawards more often stem from institutional error. The Department's policy in expanding validation as its main corrective action was thus to focus on overawards and students much more heavily than on underawards and institutions. While this does aim at the greatest dollar error and at the achievement of savings, we find two problems with the approach. First, it ignores the importance of the fact that some needy students are not receiving the full benefits to which they are entitled. Second, student error remains high and dollar savings from corrective actions have been extremely modest.

DEFINING ERROR

The term "error," as used in the research and in our report, refers to a variety of discrepancies and problems. Some are clearly mistakes, but others have very different causes such as inherently error-prone application items requiring forecasts and documents not in school files at the time the Department researchers looked. Categorizing these as "student error" or "institu-

tional error" does not mean in all cases that applicants or school officials failed to act as they should have.

Since there is no precise definition of "accurate award" in the statute or among the Department's rules, the Department made a series of subjective judgments about which source of data (from the researchers' interviews with students and parents, examination of official records, and school files) would be considered the "best value," or standard of accuracy, for each application item and other steps of the Pell grant process, for the purpose of measuring deviations or error. We believe the research is sound in its measurement of deviations and projection of national aggregate estimates of error, but all statements about the extent of error are highly dependent on these subjective initial decisions about "best values."

ERROR RATES USING ALTERNATIVE DEFINITIONS

To test the sensitivity of the description of Pell grant inaccuracy to two specific definitions of error, we asked the Department to recalculate the error figures with a less stringent definition (which ignored errors arising from lack of documents, and considered awards to be accurate if they were within \$100 of the amount calculated using all the best values). This recalculation reduced the proportion of recipients in error from 63 percent to 40 percent. The 40 percent included 27 percent of recipients who received overawards and 13 percent who received underawards. Under the most stringent definition, the programwide estimate of all kinds of error in 1982-83 amounts to \$649 million,

but it remains at \$530 million even under the less stringent definition.

We noted that when the factor of missing documents was removed as a source of major institutional overaward errors, underawards by institutions exceeded overawards in both numbers and dollar impact.

We have concluded that error rates and their dollar consequences are substantial even under a far less stringent definition of "accuracy" than the definition the Department uses most of the time in its published reports on Pell awards.

SOURCES OF APPLICATION ERROR

After looking at the effects of validation, we examined the application items that continue to contribute significantly to student error. Although the Department's research reports "student error" as a single category, in fact it includes a wide variety of kinds of discrepancies, not all of which result from clear-cut errors that students and parents could avoid in filling out the original application. Besides obvious sources of error such as using a wrong number for a bank balance, error can result from the basic design of the current system of need analysis, reflected in the application, which calls for forecast data. Three of the four largest application errors are on items requiring estimates of data for a future period -- estimates that research a year or more later often found to have been wrong. Still another source of error is in a complex worksheet in the application package, on which an applicant in 1982-83 had to follow instruction

for entering up to 11 different figures for possible kinds of untaxed income before transferring the total to the main application. (By 1984-85, the worksheet was up to 18 blanks to be filled.) Worksheets and forecasts may be inherently error prone to some degree and forecast items may be difficult to verify.

EVALUATION OF DEPARTMENT ERROR RESEARCH

We found that the Department's research data are generally credible for projecting error rates and dollar consequences at the aggregate national level, but we have noted at least four limitations. First, the research is not structured to show the causes of error. The Department cannot make any statements about why students and institutions make the kinds of mistakes they do and thus it cannot plot effective corrective strategies to eliminate those mistakes. Second, although all types of schools have been studied by the Department, error rates by type of school are highly uncertain. This information gap weakens the Department's ability to focus scarce resources upon reducing errors in error prone institutions. Third, corrective action is hindered by the absence of information on promising practices at schools that might be adopted by others to improve the accuracy of their awards. Fourth, the overall extent of error in the program may be understated by the research, for two reasons. Not all students or institutions were included in the Department's research design. And underawards may have been underestimated, because the Department made no attempt to study incorrect denials of eligibility (students who should have received a Pell grant but were denied one through error).

DEPARTMENT OF EDUCATION APPROACH

As requested, we looked at how the Department has made decisions on the error problem, the Department's aims, and the costs of the actions it has taken.

We found the Department's approach unsystematic. Decisions about corrective action on error are hindered by the lack of a framework of goals or error-reduction targets, by short time-frames for analysis and decisions amid heavy demands for maintaining the operations of the system, and by problems in coordination in offices that need to work together to merge data, analysis, and responsibility. The result has been reactive decisionmaking, and limited strategies (limited in being chiefly remedial, not preventive, and focused largely on student overaward error).

The Department spent about \$5.5 million on validation in 1981-83, including doing research, performing validations for schools that do not administer the program themselves, overseeing the validation effort at other schools, and paying the costs of processing the corrections to applications that result from validation. Compared to outlays for Pell grants to students, or just the costs of administering the program, the costs of validation are very small. Making decisions for corrective action is further hampered by the fact that the Department does not track these costs, or costs to institutions, and so cannot compare costs and results for purposes of refining its corrective actions.

PROBLEMS OF INFORMATION FOR DECISIONMAKING

Because of the small effect of the Department's approach to error, and the unsystematic design of that effort, we looked at the information available for designing and evaluating corrective action and found many gaps. As noted above, the basic causes of error, such as simple misunderstandings of complex instructions, are poorly understood and little examined in the Department's research. Furthermore, baseline data on how financial aid systems work at different institutions are not available. Therefore, it is difficult to estimate the costs and burdens and other effects of mandated policies. Indeed, no such data were available when the continuing problem of error was being considered in 1981 and 1982, so that alternative approaches could not be analyzed quantitatively nor could the Department forecast the effects of the specific approach chosen (the five-fold increase in targeting students for on-campus validation of two data elements).

Finally, the unsystematic approach to corrective action (with few pilot tests, little knowledge of what already works at institutions, frequent changes in the details of corrective action concurrent with other changes in the Pell program, and evaluative information that is delayed and partial) means that it is hard to base decisions on a solid understanding of what has gone before. Numerous variables interact to determine the results of a policy such as validation; the Department has had particular difficulty estimating the dollar savings that can be expected from validation under different combinations of student selection criteria and application items to examine.

A variety of data improvements should be considered. Research should examine the causes of error, and learn more about how people complete the complex aid application and what changes could increase accuracy. Research could also pinpoint promising practices at institutions that seem associated with reduced rates of error. Data on error rates at individual institutions, and by type of institution, could allow much more precise targeting of corrective action. Strategies for gaining knowledge and data that could be more extensively used include pilot tests and experiments, and study of the experience of other agencies with topics such as application forms, ADP uses, training for institutional officials, and incentives for quality control. We suggest that OMB consider assisting the Department in locating and evaluating experience in other agencies on related matters. We emphasize the need for information on which to design and implement policy, though information on compliance could be improved as well, since now the only error data comes from episodic and non-comparable national sample surveys.

PERSPECTIVE ON FUTURE ACTION

An error-free program may not be attainable, but estimates of recent error do seem excessive. In light of the shortcomings of past, partial approaches to the error problem (including problems in their design, implementation, and evaluation) we are not recommending specific corrective actions to either the Congress or the Department. (In our report, we provide appendixes, with details on how further work could strengthen decisions on validation

and on a variety of other promising approaches.) Rather, I want to raise here some questions about direction for future policy and the information that will be needed to set that direction and evaluate the results.

We therefore encourage the Department to delay any hasty action of the "quick-fix" variety, and to consider instead the underlying issues of the error problem's dimensions, its priority in terms of the Pell program's objectives, and the consequent logic that should drive the goals, strategies and management of any new approach. Without this basic clarification, it seems possible that another cycle of corrective action could have as little impact as that of 1982-83, for all the reasons we have reported, including speedy decisions, missing data, and lack of coordination. For example, with specific error targets in mind (such as a certain percentage of reduction) for student or institutional error, and for underawards and overawards, the selection of specific strategies can be based on what is known about the specific causes of error in each case. Validation may or may not be appropriate, or it may be appropriate but in varying degrees, depending on the target. Requiring documentary proof may not be successful, if there will be difficulty retrieving the documents. (This currently seems to be the case to some degree, as institutions and students reported to us about documents other than the tax form.) Where application items are inherently error prone, validation may not be much help, but changes in the items could be. Again, reducing institutional error may require completely new approaches.

Matters for Congressional consideration

Basing corrective action on the kind of comprehensive approach that we suggest will require time and resources.

For Congress, as well, we suggest two underlying matters for consideration, rather than specific remedies for particular components of Pell grant error. First, the subcommittee could consider further guidance to the Department on the subject of the priority it should accord the problem of error. If the Department is to proceed in the manner we suggest, it could benefit greatly from concrete direction from the Congress.

During our review, Department officials, discussing their own work on Pell grant error, expressed strongly the usefulness of such guidance. Of most help would be working consensus on the relative balance between detailed examination of family circumstances (past and future) to ensure equity, and simplified examination to ensure efficiency. Accuracy and verifiability are much easier in the latter case. The Department possesses detailed data that can simulate the effects of changing the need analysis from the current relatively complex method to any alternative. Past discussion of an approach to preventing error by system redesign and simplification has been hampered by the joining of the proposals to suggested administration budget levels for student aid. We believe the issues of program design should be raised in the context of the error problem (and other program objectives), apart from budget questions. The occasion of reauthorization offers a useful opportunity to include the error

problem in the overall discussion of the design of the Pell grant program.

Our second suggestion is that the subcommittee consider whether the data that are now available are sufficient for achieving accountability in the program. In this statement, and in our report, we have repeatedly highlighted the gaps in what is known about the error problem, its sources, the effects of past corrective actions, forecasts of likely impacts of future action, underlying conditions in the financial aid system into which corrective actions must fit, and alternative practices that may deserve to be tried in the search for remedies. Clarification by this subcommittee of the effort it feels is necessary to improve knowledge and understanding in these diverse domains would go a long way toward ensuring that the Department will move meaningfully and expeditiously in the effort to reduce error--all types of error--in the Pell grant program.