

## **Internal Revenue Service and Department of Education Data Sharing – Is It a Mis-Match?**

Verification, as defined by the U.S. Department of Education's (DOE) Student Financial Aid Handbook is required because "...students sometimes make significant errors on their application." Recent statements released by the U.S. General Accounting Office (GAO), state that fraud accounted for approximately \$300 million of the more than \$11 billion in funds– or just over 3 percent of the program dollars per year.

The Financial Aid Community has been eagerly anticipating the elimination of the U.S. Department of Education mandated process known as "Verification." Schools have labored for years to help students accurately apply for need-based aid through the federal methodology enacted by Congress. For this process, schools have been required to collect federal tax information (manually, via paper submission process) to verify the data elements provided by students and parents on the Free Application for Federal Student Aid (FAFSA). I think it is safe to say that the last 'enhancement' to happen to Verification was the fax machine!

The FAFSA is the cornerstone application of federal aid programs, including Federal Pell Grant, Federal SEOG Grant, Federal Work-Study, and Federal Perkins Loans, and Stafford Student and Parent PLUS loans. In addition, many state agencies, postsecondary institutions and outside private agencies rely on the FAFSA results – the Student Aid Report – to best determine who should receive limited gift and self-help aid via a number known as the Expected Family Contribution (EFC).

I applaud Representative Sam Johnson (R-TX) for introducing the Student Aid Streamlined Disclosure Act of 2003 (H.R. 3613), which would amend Section 6103 of the Internal Revenue Code of 1986. Authorizing the IRS to share limited taxpayer information with the U.S. Department of Education – at the onset – seems to be a win for all parties involved. Unfortunately, fraud and abuse do exist in most federal programs. Why should the Federal Pell Grant program be immune from those trying to cheat the system? Additionally, most parties involved would support any change that saves time, money, and resources. However, if enacted as written, the process currently being proposed by the U.S. Department of Education would result in a "mismatch" for the financial aid process – and as a result, would create a larger burden on everyone involved with the financial aid process.

### **Potential Pitfalls with the Proposed Match**

- 1) The IRS Data Match Only (vaguely) Verifies Two of The Federally Mandated Five Items.

Currently, regulations require that schools verify five main elements when determining a student's EFC. These elements are: adjusted gross income, federal taxes paid, untaxed income, number in household, and number in said household who are attending college. The proposed legislation would only examine two elements: adjusted gross income and federal taxes paid. These two verification elements, in many cases, are not the greatest factor in determining the EFC. In many situations, the number of people in the student's household, or the number going to college has a greater impact on determining the EFC. Additionally, untaxed income (such as Social Security, Disability, Child Support Received) can also have a significant impact on determining the EFC. When I posed the possibility of data match with Social Security for Untaxed Income at a recent DOE Electronic Access Conference open forum on this topic, I was told, "... We haven't got that far yet." I was also surprised to hear that the match results, when provided to schools, would only divulge that a mis-match had occurred, and would not share the correct data element with the schools. Schools would still need to collect the 'correct' data from the students via paper tax form submission. Why introduce a match that only covers 40% of the required process, does not share the correct answers to the 40% it does provide, and puts the student and school through a second paper collection process in the end?

2) The IRS Data Match Doesn't Address Potential Problems with IRS.

The notion that conducting a DOE/IRS database match will eliminate fraud and abuse fails to recognize that when there is a will, there is a way. A student need simply file all zeros in the parent Social Security field to skip the IRS data match. Or, a student could provide the valid Name, Date of Birth, and Social Security Number of someone other than the required custodial parent to obtain a 'clean' match result. Additionally, the proposed match doesn't address multitude of filing options (married, single, head of household, married filing joint) that students and parents (often on the advice of tax professionals) file. How would the match work for the married couple filing separate? How about the married couple that each incorrectly files head of household? To ultimately reduce fraud and abuse, DOE should examine any potential fraud and abuse occurring with the federal tax form. I won't even venture down the road of what would happen when a student applies and is being raised by a non-biological parent - such as a grandparent or sibling...

3) The IRS Data Match Will Increase the Work Load at Schools – and Subsequently the Frustration Level of Students.

The proposed DOE/IRS database match poses serious difficulty with regard to timing and logistics. Most financial aid applicants must file their FAFSA before the April 15<sup>th</sup> tax filing deadline to maximize their potential for limited need based aid. Even if the majority of the student aid applicants (and parents) filed by the April 15<sup>th</sup> tax-filing deadline, it would undoubtedly take the IRS time to process all tax submissions at the various locations around the United States. The IRS would then pass this information to DOE, who would then match it against financial aid applicants on file thus far. DOE would then send the schools a list of mis-matched students in late summer. This is peak processing season for most college sectors, which may have already reviewed a student's file and disbursed aid to the student's account. If the student has not yet had their file reviewed/dispursed, it is the worst time of

year for both a student and a school to receive increased workload from DOE. This process will force many schools to conduct 100% verification – in some fashion – in response to the alternative. Increased workload on the financial aid professionals and their institutions will bring about increased costs of additional long term and/or temporary staff, computing enhancements and Information Technology resources, and hourly costs associated with personnel. Schools unable to absorb the cost associated with necessary enhancements will see delivery time frames slowed, which in turn will delay the timely delivery of funds to students.

4) The IRS Data Match Doesn't Give Credit to the Financial Aid Profession.

The vast majority of Financial Aid Professionals around the country have been working diligently to see that only the eligible students receive gift aid. We verify, and re-verify, those students selected by DOE. We also select and re-select many students who were unexplainably overlooked by the DOE selection process. Many schools often conduct 100% verification prior to making financial aid award offers – to be certain that only the eligible students are receiving funding. Perhaps the rate would be much higher than 3% if it weren't for the diligence on the part of financial aid professionals. I'd be interested to know what the fraud rate is for other federal programs.

In closing, I think we, as a financial aid community must continue to advocate for positive changes to a complex system. I am not denying that fraud and abuse exist. I have considered myself a 'gatekeeper' of federal funding for over ten years and have seen errors that appear to be intentional along with those that were simply honest mistakes due to the complex nature of the process involved. However, I don't feel the current approach proposed is the answer. If we are going to do something, let's do it all the way and right the first time to benefit everyone involved. I don't want to see the estimated \$300 million in savings shift costs from the federal government to schools and students. As we approach what may already be inevitable, I am constantly reminded of the life lesson told to us by many of our parents, "Be careful what you wish for, it might just come true."

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