

Verification

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FINANCIAL AID PROGRAM INTEGRITY

- Institutions, states, and others developed and implemented their own policies and procedures before verification was mandated
 - To assure reliable data used in awarding process
 - To confirm resources distributed equitably to most deserving recipients
- It is important that the right amount of money be provided
 - To the right person
 - At the right time
 - In the right way

WHAT IS VERIFICATION?

- Verification is the process of ensuring accuracy and consistency of family-reported data used to establish eligibility for need-based assistance
- Verification regulations define
 - Who must be verified
 - Which data items from the application are to be verified, and
 - What types of documentation must be used to verify items

VERIFICATION POLICIES

MUST have a written policy stating:

- Deadlines for submitting documentation and consequences of failure to meet deadlines
- Method of notifying students of award changes resulting from verification
- Correction procedure requirements
- Procedures for referring overpayment cases to ED

In addition, the school must provide each student with

- Documentation requirements
- Student responsibilities
- Notification methods

REQUIRED VERIFICATION ITEMS

- Household size
- Number in college
- U.S. taxes paid
- Adjusted Gross Income (AGI)
- Certain types of untaxed income and benefits:
 - Payments to tax-deferred pension and savings plans
 - Tax exempt interest income
 - Child support received
 - Workers' compensation
 - Veterans non-education benefits
 - IRA/SEP/Keogh deductions
 - Untaxed pensions
 - Untaxed IRA distributions
 - Interest on tax-free bonds

APPLICATIONS TO BE VERIFIED

- All applications selected by CPS until 30% of total number of aid applicants verified
 - School must define "applicant" and use that definition for students counted toward 30% limit
- School may select additional applications to verify
 - May not be counted in 30%

VERIFICATION EXCLUSIONS

Post-enrollment – selected after ceasing enrollment	Death of the student
Incarceration – student is in jail or prison at the time of verification	Applicant verified by another school
Recent immigrant – student is an immigrant who arrived in US during 2011 or 2012	Pacific Island resident – legal resident of Guam, American Samoa, or Commonwealth of Northern Mariana Islands or citizen of Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.
Spouse unavailable – spouse deceased or mentally or physically incapacitated. Residing in a country other than US. Cannot be located because address unknown and student cannot obtain it.	Not an aid recipient
Parents unavailable – parents deceased or mentally or physically incapacitated. Residing in another country. Cannot be located	

VERIFICATION NOT REQUIRED FOR

- Direct Loans (sub or unsub) for study at **eligible foreign** schools
- Parent or graduate PLUS loan
- TEACH Grant Program
- Robert C. Byrd Honors Scholarship Program

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ACCEPTABLE DOCUMENTATION

	Verification Worksheet & Tax Return(s)	Other documentation in lieu of Worksheet or Tax Return
Household Size	√	Signed statement
Number Enrolled in College	√	Signed statement and/or Institutional certification
AGI & Taxes Paid	√	IRS tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or Signed statement
Untaxed Income & Benefits	√	Official agency documentation and/or statement

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VERIFICATION WHEN IRS DATA RETRIEVAL USED

- Based on ED's guidance, collection of IRS form is not required when IRS Data Retrieval is used and data remains unchanged.
 - **Exception:** if applicant reports untaxed income which cannot be verified using the data transferred through IRS DATA Retrieval, the school will need to collect appropriate documentation, which could include a copy of the tax return
 - Data transferred includes: filing status; tax return type; AGI;
 - IRS exemptions; Education credits; IRA deductions and payments; Tax-exempt interest income; Untaxed IRA distributions, and Untaxed pension distributions.

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TIMING OF SIGNATURE/HEROES ACT MODIFICATIONS

Timing of Signature

- Any required signatures on worksheets, copies of tax returns, etc. must be collected at time of verification, during applicable award year

HEROES Act Modifications

- The Higher Education Relief Opportunities for Students (HEROES) Act provides for modification and waiving of some statutory and regulatory provisions related to students
 - Who receive financial aid and
 - Are on active duty during a war or other military operation or reside or are employed in a declared disaster area

Originally enacted in 2003, the bill was permanently extended by the 2007 Congress and signed by the President.

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HOUSEHOLD SIZE

- Not required to verify if the following apply:
 - It is same as reported and verified in previous award year
 - ISIR or SAR received within 90 days after date application was signed
 - For dependent student, household size reported for married parents is 3 or 2 if parent is single, divorced, separated, or widowed
 - Household size reported for married independent student is 2 or 1 if student is single, divorced, separated, or widowed

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NUMBER IN COLLEGE

- Not required to verify if the following apply:
 - Reported number enrolled is one (student only)
 - ISIR or SAR received within 90 days after date application signed
 - Family members student lists enrolled at least half-time at same institution as applicant and confirmed through institution's own records

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ACCEPTABLE SIGNATURES

- Taxpayer's
- Tax preparer's including SSN, EIN, or PTIN (Preparer Tax Identification Number), or
- Stamped, printed, or typed with tax preparer's name, plus SSN, EIN, or PTIN (name of preparer's **company** not sufficient)

Type of Tax Return Filed MUST be Reviewed

- Necessary to review type of tax returns to be certain each is correctly reported on the FAFSA. The Department is stressing this!!
- Copies (such as photocopies, faxes, digital images) of worksheets, tax returns, or other documents are acceptable

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WHEN TAX RETURNS UNAVAILABLE

- Must obtain copy from IRS – guidance is from FSA Handbook
 - Offices no longer provide transcripts when taxpayer walks in (individual IRS offices may have different policies)
 - Requests may be in writing or by phone
 - ✓ Mail Form 4506-T to the IRS (included in Handouts) or
 - ✓ Call the IRS at 1-800-829-1040 and follow the automated system's directions
 - Can be accessed from Web site:
 - ✓ www.irs.gov/pub/irs-fill/f4506.pdf
 - Or complete on-line at www.irs.gov/pub/irs-pdf/f4506.pdf
 - Short Form 4506T-EZ is also available at
 - ✓ www.irs.gov/pub/irs-pdf/f4506tez.pdf

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2010 TAX FILING REQUIREMENTS FOR MOST TAXPAYERS

IF your filing status is..	AND at the end of 2010 you were...	Gross Income (earned income)
Single	Under 65	\$9,350
	65 or older	\$10,750
Married filing jointly***	Under 65 (both spouses)	\$18,700
	65 or older (one spouse)	\$19,800
	65 or older (both spouses)	\$20,900
Married filing separately	Any age	\$3,650
Head of household	Under 65	\$12,050
	65 or older	\$13,450
Qualifying widow(er) With dependent child	Under 65	\$15,050
	65 or older	\$16,150

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UNTAXED INCOME AND BENEFITS NOT REPORTED ON TAX RETURNS

- Child support only verified if reason to believe support was received
- Untaxed Military Benefits must now be collected on the following:
 - Verification Worksheet
 - Military employee's leave and earnings statement (LES), or
 - Other student/parent statement or certification

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UNTAXED INCOME AND BENEFITS NOT REPORTED ON TAX RETURNS - MILITARY

- Clarification on Military Untaxed Income and Benefits
 - Value of on base housing or allowance for off base housing is excluded from untaxed income for students who are in the military, married to military spouse, or the dependent of military parent(s)
 - If the student lives on base or receives allowance for off base housing or his/her spouse receives the allowance, exclude housing in the student's COA
 - If the dependent student lives with the parent receiving the allowance for off base housing or lives on base with the parent, exclude housing in the student's COA
 - If the dependent student lives away from parents (on or off campus), **include** housing in the student's COA

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ADDITIONAL CONSIDERATIONS FOR 2011 – 2012 VERIFICATION

- American Opportunity Credit – refundable portion – does not count as untaxed income
- First-time homebuyer credit – counts as untaxed income because it is not explicitly excluded
- Making work pay credit – counts as untaxed income

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INTERIM DISBURSEMENTS

- May be made before verification is complete as long as FAA believes application information is accurate
- Institution is liable for any overpayments not collected from student if verification results in change in student's eligibility
- Decision to make interim disbursements should be made in consultation with other institutional administrators
- See attachment: *CFR Subpart E-Verification of Student Aid Application Information, Sec. 668.58 Interim disbursements for details*

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DISCREPANT TAX DATA

- FAAs must have a fundamental understanding of tax issues that can affect need analysis
- Should know:
 - Whether an individual is required to file a tax return
 - An individual's correct filing status
 - Only one person can claim another as an exemption
- IRS Publication 17 at www.irs.gov excellent resource

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FILING STATUS

- Generally the filing status must reflect marital status
 - Taxpayers must use one of five filing statuses
 - Filing status impacts the calculation of income tax, affects the amount of standard deduction, and determines allowance or limitation of certain credits and deductions
- Filing Status
 - Married Filing Jointly
 - Qualifying Widow(er) with Dependent Child
 - Head of Household
 - Single
 - Married Filing Separately

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FILING STATUS

- Single – if on the last day of the year, you are unmarried or legally separated from your spouse under a divorce or separate maintenance decree and you do not qualify for another filing status
- Married Filing Jointly – you are married and both you and your spouse agree to file a joint return
- Married Filing Separately – you are married. If you and your spouse do not agree to file a joint return, you may have to use this filing status

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FILING STATUS

- Head of Household – Must meet the following requirements:
 - You are unmarried or considered unmarried on the last day of the year
 - You paid more than half the cost of keeping up a home for the year
 - A qualifying person lived with you in the home for more than half the year

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INTERIM DISBURSEMENTS

- Pell Grant, Perkins, and FSEOG
 - One disbursement from each may be made during first payment period if no conflicting information
- Federal Work-Study
 - May employ student for up to 60 consecutive days after student enrolls provided no conflicting documentation
 - Student cannot continue to work after 60 days if verification not complete
- Direct Loans
 - Loan may be certified or originated if no conflicting information
 - May not be disbursed

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VERIFICATION TOLERANCE

Verification Tolerance up to \$400 for some dollar items

- For original and corrected values: Add original AGI and untaxed income; subtract tax paid

Case 1. Original values

- \$2,500 AGI
- + 500 untaxed income
- 250 taxes paid
- \$2,750 total

Corrected values

- \$2,800 AGI
- + 500 untaxed income
- 281 taxes paid
- \$3,019 total

Difference

- \$3,019
- 2,750
- \$ 269 Net Difference
- When difference greater than \$400 incorrect items must be corrected

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VERIFICATION TOLERANCE

Case 2. Original values

- \$2,900 AGI
- + 250 untaxed income
- 400 taxes paid
- \$2,750

Corrected values

- \$3,400 AGI
- + 100 untaxed income
- 350 taxes paid
- \$3,150

Difference

- \$3,150
- 2,750

\$400 The application does not have to be reprocessed because the difference is \$400 or less.

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RESULTS OF FAILURE TO SUBMIT DOCUMENTATION

- Student not eligible to receive Pell Grant until
 - Verification process completed
 - School has final and valid ISIR or SAR showing official EFC
- Institution is liable if interim disbursement has been made
- School cannot complete the following until verification is complete:
 - Disburse additional FSEOG or FPerkins Loan funds (funds already disbursed as interim must be repaid by school)
 - Continue FWS employment beyond 60 days
 - Originate Direct Loan if conflicting information
 - Disburse Direct Loan funds to student

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VERIFICATION STATUS CODES

- All Pell recipients must be assigned a verification status
 - V – Verified (includes those selected by CPS and school)
 - W – Student selected for verification by CPS and school chose to pay first disbursement of Pell without documentation
 - S – The CPS selected student but institution did not verify because 30% verification threshold reached or school participates in Quality Assurance program
 - Blank- Verification not performed because CPS did not select student
- **Note:** The “W” code must be updated to “V” once verification is complete. Failure to do so results in Pell Grant reduced to \$0.00 by processor.

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VERIFICATION SELECTION AFTER DISBURSEMENT

- Application selected for verification after corrections have been submitted and after student has already been paid based on previous unselected CPS transaction
 - Change flag will be on ISIR to call attention to this
 - Must verify information before making further disbursements
 - If verification does not justify aid already disbursed, student is responsible for repaying all aid for which he is not eligible
 - Exception is student may keep any Stafford loan money received and FWS wages earned

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CORRECTING ERRORS

- If there would be no change to Pell Grant, student does not have to submit corrections unless data match item must be changed
- Corrections must always be submitted to CPS if SS # wrong or other application questions subject to data matches are incorrect
- Student who incorrectly reports he or she is graduate student on FAFSA must correct information
- If scheduled award would increase, original EFC can be used and student is not required to submit corrections for reprocessing, or
- If scheduled award would decrease, corrections must be submitted

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UPDATING

- Generally, information that is **correct as of the date the application was signed** cannot be changed
 - Cannot update income or assets that changed after student signed FAFSA
 - Example: if family sold stock after signing FAFSA and spent the money on non-reported asset such as a car, student cannot update information to show change in family's assets

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UPDATING

- Three items must be updated in certain circumstances
 - Household size
 - ✓ Cannot be updated unless selected for verification (if selected for verification, must be correct as of date of verification)
 - Number in college
 - ✓ Cannot be updated unless selected for verification (if selected for verification, must be correct as of date of verification)
 - Dependency status
 - ✓ Must be updated if it changes anytime during award unless it changed because student's marital status changed
 - ✓ Required whether or not student selected for verification

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UPDATING

- Parent remarriage after applying
 - Dependent student with parent who remarries between application and verification:
 - ✓ Must update household size to include new stepparent
 - ✓ Does not count new stepparent's income and assets unless PJ is used and documented

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SUBMITTING CORRECTIONS

- On paper SAR
- On Web
- Through EDE, or
- Through CPS On-line

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EXTERNAL SOURCES OF CONFLICTING INFORMATION

- Scholarships from outside sources
- State Agencies such as Voc. Rehab., WIA, State Scholarship Agencies, etc.
- Tips from outside sources
- Other offices within the institution
- Other institutions
- Information from ED
- Information from the student (usually to the financial aid office)

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WHAT IS NOT CONFLICTING INFORMATION UNDER THE REGULATIONS?

- Household size differs from number of exemptions on tax return
- Dependent under IRS rules vs. ED definition of dependent
- Roster of candidates for an outside scholarship, as opposed to a list of recipients
- Privacy protected information, such as information from professional counselors, chaplains, doctors, etc.
- Assumptions made by the CPS
- FAFSA filed using estimated income
- Secondary confirmation match successful, but student has expired INS document

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HANDLING CONFLICTS IN TAXABLE INCOME

- Handbook states FAA should be able to determine if applicant required to file tax return, but FAA not expected to be tax law expert
 - § 668.56(a)(5)(vii) says first two pages of 1040 are sufficient for verification (i.e., W-2s and schedules not required)
 - Must resolve:
 - Married filing separately; both claimed "Head of Household"
 - Student claimed self as exemption, but so did parent
 - Net assets = \$0 but income generated from assets on return
 - Not required to resolve:
 - Claimed multiple or conflicting credits
 - IRS Form W-2, Box 14 issues

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GOOD PRACTICES VS WHAT'S REQUIRED

- Low income review
- Always have ability to ask for whatever information you need any time you think there is a problem
- Untaxed income resolution
- Box 14 of IRS Form W-2
- Digging deeper

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REMINDERS

- Common audit findings
 - Verification Worksheet not signed
 - Untaxed income not verified
 - Conflicting data on ISIR and verification documents not resolved
 - ✓ No tax return submitted for parent even though earned income required filling a return
 - ✓ Incorrect number in household size
 - Required corrections not processed

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REMINDERS

- Follow published verification procedures; ensure all required items are verified; document student files
- Monitor verification process to ensure procedures are followed
- Perform a self-assessment by reviewing a random sample of student files
- Verification Worksheets
 - School developed or ED worksheets

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES: 10/29/2010

Policies and Procedures (Professional Judgment) (668.53)

- Verification policies and procedures regulations have been amended to incorporate ED's guidance that institutions should only exercise PJ on correct data
 - Schools should verify the information prior to using PJ to adjust an award
 - Should be completed whether the application was selected by the CPS or by the institution

Selection of FAFSA Information for Verification (668.54)

- Eliminates the existing 30 percent verification cap
- Institutions will not have to re-verify information on a succeeding transaction in an award year if the verified information remains unchanged

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES:

10/29/2010

Updating Information (668.55)

- Maintains current regulatory guidance that dependency status should be updated at any time during the award year unless the change in status is due to a change in the student's marital status
- Adds a new policy that allows an institution to require an applicant to update his or her marital status, even if it changes the student's dependency status, **if the school determines an update is necessary to address an inequity or to more accurately reflect the applicant's ability to pay postsecondary expenses**
 - All information must be consistent with the student's recent marriage
 - If school submits an update to reflect a student's recent marriage, it must also update the student's application to include the spouse in the household size and add the spouse's financial information
 - Verification policies and procedures may include a "cut-off date" after which the institution will not consider any updates to a student's marital status

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES:

10/29/2010

Updating Information

(Continued)

- An applicant need not provide documentation of household size or number in college during a subsequent verification of either item if the information remains the same

Information to be Verified (668.56)

- FAFSA information subject to verification for a given award year will be listed in an annual notice published in the *Federal Register*
 - Provides a more targeted approach to verification and gives ED flexibility to modify the information to be verified year to year based on its analysis of applicant data
- Schools will continue to have the flexibility to develop and use their own verification worksheets
- ED has agreed to include on each applicant's ISIR item-specific flags to indicate which data needs to be verified

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES:

10/29/2010

Acceptable Documentation (668.57)

- Institutions may
 - Use IRS transferred data as acceptable documentation for verification if a flag on the ISIR confirms that the data were obtained from the IRS and were not changed after being imported to the FAFSA
 - Accept as documentation if it is used by the applicant to correct data that was originally submitted outside of the IRS process, as long as the ISIR indicates that the information came directly from the IRS and was not changed
- Institutions aware that an applicant had a change in marital status after filing his or her taxes and used the IRS process to complete the FAFSA, must collect a tax return from the student's spouse

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES:

10/29/2010

Acceptable Documentation (668.57)

(Continued)

- For applicants granted a tax filing extension, Institutions may request a copy of the return once it is filed, but it cannot delay the verification process if an applicant has provided the alternative documentation specified in regulation
 - Regulations do not require an applicant who was granted an extension to submit a return once it is filed; however, institutions have the option to request a copy of a return once it is filed
 - ✓ If a copy is requested and received, the AGI and taxes paid must be re-verified
 - ✓ Re-verification is only required if the institution chooses to require submission of the tax return

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES:

10/29/2010

Acceptable Documentation (668.57)

(Continued)

- Options for a tax preparer's signature on a tax return include:
 - Sign or stamp return with name and address in addition to providing SSN, ETIN or Preparer ID OR
 - Write or type name and address in addition to providing SSN, ETIN or Preparer Tax ID

Interim Disbursements – always at the institution's option (668.58)

- Must follow revised regulations for each type of aid disbursed

Consequences of a Change in an Applicant's FAFSA Information (668.59)

- Institutions must submit all corrections for reprocessing if there is any change to an individual data element that is \$25 or more and if there is any change in nonfinancial information

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES:

10/29/2010

Deadlines for Submitting Documentation and the Consequences of Failing to Provide Documentation (668.59)

- Final Rule allows a student, who completes verification when he or she is no longer enrolled, to be paid on the valid SAR or valid ISIR
- This is a change from current regulations, which require the institution to pay the student based on the higher of the two EFCs if the institution receives a valid SAR or valid ISIR after the student is no longer enrolled

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CHANGES EFFECTIVE 7/1/2012 BASED ON FINAL PROGRAM INTEGRITY RULES: 10/29/2010

Recovery of Funds from Interim Disbursements (668.61)

- If an institution discovers, as a result of verification, that an applicant received more financial aid than eligible to receive, the institution must eliminate the FPell, FPerkins, FSEOG or FWSP

See Final Regulations for additional information

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CHANGES EFFECTIVE 7/1/2012 BASED ON GEN-11-03: ENHANCEMENTS TO THE FAFSA-IRS DATA RETRIEVAL PROCESS

FAFSA Processing Year 2012-2013

- Beginning in January 2012, all 2012-2013 FOTW applicants, and the parents of dependent applicants, who indicate that they have filed their federal tax returns prior to completing their FAFSA and who are otherwise eligible will be directed to use the FAFSA-IRS Data Retrieval process to complete their FAFSA more easily and accurately.
- Applicants who chose not to use the process or use the process and subsequently change the data will need to explain why information they provide is more accurate than the information obtained directly from the IRS
 - Depending on their responses, they may need to provide information obtained directly from the IRS
 - In general, all applicants who have already filed but elect to not use the retrieval process will be subject to being selected for verification and will be required to submit FAFSA data with information obtained directly from the IRS

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CHANGES EFFECTIVE 7/1/2012 BASED ON GEN-11-03: ENHANCEMENTS TO THE FAFSA-IRS DATA RETRIEVAL PROCESS

FAFSA Processing Year 2012-2013 (continued)

- Applicants who have not filed taxes before completing the FAFSA will be reminded by FOTW to access their IRS information using the FAFSA-IRS data retrieval process and update their FAFSA data through the FAFSA online corrections process
 - ED will also send reminders to urge applicants to use the data retrieval process
- All applicants using FAFSA-IRS data retrieval process without changing data will automatically meet any verification requirements
- Applicants who do not use data retrieval process will be subject to the usual verification selection process
 - ED suggests using the data retrieval process will be the simplest way to complete verification
 - ED expects institutions to require those not using data retrieval process to provide an official IRS transcript of their tax return

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VERIFICATION – Q AND A

Questions?

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