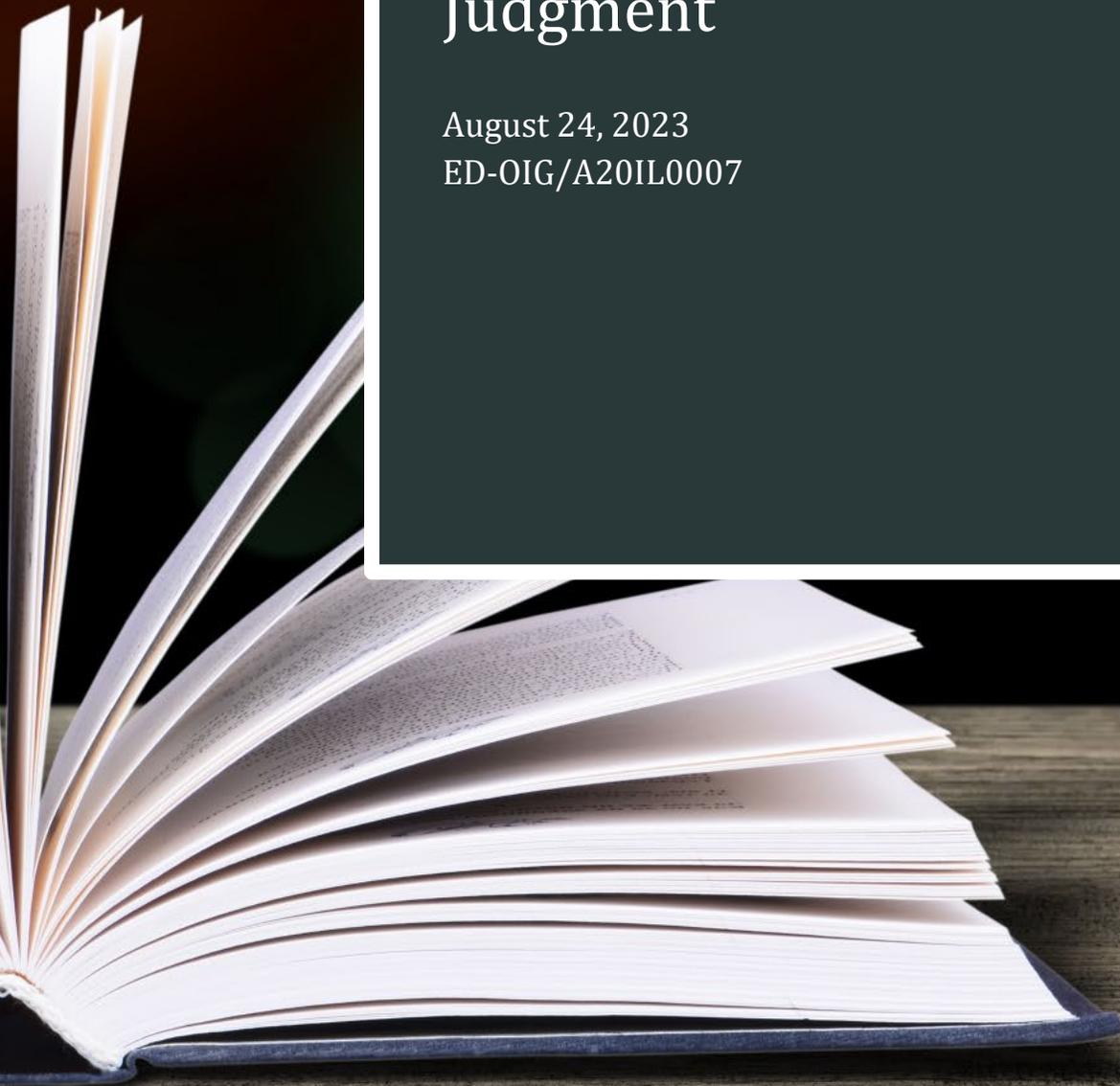




U.S. Department of Education
Office of Inspector General

University of Southern California's Use of Professional Judgment

August 24, 2023
ED-OIG/A20IL0007



NOTICE

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. The appropriate Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

August 24, 2023

Dr. Carol L. Folt
President
University of Southern California
Office of the President
Los Angeles, CA 90089-0012

Dear Dr. Folt:

Enclosed is our final audit report, "University of Southern California's Use of Professional Judgment," Control Number ED-OIG/A201L0007. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe might have a bearing on the resolution of this audit, you should send them directly to the following U.S. Department of Education official, who will consider them before taking final action on this audit:

Richard Cordray
Chief Operating Officer
Federal Student Aid
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

The U.S. Department of Education's policy is to expedite audit resolution by timely acting on findings and recommendations. Therefore, if you have additional comments, please provide them to Federal Student Aid within 30 days.

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General for Audit
Chicago/Kansas City Audit Region

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Results in Brief

What We Did

The objectives of our audit were to determine whether the University of Southern California (USC) (1) applied and documented its use of professional judgment, including dependency override, in accordance with sections 479A and 480(d) of the Higher Education Act of 1965, as amended (HEA), and (2) reported its use of professional judgment, including dependency override, in accordance with the Application and Verification Guide.¹ The audit covered award year 2019–2020 (July 1, 2019, through June 30, 2020) and award year 2020–2021 (July 1, 2020, through June 30, 2021).

To answer our first objective, we selected a nonstatistical random sample of 100 students from the population of 6,162 students who received Title IV of the HEA (Title IV) funds and for whom the school’s student information system indicated that a financial aid administrator had applied professional judgment other than dependency override for award year 2019–2020 or award year 2020–2021. For 22 of these 100 students, USC’s student information system showed that a financial aid administrator had applied professional judgment but the school’s financial assistance records did not corroborate that professional judgment had been applied for Title IV purposes, dropping our sample size to 78 students. We also selected a nonstatistical random sample of 30 students from the population of 111 students who received Title IV funds and for whom the school’s student information system indicated that a financial aid administrator had applied dependency override for award year 2019–2020 or award year 2020–2021 (see [Sampling Methodology](#)). We then reviewed the records that USC provided to us as documentation of its use of professional judgment, including dependency override, for these 108 students. We also reviewed the records that USC provided to us as documentation of its use of professional judgment, including dependency override, for these 108 students.

To answer our second objective, we compared the social security numbers of all 6,273 students who received Title IV funds and for whom the school’s student information system indicated that a financial aid administrator had applied professional judgment, including dependency override, for award year 2019–2020 or award year 2020–2021 to the information in the U.S. Department of Education’s (Department)

¹ Unless otherwise noted, we use Application and Verification Guide to refer to the 2019–2020 and the 2020–2021 “Federal Student Aid Handbook, Application and Verification Guide.”

Central Processing System.² We also reviewed USC’s financial assistance records on the 130 students included in our samples for evidence that a financial aid administrator had applied professional judgment, including dependency override, for Title IV purposes.

What We Found

USC did not apply or adequately document its use of professional judgment in accordance with sections 479A and 480(d) of the HEA for 75 of the 108 students included in our samples of students for whom the school applied professional judgment, including dependency override, for award year 2019–2020 or award year 2020–2021.³ Specifically, USC improperly adjusted data items affecting adjusted gross income based on allowances or expenses unrelated to special circumstances for 35 of the 78 students included in our sample of students for whom the school applied professional judgment other than dependency override (see [Finding 1](#)). It also adjusted data items affecting adjusted gross income without adequate documentation substantiating special circumstances for 47 of the 78 students (see [Finding 2](#)).

Additionally, USC did not adequately document a financial aid administrator’s use of dependency override for 8 of the 30 students included in our sample of students for whom the school applied dependency override for award year 2019–2020 or award year 2020–2021. USC’s records did not substantiate the school’s determination of each student’s status as either an unaccompanied child or youth who was homeless or at risk of homelessness and self-supporting or a determination of independence by reason of other unusual circumstances (see [Finding 3](#)).

Because USC did not apply or adequately document its use of professional judgment, including dependency override, in accordance with sections 479A and 480(d) of the HEA, it awarded and disbursed as much as \$68,343 more in Title IV funds than 30 students would have otherwise received.⁴

USC generally reported its use of professional judgment, including dependency override, to the Department’s Central Processing System in accordance with the Application and

² Schools self-report their use of professional judgment to the Department’s Central Processing System.

³ The 75 students consist of 67 unduplicated students from [Finding 1](#) and [Finding 2](#) and 8 students from [Finding 3](#).

⁴ The improper application or inadequate documentation of the use of professional judgment did not result in USC awarding and disbursing more Title IV funds than the other 45 students would have otherwise received.

Verification Guide. However, the school also reported to the Department's Central Processing System that it applied professional judgment when its financial assistance records did not corroborate that professional judgment had been applied for Title IV purposes. Although USC's student information system and the Department's Central Processing System showed that professional judgment had been applied, USC's financial assistance records did not corroborate the application of professional judgment for Title IV purposes for 22 of the 130 students included in our samples (see [Finding 4](#)).

What We Recommend

We recommend that the Chief Operating Officer for Federal Student Aid (FSA) require USC to calculate and return to the Department improper Title IV payments made to the students included in our sample for whom it did not apply professional judgment in accordance with section 479A of the HEA. We also recommend that USC be required to provide additional records that adequately document its determinations of independence for the students included in our sample or return any improperly awarded Title IV payments to the Department.

Additionally, we recommend that the Chief Operating Officer for FSA require USC to review its records for the students for whom the school applied professional judgment, including dependency override, but were not included in our samples; identify the students for whom it improperly applied or inadequately documented its use of professional judgment; provide its records for those students to FSA; and return any improperly disbursed Title IV funds to the Department.

Finally, we recommend that USC be required to implement procedures for confirming that its student information system data are corroborated by its financial assistance records before reporting the use of professional judgment to the Department's Central Processing System.

USC's Comments and Our Response

We provided a draft of this report to USC for comment on March 28, 2023. We received the school's comments on April 26, 2023. We summarized USC's comments on the draft report and provided our responses at the end of each finding. We included the narrative portion of the school's comments at the end of this report (see [USC's Comments](#)). However, we did not include the tables with student-level details that USC included in its comments because they were too voluminous.

USC disagreed with Findings 1, 2, and 3 and the related recommendations, stating that the Office of Inspector General (OIG) applied a standard for applying and documenting professional judgment that goes beyond the requirements of the HEA and the

Department's 2020 guidance. USC also stated that a full review of records would be burdensome and unnecessary.

USC agreed with Finding 4 but did not state whether it agreed with the recommendation; however, USC stated that it updated its procedures to instruct financial aid administrators to only enter professional judgment adjustments for Title IV purposes if the changes will affect the student's Federal Pell Grant Program eligibility.

Other than clarifying selected aspects of Findings 1, 2, and 3, we did not revise our findings or recommendations. We applied a standard that aligns with the professional judgment provisions of the HEA and guidance in the Application and Verification Guide. In addition, we considered the Department's 2020 guidance related to the possible increase in professional judgment requests because of the COVID-19 pandemic. We are recommending a full review of records based on the high error rates for the students included in our samples.

USC's procedural update and proposed action in response to our recommendation related to Finding 4, as described, will be an improvement. However, the proposed action does not include confirming that the school's student information system data are corroborated by financial assistance records before USC reports the use of professional judgment to the Department's Central Processing System.

Introduction

Background

The University of Southern California (USC), established in 1880, is a private nonprofit university located in Los Angeles, California. The school offers bachelor's degrees, master's degrees, doctoral degrees, and undergraduate and graduate certificates. It is accredited by the Western Association of Schools and Colleges, Senior College and University Commission.

According to the Associate Dean for Financial Aid, during award year 2019–2020 (July 1, 2019, through June 30, 2020), 4,213 (7.8 percent) of the 53,969 students enrolled in USC received Federal Pell Grant Program (Pell) funds. During award year 2020–2021 (July 1, 2020, through June 30, 2021), 4,461 (8.3 percent) of the 53,769 students enrolled in the school received Pell funds.

Federal Assistance Programs and Funding Information

Title IV of the Higher Education Act of 1965, as amended (Title IV), programs provide loans, grants, and work-study financial assistance to postsecondary school students and their parents. During award year 2019–2020 and award year 2020–2021, USC participated in four Title IV programs, including Pell and the William D. Ford Federal Direct Loan Program (Direct Loan). Pell provides grants, usually to undergraduate students who display exceptional financial need and have not earned a bachelor's, graduate, or professional degree. The amount of aid a student receives depends on their financial need, cost of attendance, and other factors. Unlike a loan, a grant does not have to be repaid, except under certain circumstances. Direct Loan is a Federal loan program under which eligible students and parents may borrow directly from the U.S. Department of Education (Department) to help defray the costs of education at participating schools. The types of loans available are Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans.

According to the Department's grants management system (G5) USC disbursed about \$20.2 million in Pell and \$599 million in Direct Loan funds during award year 2019–2020. It disbursed about \$21.6 million in Pell and \$569.9 million in Direct Loan funds during award year 2020–2021.

Professional Judgment

Students apply for Title IV funds by completing a Free Application for Federal Student Aid (FAFSA). The FAFSA is processed by the Department's Central Processing System. This system uses FAFSA information to calculate each applicant's expected family

contribution (EFC). After processing the FAFSA, the Department's Central Processing System produces two output documents—an Institutional Student Information Record sent to the school and a Student Aid Report sent to the student. Both documents show the student's application data, EFC, and other information. The FAFSA does not provide a student with a field to explain a special circumstance that could affect the student's EFC. Also, the need analysis formula that the Department's Central Processing System uses to calculate each student's EFC does not include any provisions for exceptions.

According to section 479A of the Higher Education Act of 1965, as amended (HEA), professional judgment refers to the authority of a school's

financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical, dental, or nursing home expenses not covered by insurance, unusually high child care or dependent care costs, recent unemployment of a family member or an independent student, a student or family member who is a dislocated worker ... the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential ... a change in housing status that results in an individual being homeless ... or other changes in a family's income, a family's assets, or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students.

According to section 480(d) of the HEA, an independent student means any individual who, among other things, (1) has been verified during the school year in which the application is submitted as either an unaccompanied youth who is homeless or at risk of being homeless and self-supporting or (2) is a student for whom a financial aid

administrator makes a documented determination of independence by reason of other unusual circumstances (dependency override).⁵

Chapter 5: Special Cases of the Application and Verification Guide⁶ states that professional judgment refers to a financial aid administrator’s discretion to make data adjustments and to apply dependency override. It also states that financial aid administrators must make reasonable decisions that support the intent of the HEA’s professional judgment provisions. The financial aid administrator does not have the authority to waive general student eligibility requirements, change the need analysis formula itself, or directly adjust the EFC. Instead, the financial aid administrator may adjust the value of the data items used in the need analysis formula. The data items that are adjusted must relate to the student’s special circumstances. The standard need analysis formula is then applied using the revised values of the data items, yielding a new EFC on the Institutional Student Information Record and Student Aid Report. The Department cannot override a financial aid administrator’s decision if it was made on a case-by-case basis, based on special circumstances, and substantiated by adequate documentation.

USC applied professional judgment other than dependency override for 3,270 students and applied dependency override for 57 students for award year 2019–2020. USC applied professional judgment other than dependency override for 2,892 students and applied dependency override for 54 students for award year 2020–2021.

Prior-Prior Year Tax Information and Coronavirus Disease Pandemic

In February 2016, the Department announced that it would begin allowing applicants for Title IV funds to use prior-prior year Federal tax information beginning with the 2017–2018 FAFSA. Therefore, for the 2017–2018 FAFSA, student and parent Federal tax information would be based on 2015 tax year information. Using prior-prior year information rather than prior year information was intended to increase accuracy and give students and families an earlier and more accurate idea of their anticipated school

⁵ The HEA defines dependency override as a determination of independence by reason of other unusual circumstances. Because the Department’s Central Processing System processes homeless or at risk of being homeless and self-supporting determinations as dependency overrides, we included them in our dependency override population.

⁶ We use Application and Verification Guide to refer to the 2019–2020 and the 2020–2021 “Federal Student Aid Handbook, Application and Verification Guide.”

costs and Title IV awards. Because prior-prior year Federal tax information is older, the Department anticipated that schools might see an increase in requests from students for the schools to apply professional judgment to adjust for more current circumstances.

The Coronavirus Disease 2019 (COVID-19) pandemic caused economic hardship for many students and their families. For affected students, prior-prior year Federal tax information might not have been an accurate depiction of the student's financial condition for award year 2020–2021 and beyond. In guidance released on July 9, 2020, the Department noted that high nationwide unemployment resulting from the COVID-19 pandemic would increase the number of requests for schools to apply professional judgment. The Department encouraged financial aid administrators to use professional judgment to more accurately reflect the financial need of students and families affected by the pandemic. The Department also reminded schools of the need to adequately document adjustments made on a case-by-case basis.

In guidance released on January 29, 2021 (Dear Colleague Letter GEN-21-02), the Department again reminded financial aid administrators of their ability to apply professional judgment to more accurately reflect the financial need of students and families based on special circumstances, including for recently unemployed individuals during the ongoing COVID-19 pandemic. The guidance stated that schools may use a letter from a State unemployment agency or other evidence showing that a student or parent was receiving unemployment benefits. The Department again reminded schools that they must obtain and retain records supporting and substantiating the reasons for any adjustments made using professional judgment, and they must make professional judgment determinations only on a case-by-case basis.

USC's Processes for Applying Professional Judgment

Financial aid administrators working in USC's financial aid office may apply professional judgment, including dependency override. USC's 2019–2020 and 2020–2021 "Undergraduate EFC Policies and Procedures" and 2019–2020 and 2020–2021 "Special Circumstances/Appeal QuickGuide"⁷ provided guidance to financial aid administrators on how to apply professional judgment and document their decisions in the school's

⁷ Unless otherwise noted, we use "Undergraduate EFC Policies and Procedures" to refer to USC's 2019–2020 and 2020–2021 "Undergraduate EFC Policies and Procedures" and "Special Circumstances/Appeal QuickGuide" to refer to USC's 2019–2020 and 2020–2021 "Special Circumstances/Appeal QuickGuide."

student information system.⁸ USC collects student and parent information from the FAFSA and documentation submitted by students. USC’s “Undergraduate EFC Policies and Procedures” explains

- the steps for adjusting data elements affecting EFC using professional judgment,
- the types of special circumstances that can be considered,
- adjustments that can be made when applying professional judgment,
- the types of documents that should be obtained for each adjustment, and
- how these adjustments are identified in the student information system.

USC’s 2019–2020 and 2020–2021 “Independent Status Appeal Manual” describes the information that financial aid administrators should review before applying dependency override. The manual stated that when financial aid administrators are considering a dependency override, they must explain the reasoning and confirm there is sufficient documentation in the student’s records to support their reasoning. While the student will usually provide a statement about their special circumstances, the financial aid administrator needs documentation from an objective third party that is signed, dated, and, if applicable, on letterhead.

According to the Associate Dean for Financial Aid, because USC’s policies and procedures already included mechanisms to account for the impact of a pandemic, the school did not implement any steps during our audit period to specifically address the application of professional judgment for students affected by the COVID-19 pandemic.

⁸ USC’s student information system documents professional judgment adjustments for institutional aid and Title IV purposes.

Finding 1. USC Did Not Apply Professional Judgment Other than Dependency Override in Accordance with Section 479A of the HEA

USC did not apply professional judgment in accordance with section 479A of the HEA. Specifically, USC improperly applied professional judgment for 35 (45 percent)⁹ of the 78 students included in our sample of students for whom the school applied professional judgment other than dependency override for Title IV purposes for award year 2019–2020 or award year 2020–2021.¹⁰ Section 479A(a) of the HEA provides financial aid administrators with the authority to make adjustments on a case-by-case basis to the cost of attendance, the values of the data items required to calculate the expected student or parent contribution, or both, to allow for treatment of an individual eligible applicant with special circumstances. However, in 53 instances for these 35 students, USC adjusted the value of data items affecting adjusted gross income (AGI) based on allowances or expenses unrelated to special circumstances. [Table 1](#) shows the types of allowances or expenses that were unrelated to special circumstances and the number of instances in which the school improperly applied professional judgment.¹¹

Table 1. Number of Instances of the Improper Application of Professional Judgment

Category	2019–2020 Number of Instances	2020–2021 Number of Instances	Total Number of Instances
Cost-Of-Living Allowances	22	10	32
Allowances Against Parents' Income	14	4	18

⁹ The 35 students consist of 25 students for award year 2019–2020 and 10 students for award year 2020–2021.

¹⁰ Because professional judgment is applied on a case-by-case basis, the results of our sample cannot be projected to the entire population of 6,162 students for whom USC applied professional judgment other than dependency override for award year 2019–2020 or award year 2020–2021 (see [Sampling Methodology](#)).

¹¹ Students could have multiple instances of the improper application of professional judgment and be included in more than one category.

Category	2019–2020 Number of Instances	2020–2021 Number of Instances	Total Number of Instances
Mortgage and Utility Payments	2	0	2
Repayment of a Federal Direct PLUS Loans	1	0	1
Totals	39	14	53

[Appendix B](#) lists the categories for which USC improperly applied professional judgment, the EFC before and after the application of professional judgment, and the potential improper increase in the Pell award for each of the 35 students.¹²

Cost-of-Living Allowances

USC applied a cost-of-living allowance without substantiating special circumstances for 32 of the 78 students included in our sample. For each of these 32 students, USC applied a cost-of-living allowance percentage for the ZIP code of the student’s (or parents’) home address to increase the income protection allowance (IPA).¹³ By increasing each student’s IPA, USC reduced the amount of AGI included in the student’s EFC calculation. USC did not demonstrate that financial aid administrators considered, on a case-by-case basis, whether each family’s living expenses (1) were unusual and exceeded the cost-of-living allowance amounts already included in the IPA expense categories and (2) substantiated a special circumstance.

According to Chapter 5: Special Cases of the Application and Verification Guide, a financial aid administrator should keep in mind that an IPA is included in the EFC calculation to account for food, housing, transportation, clothing and personal care, medical care, and other family consumption. A financial aid administrator should consider whether an unusual expense is already covered by the IPA before adjusting data elements for the expense. In addition, financial aid administrators cannot adjust data elements or the cost of attendance solely because they believe the tables and

¹² For award year 2019–2020 ([Table 5](#)), see OIG Assigned Sample Numbers 7, 8, 10, 13, 14, 15, 17, 19, 20, 22, 23, 25, 26, 27, 29, 30, 31, 32, 33, 38, 40, 41, 43, 45, and 48. For award year 2020–2021 ([Table 6](#)), see OIG Assigned Sample Numbers 1, 2, 4, 13, 23, 30, 36, 41, 42, and 47.

¹³ USC based the percentages on a table from a third-party that develops student expenditure budgets using data from the most recent years’ Consumer Expenditure Survey produced by the U.S. Bureau of Labor Statistics.

formula are not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances.

According to USC's "Undergraduate EFC Policies and Procedures," a cost-of-living adjustment is made for families with special circumstances but is not automatic. A financial aid administrator may consider making a cost-of-living adjustment for families who live in a high cost-of-living area.

Allowances Against Parents' Income

USC modified the total allowances section of the table used in the EFC calculation to decrease the EFCs for 18 of the 78 students included in our sample without substantiating special circumstances. For each of these 18 students, USC increased the social security taxes allowance. The social security taxes allowance is a percentage of parents' earned income (which can be listed in Box 1 on their W-2s). Rather than using earned income, USC used the parents' earned income and untaxed benefits (which can be listed in Box 5 on the W-2s and include untaxed benefits, such as retirement contributions and health insurance premiums), which is more than earned income alone. By applying professional judgment to increase the social security taxes allowance in the EFC calculation, USC decreased the net income (after allowances) amount used in the EFC calculation, effectively decreasing each student's EFC. A lower EFC could result in an increased Pell award. Financial aid administrators did not explain, on a case-by-case basis, how the adjustments to the data elements were related to the student's special circumstances.

Chapter 3: Expected Family Contribution (EFC) of the Application and Verification Guide includes a table with the EFC formula for calculating available income for dependent students. This formula subtracts total allowances from total income. The calculation of the social security taxes allowance lines included in the total allowance calculation in the Allowances Against Parents' Income section is based only on the parents' earned income. The EFC formula uses amounts that can be included on W-2s to calculate available income. The calculation of the parents' total income includes the parents' earned income and untaxed benefits (Box 5 on the W-2), while the calculation of total allowances in the Allowances Against Parents' Income section only includes the parents' earned income (Box 1 on the W-2).¹⁴

¹⁴ Box 5 on the W-2 is "Medicare wages and tips." It includes total wages and tips subject to the Medicare component of social security taxes. Box 1 on the W-2 is "Wages, tips, other compensation." It includes total earnings minus pretax retirement contributions.

According to Chapter 5: Special Cases of the Application and Verification Guide, the HEA does not allow financial aid administrators to modify either the formula or the tables used in the EFC calculation. Financial aid administrators may only change the cost of attendance or the values of specific data elements used in the EFC calculation. In addition, financial aid administrators cannot adjust data elements or the cost of attendance solely because they believe the tables and formula are not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances.

According to USC's "Undergraduate EFC Policies and Procedures," if a family has special circumstances, the financial aid administrator may apply professional judgment by using parents' total earned income and untaxed benefits (Box 5 of the W-2) as earned income to maximize the social security tax allowance.

Mortgage and Utility Payments

USC applied professional judgment based on recurring costs unrelated to special circumstances for 2 of the 78 students included in our sample. For both students, USC adjusted data items affecting AGI based on financial support provided for relatives not included in the families' households. One family provided financial support to cover mortgage payments for a home in a retirement community; another family paid the utility bills for a second residence in which the student's relatives lived. USC did not provide records substantiating that a financial aid administrator determined that the mortgage and utility payments were related to the students' special circumstances. Therefore, the adjustments made to the data items used in the EFC calculation were contrary to the professional judgment provisions in section 479A of the HEA.

According to Chapter 5: Special Cases of the Application and Verification Guide, professional judgment may not be used to circumvent the intent of the law. Also, financial aid administrators should not base adjustments on recurring costs, such as utilities, that are unrelated to special circumstances. Absent a determination of special circumstances, the use of these types of expenses as the basis for making an adjustment under professional judgment is contrary to the intent of the law.

Repayment of Federal Direct PLUS Loans

USC applied professional judgment based on standard living expenses unrelated to special circumstances for 1 of the 78 students included in our sample. The school adjusted data items affecting AGI based on recurring Federal Direct PLUS loan payments made by a parent for the student's siblings. USC did not substantiate how the Federal Direct PLUS loan payments were related to the student's special circumstances.

According to Chapter 5: Special Cases of the Application and Verification Guide, professional judgment may not be used to circumvent the intent of the law. Additionally, financial aid administrators should not base adjustments on, among other costs, standard living expenses unrelated to special circumstances. Absent a determination of special circumstances, the use of these types of standard living expenses (such as loan payments) as the basis for making an adjustment under professional judgment is contrary to the intent of the law.

Effect of the Improper Application of Professional Judgment

We could not calculate the exact effect of the school's improper application of professional judgment other than dependency override because USC's student information system did not clearly identify what adjustments financial aid administrators made to the data elements affecting AGI for each application of professional judgment. Additionally, corrections made to student data could have changed data elements affecting the amount of Pell funds awarded. Although we could not calculate the exact effect for the 35 students included in our sample for whom USC improperly applied professional judgment, we estimated that USC awarded and disbursed as much as \$11,590 more in Pell funds¹⁵ than 13 students would have otherwise been eligible to receive.¹⁶ The improper application of professional judgment did not result in the other 22 students receiving more Pell funds than they were already entitled to receive.

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid (FSA) require USC to—

- 1.1 Calculate the actual amount of improper Pell and any other Title IV payments made to the 13 students for whom it did not apply professional judgment other than dependency override in accordance with section 479A of the HEA and return those funds to the Department.
- 1.2 Review its records for the 6,062 students for whom the school reported that it applied professional judgment other than dependency override for award year 2019–2020 or award year 2020–2021 but were not included in our sample and

¹⁵The \$11,590 consists of \$10,640 for award year 2019–2020 and \$950 for award year 2020–2021.

¹⁶ All 13 students were those for whom USC applied professional judgment based on cost-of-living allowances and allowances against parent's income.

(a) identify those students for whom it improperly adjusted the value of data items affecting AGI based on allowances or expenses unrelated to special circumstances, (b) provide FSA with a listing of the improperly disbursed Title IV funds and the records associated with those students for whom financial aid administrators improperly applied professional judgment, and (c) return the improperly disbursed Title IV funds to the Department.

USC's Comments

USC disagreed with the finding and both recommendations, stating that it applied professional judgment based on special circumstances. Regarding the finding, USC stated that the Office of Inspector General (OIG) applied a standard for professional judgment that goes beyond the requirements of the HEA, which gives broad discretion to financial aid administrators. Also, the Department's 2020 guidance encouraged financial aid administrators to use professional judgment to more accurately reflect the financial need of students and families affected by the COVID-19 pandemic. USC financial aid administrators made many of their professional judgment determinations for institutional aid purposes and carried them over for Title IV purposes for consistency. Their decisions in such cases did not result in additional Title IV funding eligibility. USC then addressed each of the subsections of this finding.

Cost-of-Living Allowances

It is not clear what additional documentation USC could have provided to the OIG to substantiate the cost-of-living allowance adjustments. The IPA does not account for geographic cost-of-living differences. Financial aid administrators need flexibility to consider a cost-of-living allowance because living in a high-cost area of the country could have had a significant effect on a family's ability to make contributions toward the student's educational costs. Families generally do not know what specific professional judgment categories to request; they simply know that they cannot afford to pay the cost of their student's education based on their current expected family contribution. Financial aid administrators reviewed the special circumstances appeals submitted by students and families to see whether cost-of-living allowance and other adjustments could be made to more accurately reflect the family's ability to contribute. Financial aid administrators then made the adjustments on a case-by-case basis. The adjustments were not automatic.

Allowances Against Parents' Income and Mortgage and Utility Payments

USC did not modify the EFC formula or the tables used in the EFC calculation. Instead, it modified the values of specific data elements used in the EFC calculation. Increasing the

social security taxes allowance and reducing the parents' available income was a more accurate account of the family's ability to contribute toward the student's educational costs.

Students submitted special circumstance appeals based on elder care expenses incurred by their families. Those expenses included helping with mortgage and utility payments. USC policy allows financial aid administrators to adjust AGI up to \$5,000 based on such expenses.

Repayment of a Federal Direct PLUS Loan

This student's mother was a single parent with a significant portion of income going towards PLUS loan payments for her other two children. The financial aid administrator requested documentation of the PLUS loan payments. USC policy allows financial aid administrators to adjust AGI up to \$2,000 per sibling for such standard living expenses. Such an adjustment results in a more accurate estimate of what the parent can contribute toward the student's educational costs. This policy aligns with the regulations.

Regarding Recommendation 1.1, USC stated that financial aid administrators made the professional judgment determinations on a case-by-case basis with supporting documentation and within the flexibility given to them by the HEA. Regarding Recommendation 1.2, USC stated that reviewing the records for the 6,062 students who were not included in the OIG's samples would be overly burdensome and unnecessary.

OIG Response

Other than clarifying part of the criteria in the Cost-of-Living Allowance section and one sentence in the Allowances Against Parents' Income section, we did not revise the finding or recommendations. We applied a standard that aligns with the professional judgment provisions of the HEA and guidance in the Application and Verification Guide. We also considered the Department's 2020 guidance related to the possible increase in professional judgment requests because of the COVID-19 pandemic.

While the Department's 2020 guidance reminded financial aid administrators that they had more flexibility because of the pandemic, it also reminded them that they still had to comply with section 479A of the HEA. Section 479A requires financial aid administrators to make professional judgment determinations to reflect a student's special circumstances only on a case-by-case basis and with documentation supporting and substantiating the reasons for any adjustments. USC did not provide any additional records or information supporting and substantiating its reasons for making adjustments for the students included in this finding.

We asked USC for records to substantiate the amounts of the expenses that financial aid administrators used to adjust data elements affecting AGI. We asked for such records because the law states that adequate documentation for adjustments shall substantiate the special circumstances of individual students. We did not consider records that did not substantiate (that is, confirm, corroborate, or validate) the dollar amounts of the expenses to be adequate documentation.

Also, we are recommending that USC complete a full review of its records because we identified a high rate of noncompliance (45 percent) for the 78 students included in our sample.

Cost-of-Living Allowances

USC financial aid administrators did not consider, on a case-by-case basis, whether each family's living expenses were unusual and exceeded the cost-of-living allowance amounts already included in the IPA expense categories. Instead, they based the cost-of-living adjustments solely on whether the student's or parents' residence was in a certain ZIP code. Their adjustments were not based on special circumstances affecting a family's ability to contribute toward the student's educational costs.

Allowances Against Parents' Income and Mortgage and Utility Payments

USC used parents' tax information that included earned income and untaxed benefits instead of using just earned income as suggested by the Application Verification Guide. By using earned income and untaxed benefits instead of just earned income, USC modified the total allowances section of the table used in the EFC calculation. Also, USC financial aid administrators did not substantiate, on a case-by-case basis, why parents' choices to make retirement contributions or pay for extra benefits (such as low-deductible, high-coverage health insurance plans) were special circumstances that differentiated the students from other students.

USC did not substantiate that financial support to cover mortgage and utility payments for relatives not included in the families' households, which it referred to as "elder care expenses," was not for recurring costs unrelated to special circumstances.

Repayment of a Federal Direct PLUS Loan

USC did not substantiate how the parent's status as a single parent with Federal Direct PLUS loan payments for two other children constituted a special circumstance. In addition, we do not know what USC was referring to when it stated that the adjustments were aligned with the regulations, given that the Department has not issued regulations specifically covering a financial aid administrator's use of professional

judgment. Finally, USC did not explain how an adjustment for the repayment of a Federal Direct PLUS loan was aligned with the professional judgment provisions in section 479A of the HEA.

Finding 2. USC Did Not Document Its Use of Professional Judgment Other Than Dependency Override in Accordance with Section 479A of the HEA

USC did not adequately document its use of professional judgment in accordance with section 479A of the HEA. Specifically, USC did not adequately document its use of professional judgment for 47 (60 percent)¹⁷ of the 78 students included in our sample of students for whom the school applied professional judgment other than dependency override for award year 2019–2020 or award year 2020–2021. Section 479A(a) of the HEA states that financial aid administrators may make adjustments on a case-by-case basis to the cost of attendance, the values of the data items required to calculate the expected student or parent contribution, or both, to allow for treatment of an individual eligible applicant with special circumstances. The law further states that the adjustments should be based on adequate documentation substantiating the special circumstances of individual students. According to Chapter 5: Special Cases of the Application and Verification Guide, the reason for a professional judgment adjustment must be documented, by a third party if possible, and must relate to the special circumstances that differentiate the student from other students. In 56 instances for these 47 students,¹⁸ USC adjusted data items affecting AGI based on expenses or allowances without adequate documentation to substantiate the special circumstances of the individual students. [Table 2](#) shows the types of expenses or allowances and the number of instances (56) in which the school applied professional judgement without adequate documentation to substantiate special circumstances.

Table 2. Number of Instances of the Application of Professional Judgment without Adequate Documentation

Category	2019–2020 Number of Instances	2020–2021 Number of Instances	Total Number of Instances
Medical and Dental Expenses	14	10	24

¹⁷ The 47 students consist of 23 students for award year 2019–2020 and 24 students for award year 2020–2021.

¹⁸ Students could have had professional judgment applied for multiple instances (that is, based on more than one type of allowance or expense) and had multiple instances of noncompliance.

Category	2019–2020 Number of Instances	2020–2021 Number of Instances	Total Number of Instances
Reduced Income	5	12	17
One-time Change in Income	4	2	6
Private Elementary or Secondary School Tuition for Siblings	2	3	5
Financial Support for Relatives Living Abroad	2	1	3
Reduced Assets	1	0	1
Totals	28	28	56

See [Appendix B](#) for details on how the 56 instances of USC adjusting data items affecting AGI based on expenses or allowances without adequate documentation could have affected EFCs and Pell awards for the 47 students.¹⁹ [Appendix B](#) lists the categories for which USC inadequately documented professional judgment for each student, each student’s EFC before and after professional judgment, and the potential improper increase, if any, in Pell award for each of the students.

Medical and Dental Expenses

USC did not adequately document its use of professional judgment based on medical and dental expenses for 24 students for award year 2019–2020 or award year 2020–2021. For each of these 24 students, the school adjusted data elements affecting AGI based on medical and dental expenses without adequate documentation substantiating that the expenses were special circumstances and not, for example, medical insurance premiums that were recurring costs not related to special circumstances. USC also did not consider the 11 percent allowance for medical care already included in the IPA used in the EFC calculation. For each of these 24 students, the school adjusted data elements affecting AGI based on the full or partial amount of the medical and dental expenses that parents included on Schedule A of Internal Revenue Service Form 1040. USC did not

¹⁹ For award year 2019–2020 ([Table 5](#)), see OIG Assigned Sample Numbers 1, 3, 4, 5, 7, 8, 9, 12, 15, 19, 20, 22, 25, 26, 30, 31, 32, 36, 38, 39, 40, 42, and 46. For award year 2020–2021 ([Table 6](#)), see OIG Assigned Sample Numbers 3, 5, 6, 7, 9, 10, 11, 16, 20, 21, 26, 27, 29, 31, 36, 37, 38, 39, 41, 43, 44, 45, 48, and 50.

provide documentation, such as invoices and receipts, substantiating the amount of the adjustment or substantiating that the adjustment was not already covered by the IPA.²⁰

According to Chapter 5: Special Cases of the Application and Verification Guide, a financial aid administrator should keep in mind that an IPA is included in the EFC calculation to account for food, housing, transportation, clothing and personal care, medical care, and other family consumption. A financial aid administrator should consider whether an unusual expense is already covered by the IPA before adjusting data elements. The Application and Verification Guide provides the following example:

In 2017 [a student] had \$3,550 in medical expenses that were out-of-pocket costs. He is married, has two children, and is the only member of his household in college, so his IPA is \$40,360. Because his expenses were less than the amount for medical expenses already provided for in the IPA (11% of \$40,360 is \$4,440), the aid administrator ... does not adjust [the student's] FAFSA information.

Reduced Income

USC did not adequately document its use of professional judgment based on changes in parents' income for 17 students for award year 2019–2020 or award year 2020–2021. For each of these 17 students, the school adjusted the data elements affecting AGI based on parents' attestations of financial struggles, income declaration forms, pay stubs, documentation of unemployment, or more recent tax returns. These adjustments reduced the amount of the parents' income included in the EFC calculation. However, USC did not provide adequate documentation substantiating the amounts by which it adjusted the data elements affecting AGI. In addition, the amounts of the reductions to parents' income did not reflect the information on the pay stubs, documentation of unemployment, or more recent tax returns.

According to Chapter 5: Special Cases of the Application and Verification Guide, special circumstances may include recent unemployment of a family member or other changes in a family's income. Adequate documentation for such adjustments shall substantiate the special circumstances of individual students. Dear Colleague Letter GEN 16-03 (February 11, 2016) states that

²⁰ When USC adjusted the data elements using the portion of the amount exceeding 7.5 percent of AGI on Schedule A of Internal Revenue Service Form 1040, it did not determine whether this amount was different than the amount exceeding the 11 percent for medical care already included in the IPA.

[i]n exercising professional judgment, [financial aid administrators] must obtain and maintain documentation of the changed circumstances supporting the professional judgment decision. For example, if an individual has lost a job and the [financial aid administrator] chooses to project income for the next 12-month period, the [financial aid administrator] must obtain and maintain adequate documentation of the individual's loss of employment, as well as documentation of projected income. An example of adequate documentation of a job loss could include a letter from the former employer, or a letter from the State unemployment office that makes reference to the job loss.

According to USC's "Undergraduate EFC Policies and Procedures," when the financial aid administrator projects parental income, parents must explain their special circumstances. Financial aid administrators should review source documents—including parent income declaration forms, tax returns, W-2s, and paystubs—to accurately estimate the parent's reduced income. They should also include parents' unemployment benefits as "other taxable income." According to USC's "Special Circumstances/Appeal QuickGuide," parents who experienced a job reduction or loss should submit a detailed explanatory letter, parent income declaration form, tax return, and paystub.

One-Time Change in Income

USC did not adequately document its use of professional judgment based on potential one-time changes in income for six students for award year 2019–2020 or award year 2020–2021. For each of these six students, USC removed income from the parent's AGI based on retirement distributions, a pension, sale of a residence, or capital gains without treating these amounts as assets. Removing income from the AGI used in the EFC calculation and not including it as an asset reduced five of the six students' EFCs (no effect on the other student's EFC).

USC provided parents' tax information forms or statements as supporting documentation that proceeds from the one-time increase in income for the six students had been spent. However, those records did not substantiate that the income had been spent. Rather, the records showed a comingling of the proceeds with other funds and included statements that did not support the amount of the adjustments. USC did not provide records substantiating that the one-time increases in income should not be treated as assets or substantiating that the increases in income were special circumstances meriting adjustments to data elements affecting the students' EFCs.

According to USC's "Undergraduate EFC Policies and Procedures," when a family indicates that a source of income (such as individual retirement account distributions,

pensions, or capital gains) was a one-time instance, the financial aid administrator should verify the amount and the temporary nature of that income. With proper documentation, a financial aid administrator may use professional judgment. If a one-time gain or distribution has been exhausted, the financial aid administrator must obtain a letter of explanation and documentation showing how the funds were spent. Any unspent funds should be counted as an asset. According to USC's "Special Circumstances/Appeal QuickGuide," if one-time income has been spent, the family should explain and provide documentation. If one-time income has not been spent or rolled over, the family should provide documentation if it is included in the assets already reported.

Private Elementary or Secondary School Tuition for Siblings

USC did not adequately document its use of professional judgment based on private elementary or secondary school tuition paid for siblings of five students for award year 2019–2020 or award year 2020–2021. For each of these five students, the school did not provide adequate documentation, such as invoices or receipts, substantiating the amount of tuition that the family paid. It also did not provide adequate documentation of special circumstances that merited adjustments to data elements affecting each student's EFC.

According to USC's "Undergraduate EFC Policies and Procedures," for a unique circumstance, the financial aid administrator may use professional judgment based on a sibling's private elementary or secondary school tuition. The financial aid administrator should obtain documentation to confirm the amount of tuition paid to the school.

Financial Support for Relatives Living Abroad

USC applied professional judgment based on families providing financial support for relatives (such as an uncle, niece, or grandparent) living abroad for three students for award year 2019–2020 or award year 2020–2021. For each of these three students, the school did not provide adequate documentation showing what the financial support was for or substantiating that the financial aid administrator determined that the financial support provided was a special circumstance that justified adjusting the data items used to calculate each student's EFC. USC also did not provide adequate documentation substantiating that the financial aid administrator followed school policy and ensured that parents provided more than 50 percent of the financial support for those relatives living abroad.

USC's "Undergraduate EFC Policies and Procedures" states that financial aid administrators may make adjustments up to \$5,000 for money sent to relatives abroad

for medical or living expenses if parents provide documentation substantiating that they paid more than 50 percent of the financial support for those relatives in the prior year.

Reduced Assets

USC did not adequately document its use of professional judgment based on a reduction in one student's cash assets for award year 2019–2020. The school did not provide adequate documentation substantiating how reducing the amount of cash assets that the student reported on the FAFSA was appropriate and a special circumstance meriting an adjustment to data elements affecting the student's EFC.

According to USC's "Special Circumstances/Appeal QuickGuide," the financial aid administrator may impute a student's documented cash and savings based on information provided by the family and may consider using documented cash and savings as of the date the FAFSA was filed. The financial aid administrator should obtain from the student a detailed explanation and supporting forms. According to USC's "Undergraduate EFC Policies and Procedures," the financial aid administrator may reduce assets if the family can document that they have been spent or depleted.

Potential Effect of USC's Application of Professional Judgment without Adequate Documentation

We could not calculate the exact effect of USC's use of professional judgment other than dependency override without adequate documentation because USC's student information system did not clearly identify what adjustments financial aid administrators made to the data elements affecting AGI for each application of professional judgment. Additionally, corrections made to student data could have changed data elements affecting the amount of Pell funds awarded. Although we could not calculate the exact effect, we estimated that, without adequate documentation substantiating special circumstances, USC awarded and disbursed as much as \$31,348 more in Pell funds than 15 of the 47 students would have otherwise received (see [Appendix B](#) for details).²¹ The inadequately documented use of professional judgment would not have affected the amount of Pell funds that the other 32 students would have otherwise received.

²¹ The \$31,348 consists of \$16,073 for award year 2019–2020 and \$15,275 for award year 2020–2021. Of the \$31,348, \$4,495 is also included in the amount questioned in Finding 1.

Recommendations

We recommend that the Chief Operating Officer for FSA require USC to—

- 2.1 Review its records for the 6,162 students for whom the school reported that it applied professional judgment other than dependency override for award year 2019–2020 or 2020–2021; identify records adequately documenting the use of professional judgment; and provide the records for any students with inadequately documented professional judgment to FSA along with a listing of the amount of Title IV funds, if any, that were improperly awarded and disbursed to students.

USC's Comments

USC disagreed with the finding and recommendation, stating that it provided the OIG with adequate documentation to support the professional judgment decisions. Regarding the finding, USC stated that the OIG applied a standard for documenting professional judgment that goes beyond the requirements of the HEA. Regarding the recommendation, USC stated that reviewing the records for all students would be overly burdensome and unnecessary. USC then addressed each of the subsections of this finding.

Medical and Dental Expenses

While financial aid administrators usually adequately document their professional judgment decisions, there were not any special circumstances to support the professional judgment decisions for 2 of the 24 students. Section 479A of the HEA states that “Special circumstances may include ... medical, dental, or nursing home expenses not covered by insurance” Therefore, the medical or dental expense itself was the special circumstance. Regulations do not require a certain type of documentation to substantiate the decision made. In most cases, USC relied on Schedule A of Internal Revenue Service Form 1040 for medical expense amounts. The HEA does not require schools to collect invoices or receipts to substantiate the adjustments. Additionally, consideration of the IPA is a best practice and not a requirement. Therefore, the IPA cannot be the basis of this finding. USC considered the IPA by only deducting the amount of medical expenses from Schedule A of Internal Revenue Service Form 1040 that exceeded 7.5 percent of AGI.

Reduced Income and One-Time Change in Income

USC collected documentation to support the one-time changes in income for five students and made a correction for one student. USC based projected income on information available at the time of the professional judgment decision. It relied on

parents' attestations, projected income declaration forms, and pay stubs to adjust data items. That a more recent tax return did not agree with the reduced amount of the parents' income is not a basis for rejecting the professional judgment adjustments.

Private Elementary or Secondary School Tuition for Siblings

Section 479A of the HEA states that tuition at an elementary or secondary school may be a special circumstance. USC considered the tuition expense itself as the special circumstance, and the signed declarations collected met the regulatory standard for adequate documentation. Therefore, for each of the five students, the school collected adequate documentation to support the adjustments.

Financial Support for Relatives Living Abroad

Relatives living abroad cannot be included in the household size. However, financial aid administrators may exercise professional judgment, such as excluding the amount of income used to support the other family members, if it is reasonable to do so based on the circumstances involved. In two of the three cases, adequate documentation supported an adjustment. In the third case, the expenses were not typical support for relatives living abroad.

Reduced Assets

The student submitted a letter explaining that their cash on hand had decreased because of the purchase of a used car for their own safety. The financial aid administrator calculated the student's assets using bank statements. This adjustment was thoroughly documented and within the discretion of the financial aid administrator.

OIG Response

Other than clarifying the one-time change in income section, we did not revise Finding 2 or our recommendation. We applied a standard for documenting professional judgment determinations that aligned with the professional judgment provisions in section 479A(a) of the HEA and guidance in the Application and Verification Guide. USC did not provide any additional records that would demonstrate that its professional judgment determinations were substantiated by adequate documentation. It also did not provide any additional records or other information substantiating the amounts of the adjustments made based on the professional judgment determinations.

We are recommending that USC complete a full review of its records on students for whom financial aid administrators applied professional judgment because we identified a high rate of noncompliance (60 percent) for the 78 students included in our sample.

Medical and Dental Expenses

Medical and dental expenses themselves are not automatically a special circumstance. Section 479A of the HEA requires a school to retain adequate documentation to substantiate that the medical and dental expenses of each individual student are special circumstances. According to the Application and Verification Guide, before adjusting for an unusual expense, financial aid administrators should consider whether the expense is already covered by the IPA. USC did not provide records substantiating that the financial aid administrator determined that the amounts of the adjustments were not already covered by the 11 percent medical care allowance included in the IPA. Although USC stated that it considered the IPA by only deducting the amount of medical expenses from Schedule A of Internal Revenue Service Form 1040 that exceeded 7.5 percent of AGI, it did not provide records substantiating that the amount it deducted for medical expenses was the same as the amount exceeding the 11 percent medical care allowance already included in the IPA.

The Application and Verification Guide recommends that financial aid administrators obtain third-party documentation. In most instances, USC relied on Schedule A of Internal Revenue Service Form 1040 to support the amount of the medical and dental expenses. However, this schedule does not include the same level of detail that invoices and receipts have. Therefore, we did not consider Schedule A of Internal Revenue Service Form 1040 alone to be adequate to substantiate the amounts of the adjustments. We also did not consider it to be adequate to substantiate that the expenses were special circumstances.

Reduced Income and One-Time Change in Income

Although USC stated that it made a correction, not a professional judgment adjustment, for one student, the school's student information system showed that a financial aid administrator applied professional judgment. With its comments on the draft report, USC did not provide any records explaining why financial aid administrators adjusted the data elements affecting AGI based on reduced income or one-time changes in income. It also did not provide any records to substantiate the amounts of the adjustments.

USC policy requires financial aid administrators to obtain parents' attestations, projected income declaration forms, pay stubs, or more recent tax returns. USC did not always provide these records. When it did, the amounts in these records did not always agree with the amounts of the reductions made by the financial aid administrators. In addition, USC's records did not substantiate that additional income amounts received were one-time increases in income that should not be treated as assets. The records also did not show that the increases in income were special circumstances meriting adjustments to data elements affecting the EFC.

Private Elementary or Secondary School Tuition for Siblings

Private elementary or secondary school tuition for students' siblings itself is not automatically a special circumstance. Section 479A of the HEA requires a school to retain adequate documentation substantiating such special circumstances of individual students. With its comments on this report, USC did not provide any records substantiating the amount of tuition that the family paid (as required by school policy) or the special circumstances that merited adjustments to data elements affecting the EFC.

Financial Support for Relatives Living Abroad

With its comments on the draft report, USC did not provide any records substantiating what the financial support provided to relatives living abroad was for. It also did not provide any records substantiating that the financial aid administrator determined that the financial support was related to a special circumstance that justified adjusting the data items used to calculate each student's EFC. Finally, USC did not provide any records substantiating that the financial aid administrator followed school policy and ensured that the students' parents provided more than 50 percent of the financial support for those relatives living abroad.

Reduced Assets

USC did not provide any records substantiating how reducing assets from the amount that the student reported on the FAFSA was related to a special circumstance meriting an adjustment to data elements affecting the student's EFC. The school only provided bank account statements. USC's records did not adequately document why the financial aid administrator considered the purchase of a used car to be a special circumstance. The records also did not substantiate the cost of the car.

Finding 3. USC Did Not Adequately Document Its Application of Dependency Override in Accordance with Section 480(d) of the HEA and the Application and Verification Guide

USC did not adequately document its application of dependency override in accordance with section 480(d) of the HEA and the Application and Verification Guide. Specifically, USC did not adequately document a financial aid administrator’s determination of independence (dependency override) for 8 (27 percent) of the 30 students in our sample of students for whom the school applied dependency override for award year 2019–2020 or 2020–2021. For each of these eight students, USC did not provide records showing the financial aid administrator’s determination that the student was (1) an unaccompanied homeless child or youth or an unaccompanied youth at risk of being homeless and self-supporting during the school year in which the application was submitted or (2) independent by reason of unusual circumstances. Two of the eight students received \$3,700 more in Pell funds than they otherwise would have received. Six of the eight students received \$26,200 more in Direct Loan funds than they otherwise would have received.²²

For five of the eight students, USC did not provide documentation substantiating that a financial aid administrator determined, during the school year in which the financial aid application was submitted, that the student was either an unaccompanied homeless child or youth (as such terms are defined in section 725 of the McKinney-Vento Homeless Assistance Act) or was at risk of being homeless and self-supporting.

- For one student, a financial aid administrator determined that the student was homeless or at risk of being homeless as of January 2018. This determination reversed another financial aid administrator’s determination that, based on an interview, the student was not homeless and had a place to live. The financial aid administrator did not adequately document why they reversed the other financial aid administrator’s decision. Because the financial aid administrator did not explain why they reversed the decision, we concluded that USC did not adequately document that the student was homeless or at risk of being homeless and self-supporting for award year 2019–2020.

²² Because dependency override is applied on a case-by-case basis, the results of our sample cannot be projected to the entire population of 111 students for whom the school applied dependency override during the 2 award years.

- For one student, a financial aid administrator determined that the student was an unaccompanied youth as of July 2020; however, the financial aid administrator did not adequately document a determination that the student was homeless or at risk of being homeless and self-supporting for award year 2020–2021.
- For three students, financial aid administrators adequately documented that the students were at risk of being homeless for award year 2020–2021; however, they did not adequately document that the students were self-supporting.
 - A financial aid administrator noted that one student was at risk of being homeless as of July 2020 but also noted that the student was financially supported by their parents.
 - A financial aid administrator noted that one student was at risk of being homeless and lacked financial support as of December 2018 but this determination was more than a year before award year 2020–2021; a new determination must be made for each award year.
 - Financial aid administrators noted that one student was at risk of being homeless as of August 2019 and August 2020 but did not adequately document whether the student was self-supporting.

For the other three of eight students, USC did not provide adequate documentation supporting the financial aid administrators’ determinations of the students’ independent status for award year 2019–2020. The school provided letters documenting unusual circumstances. These letters appeared to be from third parties. However, contrary to the Application and Verification Guide and USC’s policy, none of the three letters were signed. Also, contrary to USC’s policy, none of the three letters were on a third-party’s letterhead, and two did not include a date.

Records Supporting the Application of Dependency Override Must Be Created and Retained

Section 480(d) of the HEA refers to the authority of a financial aid administrator to make a determination of independence for (1) an unaccompanied youth who has been verified, during the school year in which the application was submitted, as a homeless child or youth (as defined in section 725 of the McKinney-Vento Homeless Assistance

Act) or an unaccompanied youth who is at risk of being homeless and self-supporting²³ or (2) a student for whom a financial aid administrator makes a documented determination of independence by reason of unusual circumstances.

According to Chapter 5: Special Cases of the Application and Verification Guide, if documentation from any of the specified authorities is not available, a financial aid administrator must make their own determination of whether the student is an unaccompanied²⁴ youth who is homeless or at risk of being homeless and self-supporting. A new determination must be made each year. Additionally, a financial aid administrator must create a written determination of the dependency override and retain it along with supporting documentation. The written determination must explain the reason for the override and should, in almost all cases, originate from a third party with knowledge of the unusual circumstances of the student. A third party who knows the student's situation could be a teacher, counselor, medical authority, member of the clergy, prison administrator, government agency, or court. Third-party evidence of the unusual circumstances could be a signed letter or an official document, such as a court order. If documentation from a third party is not available, the school may accept a signed and dated statement from the student or a family member detailing the unusual circumstances; however, a student or family member's statement should be a last resort.

According to USC's "Independent Status Appeal Manual," the financial aid administrator must have sufficient documentation on file to support the reasoning for a dependency override, and letters from objective third parties should be signed, dated, and on letterhead, if applicable.

Using the Department's Pell payment schedules for award years 2019–2020 and 2020–2021, we calculated each of the eight student's Pell awards before the application of dependency override and compared that amount to each student's Pell award after the application of dependency override. Only two of the eight students, both from award year 2019–2020, received more Pell funds than they would have received had they been considered dependent students (see [Table 3](#)).

²³ As determined by a local educational agency homeless liaison, the director of a program funded under the Runaway and Homeless Youth Act, the director of a program funded under subtitle B of Title IV of the McKinney-Vento Homeless Assistance Act, or a financial aid administrator.

²⁴ Unaccompanied is defined as not living in the physical custody of a parent or guardian. It is not the same as homeless or at risk of being homeless.

Table 3. Increase in Pell Awards for Two Students for Whom the School Did Not Retain Adequate Documentation of Dependency Override

Award Year	OIG Assigned Sample Number	EFC Before Dependency Override	EFC After Dependency Override	Amount of Pell the Student Was Eligible for Before Dependency Override	Amount of Pell the Student Was Eligible for After Dependency Override	Increase in Pell Because of Dependency Override
2019–2020	6	2556	706	\$3,645	\$5,445	\$1,800
2019–2020	9	4532	2682	\$1,645	\$3,545	\$1,900
Totals	-	-	-	\$5,290	\$8,990	\$3,700

Volume 3—Calculating Awards and Packaging, Chapter 5: Direct Loan Periods and Amounts of the “Federal Student Aid Handbook” includes Direct Loan limits based on grade level and dependency status. We compared the Direct Loan limits for a dependent student with the limits for an independent student for award years 2019–2020 and 2020–2021. Six of the eight students received more Direct Loan funds because of the application of dependency override (see [Table 4](#)).

Table 4. Increase in Direct Loans for Six Students for Whom the School Did Not Retain Adequate Documentation of Dependency Override

Award Year	OIG Assigned Sample Number	Direct Subsidized and Unsubsidized Loan Limit (Dependent Status)	Direct Subsidized and Unsubsidized Loan Amount After Dependency Override	Direct Subsidized and Unsubsidized Loan Amount That Exceeded the Limit for a Dependent Student
2019–2020	2	\$7,500	\$11,500	\$4,000
2019–2020	6	\$7,500	\$10,500	\$3,000
2019–2020	9	\$7,500	\$12,500	\$5,000
2020–2021	3	\$7,500	\$11,700	\$4,200
2020–2021	11	\$7,500	\$12,500	\$5,000
2020–2021	13	\$7,500	\$12,500	\$5,000
Totals	-	\$45,000	\$71,200	\$26,200

Recommendations

We recommend that the Chief Operating Officer for FSA require USC to—

- 3.1 Provide additional records that adequately document the financial aid administrators' determinations of independence for the six students or return to the Department \$3,700 in Pell funds and \$26,200 in Direct Loan funds.
- 3.2 Review its records for the 81 students not included in our sample; identify records adequately documenting the financial aid administrators' determinations of independence; and provide the records for any students with inadequately documented dependency override to FSA along with a listing of the amount of Title IV funds, if any, that the school improperly awarded and disbursed to the students.

USC's Comments

USC disagreed with the finding and both recommendations. Although the Department's Central Processing System processes homeless or at risk of being homeless determinations as dependency overrides, homeless youth determinations follow a different set of rules than standard dependency overrides. Additionally, Dear Colleague Letter GEN-15-16 cautioned against requesting too much documentation. The guidance states that a school should limit any inquiry to whether the student has been determined to be an unaccompanied youth who is homeless or at risk of being homeless, rather than the reasons for homelessness.

For five of the eight students, USC's records adequately documented the financial aid administrators' homelessness determinations by showing that the students lacked fixed, regular, and adequate housing or were at risk of being homeless. For the remaining three students, USC's records included student letters, third-party letters, and letters from family friends or relatives. While third-party letters are not required, when they are submitted, there is no requirement that they be signed, dated, and on letterhead to be accepted.

USC disagreed with the recommendations. In response to Recommendation 3.1, USC stated that it made homeless youth determinations and dependency overrides on a case-by-case basis with supporting documentation. The OIG is holding USC to a standard that goes beyond the requirements of the law, guidance, and training provided to schools. In response to Recommendation 3.2, USC stated that the review of records for the 81 students not included in the OIG's sample would be overly burdensome and unnecessary.

OIG Response

Other than clarifying why we concluded that USC did not adequately document its application of dependency override and adding a footnote explaining unaccompanied youth, we did not revise the finding or our recommendations. We are not holding USC to a standard that goes beyond the requirements of the law, guidance, and training provided to schools. The finding is not about expecting financial aid administrators to ask about or document the reasons why students were homeless or at risk of being homeless. The finding is about USC not having documentation substantiating that its financial aid administrators made a homeless or at risk of being homeless and self-supporting determination each year, as required by section 480(d) of the HEA.

With its comments on the draft report, USC did not provide any records explaining why a financial aid administrator overruled another financial aid administrator's determination that, based on a documented interview, one of the five students was not homeless. It also did not provide any records showing that it determined that three of the five students who were at risk of being homeless were also self-supporting. Further, USC did not provide any records showing that a financial aid administrator determined that one student was homeless or at risk of being homeless.

Additionally, USC did not provide records to support a determination of independence by reason of other unusual circumstances for three students. When USC retained letters that appeared to be from third parties, the letters were not signed or on the third party's letterhead. USC's own policy ("Independent Status Appeal Manual") states that letters from third parties should be signed, dated, and on letterhead. With its comments on the draft report, the school did not provide any records explaining that signed statements from third parties were not available or explaining that the financial aid administrator accepted statements from students or families as a last resort. While third-party letters are not required by law or regulation, when they are provided but are not signed, dated, and on letterhead, it raises questions about the veracity of the information in the letters.

Finally, we are recommending that USC complete a full review of its records on students for whom financial aid administrators applied dependency override because we identified a high rate of noncompliance (27 percent) for the 30 students included in our sample.

Finding 4. USC Generally Reported Its Use of Professional Judgment to the Department's Central Processing System in Accordance with the Application and Verification Guide

USC generally reported its use of professional judgment, including dependency override, to the Department's Central Processing System in accordance with the Application and Verification Guide. However, it also reported to the Department's Central Processing System that it applied professional judgment when its financial assistance records did not corroborate that a financial aid administrator had applied professional judgment for Title IV purposes.²⁵

USC provided us with a list of 6,273 students who received Title IV funds and for whom the school's student information system indicated that a financial aid administrator had applied professional judgment, including dependency override, for award year 2019–2020 or award year 2020–2021. We compared the social security numbers of the 6,273 students to those listed in the Department's Central Processing System. We identified only 7 students (0.11 percent of 6,273) for whom USC's student information system showed that a financial aid administrator had applied professional judgment but the Department's Central Processing System did not indicate that USC had applied professional judgment. After we brought this matter to its attention, USC updated the Department's Central Processing System for four of the seven students. The award year applicable to the other three students had closed, so USC could not update the Department's Central Processing System for them.

Additionally, we identified 22 students (17 percent of the 130 students included in our samples) for whom USC's financial assistance records did not corroborate that a financial aid administrator had applied professional judgment for Title IV purposes. However, USC reported to the Department's Central Processing System that a financial aid administrator had applied professional judgment for these 22 students.²⁶

According to Chapter 5: Special Cases of the Application and Verification Guide, a school must electronically report its use of professional judgment to the Department's Central

²⁵ Schools self-report their use of professional judgment to the Department's Central Processing System.

²⁶ According to USC's Associate Dean for Financial Aid, in some cases, USC only made corrections or professional judgment adjustments for institutional aid purposes, not Title IV purposes.

Processing System. When this step is done correctly, the next Institutional Student Information Record will indicate the use of professional judgment.

According to Title 34 Code of Federal Regulations (C.F.R.) section 668.16(c)(1), to be administratively capable, a school must administer Title IV programs with adequate checks and balances in its system of internal control. According to the 2019–2020 and 2020–2021 “Federal Student Aid Handbook” (Volume 4—Processing Aid and Managing FSA Funds, Appendix B—A School’s Financial Management Systems), internal control is an integral component of an organization’s management. An effective internal control structure includes a school’s plan of organization and all the policies, procedures, and actions taken by the school to provide reasonable assurance that it will achieve its objectives in multiple areas, including reliability of program reporting.

USC incorrectly reported the use of professional judgment for Title IV purposes because it did not have a process in place to confirm that its student information system data were corroborated by its financial assistance records before reporting the use of professional judgment to the Department’s Central Processing System.

Recommendations

We recommend that the Chief Operating Officer for FSA require USC to—

- 4.1 Develop and implement procedures for confirming that its student information system data are corroborated by its financial assistance records before reporting the use of professional judgment to the Department’s Central Processing System.

USC Comments and OIG Response

USC agreed with the finding but did not state whether it agreed or disagreed with the recommendation. USC stated that it updated its policy and procedures manual to instruct financial aid administrators to only enter professional judgment adjustments for Title IV purposes if the changes will affect a student’s Pell eligibility. It also stated that it is considering possible programming updates to its student information system.

USC’s procedural update and proposed action are not fully responsive to our recommendation. As described, they do not include a step to confirm that USC’s student information system data are corroborated by the school’s financial assistance records before reporting the use of professional judgment to the Department’s Central Processing System.

Appendix A. Scope and Methodology

We evaluated USC's compliance with requirements governing the application, documentation, and reporting of professional judgment, including dependency override, for award year 2019–2020 and award year 2020–2021. We did not consider internal control to be significant within the context of the audit objectives. Therefore, we did not assess the design of internal control relevant to the school applying, documenting, and reporting the use of professional judgment, including dependency override.

To accomplish our audit objectives, we gained an understanding of the following law, regulations, guidance, and other information relevant to the audit: sections 479A and 480(d) of the HEA; Title 34 C.F.R. sections 668.16(c) and 668.53(c); Department guidance (the Application and Verification Guide, dear colleague letters, and electronic announcements);²⁷ and Single Audit reports for USC's fiscal years ended June 30, 2014, through June 30, 2020.

To gain an understanding of USC's accreditation status, history, and organizational structure, we reviewed the Western Association of Schools and Colleges Senior College and University Commission's website, USC's website, and documents and records that school officials provided. To identify the Title IV programs in which USC participated during award years 2019–2020 and 2020–2021, we reviewed Title IV funding detail in the Department's grants management system (G5) and the school's student information system.

Additionally, we reviewed USC's written policies and procedures relevant to applying and documenting professional judgment, including dependency override, and USC's financial assistance records for a randomly selected sample of students for whom the school had applied professional judgment, including dependency override, for award year 2019–2020 or award year 2020–2021. When necessary, we asked USC employees questions about the records that they provided.

Sampling Methodology

We used sampling to achieve our audit objectives. We obtained from USC the population of 6,162 students for whom, according to its student information system,

²⁷ Dear colleague letters GEN-03-07, GEN-08-12, GEN-11-04, GEN-11-07, GEN-11-15, GEN-15-16, GEN-16-03, and GEN-21-02; electronic announcement dated April 3, 2020, regarding guidance for interruptions of study related to the COVID-19 pandemic; and electronic announcement dated July 9, 2020, regarding increases in professional judgments because of the COVID-19 pandemic.

a financial aid administrator applied professional judgment other than dependency override for award year 2019–2020 (3,270 students) or award year 2020–2021 (2,892 students).²⁸ We then selected a nonstatistical random sample of 100 of these 6,162 students:²⁹ 50 of the 3,270 students for award year 2019–2020 and 50 of the 2,892 students for award year 2020–2021.³⁰

We also obtained from USC the population of 111 students for whom, according to its student information system, a financial aid administrator applied dependency override for award year 2019–2020 (57 students) or award year 2020–2021 (54 students).³¹ We selected a nonstatistical random sample of 30 of these 111 students: 15 of the 57 students for award year 2019–2020 and 15 of the 54 students for award year 2020–2021. Because professional judgment may only be applied on a case-by-case basis, the results of our samples cannot be projected to the entire populations of students.

Analysis Techniques

To determine whether USC complied with sections 479A and 480(d) of the HEA, Title 34 C.F.R. section 668.53(c), Department guidance (the Application and Verification Guide and electronic announcements), and school policy on professional judgment and dependency override, we reviewed and assessed the adequacy of USC’s records for nonstatistical random samples of 108 students for whom the school applied professional judgment, including dependency override, for award year 2019–2020 or award year 2020–2021. The records that we reviewed included student information system data regarding professional judgment determinations and adjustments made to data elements affecting the students’ EFCs. We also asked school employees about the

²⁸ Students for whom the school applied professional judgment in both award year 2019–2020 and award year 2020–2021 could be included in the samples for both award years.

²⁹ Of these 100 students, we identified 22 students for whom the school’s financial assistance records did not show that a financial aid administrator had applied professional judgment for Title IV purposes; however, the school incorrectly reported the use of professional judgment to the Department’s Central Processing System. Therefore, we only assessed the school’s application of professional judgment other than dependency override for 78 students.

³⁰ USC also applied dependency override for 26 of the 6,162 students; we did not include these 26 students in our population of 111 dependency override students.

³¹ Because the Department’s Central Processing System processes homeless or at risk of homelessness determinations as dependency overrides, we included them in this population.

records. Additionally, we asked school employees questions about the supporting documentation that financial aid administrators used to make their professional judgment determinations.

We concluded that USC complied with section 479A(a) of the HEA if its records demonstrated that a financial aid administrator had considered and retained adequate documentation substantiating special circumstances before adjusting the value of data items affecting AGI and submitting the adjustments to the Department's Central Processing System. For the 49 students in our samples who were selected for verification, we concluded that USC complied with the requirement in Title 34 C.F.R. section 668.53(c) to complete verification before applying professional judgment if the verification completion date was before the date of the professional judgment decision recorded in the school's student information system.

We concluded that USC complied with section 480(d) of the HEA if its records substantiated that the financial aid administrator determined that the student was either (1) an unaccompanied youth who was a homeless child or youth (as such terms are defined in section 725 of the McKinney-Vento Homeless Assistance Act) or was at risk of being homeless and self-supporting or (2) independent by reason of other unusual circumstances as supported by a third party's statement attesting to the unusual circumstances or documentation that a third-party statement was not available.

For all 130 students included in our samples, we concluded that USC correctly reported the use of professional judgment, including dependency override, if the school's financial assistance records showed that a financial aid administrator had applied professional judgment for Title IV purposes and the Department's Central Processing System showed that professional judgment had been applied.

Use and Reliability of Computer-Processed Data

We relied, in part, on data that USC retained in its student information system. We assessed the accuracy of the data for all 130 students included in our samples by comparing the data to source documentation, such as financial aid administrators' notes, screen shots showing costs of attendance and amounts of Title IV awarded, EFC calculations that USC provided, and Institutional Student Information Records generated by the Department's Central Processing System. We assessed the completeness of the data in USC's student information system by comparing the social security numbers for all 6,273 students included in the populations of students for whom USC applied professional judgment, including dependency override, to the social security numbers in the Department's Central Processing System.

As explained in [Finding 4](#), the Department’s Central Processing System did not indicate that USC had applied professional judgment for 7 (0.11 percent) of the 6,273 students. Also, USC’s financial assistance records did not show that a financial aid administrator had applied professional judgment for Title IV purposes for 22 (17 percent) of the 130 students included in our samples but USC reported the use of professional judgment to the Department’s Central Processing System. Because the scope of our audit was focused on students for whom the school’s records showed that USC applied professional judgment for Title IV purposes, we concluded that these discrepancies would not affect our conclusions relevant to Findings 1, 2, and 3. Therefore, we concluded that USC’s data were sufficiently reliable for use in our audit.

Compliance with Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit at USC and remotely from September 2020 through December 2022. We discussed the results of our audit with USC on January 19, 2023, and provided the school with the draft of this report on March 28, 2023.

Appendix B. Potential Effect of USC’s Improper and Inadequately Documented Application of Professional Development Other Than Dependency Override

For award year 2019–2020 (see [Table 5](#)) and award year 2020–2021 (see [Table 6](#)), we classified the school’s improper application of professional judgment other than dependency override into the following categories: cost-of-living allowances (COLA), allowances against parents’ income (Allowances), mortgage and utility payments (Mortgage), and repayment of a Federal Direct PLUS loan (PLUS). We also classified the school’s inadequate documentation of professional judgment other than dependency override into the following categories: medical and dental expenses (Medical), reduced income (Reduced), one-time change in income (Change), private elementary or secondary school tuition for siblings (Tuition), financial support for relatives living abroad (Support), and reduced assets (Assets).

Table 5. Award Year 2019–2020: Improper and Inadequately Documented Application of Professional Judgment Other Than Dependency Override

OIG Assigned Sample Number	Improper Application Category	Inadequately Documented Category	EFC Before Professional Judgment	EFC After Professional Judgment	Pell Award Before Change in EFC	Pell Award After Change in EFC	Potential Improper Amount of the Increase in the Student’s Pell Award
1	-	Medical	5527	5527	\$657	\$657	\$0
3	-	Reduced, Support	41052	40610	\$0	\$0	\$0
4	-	Medical	0	0	\$6,195	\$6,195	\$0
5	-	Medical	11448	10886	\$0	\$0	\$0
7	COLA, Allowances	Medical	45631	45096	\$0	\$0	\$0
8	COLA, Allowances	Medical	19521	14794	\$0	\$0	\$0
9	-	Tuition	18086	15329	\$0	\$0	\$0
10	COLA, Allowances	-	36636	35595	\$0	\$0	\$0
12	-	Change	21231	16805	\$0	\$0	\$0
13	COLA	-	2083	2096	\$4,045	\$4,145	\$100

OIG Assigned Sample Number	Improper Application Category	Inadequately Documented Category	EFC Before Professional Judgment	EFC After Professional Judgment	Pell Award Before Change in EFC	Pell Award After Change in EFC	Potential Improper Amount of the Increase in the Student's Pell Award
14	COLA, Allowances	-	3531	3254	\$2,645	\$2,945	\$300
15	COLA, Allowances	Change	56373	29955	\$0	\$0	\$0
17	COLA	-	14778	14660	\$0	\$0	\$0
19	Allowances	Medical	2959	1810	\$3,245	\$4,345	\$1,100
20	COLA, Allowances, Mortgage	Medical	53220	47018	\$0	\$0	\$0
22	COLA	Assets	4338	3511	\$1,845	\$2,645	\$800
23	COLA, Allowances	-	4326	3457	\$1,845	\$2,745	\$900
25	COLA	Medical, Reduced	317	0	\$5,845	\$6,195	\$350
26	COLA, Allowances	Support	11191	9142	\$0	\$0	\$0
27	COLA	-	7193	2498	\$0	\$3,745	\$3,745
29	COLA, Allowances	-	2548	2110	\$3,645	\$4,045	\$400
30	COLA, Allowances	Change	37271	37271	\$0	\$0	\$0
31	COLA	Tuition	17	17	\$6,145	\$6,145	\$0
32	COLA	Medical, Reduced, Change	61707	44823	\$0	\$0	\$0
33	PLUS	-	4848	4027	\$0	\$0	\$0
36	-	Medical	1656	1649	\$4,545	\$4,545	\$0
38	COLA	Reduced	43820	3919	\$0	\$2,245	\$2,245
39	-	Medical	5524	4513	\$657	\$1,645	\$988
40	Allowances	Medical	10684	9366	\$0	\$0	\$0

OIG Assigned Sample Number	Improper Application Category	Inadequately Documented Category	EFC Before Professional Judgment	EFC After Professional Judgment	Pell Award Before Change in EFC	Pell Award After Change in EFC	Potential Improper Amount of the Increase in the Student's Pell Award
41	COLA	-	6892	6171	\$0	\$0	\$0
42	-	Medical, Reduced	18098	910	\$0	\$5,245	\$5,245
43	COLA, Allowances, Mortgage	-	12057	10637	\$0	\$0	\$0
45	COLA	-	4535	3887	\$1,645	\$2,345	\$700
46	-	Medical	8804	805	\$0	\$5,345	\$5,345
48	COLA, Allowances	-	15650	14988	\$0	\$0	\$0
Total	-	-	-	-	-	-	\$22,218

Table 6. Award Year 2020–2021: Improper and Inadequate Application of Professional Judgment Other Than Dependency Override

OIG Assigned Sample Number	Improper Application Category	Inadequately Documented Category	EFC Before Professional Judgment	EFC After Professional Judgment	Pell Award Before Change in EFC	Pell Award After Change in EFC	Potential Improper Amount of the Increase in the Student's Pell Award
1	COLA	-	7777	7418	\$0	\$0	\$0
2	COLA, Allowances	-	2772	2280	\$3,595	\$4,095	\$500
3	-	Medical	151	40	\$6,195	\$6,295	\$100
4	COLA, Allowances	-	15066	14450	\$0	\$0	\$0
5	-	Reduced	7472	980	\$0	\$5,395	\$5,395
6	-	Tuition	33148	30384	\$0	\$0	\$0
7	-	Medical, Reduced	35240	28491	\$0	\$0	\$0
9	-	Medical	3332	3153	\$2,995	\$3,195	\$200
10	-	Reduced	43446	28525	\$0	\$0	\$0
11	-	Reduced	40766	38363	\$0	\$0	\$0
13	COLA, Allowances	-	40935	39336	\$0	\$0	\$0
16	-	Medical	97089	26673	\$0	\$0	\$0
20	-	Tuition	0	0	\$6,345	\$6,345	\$0
21	-	Support	0	0	\$6,345	\$6,345	\$0
23	COLA, Allowances	-	3168	3194	\$3,045	\$3,195	\$150
26	-	Reduced	5640	3786	\$695	\$2,595	\$1,900
27	-	Medical, Reduced	28004	3351	\$0	\$2,995	\$2,995
29	-	Medical	13519	8564	\$0	\$0	\$0
30	COLA	-	801	593	\$5,495	\$5,795	\$300
31	-	Reduced	21311	4792	\$0	\$1,595	\$1,595

OIG Assigned Sample Number	Improper Application Category	Inadequately Documented Category	EFC Before Professional Judgment	EFC After Professional Judgment	Pell Award Before Change in EFC	Pell Award After Change in EFC	Potential Improper Amount of the Increase in the Student's Pell Award
36	COLA	Medical, Reduced	42102	27888	\$0	\$0	\$0
37	-	Change	41872	13743	\$0	\$0	\$0
38	-	Medical, Tuition	13635	8948	\$0	\$0	\$0
39	-	Reduced	6510	4192	\$0	\$2,195	\$2,195
41	COLA	Reduced	31600	15729	\$0	\$0	\$0
42	COLA	-	10770	10103	\$0	\$0	\$0
43	-	Change	838	838	\$5,495	\$5,495	\$0
44	-	Reduced	65066	38799	\$0	\$0	\$0
45	-	Medical	18590	17423	\$0	\$0	\$0
47	COLA	-	13798	13538	\$0	\$0	\$0
48	-	Medical	7864	5417	\$0	\$895	\$895
50	-	Reduced	48177	44307	\$0	\$0	\$0
Total	-	-	-	-	-	-	\$16,225

Appendix C. Acronyms and Abbreviations

AGI	adjusted gross income
Application and Verification Guide	Federal Student Aid Handbook, Application and Verification Guide
C.F.R.	Code of Federal Regulations
COVID-19	Coronavirus Disease 2019
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
EFC	expected family contribution
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
HEA	Higher Education Act of 1965, as amended
IPA	income protection allowance
OIG	Office of Inspector General
Pell	Federal Pell Grant Program
Title IV	Title IV of the Higher Education Act of 1965, as amended
USC	University of Southern California

USC's Comments



Enrollment Management
Kedra Ishop
Vice President

April 26, 2023

Gary D. Whitman
U.S. Department of Education
Office of Inspector General
Via Email to Gary.Whitman@ed.gov

Re: University of Southern California's Response to the U.S. Department of Education Office of Inspector General's Draft Audit Report (A20IL0007)

Dear Mr. Whitman:

I am writing on behalf of the University of Southern California (USC) in response to the U.S. Department of Education Office of Inspector General's (OIG) draft audit report dated March 28, 2023. A response to each of the findings in the Report is set forth below.

Finding 1: Professional Judgment Other Than Dependency Override

OIG Issue: OIG cites USC for not applying professional judgment other than dependency override in accordance with Section 479A of the Higher Education Act (HEA).

USC Response: USC disagrees with this finding because OIG is applying a professional judgment standard that goes beyond what is required under the HEA.

Professional judgment, by design, gives broad discretion to financial aid administrators:

Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances.

[§1087tt. Discretion of student financial aid administrators.](#)

The current regulations dedicate a single sentence to adequate documentation:

Adequate documentation for such adjustments shall substantiate such special circumstances of individual students.

The FAFSA Simplification Act revisions to [Section 479A](#), which will be implemented on or after July 1, 2023, continue to give broad discretion to financial aid administrators by expressly including as adequate documentation "a documented interview between the student and the financial aid administrator" and "supplementary information, as necessary, about the financial status or personal circumstances of eligible applicants as it relates to the special circumstances or unusual circumstances based on which the applicant is requesting an adjustment."

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Moreover, the Department of Education specifically encourages financial aid administrators to exercise professional judgment. *See, e.g.*, 2020-04-03 Electronic Announcement [UPDATED Guidance for interruptions of study related to Coronavirus \(COVID-19\)](#) (“The Department encourages FAAs to use professional judgment to reflect more accurately the financial need of students and families affected by the COVID-19 pandemic. In making case-by-case determinations, the FAA must obtain and retain in the affected student’s file documents that supporting [sic] and substantiating [sic] the reasons for any adjustment.”); 2020-07-09 Electronic Announcement [Reminder of Alternative Acceptable Documentation to Complete for IRS Verification of Non-Filing \(VNF\) and Form W-2; Increase in Professional Judgments due to COVID-19](#) (“We know that many FAAs have been reluctant to use professional judgment because the Department has used the percentage of students for whom a professional judgment determination has been made as part of its risk-based model to select institutions for program reviews. For the 2019-20 and 2020-21 award years, the Department will make appropriate adjustments to its risk-based model and will not negatively view increased use of professional judgment or use it as a selection criterion for a program compliance review.”).

Both the regulations and guidance underscore the flexibility given to financial aid administrators to make case-by-case determinations to adjust data values using professional judgment. Against that backdrop, it is particularly concerning to see OIG auditors’ requests for “invoices or receipts to support the medical and dental amount used to adjust data elements affecting AGI (that is, to show who it was for, what it was for, and if it is relevant to the current school year),”¹ when such stringent requirements are nowhere in the regulations or our internal policies. Similarly, nowhere do the regulations mandate schools collect tax returns over declaration forms.² If schools are going to be held to this higher standard of what constitutes adequate documentation, we must have adequate notice in the regulations. As a general matter, the regulations (even the revised ones) do not support the standard that OIG has applied in these findings.

For ease of review, we have included Tables 3, 4, 5 and 6 with USC’s annotations at the end of this letter. As shown in Tables 5 and 6, many of the professional judgment decisions noted below were completed for purposes of Institutional Methodology (IM) and carried over and reported for Federal Methodology (FM) for consistency. They did not result in additional federal aid eligibility because these students were already outside of Pell Grant range.

Cost of Living Allowances

OIG Issue: OIG states that USC did not demonstrate that it considered on a case-by-case basis whether a family’s living expenses (1) were unusual and exceeded the cost-of-living allowance amounts already included in the income protection allowance (IPA) expense categories and (2) substantiated a special circumstance.

¹ Requested for students 1, 4, 5, 7,8, 19, 20, 25, 32, 36, 39, 40, and 46 in 2019-20 and students 3, 7, 9, 16, 27, 29, 36, 38, and 48 in 2020-21.

² *E.g.*, Student 12 in 2019-20: “The only other information provided was a USC Parent Tax Information form the parent filled out based on tax information, stating the amount was a one-time pension payment. However, the tax form was not provided.”

USC Response: The nature of a COLA adjustment requires the processor to consider the initial IPA.³ The IPA is based on a nationwide standard and does not account for geographic cost of living differences. This is precisely why financial aid administrators need flexibility to consider a COLA for families who live in cities with a high cost of living—their ability to contribute to the cost of their student’s education is directly impacted by where they live.

COLA decisions are made on a case-by-case basis for families who submit special circumstance appeals and are not automatic. During the audit, OIG noted that USC did not “provide evidence that the family requested this adjustment.” Families generally do not know what specific professional judgment categories to request; they simply know that they cannot afford to pay the cost of their student’s education based on their current expected family contribution. More often, financial aid administrators will parse special circumstance appeals submitted by students and families to see what adjustments can be made. Geographic cost differences can have a significant impact on a family’s ability to contribute, even though they might not know to request this adjustment. The regulations were intended not as a test to determine which family could name the correct professional judgment category, but to give aid administrators the ability to adjust data elements to more accurately reflect the family’s ability to contribute.

Lastly, as OIG notes in footnote 13, USC references a third-party table developed by the College Board for COLA adjustments. The table uses data from the most recent years’ Consumer Expenditure Survey produced by the U.S. Bureau of Labor Statistics. Many schools reference College Board materials when developing professional judgment policies.

Aside from a family specifically referencing COLA in their appeal, USC is not clear on what other documentation a school could provide to substantiate a COLA adjustment. It seems eminently reasonable to review student records on a case-by-case basis and reference an external source to make a COLA. This should be enough to meet the standard set in the professional judgment regulations.

Allowances Against Parents’ Income

OIG Issue: OIG states that USC modified the total allowances section of the table used in the EFC calculation to decrease EFCs without substantiating special circumstances.

USC Response: USC did not modify the EFC formula, or the tables used in the EFC calculation. We modified the values of specific data elements used in the EFC calculation—namely, wages—which we are permitted to do using professional judgment.

Using Box 5 wages instead of Box 1 on the W-2 increases earned income, which increases the FICA allowance and reduces available income. It is a more accurate account of the family’s ability to contribute and we make this adjustment on a case-by-case basis after reviewing special circumstances.

³ EFC Policies & Procedure Manual, page 112 (“Identify the initial IPA on the formula worksheet (EFC page 17 for dependents and page 19 for independents).”).

Elder Care (Mortgage and Utility Payments)

OIG Issue: OIG states that, for two students in 2019-20, USC adjusted data items affecting AGI based on financial support provided for relatives not included in the families' households.

USC Response: The two students identified in this section submitted special circumstance appeals based on elder care expenses incurred by their families.⁴ Those expenses included helping with mortgage and utility payments. It goes without saying that not every family has elder care expenses and certainly not in the same amount. Where documentation is available to support the expense, USC's policy is to allow an adjustment of up to \$5,000 in elder care expenses.

USC reviewed each appeal and documented adjustments to AGI based on financial support provided to elderly relatives:

- **Student 20** submitted an appeal stating: "My parents are now incurring a new expense that is not reflected in the FAFSA. In June of this year, my 73-year-old Grandmother had to move to an assisted living community. Medicaid would not cover all of the expenses, and my Grandmother could not afford the balance. My parents paid the initial cost of \$23,114.54 in June and will start paying \$1,546.00 per month effective August 1, 2019. At this time we do not know if there will be additional monthly costs. Please let me know what documentation is needed to further explain this change."

The documentation submitted by the family shows the sale price of the property and copies of checks substantiating the \$23,114.54 paid by the parents as well as the amount of the loan (\$210,375). Per USC policy, the elder care adjustment was capped at \$5,000. The reason for the adjustment as "elder care" was identified in the notes and supported by the documents. Based on this documentation, a significant portion of the family's finances are going toward supporting a grandparent, thus reducing the amount available to contribute to the student's education.

- **Student 43** submitted a detailed appeal stating: "My maternal grandparents who have lived in our house in California for over 20 years are now retired and are also still currently residing in our house along with my sister. I additionally live at the house anytime we have a school break. My parents do not charge any of the inhabitants in our California house any rent and the house was kept so that no one would have to find somewhere new to live as my grandparents and sister would not be able to afford rent on their own without our assistance. Aside from allowing my grandparents and sister to live in the California house rent free, my parents are still paying the home's utility bills (I have attached a picture of 3 bills we have recently paid). Providing my grandparents with elder care as well as financially supporting my sister leaves my parents paying about

⁴ We note that neither of these students received Pell Grants, so the adjustment was made for consistency across federal and institutional methodology and did not have any impact on Pell eligibility.

\$500 out of pocket every month (\$300 of that is for the utility bills and \$200 is to help financially support my sister).”

The family also uploaded documentation specific to elder care: the student uploaded the responses to USC’s questions stating \$300 per month was provided to her grandparents and including bank statements showing monthly payments for gas, water, internet, and electricity. Based on the documentation as well as the student’s statement that the grandparents live in the California house rent free, the processor noted, “ALSO ALLOWED THE MAX ELDER CARE ALLOWANCE OF \$5,000 AS GRANDPARENTS LIVE IN PARENTS’ OTHER PROPERTY RENT FREE.”

Repayment of Federal Direct PLUS Loans

OIG Issue: OIG cites USC for adjusting data items affecting AGI based on recurring Federal Direct PLUS loan payments made by a parent for the student’s siblings without substantiating special circumstances.

USC Response: For **Student 33** in 2019-20, the family reported special circumstances:

“Single Parent with financial changes past 2 years; loss of alimony, decrease in child support, selling the family home, existing parent plus loan for 2 older siblings, one older sibling still lives at home that is support[ed] on a below cost of living wage.”

This professional judgment adjustment was based on special circumstances. The student’s mother is a single parent with a significant portion of her income going towards Parent PLUS loans for her other two children. The financial aid administrator requested verification of PLUS loan payments. The family submitted the names of the siblings, confirmed that they had graduated, listed the institutions and dates of graduation, indicated the total amount of Parent PLUS loans repaid in 2019 was \$8,496, and included a payment history from myfedloan.org.

USC's policy considers standard living expenses by capping the amount we will adjust the AGI to \$2,000 per sibling (i.e., we did not allow the full amount of PLUS loan payments despite having documentation to do so). This adjustment results in a more accurate estimate of what the parent can contribute to the student’s education in alignment with the regulations.

USC’s Responses to OIG Recommendations for Finding 1

In response to Recommendation 1.1, USC disagrees with OIG’s recommendation because the professional judgment determinations were made on a case-by-case basis with supporting documentation and within the flexibility given to financial aid administrators in the HEA.

In response to Recommendation 1.2, USC disagrees with OIG’s recommendation that the school review records for 6,062 students for whom the school reported professional judgment in award years 2019-20 or 2020-21 on the grounds that it is overly burdensome and unnecessary. It took multiple OIG auditors several weeks to review 100 student records. Assuming each record takes 2 hours (complicated records could take much longer), USC estimates this review would take six

staff members working full-time over a year to complete. Resources in financial aid offices are already stretched thin due to the implementation of FAFSA Simplification on top of review of current files and meeting with students and families.⁵ If Recommendation 1.2 remains in the Final Report, USC would request a meeting with Federal Student Aid to explore alternatives to a full file review should FSA agree with OIG's findings.

Finding 2: Documentation for Use of Professional Judgment Other Than Dependency Override

OIG Issue: OIG's Report cites USC for not documenting its use of professional judgment other than dependency override in accordance with Section 479A of the HEA.

USC Response: In general, USC disagrees with this finding because OIG is applying a standard for documenting professional judgment that goes beyond what is required under the HEA. There are a few instances where USC agrees with the findings as specified below.

Medical and Dental Expenses

OIG Issue: OIG claims USC did not consider the IPA before making an adjustment for medical expenses. OIG further states that USC did not adequately document its use of professional judgment. During the audit, OIG requested "documentation, such as invoices and receipts, substantiating the amount of the adjustment."

USC Response: The professional judgment regulations state, "Special circumstances may include . . . medical, dental, or nursing home expenses not covered by insurance . . ."⁶ In such cases, the medical/dental expense is itself the special circumstance.

"Financial aid administrators may, but are not required to, take the IPA into account as a best practice when making adjustments to EFC data elements."⁷ Consideration of the IPA is a "should," not a regulatory requirement, and therefore cannot be the basis for an audit finding. More importantly, USC did consider the IPA by only deducting the amount of total medical expenses that exceed 7.5% of AGI when using Schedule A (SCHA) unless special circumstances provided by the family warranted allowing full medical. "There is no required *type* of documentation, only that there is some documentation to substantiate the decision made Documentation can include, but is not limited to: Federal income tax form, Schedule A—Itemized Deductions."⁸

⁵ Hoover, Eric. "Financial-Aid Offices Are Short-Staffed - and Some Are 'Drowning' as a Result." *The Chronicle of Higher Education*, May 24, 2022, <https://www.chronicle.com/article/financial-aid-offices-are-short-staffed-and-some-are-drowning-as-a-result>.

⁶ 20 U.S.C. § 1087tt, <http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title20-section1087tt&num=0&edition=prelim>.

⁷ What Are the Guidelines For Using Professional Judgment Related To High Medical Expenses?, <https://askregs.nasfaa.org/article/31365/what-are-the-guidelines-for-using-professional-judgment-related-to-high-medical-expenses>.

⁸ *Id.*

OIG requests “documentation, such as invoices and receipts, substantiating the amount of the adjustment,” however, nothing in the regulations requires schools to collect such documentation. In most cases, USC relied on the SCHA. OIG suggests that the SCHA “could have included insurance premiums.” Per USC’s policy on medical expenses, “the expense must be allowable by the IRS to be allowed for FM” and we do allow insurance premiums paid after taxes as a possible PJ adjustment. The regulations do not contain a categorical exclusion for insurance premiums. Indeed, we are permitted to include insurance premiums as a special circumstance to increase cost of attendance.⁹

As shown below, adequate documentation to support a professional judgment adjustment was provided for 19 out of 24 students identified in this observation. For the remaining students, there was no impact on Pell Grant.

2019–2020

- **Student 1:** Documentation was SCHA, which showed \$9,120. USC did not allow full medical, just the \$4,416 in excess of 7.5% AGI.
- **Student 4:** Documentation was SCHA, which showed \$7,462. USC did not allow full medical, just the \$4,976 in excess of 7.5% AGI.
- **Student 5:** USC allowed full medical for \$2,463 based on family’s list of medical expenses that included the date of service, patient, provider, and amount. Nowhere in the regulations does it say that a self-prepared list of medical expenses is unacceptable. The total of the expenses on the list for 2018-19 exceeded the amount on the SCHA. USC had no reason to believe the family was not telling the truth, but we also did not grant a medical/dental adjustment for the total of the expenses on the list. Capping the professional judgment adjustment at full medical listed in the SCHA with supporting documentation in the form of the list of medical expenses was a reasonable use of professional judgment.
- **Student 7:** USC allowed full medical for \$826 but agrees with OIG that we should not have included the HSA amounts for federal methodology, only USC methodology. Note that the student did not receive Pell Grant.
- **Student 8:** USC allowed full medical for \$19,540 based on a letter from parents documenting that the student suffers from severe illness. That letter, coupled with SCHA, substantiated the adjustment.
- **Student 19:** USC allowed full medical for \$8,844 based on SCHA. This adjustment was carried over from the prior year for institutional methodology and updated for federal methodology as well.
- **Student 20:** USC allowed full medical for \$4,929 based on detailed expense documentation that showed the amounts for the student, her mom, and her brother. Each Medical Expense documentation form was followed by billing records that identified the “patient’s responsibility” amounts. USC based its adjustment for medical expenses on the sum of patient responsibility amounts listed in these documents.

⁹ Can we increase student’s cost of attendance for health insurance premiums they will pay while enrolled? <https://askregs.nasfaa.org/article/31576/can-we-increase-students-cost-of-attendance-for-health-insurance-premiums-they-will-pay-while-enrolled>.

- **Student 25:** USC allowed full medical for \$7,261 based on a letter from the family that indicates father has cancer and states the costs of some of his treatments (“The Focal Laser Ablation cost \$27,000, paid on Feb 15, 2018, and is not reimbursed by insurance, except approx. \$7,000. 2) The Proton Radiation Treatment cost \$10,000 out of pocket and will only be returned if our insurance accepts an appeal process for this.”). There is no regulatory requirement that we collect a detailed listing of medical costs. Using the details in the letter, coupled with SCHA, we made an adjustment for \$7,261 (far less than family was requesting in the letter).
- **Student 32:** USC allowed full medical for \$19,040 based the SCHA and a letter from family that indicates mom has a heart condition.
- **Student 36:** USC agrees with OIG that there is no appeal or special circumstance to support the PJ. Documentation was SCHA, which showed \$4,989. We did not allow full medical, just the \$75 in excess of 7.5% AGI. We note that this \$75 change was so minimal that it would not have impacted the amount of Pell Grant the student received.
- **Student 39:** USC allowed full medical for \$4,655 based on SCHA and continuing special circumstances from prior year (family has child with special needs).
- **Student 40:** USC allowed full medical for \$5,029 based on SCHA. Mom’s situation remained the same in 2019-20 with no help from the non-custodial parent and having to cover all living expenses by herself.
- **Student 42:** USC allowed full medical for \$5,860; since we were using 2019 projected income, a special allowance was made to accept documentation for 2019 medical expenses. Father battled, then passed away from, stage 4 cancer during the 2019-20 school year. (“Recently, my father passed away after battling a long battle with stage-4 lung cancer. My family now has half income but double the debt. My mother will have to get rid of everything from the home, the cars, our health insurance, and even the pets.”) Family provided detailed medical/dental expense documentation for student, father, mother, and explained that the medical payments “will likely continue throughout the school year.” The processor made an exception to accept the father’s 2019 medical expenses.
- **Student 46:** USC allowed partial medical for \$93,385 based on SCHA. We have a letter stating mom is unemployed and requesting a review of the expected contribution. Based on this letter, we conducted a full review of the file and because this medical amount was claimed on the 2017 SCHA, it is for either parent or their claimed dependents.

2020–2021

- **Student 3:** USC agrees with OIG that there is no appeal or special circumstance to support the PJ. Documentation was SCHA, which showed \$7,465. We did not allow full medical, just the \$4,935 in excess of 7.5% AGI.
- **Student 7:** USC allowed full medical of \$12,847 based on SCHA. Student submitted PJ for elderly relative, but no documentation to support it. Instead, we reviewed to see if there were any other adjustments we could make and adjusted for high medical per SCHA.
- **Student 9:** Documentation was SCHA, which showed \$5,000. We did not allow full medical, just the \$848 in excess of 7.5% AGI.

- **Student 16:** This family had no need under FM or IM. To see if anything could be done to bring the family within range for USC IM, we allowed full medical of \$78,957 based on the SCHAs and explored other adjustments, but none resulted in need.
- **Student 27:** USC allowed full medical of \$22,890 based on the SCHAs and the family's letter requesting additional help due to parent's business closing during COVID.
- **Student 29:** USC allowed full medical expenses of \$11,175. The appeal letter details mother's cancer treatments. The family identified out of pocket medical expenses for mother (\$4,487), father (\$3,763), and student (\$2,925), and uploaded several rounds of benefit claim information with amounts not covered by insurance to support the amounts.
- **Student 36:** USC agrees that some of these expenses were HSA service fees that were allowed for IM but not FM. We allowed full medical expenses of \$4,142 based on medical documentation. Family stated \$5,000 in medical expenses for father and mother, but only \$4,142 was substantiated by the documentation. No difference to subsidized aid eligibility for FM.
- **Student 38:** USC agrees there were no professional judgment adjustments to this file. Documentation was SCHAs, which showed \$16,600. We did not allow full medical, just the \$9,228 in excess of 7.5% AGI. Even if we allowed full medical, it would not have resulted in need. The processor likely left this in the file since the family has no federal need and it would not have made a difference.
- **Student 45:** USC arrived at the \$5,067 adjustment for medical expenses by adding up the amounts for family members from 2018: student (\$1,077) + father (\$16) + mother (\$3,974). Supporting documentation included invoices, pharmacy transactions, and insurance statements.
- **Student 48:** USC arrived at the \$8,447 adjustment for medical expenses by summing the amounts provided by the family in an Excel sheet that listed family member name, relationship to student, amount paid, payment date, payment receiver, and notes. The family stated that "All payments are entered from credit card statements."

Reduced Income

OIG Issue: OIG states USC did not provide adequate documentation substantiating the amounts by which it adjusted the data elements affecting AGI. OIG further states that the amounts of the reductions to parents' income did not reflect the information on the pay stubs, documentation of unemployment, or more recent tax returns.

USC Response: Projected income is exactly that—projected based on the information available at the time. That "more recent tax returns did not agree with the reduced amount of the parents' income" is not a basis for rejecting the professional judgment adjustment. During COVID, financial aid administrators were given great flexibility and encouraged to adjust AGI to account for special circumstances.¹⁰ The parents' attestations, projected income declaration forms, and

¹⁰ See, e.g., GEN 21-02 ("At all times, but particularly during this period of economic hardship, you may use documentation of unemployment—including, but not limited to, receipt of unemployment benefits—to reduce or adjust to zero the income earned from work for a student and/or parent as well as make corresponding adjustments to Adjusted Gross Income (AGI)."; "As this Dear Colleague Letter notes, we

pay stubs are all supporting documents that were relied on to adjust data items for the students below.

2019–2020

- **Student 3:** USC’s Student Information System (SIS) shows the projected income calculations and amounts. We used the reported income from the Parent Expected 2019 Income Declaration and reviewed year-to-date paystubs for both parents. Other taxable and non-taxable income was taken from the 2018 tax return, since the 2019 return was not available at the time (taxable refund and IRA deduction, respectively).
- **Student 25:** The family presented special circumstances of dad having cancer in 2017 and business income declined since his diagnosis. USC used the \$47,000 from the 2019 Parent Income Declaration and reviewed a prior year tax return to complete any projected income amounts that may have been missed in the declaration (in this case, most of the untaxed income portion of projected income). \$47,000 represents the decline in business income (assessed as wages to allow FICA as normal for net business income). Projected income amounts are supported by both the Business Profit and Loss statement and the declaration; per policy, we will take the higher amount. Student already had an auto-zero EFC under simplified needs test, so this adjustment did not impact his Pell, which was already at the maximum.
- **Student 32:** Comments in SIS show the breakdown for how we arrived at \$33,254: \$38 (2018 interest) + \$6,193 (2018 taxable refunds) + \$18,000 (Income and Expense Declaration, SCHC income, \$1500 x 12) + \$23 (2018 cap gains) + \$9,000 (SCHE income per declaration, \$750 x 12). We used the 2018 tax return to project income because 2019 was not yet available. Regarding rental income, we use the highest amount reported between the Income and Expense Declaration and appeal letter (\$9,000). We did not use the \$24,997 from the letter because it included December 2018; instead, we used the SCHC and SCHE income that totaled \$27,000 (more than the amount in the letter).
- **Student 38:** USC initially entered unemployment for the father but removed it after family’s appeal letter confirmed unemployment benefits had been exhausted. We further note that GEN-21-02 gave processors the flexibility to not count unemployment in AGI.
- **Student 42:** The paystubs for student’s mother were from 2018 and were not an accurate reflection of 2019 in light of the father’s significant health issues and death in 2019. Instead, we used the \$20,760 provided in the Parent Expected 2019 Income Declaration Form.

encourage financial aid administrators to use documentation of unemployment, such as an unemployment verification letter, online unemployment insurance account records from the state unemployment agency, or other supporting records, to set to zero the income earned from work for a student and/or parent and to make other needed adjustments to Adjusted Gross Income. This will ensure that these students and families receive the maximum funding to which they are entitled under the law. A copy of that documentation will satisfy the requirements that financial aid officers retain adequate documentation of their professional judgment adjustments.”).

2020–2021

- **Student 5:** USC relied on the Student Income and Expense Declaration. The regulations do not require more than this. Indeed, a declaration is particularly appropriate for students because education is their primary concern rather than employment. Student employment can fluctuate greatly so relying on a declaration rather than paystubs is reasonable.
- **Student 7:** USC projected income for each parent based on the sum of wages on the Parent Expected 2020 Income Declaration Form. The pay stubs support the monthly earnings listed on the declaration for each parent and the monthly amounts were multiplied by the remaining 4 months of the year to arrive at the estimates for the remainder of 2020. All projected income amounts have been documented.
- **Student 10:** USC agrees that we used the lower value from the Parent Expected 2020 Income Declaration Form when we should have used the higher estimate calculated from the paystub. This had no impact on aid because the student was not eligible for Pell.
- **Student 11:** The projected income for the father is under-reported based on the reduction letter alone. However, the processor exercised professional judgment to consider the Parent Expected 2020 Income Declaration Form because the parent is an independent contractor being paid wages by their own business. The Business Profit and Loss Statement shows wages paid through the end of May as \$26,000 (\$5,200/mo average x 12 = \$62,400). The Expected 2020 Income Declaration Form is likely taking into consideration other business expenses the father knows are forthcoming. The \$9,000 quoted in the letter is likely not considering business expenses.
- **Student 26:** The paystub calculation provided is only correct if each remaining week for the year is that exact value. However, the student’s letter explained how his father’s hours had been reduced due to COVID and his schedule remained unpredictable (“he will most likely not reach \$60,000 by the end of the year, as is typical, and will be with par to what he earned last year or lower (as the pandemic still remains unpredictable with its impact on his job in the future), around \$58,000 or less”). Therefore, the processor used professional judgment to accept the Parent Expected 2020 Income Declaration Form based on the family anticipating that work hours would be reduced for the remainder of the year.
- **Student 27:** The family explained that their business in the music industry was impacted by COVID. The Parent Expected 2020 Income Declaration Form supports the wage amounts used for projected income for Parent 1. For Parent 2, we used the amount listed in their letter, which was higher. Lastly, we note that GEN-21-02 gave processors the flexibility to not count unemployment in AGI.
- **Student 31:** Mom had decreased hours starting March 2020 so we used the Parent Expected 2020 Income Declaration Form value of \$30,000. Dad had a 50% income decrease starting March 2020, which we compared to 2019 W-2s to arrive at \$55,379. The \$60,000 reported for dad on the Parent Expected 2020 Income Declaration Form was reasonable to account for two months of pay. Dad’s income was dependent on the film industry, which was severely affected by COVID.

- **Student 36:** USC agrees with this finding in that both paystubs belonged to mom, however, the second paystub should have been added to mom's projected income. This had no impact on aid because the student was not eligible for Pell.
- **Student 39:** Mom's projected income was based on a paystub on a per diem basis. She was also attending school at the same time, so her paystub is likely not an accurate account of her annual income. For this reason, we used her self-reported income on the Parent Expected 2020 Income Declaration Form. It was unclear from the dad's paystub whether it was weekly, bi-weekly, or monthly pay, so we used his self-reported income on the Parent Expected 2020 Income Declaration Form as well.
- **Student 41:** We used 2019 income since the 2020 tax return was not available. For Parent 1, we projected income based on the W-2 from 2019. For Parent 2, we used 2019 business earnings from their 2019 tax return. Lastly, we note that GEN-21-02 gave processors the flexibility to not count unemployment in AGI.
- **Student 44:** The family explained that father lost his job and retirement accounts were depleted to provide for living expenses. Although wages are estimated higher than base year, total retirement distributions are much lower as noted on 2019 tax return and the amounts estimated on the Parent Expected 2020 Income Declaration Form. As a result, the projected income was used because it more accurately reflects the family's situation.
- **Student 50:** The appeal letter states mom was laid off from both of her childcare jobs. Both parents' incomes are supported by the Parent Expected 2020 Income Declaration. Parent 2 income is further supported by the termination letter and pay stub. Per policy, we used the higher amount listed in the declaration.

One-Time Change in Income

OIG Issue: OIG states USC did not provide adequate documentation substantiating that the income received was a one-time gain that should not be treated as an asset or a special circumstance meriting an adjustment to data elements affecting the EFC.

USC Response: USC collected documentation to support the one-time changes in income for the students below.

2019–2020

- **Student 12:** Parents completed the USC Parent Tax Information Form, indicating \$62,760 was a one-time pension distribution. When submitting this form, parents certify:

“[T]he financial information provided is the same information that has been or will be submitted to the Internal Revenue Service by the student and/or parents on IRS Form 1040. I have read and understand USC's policy on the falsification of financial aid information and understand that students will be held responsible for the integrity of any financial aid information submitted either by them or on their behalf. If the university determines that a student or parent has provided falsified information, or has submitted forged documents or signatures, the Financial Aid Office may restrict the distribution of

any further aid and the student may be subject to disciplinary sanctions as described in the Student Conduct Code (11.80).”

In addition to the form, the family confirmed that the one-time payment was spent on tuition, rent, and living expenses and that none of that income remains. When students upload documents to FAST, the documents are considered signed statements because FAST meets the authentication requirements under the E-Sign Act.

The processor then compared 2018 wages to 2017 (base year) and noted: “WE CAN REMOVE THE PENSION AS 1TIME. 2018 WAGES ARE APPROX \$60K HIGHER THAN BASE YEAR.” This adjustment was supported by documentation and an appropriate use of professional judgment.

- **Student 15:** Parents completed the USC Parent Tax Information Form, indicating \$47,673 capital gain for sale of home. The financial aid administrator used Form 8949 to verify the sale of home. Sale of home can occur only once (family had no other real estate properties). Parent letter states, “The money used for the sale of the house went to several bills, attorney (we had to work trough [sic] years to receive the divorce/ restraining order) credit cards, schools, medical, paying my ex-husband.” Based on this letter describing how proceeds were spent, gain was removed as one-time income. This adjustment was supported by documentation and an appropriate use of professional judgment.
- **Student 30:** The family submitted a USC Parent Tax Information Form, indicating \$15,000 IRA and \$17,033 pension were one-time distributions. They confirmed in follow up documentation that the full \$32,000 was spent on “Home repairs, support of an elderly parent & home expenses.” The processor made a one-time adjustment to address the taxable portions of the early IRA/pension distributions: “THE AMOUNT FOR BASE YEAR IS \$32,033. \$25,000 CLAIMED AGAIN IN RETIREMENT IN 2018. 1 TIME GAIN ADJUST WILL BE THE DIFFERENCE BETWEEN BASE AND 2018 YEARS. (\$7033).” Even though the family stated they spent the full \$32,000, the processor used professional judgment to exclude \$25,000 (seeing it was a repeat withdrawal) and only allowed the one-time gain for \$7,033. This was a reasonable adjustment in light of the documentation.
- **Student 32:** This was a reasonable IM professional judgment adjustment that was carried over to FM but did not make a difference in the student’s aid eligibility. Per USC policy, we reviewed the Parent Expected 2019 Income Declaration Form, which did not include an early retirement distribution. No 2019 tax return was available at the time, so the processor reviewed the 2018 tax return. On that return, \$54,015 was claimed as an early retirement distribution. Typically, pre-COVID, families would not withdraw the same amount from retirement year-to-year, so it would be inaccurate to count the 2018 withdrawal in 2019 projected income.

2020–2021

- **Student 37:** For FM purposes, USC reduced the AGI by taxable capital gains of \$154,150 as claimed on line 13 of Schedule 1 on the 2018 tax return. The capital gain was the result of sale of a home, which is a one-time event and supported by escrow documentation. In addition, documentation shows that the proceeds from the sale were used to pay off credit cards and student and sibling’s educational costs. We did not use the \$140,184 amount in the letter because the 2018 tax return was the verifying document. (For IM purposes, we collect escrow documentation and use the long-term capital gain amount from Schedule D of \$165,248.)
- **Student 43:** There was no professional judgment for FM on this record. USC sent a correction (not a PJ) to CPS for the removal of \$137,969 that was a rollover. Although it is not listed on the 2018 tax return, parents reported a rollover on the Parent Tax Supplement Form: “IRA, Pension, or Annuities reported? Yes. IRS, Pension, or Annuities Source: RO.” The documentation confirms that this was not a one-time gain.

Private Elementary or Secondary School Tuition for Siblings

OIG Issue: OIG states USC did not provide adequate documentation, such as invoices or receipts, substantiating the amount of tuition that the family paid or special circumstances that merited adjustments to the data elements affecting EFC.

USC Response: Tuition expenses at an elementary or secondary school can be a special circumstance. Such expenses are expressly stated in the professional judgment regulations: “Special circumstances may include tuition expenses at an elementary or secondary school”¹¹ As stated in the regulations, the tuition expense is itself the special circumstance.

The issue is whether adequate documentation was provided for the five students. For these students, OIG appears to want to see “invoices or receipts” to substantiate the amounts of tuition paid. Nowhere in the regulations are schools required to collect “invoices and receipts.” Signed declarations or information reported on the CSS profile, which were collected for each of the five students, meet the regulatory standard for adequate documentation and support the adjustments in each case.

2019-20

- **Student 9:** In the notes for this student, OIG stated, “No invoices or receipts provided to substantiate the amount of tuition that the family paid, who it was for, or that it was for elementary or secondary (i.e. kindergarten through 12th grade) tuition.” The parent tax information form lists mother as parent and three dependents. Tuition expense was mentioned as a financial hardship/special circumstances in the CSS Profile. The CSS Profile has tuition of \$15,476, which we do not verify unless there is conflicting information or the amount of tuition per dependent exceeds our policy.

¹¹ 20 U.S.C. § 1087tt, <http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title20-section1087tt&num=0&edition=prelim>.

- **Student 31:** For this student, OIG stated, “A USC Family Member Listing form that the parents filled out lists a brother in elementary/middle school, but this form is not sufficient support to document what the amount is for and if the amount is correct; there are no receipts or invoices to substantiate any amounts owed or paid, or how USC determined an adjustment amount of \$450.” Tuition expenses were reported on the Family Member Listing as \$1,000 for the brother in elementary/middle school; per policy, we used the lower reported amount on the CSS Profile.

2020-21

- **Student 6:** OIG noted, “The CSS profile shows the tuition amount, but no invoice or receipt provided to substantiate the amount of tuition that the family paid or who it was for.” The CSS profile showing \$12,000 should be sufficient documentation. When students submit the CSS Profile, they certify that:
All the information on this form is true and complete to the best of my knowledge. If asked, I agree to give proof of the information that I have given on this form. I realize that this proof may include a copy of my U.S., state or local income tax returns. I certify that all information is correct at this time, and that I will send timely notice to my colleges/programs of any significant change in family income or assets, financial situation, college plans of other children, or the receipt of other scholarships or grants. The CSS Profile is adequate documentation upon which to base a professional judgment determination.
- **Student 20:** We agree with this observation and should have used the amount the family paid ($\$500 \times 4 = \$2,000$) rather than the total tuition and fees from the CSS Profile ($\$7,500$). The student had an auto-zero EFC under the simplified needs test, so this change did not impact FM/Pell eligibility.
- **Student 38:** There were no professional judgment adjustments to this file. The CSS Profile has tuition of \$18,000, which we do not verify unless there is conflicting information, or the family wants to have full tuition considered. The processor likely left this in the file since the family has no federal need and it would not have made a difference.

Financial Support for Relatives Living Abroad

OIG Issue: OIG states USC did not provide adequate documentation showing what the financial support was for or that it was a special circumstance. OIG further states that USC did not ensure that parents provided more than 50 percent of the financial support for those relatives living abroad per school policy.

USC Response: USC disagrees in part with this finding. Although we cannot include relatives living abroad in the household size, aid administrators can “exercise professional judgment . . . such as excluding the amount of income used to support the other family members if it is reasonable to do so based on the circumstances involved.”¹² In two of the three cases, there was

¹² In the Household Size If the Relatives Live In Another Country?
<https://askregs.nasfaa.org/article/31524/in-the-household-size-if-the-relatives-live-in-another-country>

documentation in the file to support an adjustment for financial support for relatives living abroad.

- **Student 3** in 2019-20 submitted the following special circumstances for consideration:

Non-recurring income or expenses
Financial support of other family members

My father remains as an university lecturer who's source of income is not predictable. There are some months in the year where he does not have an income. In addition to this factor, our family is from Venezuela where we still have relatives. As is known the country continues experiencing financial challenges. My mother has two brothers and my grandfather who still living there. On of my uncles, [REDACTED], has learning disabilities and he requires medicines for which we need to provide financial support. In addition my grand father has developed Parkinson's disease requiring medical treatments that are costly or difficult to be found in Venezuela. All these variables affects our income since we are an important financial support to them. My family in Venezuela has not a reliable source of funding and my mother contribute to pay their expenses, which could vary between US\$200 - US\$ 500 a month.

When asked for documentation of support for a relative abroad, the family provided a detailed letter explaining that the family supports the student's disabled uncle who lives with his brother who does not have a sufficient income to support him. Along with this, the family completed USC's form stating that \$200-\$800 of support was provided to the uncle in 2018.

- For **Student 26** in 2019-20, the "Documentation of Support for Relative Abroad" requests "information and documentation to verify that your parents provide more than fifty percent of the support in 2018 for a relative staying abroad." If the family submits documentation, we typically take their word that they are providing at least fifty percent of the support for their relative based on the language of the request. Upon review of the documentation indicating \$1700 was for a car accident, medical expenses, and gift, we agree that these were not typical expenses for support for relatives abroad. (Note that this student did not receive a Pell Grant so this adjustment did not change subsidized aid eligibility.)
- For **Student 21** in 2020-21, as with Student 26 above, we were trusting that the family provides more than fifty percent of the support based on the documentation instructions. Family submitted documentation, including receipts, stating that "Money is sent whenever possible sometimes it is sent every couple of months. In total for the year \$250

("Because the other family members do not live with the student, or parent, they cannot be included in the household size. However, you may be able to review the circumstances of this case to potentially exercise professional judgment (PJ). A PJ decision could include an option such as excluding the amount of income used to support the other family members if it is reasonable to do so based on the circumstances involved.").

to which is equal 4787.5 pesos with the occasional \$20 American dollars for special days (holidays).” These were valid support payments and, depending on where the family lives in Mexico, could be more than fifty percent support.

Reduced Assets

OIG Issue: OIG states that USC did not adequately document its use of professional judgment based on a reduction in one student’s cash assets in 2019-20.

USC Response: USC disagrees with this finding. **Student 22** submitted an appeal letter stating that cash has decreased from \$16,000 to \$7,000 because “[t]he monthly expenses of alternative transportation were detrimental and ultimately started taking a toll on my wellbeing. Constantly getting into strangers’ cars and risking my safety was no longer an option, and I bought a used car in order to solve this issue.” The student provided documentation from Ally Bank showing a balance of \$8531.69 and Chase Bank showing a balance of \$1207.31 and Chase College showing \$874.93. The processor rounded these three values down and updated the value for cash to \$10,612. This adjustment was thoroughly documented and within the discretion of the aid administrator.

USC’s Response to OIG Recommendation for Finding 2

In response to Recommendation 2.1, USC disagrees with OIG’s recommendation that the school review records for 6,162 students for two award years and incorporates by reference the reasons stated in response to Recommendation 1.2 above.

Finding 3: Documentation of Dependency Overrides

OIG Issue: OIG found that USC did not adequately document its application of dependency override in accordance with Section 480(d) of the HEA and the Application and Verification Guide.

USC Response: USC disagrees with this finding. First, five of the eight students were homeless youth determinations.¹³ Although OIG notes that “the Department’s Central Processing System processes homeless or at risk of homelessness determinations as dependency overrides,”¹⁴ homeless youth determinations follow a different set of rules than standard dependency overrides.

Chapter 2 of the [FSA handbook](#) states:

Unaccompanied homeless youth (55–57). A student is independent if at any time on or after July 1, 2019 (irrespective of whether he is currently homeless or at risk thereof), he is determined to be an unaccompanied youth who is homeless or is self-supporting and at risk of being homeless. This determination can be made by: a school district homeless

¹³ Student sample number 2 in 2019-20 and all four students in 2020-21.

¹⁴ Draft Audit Report, p. 28, fn. 29.

liaison, the director (or designee) of an emergency shelter or transitional housing program funded by the U.S. Department of Housing and Urban Development, or the director (or designee) of a runaway or homeless youth basic center or transitional living program. Depending on the district, these authorities *may* choose to make this determination only if the student is receiving their programs' services or if, in the case of a school district homeless liaison, the student is in high school. An FAA may also determine this; see *Chapter 5*. Students who are 22 or 23 years old, though not defined as youth in the McKinney-Vento Act, may also answer "Yes" to these questions.

Chapter 5 of the [FSA handbook](#) continues:

Unaccompanied Homeless Youth

If a student does not have and cannot get documentation from any of the authorities listed under the "Unaccompanied homeless youth" section in Chapter 2, you (the FAA) must determine if she is an unaccompanied youth who is homeless or is self-supporting and at risk of being homeless. Any student who is not yet 24 may qualify for a homeless youth determination. It is important to make homeless youth determinations on a case-by-case basis.

...

The determination may be based on a documented interview with the student if there is no written documentation available.

In light of the McKinney Vento Act's goal of removing barriers for homeless youth, [Dear Colleague Letter GEN 15-16](#) cautions against requesting too much documentation:

We are aware that some institutions are unnecessarily restricting applicants' access to aid by asking applicants to provide justification as to why they are homeless or unaccompanied rather than evidence that they have been determined to be homeless or at risk of being homeless. Institutions should limit any inquiry to whether the applicant has been determined to be an unaccompanied youth who is homeless, or at risk of being homeless, rather than the reasons for the applicant's homelessness.

Acceptable documentation includes, but is not limited to, information from:

- Local school district personnel;
- State homeless education coordinators;
- Third parties such as private or publicly funded homeless shelters and service providers;
- Financial aid administrators from other colleges;
- Staff from college access programs, such as TRIO or GEAR UP;
- College or high school counselors; or
- Mental health professionals, social workers, mentors, doctors, and clergy.

...

Because of the sensitive nature of these situations, if an institution has no conflicting information about the status of the student the institution **should not request additional documentation, proof, or statements**. Doing so may appear as if the FAA is asking

applicants to explain, clarify, or justify their circumstances, instead of simply providing documentation of their homeless status. (Emphasis added.)

Furthermore, the updated professional judgment regulations (FAFSA Simplification Act, [Sec. 479D](#)) expressly state that, in the absence of documentation from a homeless liaison, shelter director, director of a federal TRIO program or financial aid administrator from a prior institution, a financial aid administrator must make a case-by-case determination of unaccompanied homeless youth:

- (A) based on a written statement from, or a documented interview with, the student that confirms that the student is an unaccompanied homeless youth, or unaccompanied, at risk of homelessness, and self-supporting; and
- (B) made without regard to the reasons that the student is an unaccompanied homeless youth, or unaccompanied, at risk of homelessness, and self-supporting.
- (3) Consider a determination made under this subsection as distinct from a determination of independence under section 480(d)(9).

For the five students that OIG states lacked documentation to support homelessness determinations, the documentation supported USC's determinations:

- **Student 6 (2019-20)**: Student's letter stated she was homeless and had abusive relationship with her mother; letter from friend corroborating student lived with her while she was homeless; letter from supervisor stating student came from abusive home; FAO administrator's call with the student in which student indicated there was no "impartial/professional who knows her situation and can write a third-party letter"
- **Student 3 (2020-21)**: Student's letters stated she and her baby live at her family's house because she "cannot afford another option," family sleeps on couch so baby and student can share a room. Student survives paycheck to paycheck paying for groceries, diapers and clothes. Father is in prison and mother is not assisting financially because she wants student to "be just as sufficient as any other mother, teenager or not."
- **Student 8 (2020-21)**: Student's letter stated he has not had a permanent residence since 18 and has relied on friends and extended family for a temporary place to sleep, couch or guest room; letter from older brother stating student sleeps at his apartment; letter from uncle stating student stays at his house when he needs a break from his brother's apartment; letter from student stating he lives on his brother's pullout couch or on the floor in his uncle's computer room
- **Student 11 (2020-21)**: Student stated "I currently live with different friends. 'coach [sic] surfing'" in admission documents; friend's father submitted a letter stating student was "moving constantly, occasionally sleeping in cars, having zero supervision"; student's letter stating he has been technically homeless ever since high school ended; phone call with financial aid administrator where notes indicate "Mother has been missing in action according to the student since end of HS. Student has been jumping around since then."
- **Student 13 (2020-21)**: Student's letter stated she has "been staying with friends here and there" since the beginning of spring 2020. "Some weekends, we will have to stay in my friends[] car if their parents don't have the space or if my son is being too loud and can't sleep because I don't have a car myself." Letter from cousin stating student's mom kicked

her out of the house and student has been on her own since; letter from close friend, stating her family let student and baby stay with them for 2 months.

As shown above, the student's written statements and the additional letters and, in some cases, phone calls provide sufficient documentation to support that these students lacked fixed, regular, and adequate housing or were at risk of homelessness, as required by both the regulations and guidance.

For the remaining three students, USC's files contained student letters, third party letters, and letters from family friends or relatives.¹⁵ Indeed, each of the three students provided a third party letter—from a counselor, a minister, and a therapist, respectively. The issue for these three students is that the third party letter was not signed, dated, or on letterhead.

Third party letters, while ideal and best practice, are not required by the regulations. When third party letters are submitted, there is no requirement that they be signed, dated, and on letterhead to be accepted.

Chapter 5 of the [FSA Handbook](#), quoted above, states, "If third party documentation is not available, the school may (it is not required to) accept a signed and dated statement from the student or a family member detailing the unusual circumstances. Such a statement should be a last resort." See also [GEN 11-15](#) ("In rare circumstances where third party confirmation cannot be obtained, the financial aid administrator may - but is not required to - accept a signed statement from the student alone, or the student and his or her relatives or friends; however, the use of this form of documentation may occur only in extremely rare circumstances.").

A [March 2022 Department of Education training](#) on professional judgment further reinforced that it is within the financial aid administrators' judgment to accept signed statements from family members for dependency overrides:

Q33. Can a signed statement from the student or family member be sufficient documentation?

A33. Yes. That's a really simple one. It can be. There's a number of people that can be sufficient documentation. It's really up to you, or whether or not that is documentation that you find acceptable. So for example, would you want to take maybe a statement from grandma regarding the situation of the student? Sure. Would you want to take a statement from a 12-year-old cousin? Probably not. So it is really up to you to use your best judgment, but documentation from a family member would be fine.

USC students upload supporting documentation through their Financial Aid Summary and Tasks (FAST) portal. When students use FAST, they consent to conduct business electronically. FAST meets the authentication requirements under the E-Sign Act and captures the date of the document submission. Even if the students had not submitted third party letters (which they did), their statements uploaded to FAST meet the requirements above for accepting a signed and dated statement from the student. In all three cases, in addition to the third party letters, there were also

¹⁵ Student sample numbers 2, 9, and 15 in 2019-20.

letters from relatives or friends to support the student's statement. Although we agree that third party letters that are signed, dated, and on letterhead are a best practice, we disagree that anything less can be the basis for an audit finding.

USC's Responses to OIG Recommendations for Finding 3

In response to Recommendation 3.1, USC disagrees with OIG's findings because USC made homeless youth determinations and dependency overrides on a case-by-case basis supported by documentation. OIG is holding USC to a standard in this audit that goes beyond what is required by the regulations, guidance, and training provided to institutions.

In response to Recommendation 3.2, USC disagrees with OIG's recommendation that the school review records for the 81 students not included in the sample. This review is unwarranted for the reasons stated in Recommendation 3.1 and would be overly burdensome for the reasons already stated in response to Recommendations 1.2 and 2.1.

Finding 4: USC Generally Reported Its Use of Professional Judgment to the Department's Central Processing System in Accordance with the Application and Verification Guide

OIG Issue: Although USC generally reported its use of professional judgment to CPS, it also reported to CPS that it applied professional judgment when its financial assistance records did not corroborate that a financial aid administrator had applied professional judgment for Title IV purposes.

USC Response: USC concurs with this finding.

USC's Response to OIG Recommendation for Finding 4

In response to Recommendation 4.1, USC has updated its policy and procedure manual to instruct processors to only enter professional judgment adjustments for Title IV purposes (federal methodology) if the changes will impact Pell eligibility for the student. This should reduce the number of changes sent to CPS because of professional judgment applied only for institutional methodology. With the upcoming FAFSA Simplification changes, we are also exploring possible programming updates to our Student Information System for CPS reporting.

* * *

USC appreciates the professional manner in which this audit was conducted and the opportunity to respond. We are committed to working with you to expedite the formal resolution of the audit.

Sincerely,



Kedra Ishop
Vice President of Enrollment Management