

7-1-1986

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Recommended Citation

Coleman, Marie M. and Barnes, Margot (1986) "An Analysis of a Pell Validation Effort for Dependent Applicants," *Journal of Student Financial Aid*: Vol. 16 : Iss. 2 , Article 2.

Available at: <https://ir.library.louisville.edu/jsfa/vol16/iss2/2>

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An Analysis of a Pell Validation Effort for Dependent Applicants

by Marie M. Coleman and Margot Barnes

A current topic among student financial aid administrators is the validation and verification of reported information on financial aid applications. A validation and verification process for the Pell Grant program was introduced by the U.S. Department of Education in an attempt to reduce the potential, and actual, fraud and abuse in student financial aid programs. The General Accounting Office (GAO) was asked to analyze the Department's verification requirements in September, 1983. The request was made by Senator Paul Simon (D-IL), who raised several questions for the GAO to research, including: What is the Department's goal in validation policy? Does the Department have reliable data on award errors on which to base policy? What costs are incurred by the diverse types of institutions in doing validation? What are the effects on students? (*NASFAA Newsletter*, 1985).

Bannister and Phillips (1984) conducted a study at the University of South Carolina and concluded that validation constituted an effective method for verifying independent student status. Although the study did not reveal a dollar amount saved due to the validation of independent student data, the authors concluded that the savings of student aid funds were significant due to the large number who elected not to validate their independent status.

Requiring colleges to verify that students who received Pell Grants supplied accurate financial information reportedly saved the Department of Education about \$22 million for the academic year 1982-83. However, it cost colleges about \$23 million in administrative costs to achieve those savings (*The Chronicle*, 10/9/85). Evidently, validation and verification does uncover information errors that potentially lead to mistakes in awarding grants. The controversy remains as to whether the methods used are truly cost-effective. Coupled with this contention is a concern for the student who has to wait for payment while completing the verification process, who often becomes a lesser priority while staff devote their attentions to the lengthy validation procedure.

The present study was designed to determine the number of dependent students making changes on parental adjusted gross income during the verification process. Additionally, the study defined the number of dependent students who had a change in their Student Aid Index (SAI) as a result of validation. The data and the results of this study provide information on how the Department of Education might measure applicant errors made in the Pell Grant program.

Method

The study was conducted of 1984-85 Pell Grant recipients at the University of Wyoming. During that school year a total of 1,742 students were awarded Pell Grants. Of that total, approximately 37.2 percent (N = 648) of the recipients filed

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using dependent status. Because parental adjusted gross income is typically less likely to be identical to earned income (i.e., more adjustments to income, capital gains/losses, investment income) than students' own adjusted gross income, and was, therefore, felt to be more difficult to estimate accurately, this study focused on dependent students. With the defined population, a sample size representative of those dependent students was determined (Krejcie and Morgan, 1970). A random sample of 240 dependent 1984-85 Pell Grant recipients was drawn and studied on two major variables: parental adjusted gross income and SAI change. Materials used were original Student Aid Reports (SARs) plus all subsequent SARs generated by changes to parental adjusted gross income, untaxed income, and other changes. Applicants with SARs generated by Special Condition Forms were excluded from the study. The 1984-85 Pell Grant Payment Schedules were used to determine differences in award amounts when SAI variations occurred.

Results

Parental Adjusted Gross Income (PAGI)

Of the sample of 240 dependent recipients, 75 or 31.3 percent modified the original parental adjusted gross income, with 34 having over-estimated and 41 having under-estimated on the original application. In studying those who over-estimated, it was found that one-half of those were in the income range of \$10,000 or less. Many families in this category had suffered minor or major losses as a result of farming or ranching. Less than 20 percent of those over-estimating reported an adjusted gross income of more than \$25,000. Approximately one-third of those under-estimating were in the \$15,000 to \$20,000 income range and less than 10 percent were in the \$25,000+ income range. Table 1 shows the pertinent results.

Table 1 - Analysis of Parental Adjusted Gross Income Change by Income Category

	Number Making a Change in PAGI		
	Overestimated	Underestimated	
	\$30,000 +	2	1
	\$25,000-\$30,000	0	3
	\$20,000-\$25,000	4	3
Income	\$15,000-\$20,000	7	14
	\$10,000-\$15,000	4	9
Category	\$5,000-\$10,000	4	4
	\$0-\$5,000	3	6
	Less than \$0 (loss)	10	1
		34	41
			total n = 75

The parental adjusted gross income dollar amounts was also studied on both the over-estimated and the under-estimated variables. Nearly 40 percent of the individuals who over-estimated did so by more than \$5,000. Upon close inspection of the data, it was found that most of those falling into this category were the same individuals who were estimating negative rather than positive adjusted gross incomes. These losses were often extremely large and therefore, provide a skewed picture both of the total and of the average. The total amount over-estimated was \$697,753 with an average of \$20,522. More than 60 percent of the parents who under-estimated did so by less than \$500. The total amount under-estimated was \$50,183 with an average

of \$1,224. The specific frequency of occurrence for both variables with parental adjusted gross income is listed in Table 2.

Table 2 - Analysis of Parental Adjusted Gross Income Change by Dollar Amount

	Number Making a Change in PAGI		
	Overestimated	Underestimated	
	\$5,000 +	13	2
	\$4,000-\$5,000	0	1
	\$3,000-\$4,000	0	1
Dollar	\$2,000-\$3,000	2	0
Amount	\$1,000-\$2,000	8	5
	\$500-\$1,000	3	6
	\$1-\$500	8	26
		34	41
			total n = 75

Of those who changed parental adjusted gross income, 69 (92 percent) made other changes as well. Approximately two-thirds of the other changes (N= 47) were made in the various subcategories of untaxed income. Of the 165 who did not change parental adjusted gross income, 113 or 68 percent made changes in other areas with approximately two-thirds of those (N= 76) again made in the untaxed income subcategories. It should be noted that 1984-85 was the year in which the "married couple deduction" was not collected separately on the application forms. However, this deduction was required to be treated as untaxed income in the Pell Grant calculation.

SAI Change

Of the 240 individuals studied, 89 (37 percent) had a change in SAI as a result of an error discovered through the validation procedure. Sixty-eight of those who had a change in SAI also had a subsequent change in the dollar amount awarded. Thus 21 students revised their data with no resulting change in award amount. In analyzing the total sample (N= 240) only 28 percent of the recipients had a significant enough change in SAI to produce either an increase or a decrease in the dollar amount of their award.

Fourteen of the 68 who experienced a change in dollar amount awarded received an increase in award payment, while 54 received less money. The total amount of additional money awarded to those sampled with an increase in payment was \$6,625, while the total reduced amount awarded to those sampled who received a decrease in payment was \$15,975. The net total for the random sample yielded a savings of \$9,350 to applicants from the University. If this finding was applied to the total dependent Pell population of 648, the net savings would be \$25,245 or 3.6 percent of the total institution's 84-85 expenditure of \$705,518.

In addition to the 21 students who had no dollar amount change in the amount of award received, 32 had no SAI change even with corrections to the variables. Thus, 53 or 22 percent of the total sample had no measurable change to their eligibility.

Discussion

In the Pell Grant calculation, negative amounts reported for adjusted gross income (AGI) are treated as if they were zero (that is, no differentiation is made be-

tween a large negative and a small negative AGI). For purposes of this study, the actual negative figures were used. Since a relatively large percentage of over-estimation errors was noted in the negative range, it seemed to be an area worthy of close attention; especially since income in Wyoming is heavily agricultural-related and the difficulty of accurately estimating the actual degree of losses may be more pronounced in this population than elsewhere. Families who corrected their negative AGI's with another negative figure had actually been validated because of other data elements. Thus, revision of a negative AGI was likely an ancillary result of reviewing the entire application. Nevertheless, the revisions were tabulated in order to study the effort each family expended on the validation process. It should be noted that the over-estimation frequency and the dollar volume of over-estimations are higher in this study than they would have been if all negatives had been set at zero. The changes to SAIs in this group and the resulting award amount change may be presumed to be negligible. More than likely, only positive adjusted gross income errors produced variations in SAIs and award amounts.

The topic of intentional misreporting is not easily dealt with in any study of errors, although there seems to be an undercurrent of suspicion in the federal study. The new 1985-86 validation procedures which require verification of amounts already reported as zero would also seem to point to an ongoing federal mindset toward intentional misrepresentation of income. In this study, 45 percent of the filers erred on the side of over-estimation.

In the group that under-estimated its adjusted gross income, 83 percent had adjusted gross incomes of \$20,000 or less. It is speculated that these applicants were from families with taxable income other than simple wages, resulting in adjusted gross incomes which are difficult to pinpoint until the tax return actually had been completed. (Due to the early application deadline date for campus-based aid, University of Wyoming filers usually file in January, and are thus initially providing estimates). It also can be hypothesized that at the time of application farmers and ranchers did not have as clear a picture of their total financial situation as higher income groups do. It seems unlikely however, that this particular income group would feel the need to misrepresent its income, since the average \$20,000 family is already a likely candidate for Pell Grant funds. That the preponderance of under-estimations should occur at under \$20,000 would seem to indicate that intentional misreporting is minimal.

Almost one-quarter (22 percent) of all dependent students asked to correct data for validation purposes experienced no change in the value of their Pell Grant award. Although the institution had the option to calculate the SAI internally and to pay on the basis of the informal re-calculation, it chose not to for the reason of possible liability and the additional workload. Yet the institution, 22 percent of the validated applicants, and their parents all invested considerable time and some expense *for no result*. In addition, these students experienced frustrations and delays which contributed to a negative impression of the financial aid office and possibly the University itself. Many of them had to borrow University or private funds in order to cover enrollment costs while waiting for their Pell Grant funds to be released.

Table 3 represents a summary of the sample population in terms of the bottom-line result of Pell validation during 1984-85. Nearly one-half of the sample population provided original data which fell within the tolerances and were not required to make corrections. Over 22 percent corrected their original data but experienced no change in the amount of their Pell Grant. One conclusion that might be drawn is that the Pell tolerances could be expanded without significantly disturbing award amounts.

The average net change for the sample group was \$38.96 per award. Again, this might indicate that there is more effort expended in validation than the savings can

justify. While this study did not attempt to estimate the cost to the financial aid office of additional personnel support, overtime compensation, mailing costs, equipment, supplies and phone calls, it should be borne in mind that these are indeed real costs which must be weighed against the "savings" realized in the validation effort. It is likely that the office spent considerably more than \$38.96 per student in its attempt to deliver precisely the correct dollar amount to each Pell Grant applicant.

Table 3 - Summary of Validation Results

Total sample size	N = 240	#	%
Had change in award amount due to any correction		68	18.3
<i>resulted in increased award (\$27.69 average)</i>		14	5.8
<i>resulted in decreased award (\$66.56 average)</i>		54	12.5
Did not have change in award amount		172	71.7
<i>corrected data; SAI changed</i>		21	8.8
<i>corrected data; SAI unchanged</i>		33	13.7
<i>did not make changes to parental AGI</i>		118	49.2
Total		n =	240

The results of this study indicate that further research may be useful in determining the actual effect of validation on Pell Grant expenditures. The extent to which variables other than AGI impact award amounts, the incidence of required changes among self-supporting applications, and the actual cost of validation are topics which should be of interest to aid administrators as validation moves closer to becoming a mandated procedure for all Title IV funds.

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