



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Evaluation and Inspection Services

Control Number
ED-OIG/I13L0003

April 23, 2012

Thomas P. Skelly
Delegated the Authority to Perform the Functions and Duties of the Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
550 12th Street, SW
Washington, DC 20202

Dear Mr. Skelly:

This **final inspection report** presents the results of our review of the Department's process for identifying and reporting high-dollar overpayments required under Executive Order 13520 and the Department's response to the results.

The objective of our inspection was to evaluate the Department's process for identifying and reporting high-dollar overpayments required under Executive Order 13520 as implemented through guidance in Office of Management and Budget Circular A-123, Appendix C, Part III. We found that the Department's process for identifying and reporting high-dollar overpayments could be strengthened, and during the course of our inspection, the Department began taking steps to strengthen its process.

BACKGROUND

On November 20, 2009, the President signed Executive Order 13520 (Reducing Improper Payments). Section 3(f) of the Executive Order requires the head of each agency to submit to the agency's Inspector General and the Council of Inspectors General on Integrity and Efficiency (CIGIE), and make available to the public, a report on any high-dollar improper payments identified by the agency. The Executive Order requires each agency to submit these reports at least once every quarter.

On March 22, 2010, the Office of Management and Budget (OMB) issued Part III to OMB Circular A-123, Appendix C (OMB A-123) to provide guidance to agencies on the implementation of the Executive Order. According to OMB A-123, an improper payment is:

[A]ny payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.^[1] Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received, and payments that are for the incorrect amount. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.

OMB A-123 restricts the reporting of improper payments to high-dollar overpayments and defines a high-dollar overpayment as any overpayment that is in excess of 50 percent of the correct amount of the intended payment with the following conditions:

- (1) The total payment to an individual exceeds \$5,000 as a single payment or in cumulative payments for the quarter, or
- (2) The payment to an entity exceeds \$25,000 as a single payment or in cumulative payments for the quarter.

Based on OMB A-123, a single payment or cumulative payments to the wrong individual or entity that exceeds the respective \$5,000 or \$25,000 limit would meet the high-dollar overpayment threshold because 100 percent of the overpayment is above the intended payment of zero. A single payment or cumulative payments of \$6,500 to the correct individual, for example, when the intended amount was \$3,000 would meet the high-dollar overpayment threshold, because the payment is more than 50 percent higher than the intended amount, and the total payment is above \$5,000. Conversely, a payment of \$1,400,000 to the correct entity when the intended payment was \$1,000,000 would not meet the high-dollar overpayment threshold and would not be considered a high-dollar overpayment, because the overpayment does not exceed 50 percent of the intended payment.

OMB A-123 states, "Given the potential significant resource and operational challenges agencies may face to implement this provision, OMB will work with agencies to implement this requirement." OMB A-123 also states that high-dollar overpayments should be identified by examining several sources of information available to agencies and provides the following sources that agencies could use:

1. Statistical samples conducted under the Improper Payment Information Act;
2. Agency post-payment reviews;
3. Recovery audits;
4. Agency Inspector General reviews;
5. Self-reports; or
6. Reports from the public through hotlines and other referrals.

¹ According to OMB A-123, the term "payment" means any payment (including a commitment for future payment, such as a loan guarantee) that is derived from Federal funds or other Federal sources; ultimately reimbursed from Federal funds or resources; or made by a Federal agency, a Federal contractor, a governmental or other organization administering a Federal program or activity. This includes Federal awards subject to the Single Audit Act (31 U.S.C. Chapter 75) that are expended by both recipients and subrecipients.

OMB A-123 specifies that reports on high-dollar overpayments must:

1. List all high-dollar overpayments identified by the agency during the quarter;
2. Describe whether each high-dollar overpayment was made to an entity or individual, and where that entity or individual was located;
3. List the program responsible for each high-dollar overpayment error;
4. Describe any actions the agency has taken or plans to take to recover high-dollar overpayments; and
5. Describe any actions the agency will take to prevent overpayments from occurring in the future.

OMB officials from the Office of Federal Financial Management informed us that agencies have flexibility in the reporting of high-dollar overpayments and each agency can tailor its methodology to what is most effective for the agency. OMB has not specified minimum amounts of time or money that an agency should spend on identifying and reporting high-dollar overpayments. However, OMB does expect agencies to do a systematic review and to make a good faith effort to comply with the requirements.

The U.S. Department of Education's (Department) Office of the Chief Financial Officer (OCFO) has lead responsibility for coordinating the Department's improper payment requirements, including the reporting of high-dollar overpayments. OCFO developed draft procedures for identifying and reporting high-dollar overpayments in September 2010. These procedures were based on the process it had already been following up to that point. OCFO was aware that some of the procedures would need to be revised as a result of anticipated additional guidance from OMB.²

Federal Student Aid (FSA) is responsible for identifying and analyzing FSA overpayments and reporting them to OCFO. The Office of the Chief Information Officer (OCIO) and Office of Management (OM) also report overpayments that they become aware of to OCFO. After OCFO receives overpayment reports from FSA, OCIO, and OM, it reviews them to ensure that they meet the criteria for high-dollar overpayments. To date, all of the high-dollar overpayments reported by OCFO have resulted from its review of overpayments received from OCIO, FSA, and OM. OCFO also reviews overpayments identified in prior audit reports and program reviews to determine whether they meet the criteria for high-dollar overpayments. OCFO has determined that none of the overpayments identified in prior audit reports and program reviews have met the threshold for reporting high-dollar overpayments.

² As of December 2011, OMB had not provided additional guidance on high-dollar overpayments.

OCFO prepares and submits a report to OMB, the Department’s Office of Inspector General (OIG), and CIGIE. The Department has issued 8 reports with a total of 12 high-dollar overpayments through December 31, 2011³:

Period Ending	No. of High-Dollar Overpayments	Total Dollars Identified
March 31, 2010	0	0
June 30, 2010	0	0
September 30, 2010	3	\$120,867,777
December 31, 2010	1	\$14,711,651
March 31, 2011	2	\$1,696,759
June 30, 2011	1	\$16,950
September 30, 2011	2	\$868,522
December 31, 2011	3	\$231,026

REVIEW RESULTS

The objective of our inspection was to evaluate the Department’s process for identifying and reporting high-dollar overpayments required under Executive Order 13520 as implemented through guidance in OMB Circular A-123, Appendix C, Part III. We found that the Department’s process for identifying and reporting high-dollar overpayments could be strengthened, and during the course of our inspection, the Department began taking steps to strengthen its process.

Each quarter, OCFO identifies potential high-dollar overpayments in two ways. OCFO reviews overpayments identified by OCIO, FSA, and OM, and overpayments identified in prior audit reports and program reviews.

Review of Overpayments Identified by OCIO, FSA, and OM

OCFO contacts OCIO, FSA, and OM each quarter to determine whether staff in those offices have identified any overpayments during that quarter. OCIO’s final reporting procedures for reporting identified improper payments include whom to notify and how to track the status of the improper payment. FSA has developed a similar set of draft reporting requirements for when staff become aware of an improper payment. Both OCIO and FSA procedures address improper payments in general and are not specific to high-dollar overpayments. OM began reporting to OCFO for FY 2012 and has not formalized any procedures to report to OCFO. OCFO staff review any overpayments identified by OCIO, FSA, and OM to determine whether the items meet the high-dollar threshold.

³ Two of the Department’s descriptions of the high-dollar overpayments mentioned that the overpayments were identified through an internal process, two of the descriptions mentioned that the overpayments were identified through a referral from the recipient, and eight of the descriptions did not mention how the overpayments were identified.

Review of Overpayments Identified in Prior Audit Reports and Program Reviews

When the Department has determined the final amount for an audit or program review finding, it establishes an account receivable for that amount. Monetary audit and program review findings are by definition improper payments. OCFO uses accounts receivable to identify overpayments because at the point when an account receivable is established, the amount of the improper payment to be returned to the Department has been finalized and is known.

OCFO extracts accounts receivable established in each quarter from A-133 audit, OIG audit, and program review findings. OCFO determines whether the accounts receivable are related to FSA programs or non-FSA programs. OCFO then provides the FSA accounts receivable to FSA and analyzes the non-FSA accounts receivable to determine whether any of them meet the high-dollar threshold by comparing the amount of the overpayment to the amount expended using program determination letters, audit clearance documents, and data in the Department's Audit Accountability and Resolution Tracking System (AARTS). To date, OCFO has not identified any accounts receivable amounts that have met the threshold for reporting high-dollar overpayments.

For the quarter we reviewed, OCFO identified 111 FSA line items and 5 non-FSA line items in the accounts receivable report. We found that FSA did not analyze any of the audit and program review accounts receivable provided by OCFO to identify high-dollar overpayments. FSA staff stated that a review of accounts receivable would require additional data sources. These additional data sources are similar to those used by OCFO to determine whether non-FSA accounts receivable meet the high-dollar threshold. FSA has not analyzed the resources that would be required to perform this review of accounts receivable, but FSA staff anticipate that it may require significant resources given the volume of data and number of reports. In May 2011, FSA contracted with Deloitte & Touche LLP (Deloitte) to assist with its identification of and reporting on improper payments, including high-dollar overpayments. One of the tasks Deloitte is required to perform is an evaluation of OCFO's interim processes and available FSA data sources to determine what FSA should do to meet the high-dollar overpayment requirements. Deloitte initiated this evaluation in November 2011.

During the course of our inspection, FSA staff informed us that FSA had not determined whether Title IV overpayments should be analyzed at the entity level or at the individual level.⁴ The Department provides Title IV funds to institutions, which act as fiduciaries responsible for administering the funds to students. If Title IV payments are analyzed at the institution level, the high-dollar threshold of \$25,000 for entities would apply. If Title IV payments are analyzed at the student level, the high-dollar threshold of \$5,000 would apply. FSA cannot determine whether Title IV overpayments meet the high-dollar threshold until it has determined whether payments should be analyzed at the institution level or at the student level.

In August 2011, we informed OCFO that its use of only the accounts receivable amount understates some overpayments identified through audits and program reviews. For example, in

⁴ Title IV of the Higher Education Act of 1965, as amended, authorizes the Federal student aid programs that include Federal grants, loans, and work-study programs.

some cases the audit or review finding is valid, but the Department will not collect any of the overpayment because resolution of the finding is past the statute of limitations for taking action. Another example would be when the Department enters into a settlement agreement with an entity for less than the audit or program review finding. In these instances, an account receivable will not even be established or the account receivable amount will be less than the amount of the overpayment.

We identified an alternate source of overpayment data in AARTS that could provide more accurate information on overpayments than accounts receivable alone because, as noted above, not all audit findings will result in an account receivable that reflects the actual overpayment. Among other information, AARTS contains the following on monetary audit findings:

- Sustained Amount,⁵
- Amount Not Recoverable Due to Statute of Limitations,
- Other Amount Not Recoverable,
- Additional Amount Recommended by the Action Official,⁶ and
- Total Amount Recoverable (Sustained Amount + Additional Amount Recommended by the Action Official – Amount Not Recoverable Due to Statute of Limitations – Other Amount Not Recoverable)

We shared this information with OCFO and suggested that OCFO use this information to determine more accurate amounts for audit overpayments. After performing its own analysis of the AARTS data for three quarters and comparing it with the results from using only accounts receivable, OCFO agreed that the AARTS data provided more accurate information than accounts receivable alone. For future reports, OCFO intends to use the AARTS data in identifying high-dollar overpayments resulting from audit findings for future reports. As noted above, OCFO has not identified any accounts receivable amounts that have met the threshold for reporting high-dollar overpayments. OCFO staff noted that even with this proposed change, none of the accounts receivable amounts they had reviewed for the three quarters would have met the high-dollar overpayment threshold for reporting.

Recommendation

We recommend that the Chief Financial Officer work with FSA to determine whether Title IV overpayments should be analyzed at the institution level or at the student level.

⁵ The amount from the audit finding that the Department agrees is supported.

⁶ When the Department considers an audit finding to be significant, either due to the nature of the issue involved in the finding, the fact that it is a large monetary finding, or because it is a recurring finding, the action official may require a review of additional information that results in an additional amount.

DEPARTMENT COMMENTS

On March 12, 2012, we provided the Department with a copy of our draft inspection report for comment. We received the Department's comments to the report on April 12, 2012. The Department did not take issue with our results and concurred with our recommendation. The Department's response is attached in its entirety.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our inspection was to evaluate the Department's process for identifying and reporting high-dollar overpayments required under Executive Order 13520 as implemented through guidance in Office of Management and Budget (OMB) Circular A-123, Appendix C, Part III.

We began our fieldwork on March 30, 2011, and conducted an exit conference on December 2, 2011.

We reviewed Executive Order 13520 and OMB Circular A-123, Appendix C. We also reviewed a Department memorandum requesting clarification from OMB on OMB Circular A-123, Appendix C and OMB's response to the memorandum.

We interviewed Department staff in the Office of the Chief Financial Officer (OCFO), Office of the Chief Information Officer (OCIO), and Federal Student Aid (FSA). We also interviewed staff in OMB's Office of Federal Financial Management.

We reviewed the following Department procedures:

- OCFO's draft procedures for identifying and reporting high-dollar overpayments;
- FSA's draft procedures for improper payment incident reporting; and
- OCIO's final procedures for (1) handling improper payments, (2) handling of improper travel payments, (3) requesting the return of funds from a grantee or payee, and (4) processing returned payments, credit payments, and rejected payments.

We reviewed OCFO's analysis of overpayments identified during the period ending March 31, 2011. We reviewed:

- OCFO's analysis of the overpayments identified by OCIO and FSA.
- OCFO's query of accounts receivable established from audit and program review findings between January 1, 2011, and March 31, 2011. OCFO's list of accounts

receivable were extracted from the Department's Cognos system and included accounts receivable established from A-133 audit, OIG audit, and program review findings.

- OCFO's summary chart of its analysis of whether the identified overpayments from OCIO and FSA and from the accounts receivable query met the high-dollar overpayment threshold.

We reviewed FSA's contract with Deloitte & Touche LLP. We also reviewed an OCFO listing of its system controls or preventive measures that are in place to prevent improper payments in the Department's financial management application systems. We also reviewed available data in the Audit Accountability and Resolution Tracking System.

Our inspection was performed in accordance with the Council of the Inspectors General on Integrity and Efficiency's "Quality Standards for Inspection and Evaluation" (2011) as appropriate to the scope of the inspection described above.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you enter your final CAP for our review in the automated system within 30 days of the issuance of this report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you or your staff have any questions, please contact W. Christian Vierling, Director, Evaluation and Inspection Services at 202-245-6964.

Respectfully,

/s/

Wanda A. Scott
Assistant Inspector General
Evaluation, Inspection, and Management Services

Electronic cc: Phillip Juengst, OCFO
William Blot, FSA



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

APR 11 2012

TO: Wanda Scott
Assistant Inspector General
Evaluation, Inspection, and Management Services
Office of Inspector General

FROM: Thomas P. Skelly
Delegated to Perform Functions and Duties
of the Chief Financial Officer

SUBJECT: "Review of the Department's Process for Identifying and Reporting High-Dollar Overpayments Required Under Executive Order 13520" Control Number ED-OIG/I13L0003

Thank you for providing us with an opportunity to respond to the Office of Inspector General's (OIG) draft report.

We are pleased that your report acknowledges the steps we are taking to assess and strengthen our compliance with the reporting requirements under Executive Order 13520 and OMB Circular A-123, Appendix C, Part III. The Department is committed to reducing and preventing improper payments, as well as being transparent by reporting overpayments that occur.

We concur with your single recommendation to work with Federal Student Aid to determine whether Title IV overpayments should be analyzed at the institutional level or at the student level. Our office works closely with Federal Student Aid, and we will continue working to determine the most appropriate and cost-effective ways to identify, analyze and report high-dollar overpayments.

We appreciate the way in which you have collaborated with the Department in conducting this review, and we appreciate this final opportunity to provide input.

cc: John Hurt
Chief Financial Officer for
Federal Student Aid

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The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.