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## *Validation Study*

*by Robert W. Evans*

During the past year, the Office of Student Financial Assistance at Kansas State University conducted the verification of application data for the Pell Grant Program. In addition to the federally mandated system of verification/validation, the institution maintained an institutional policy which selected students for verification based upon several pre-established criteria. Those criteria included:

- (1) The review of prior year data (i.e., independent students who had previously been dependent for either campus based, Pell, or the Guaranteed Student Loan programs, to determine if any conflict with dependence questions existed. This edit usually produced students who were going independent for the first time).
- (2) The adjusted gross income which may have been rounded (i.e., \$10,000, \$20,000 or \$30,000).
- (3) Federal tax paid which did not agree with the adjusted gross income as reported by an edit comment on a need analysis document.

This analysis included all Pell Grant recipients; if any of the recipients met the institutional verification edits, those students were selected for review and were required to submit the necessary documents. These documents were the same as would have been required by the U.S. Department of Education. All recipients in this analysis were required to complete the forms required for verification/validation (i.e., submit IRS 1040 form, non taxable income statement, independent student verification, etc.). If a student were selected for verification either by the central processor or by Kansas State University, the same procedures outlined in federal regulations and the Verification Handbook were used to resolve all discrepancies in data.

Table 1 reflects 4,160 Pell Grant recipients by their validation codes as reported to the U.S. Department of Education. As the table suggests, there were 2,537 recipients (61.0%) not selected for validation. These students were also not selected under the institutional verification edit process. In addition, 953 recipients (22.9%) had their records validated, and their information was verified as accurate. The balance of the recipients, 670 students (16.1%), were determined to be within one of three categories particularly pertinent to verification: 218 (5.3%) had a "tolerance" status based on validation codes; 238 (5.7%) had a validation status of "calculated"; and 214 (5.1%) had a validation status of "reprocessed." These codes and different status descriptions pertain to the Department of Education's Pell Grant validation procedures. The specific coding definitions are provided in greater detail as footnotes to Table 1. These 670 students were the focus of our detailed analysis to determine what changes occurred after validation, what the characteristics of the application data for these recipients were, and how dependent and independent students came out in the validation process.

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Table 1  
Pell Grant Recipients 1984-85

<u>Validation Codes</u>	<u>Number of Students</u>	<u>Percent</u>
1. Not Selected (N)	2,537	61.0
2. Accurate (A)	953	22.9
3. Tolerance (T)	218	5.3
4. Calculated (C)	238	5.7
5. Reprocessed (R)	214	5.1
Total	4,160	100.0

Note: N = the student was not selected for validation by the Department of Education or by Kansas State University and no item was validated.

A = the student was validated, the Student Aid Report - the document generated by the student's application sent from the Federal processor to the student (SAR), was accurate as submitted, and Kansas State University paid on that SAR.

T = the student was validated, the SAR was shown to be incorrect as a result of validation, but Kansas State University paid without requiring the SAR to be reprocessed because the school was able to use either the zero SAI tolerance or the appropriate dollar tolerance option.

C = the student was validated, the SAR was shown to be incorrect as a result of validation, but Kansas State University paid without requiring the SAR to be reprocessed because it was found that the scheduled award stayed the same or increased on the basis of the recalculated SAI.

R = the student was validated, the SAR was shown to be incorrect as a result of validation, the SAR was reprocessed for that reason, and Kansas State University paid on the reprocessed SAR.

#### *Method of Analysis*

The application data from the 670 recipients (T + C + R) who were validated and found to have revised information, required further action by the Financial Aid Office. Documents by these applicants were reviewed by each data element to determine the values before validation and the values after the changes encountered in the validation process. Information for each data element is reported separately for two groups. Group 1 represents those students (443 of the 670) who were determined to require no change in their award after validation, and Group 2 represents those students (the remaining 227) which required a change in their award after validation.

For these students whose awards changed after validation, the only data element averages which increased substantially were non-taxable income and veteran's benefits. Although several data element averages did increase after validation, these increases did not change, on the average, the award for those students. No summary data for household size or number in postsecondary education is presented since changes occurred in less than 3% of the cases. Furthermore, all such changes led to increases in size and, thus, potentially greater Pell eligibility. The Student Aid Index as reflected in Table 2 changed slightly for the recipients (443) whose awards did not change after validation. Though the Student Aid Index (SAI) did change, the change

did not result in an award cell change on the Pell Grant payment schedule. For those who did require award changes, the average Student Aid Index decreased from 976 to 787, a reduction of 189, resulting in increased Pell Grant eligibility for these students. Table 2 indicates that the average award went from \$806 to \$951; an increase of \$145 in cases where validation resulted in an award change. The negative mean in parents' adjusted gross income resulted from a large number of data elements which were reported as positive AGI and should have been a negative AGI.

Table 2  
Data Elements By Groups Not Requiring/Requiring Award Changes

	Group I Did Not Require Award Change (443 Students)		Group II Required Award Change (227 Students)	
	Mean	Std. Dev.	Mean	Std. Dev.
Student Adjusted Gross Income				
Before Validation	891	2,122	1,403	5,596
After Validation	1,395	2,449	1,322	2,891
Student Federal Tax Paid				
Before Validation	63	196	68	326
After Validation	46	199	52	182
Non-Taxable Income				
Before Validation	36	303	403	3,922
After Validation	172	439	693	1,422
Parents' Adjusted Gross Income				
Before Validation	209	15,815	7,356	11,215
After Validation	-3,718	38,809	6,949	16,125
Parents' Federal Tax Paid				
Before Validation	331	1,176	1,095	3,184
After Validation	240	658	697	1,110
Veteran's Benefits				
Before Validation	67	498	41	454
After Validation	83	569	75	514
Student Social Security Benefits				
Before Validation	0	0	0	0
After Validation	38	475	2	32
Student Aid Index				
Before Validation	338	461	976	2,810
After Validation	351	464	787	487
Award				
Before Validation	1,284	451	806	650
After Validation	1,284	451	951	453

The second approach to reviewing the data was to provide categories by validation codes for the 670 recipients being reviewed. Table 3 reflects the recipients by data element and their validation code. Within each category the information was reported before validation and after validation to determine the average changes that occurred.

Table 3  
Data Elements By Validation Codes

	Tolerance Group (Code T - Table 1) (218 Students)		Calculated Group (Code C - Table 1) (238 Students)		Reprocessed Group (Code R - Table 1) (214 Students)	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Student Adjusted Gross Income						
Before Validation	804	1,917	1,025	2,278	1,379	5,763
After Validation	905	2,122	1,841	2,661	1,327	2,901
Student Federal Tax Paid						
Before Validation	54	158	62	185	79	359
After Validation	51	245	41	162	53	166
Non-Taxable Income						
Before Validation	55	400	276	3,778	140	734
After Validation	156	469	256	581	645	1,417
Parents' Adjusted Gross Income						
Before Validation	2,114	16,484	901	15,944	5,103	10,933
After Validation	-1,610	31,418	-2,042	38,008	3,602	29,193
Parents' Federal Tax Paid						
Before Validation	433	987	318	876	1,058	3,453
After Validation	358	879	214	567	636	1,058
Veteran's Benefits						
Before Validation	79	604	91	566	0	0
After Validation	84	615	106	597	49	413
Student Aid Index						
Before Validation	578	774	339	1,231	773	2,596
After Validation	514	533	267	402	744	493
Award						
Before Validation	1,148	531	1,309	438	889	215
After Validation	1,193	484	1,325	427	981	461

For all groups of students in this analysis, the average Student Aid Index decreased, leading on average to increased Pell Grant eligibility. Although a 100 point value is used to construct a cell on a Pell Grant payment chart, students near the bottom of a cell could have increased their Pell Grant eligibility with a change in their Index. For those students validated under code T (Tolerance), the average SAI decreased from 578 to 514, a change of 64. The validation code C (Calculated)

reflected a decrease of 72, while the validation code R (Reprocessed) had the smallest decrease of 29. The average awards for each code increased.

The third approach to analyzing this data was to review the dependent and independent students and the results of validation. Table 4 reflects the data before and after validation by type of student.

Table 4  
Independent/Dependent Student Before and After Validation

	Independent (163)		Dependent (507)	
	Mean	Std. Dev.	Mean	Std. Dev.
<b>Student Adjusted Gross Income</b>				
Before Validation	2,780	5,486	518	2,679
After Validation	3,334	3,976	746	1,522
<b>Student Federal Tax Paid</b>				
Before Validation	215	413	16	129
After Validation	143	330	17	105
<b>Non-Taxable Income</b>				
Before Validation	36	214	201	2,640
After Validation	85	230	434	1,051
<b>Parents' Adjusted Gross Income</b>				
Before Validation	40	501	3,463	16,937
After Validation	56	708	-155	38,280
<b>Parents' Federal Tax Paid</b>				
Before Validation	0	0	780	866
After Validation	0	0	522	962
<b>Veteran's Benefits</b>				
Before Validation	240	963	0	0
After Validation	294	1,041	12	193
<b>Student Social Security Benefits</b>				
Before Validation	9	120	14	311
After Validation	0	0	1	21
<b>Student Aid Index</b>				
Before Validation	430	2,940	595	1,036
After Validation	257	434	577	515
<b>Award</b>				
Before Validation	1,160	575	1,109	550
After Validation	1,236	469	1,150	480

The Student Aid Index decreased for both dependent and independent students, although the decrease for independent students was greater than for dependent students. The average award increased \$76 for the independent student while the dependent student increase was \$41.

### *Results and Conclusion*

The Kansas State University study indicates from an institutional standpoint that the federally required validation has led, generally, to increased Pell Grant eligibility. In the Notice of Proposed Rule Making for 34 CFR Part 668 of Student Assistance General Provisions, the preamble has the following remarks:

“ . . . the Secretary has received three quality control reports from the Office of Student Financial Assistance in 1979, 1981, and 1983 that document in the Pell Grant Program large numbers of applicants and their parents misreporting information regarding their family and financial status. This misreporting, whether intentional or not, significantly and adversely affects the amount of aid available to truly needy students and unjustifiably raises the cost of the program to Federal taxpayers. Based on a 1983 quality control study, an estimated 39 percent of the Pell Grant recipients received an inaccurate award for the 1982-83 award year because of applicant error on the application form.”

While the Department of Education has expressed concern about the accuracy of information used on student applications and created a system for integrated verification, it is certainly surprising, given the rhetoric behind the Department's validation initiative, that the Kansas State University research did not find that students were reporting data which would decrease their Pell Grant awards.

The new regulations which establish an integrated verification system, and set forth a large set of new procedures for institutions and students, appear to overemphasize seeking families which are misreporting data. The approach taken by the Department may be overly punitive given the results of this analysis. This study reflects only one institution's experience. Since applicants qualified for more aid after validation, it may be speculated that, if anything, these parents and students over-estimate their financial strengths when first applying for aid. This might suggest that they do so in the interest of receiving no more than is their fair share of student aid.

The student aid application process is based upon several concepts, including the determination of estimated financial need, projected educational costs, and the goal of seeking the family unit's true ability to pay. These concepts are high ideals and are based upon the interrelationship of a great deal of student and parent information on the financial aid application. The Department has sought to be extremely prescriptive in a system for integrative verification. The handbook to guide the financial aid professional is the largest ever. More exceptions are needed to try to provide flexibility to the aid community.

Verification has long been a goal of the financial aid community. In the report, conducted by the College Scholarship Service, the College Board, and the National Association of Student Financial Aid Administrators, "The Financial Aid Professional at Work: A Report on the 1983 Survey of Undergraduate Need Analysis Policies, Practices, and Procedures", the following conclusion is presented:

“The determination of ability to pay has historically been performed using data provided by students and their families to private need analysis processors on specially designed forms intended to collect in an orderly and timely way, all of the relevant information needed for the process. One of the pressing issues in aid administration, however, is the need to assure that this need analysis information is true, accurate, and correct. At the federal, state, and institutional level, there have been numerous initiatives aimed at improving the distribution of student aid by verifying the accuracy of

family supplied information. Respondents to this survey revealed that the financial aid profession is engaged in a level of voluntary verification far in excess of any statutory or regulatory requirement. The aid administrator's professional concern for proper stewardship of public and private monies and for conservation of scarce financial aid resources is clearly reflected in both the breadth and depth of these verification procedures."

In light of the findings in this report, and the research conducted at Kansas State University, a case could be made for deregulations in the area of verification. In addition, with the hypothesis that institutional verification may have increased since the report in 1983 was issued, the verification regulations published by the Department of Education seek only to discourage the efforts of institutions to seek their own approaches to verification. Kansas State University could not maintain its own institutional verification profile and policy, and add all of the new requirements as outlined in the most recent regulations. Further efforts by institutions to analyze the results of verification are needed in order to establish for public policy makers the need for deregulation and more institutionally controlled verification.