U.S. Department of Education
Office of Inspector General

The U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2017

May 9, 2018
ED-OIG/A04S0003

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.

In accordance with Freedom of Information Act (Title 5, United States Code, Section 552), reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

May 9, 2018

TO: Douglas Webster
U.S. Department of Education, Chief Financial Officer

James Manning
Federal Student Aid, Acting Chief Operating Officer

FROM: Bryon Gordon /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report, "The U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2017"
Control Number ED-OIG/A04S0003

Attached is the subject final audit report that consolidates the results of our review of the U.S. Department of Education's compliance with improper payment reporting requirements for fiscal year (FY) 2017. We have provided an electronic copy to your audit liaison officers. We received your comments agreeing with the finding and recommendations in our draft report.

The U.S. Department of Education's policy requires that you develop a final corrective action plan within 30 days of the issuance of this report. The corrective action plan should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the finding and recommendations contained in this final audit report. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

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 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact me at (202) 245-6051 or Christopher Gamble at (404) 974-9417 or Christopher.Gamble@ed.gov.

Attachment

Table of Contents

Results in Brief 1

Introduction 3

The Department Did Not Meet All Requirements for Compliance with IPERA 5

Finding 1. The Department Did Not Meet the Reduction Target for the Pell Program 10

Appendix A. Scope and Methodology 12

Appendix B. Acronyms and Abbreviations 19

Department Comments 20

Results in Brief

What We Did

The objectives of our audit were to (1) determine whether the U.S. Department of Education (Department) complied with the Improper Payments Elimination and Recovery Act of 2010 (IPERA); (2) evaluate the accuracy and completeness of the Department's improper payments reporting, estimates, and methodologies; (3) evaluate the Department's performance in reducing and recapturing improper payments; (4) evaluate the Department's assessment of the level of risk associated with the high-priority programs; and (5) review the oversight and financial controls described by the Department to identify and prevent improper payments. Our audit covered October 1, 2016, through September 30, 2017.

What We Found

The Department did not comply with IPERA because it did not meet its reduction target for the Federal Pell Grant program (Pell). The Department met its reduction target for the William D. Ford Federal Direct Loan program (Direct Loan) and also met the remaining five compliance requirements of IPERA:

- published an Agency Financial Report,
- conducted program-specific risk assessments,
- published improper payment estimates,
- published a report on actions to reduce improper payments (corrective action plans), and
- reported an improper payment rate of less than 10 percent.

The Department's improper payment reporting, estimates, and methodologies were generally accurate and complete. The Department recaptured more improper payments in FY 2017 ($42.46 million) than it did in FY 2016 ($20.35 million), and the Department implemented corrective actions to reduce improper payments. We did not evaluate the Department's assessment of the level of risk associated with its high-priority programs (Direct Loan and Pell) because the Department already identified them as being susceptible to significant improper payments, has been reporting estimates for these programs, and was not required to perform a risk assessment in FY 2017. Lastly, the Department adequately described the oversight and financial controls it has designed and implemented to identify and prevent improper payments.

What We Recommend

If the Office of Management and Budget (OMB) recommends that the Department needs additional funding or should take any other actions to become compliant with IPERA, we recommend that the Department implement OMB's recommendations.

We provided a draft of this report to the Department for comment. The Department agreed with the finding and recommendations. The full text of the Department's response is included at the end of this report.

Introduction

Purpose

We conducted this audit as required by IPERA (Public Law 111-204), which amended the Improper Payments Information Act of 2002 (IPIA) (Public Law 107-300). IPERA requires Federal agencies to reduce improper payments and to report annually on their efforts. OMB issued government-wide guidance on the implementation of IPERA on October 20, 2014, which is contained in OMB Circular A-123, Appendix C. IPERA also requires each agency's Inspector General to determine the agency's compliance with the statute for each fiscal year. As part of the Inspector General's review, the Inspector General should also evaluate the accuracy and completeness of the agency's reporting and performance in reducing and recapturing improper payments.

Background

IPERA requires each agency, in accordance with guidance prescribed by OMB, to periodically review all programs and activities that the agency administers and identify all programs and activities that may be susceptible to significant improper payments. Section 2(g)(2) of IPIA, as amended, and OMB guidance defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received. OMB guidance expands the definition of an improper payment to include any payment lacking sufficient documentation. Significant improper payments are defined as gross annual improper payments (the total amount of overpayments plus underpayments) in the program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays). For each program and activity identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology that OMB approved, of the improper payments made by each program and activity and include those estimates in the accompanying materials to its annual Agency Financial Report (AFR).

As specified in the OMB guidance, compliance with IPERA means that the agency has met all six of the following requirements:

- published a Performance and Accountability Report or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency's website;

- conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);
- published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessments (if required);
- published programmatic corrective action plans in the Performance and Accountability Report or AFR (if required);
- published, and met, annual reduction targets for each program assessed to be at risk and measured for improper payments; and
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the Performance and Accountability Report or AFR.

If an agency does not meet one or more of these requirements, then it is not compliant with IPERA.

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (Public Law 112-248), requires the Director of OMB to identify a list of high-priority programs for greater levels of oversight. OMB has designated the Direct Loan and Pell programs as high-priority programs. OMB issued government-wide guidance on the implementation of IPERIA on October 20, 2014, which is contained in OMB Circular A-123, Appendix C. The current OMB-established threshold for high-priority program determinations is $750 million in estimated improper payments as reported in an agency's AFR or Performance and Accountability Report, regardless of the improper payment rate estimate. IPERIA and OMB guidance require each agency with a high-priority program to report to its Inspector General and make available to the public (1) any action that the agency has taken or plans to take to recover improper payments and (2) any action the agency intends to take to prevent future improper payments. According to IPERIA and OMB guidance, the agency Inspector General must review the assessment of the level of risk associated with any high-priority program and the quality of the improper payment estimates and methodology; determine the extent of oversight warranted; and provide recommendations, if any, for modifying the agency's methodology, promoting continued program access and participation, or maintaining adequate internal controls.

The Department Did Not Meet All Requirements for Compliance with IPERA

We found that the Department did not comply with IPERA because it did not meet the reduction target for the Pell program, as described in Finding 1. Under IPERA, if the Department does not meet one or more of the six compliance requirements, then it is not compliant with IPERA. This is the fourth consecutive year that the Department was not compliant with IPERA. The Department met its reduction target for the Direct Loan program and also met the remaining five compliance requirements of IPERA, as described below.

1. **Published an Agency Financial Report.** The Department complied with the requirement to publish an AFR. Under Section 3(a)(3)(A) of IPERA, the Department is required to publish on its website its AFR and any accompanying materials required under OMB guidance. The Department published its AFR, "Federal Student Aid FY 2017 Alternative Improper Payment Estimation Methodology," and its accompanying materials on November 13, 2017.

2. **Conducted Program-Specific Risk Assessments**. The Department complied with the requirement to conduct program-specific risk assessments. Under Section 3(a)(3)(B) of IPERA, if required, an agency must conduct a program-specific risk assessment for each program or activity that conforms with Section 2(a) of IPIA, as amended. As required, the Department conducted risk assessments of administrative payments, contract payments, and programs.

   Our FY 2016 IPERA audit found that the Department conducted a quantitative risk assessment of the Vocational Rehabilitation State Grant program that identified questioned costs that exceeded IPIA's statutory thresholds for risk-susceptible programs; however, the Department did not report the program as susceptible to significant improper payments in its AFR. Through audit resolution, the Department proposed, and the Office of Inspector General (OIG) agreed, that it would conduct a risk assessment for the Vocational Rehabilitation State Grant program in FY 2017. The Department performed both a qualitative and quantitative risk assessment of the Vocational Rehabilitation State Grant program in FY 2017. We verified that the questioned costs the Department identified in its quantitative risk assessment did not exceed IPIA's statutory thresholds for risk-susceptible programs and that the qualitative risk assessment took into account the minimum nine required risk factors. Based on the results of both risk assessments, the Department concluded the Vocational Rehabilitation State Grant program was not susceptible to significant improper payments.

3. **Published Improper Payment Estimates.** The Department complied with the requirement to publish improper payment estimates. Under Section 3(a)(3)(C) of IPERA, if required, an agency must publish improper payment estimates for programs it identified as being susceptible to significant improper payments. As required, the Department published improper payment estimates for programs it identified as susceptible to significant improper payments—the Pell and Direct Loan programs.

4. **Published Report on Actions to Reduce Improper Payments (Corrective Action Plans).** The Department complied with the requirement to report on its actions to reduce improper payments in programs susceptible to significant improper payments. Under Section 3(a)(3)(D) of IPERA, the Department is required to report on its actions to reduce improper payments for programs it deemed susceptible to significant improper payments. In its FY 2017 AFR, the Department identified 25 corrective actions to address the root causes of improper payments. The Department also reported that payment recapture audits would not be cost effective for any of its loan and grant programs or for contracts.

5. **Reported Improper Payment Rate of Less Than 10 Percent.** The Department complied with the requirement to report improper payment rates of less than 10 percent for all applicable programs. Under Section 3(a)(3)(F) of IPERA, the Department is required to report estimated improper payment rates of less than 10 percent for each program identified as being susceptible to significant improper payments for which an improper payment estimate is published. The Department reported estimated improper payment rates of 8.21 percent for the Pell program and 4.05 percent for the Direct Loan program.

We found that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete.

- **Improper Payment Reporting**. The Department provided documentation to support the charts and tables contained in the Payment Integrity section of its FY 2017 AFR related to the Pell and Direct Loan program improper payment estimates, the source of improper payments, the root causes of improper payments, and the amounts of improper payments identified and recaptured.

  The Department identified 25 corrective actions in its FY 2017 AFR to address the root causes of improper payments related to the Direct Loan and Pell programs. Of the 25 corrective actions, the Department reported that it implemented 11 in FY 2017 and plans to implement the remaining 14 after FY 2017. We confirmed that the Department implemented all of the 11 corrective actions.

- **Improper Payment Estimates.** For our judgmentally selected program reviews, we found that that the Department correctly included applicable program reviews. It also accurately and completely included the results of those reviews in its Direct Loan and Pell program improper payment calculations, with no material errors. The Department also correctly excluded other program reviews from the calculations.

  The Department initiated 764 program reviews during FYs 2015, 2016, and 2017. Of the 764 program reviews, the Department included 401 program reviews in the FY 2017 improper payment calculations for the Direct Loan program, Pell program, or both; it excluded the remaining 363 program reviews. We reviewed samples of program reviews to determine whether the Department accurately and completely included the results of applicable program reviews in the Direct Loan and Pell program improper payment calculations and correctly excluded program reviews from the calculations. We found the following:

  1) From our sample of 32 of 401 program reviews the Department included in the Pell and/or Direct Loan program improper payment calculations, we found that all 32 reviews were applicable reviews and were therefore correctly included in the improper payment calculations.

  2) From our sample of 32 of 401 program reviews the Department included in the Pell and/or Direct Loan program improper payment calculations, we found that the results for 30 of the sampled program reviews were correctly included in the improper payment calculations. For the other 2 sampled program reviews, the Department entered incorrect improper payment amounts into the improper payment calculations; however, the incorrect amounts were immaterial and did not impact the improper payment estimates.

  3) From our sample of 19 of 363 program reviews the Department excluded from the improper payment calculations, we found that all 19 of the sampled program reviews were correctly excluded from both the Pell and Direct Loan program improper payment calculations.

- **Improper Payment Methodologies.** We found that the Department adhered to its OMB-approved improper payment estimation methodologies when calculating improper payment estimates for the Direct Loan and Pell programs.

  The improper payment estimate for the Direct Loan program was based on three components: the results of 383 program reviews of schools that the Federal Student Aid (FSA) School Eligibility Service Group conducted during FYs 2015, 2016, and 2017 that included a review of Direct Loan program

disbursements made to students for award year 2014–2015; a sample of 120 Direct Loan consolidations overpayments and underpayments to determine which of them were improper payments; and a sample of 120 Direct Loan refund payments to determine which of them were improper payments. The samples for the second and third components were drawn from payments made from July 2016 through June 2017. The Department then combined the estimated improper payments for all three components to estimate an overall improper payment rate for the Direct Loan program.

For the Pell program, the methodology specified that the improper payment estimate was based on two components. The first component consisted of the results of 389 program reviews of schools that the FSA School Eligibility Service Group conducted during FYs 2015, 2016, and 2017 that included a review of Pell program disbursements made to students for award year 2014–2015. The second component consisted of the results of the Free Application for Federal Student Aid (FAFSA)/Internal Revenue Service (IRS) Data Statistical Study for award year 2014–2015, which focuses on misreported income on the FAFSA. An improper overpayment rate of 0.85 percent and an improper underpayment rate of 0.78 percent, both due to misreported income on the FAFSA, were applied to certain Pell disbursements that were included in the Pell program improper payment calculations. The Department then combined the estimated improper payments for both components to estimate an overall improper payment rate for the Pell program.

Based on our review of the Department's performance in reducing and recapturing improper payments, we found that the Department recaptured more improper payments in FY 2017 ($42.46 million) than it did in FY 2016 ($20.35 million). In addition, the Department implemented corrective actions that could reduce improper payments for the Direct Loan and Pell programs. For example, beginning with the 2017–2018 award year, the Department allowed the use of "prior-prior year" tax data for its FAFSA applicants. The use of prior-prior year tax data on the FAFSA (as opposed to one-year prior information) allows more students and families to use completed tax return data, rather than projected data, when filling out the FAFSA. Using completed tax return data on the FAFSA allows more students and families to use the IRS Data Retrieval Tool (IRS-DRT), thereby reducing the likelihood of misreported income on the FAFSA. The IRS-DRT allows applicants to have the IRS transfer tax return data from an IRS website directly to their online FAFSA.

We did not evaluate the Department's assessment of the level of risk associated with its high-priority programs. According to IPIA, as amended, and OMB guidance, agencies must perform risk assessments at least once every 3 years to determine whether their programs are susceptible to significant improper payments, provided that the programs

have not already been identified as being risk susceptible or are not already reporting an improper payment estimate. The Department last conducted a risk assessment for its high-priority programs (Pell and Direct Loan) in FY 2014. The Department was not required to conduct a risk assessment of its high-priority programs in FY 2017 because these programs have been reporting improper payment estimates under IPERA since FY 2011.

We also found that the Department adequately described the oversight and financial controls it has designed and implemented to identify and prevent improper payments. In its FY 2017 AFR, the Department described some of these controls and assessments as including

- the more than 500 controls it designed to help prevent and detect improper payments that are part of its payment integrity internal control framework;
- the Do Not Pay Business Center Portal, a system the Department used to review about $163 billion of payments for possible improper payments; and
- the Payment Integrity Workgroup, which documents and assesses the effectiveness and adequacy of the Department's business processes and controls related to payments and provides recommendations for improving payment integrity.

Finding 1. The Department Did Not Meet the Reduction Target for the Pell Program

The Department did not comply with IPERA because it did not meet the FY 2017 reduction target for the Pell program established in its FY 2016 AFR. The improper payment rate for the Pell program was 8.21 percent, which exceeded the reduction target of 7.85 percent. Under Section 3(a)(3)(E) of IPERA, an agency is required to report, and meet, improper payment reduction targets for programs identified as susceptible to significant improper payments. The improper payment rate for the Direct Loan program was 4.05 percent, which exceeded the reduction target of 3.98 percent. However, OMB Circular A-123, Appendix C provides that a program will have met a reduction target if the improper payment rate for that program in the current year falls within plus or minus 0.1 percentage points of the reduction target set in the previous year's AFR. Since the FY 2017 improper payment rate exceeded the reduction target by 0.07 percentage points, the Direct Loan program met the reduction target.

This is the Department's second consecutive year of not meeting its reduction target for the Pell program. Under Section 3(c)(2) of IPERA and OMB Circular A-123, Appendix C, if an agency is not in compliance with IPERA for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine whether additional funding would help the agency come into compliance. In addition, OMB may require agencies that are not compliant with IPERA (for one, two, or three years in a row) to complete additional requirements beyond the measures listed in the guidance. For example, if a program is not compliant with IPERA, OMB may determine that the agency must reevaluate or reprioritize its corrective actions, intensify and expand existing corrective action plans, or implement or pilot new tools and methods to prevent improper payments. OMB will notify agencies of additional required actions as needed.

Recommendations

We recommend that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA—

1. As required by IPERA, if the Director of OMB determines that additional funding is needed to help the agency become compliant with IPERA, take the necessary steps to implement OMB's recommendation.
2. As required by OMB guidance, take the necessary steps to implement any other actions OMB may recommend to assist the agency with becoming compliant with IPERA.

Department Comments

The Department agreed with the finding and recommendations. The full text of the Department's response is included at the end of this report.

Appendix A. Scope and Methodology

We gained an understanding of internal controls applicable to the Department's compliance efforts with IPERA and development of its improper payment rate estimates, as detailed below. We determined that control activities were significant to our audit objectives. We reviewed control activities pertaining to the Department's calculations of improper payment estimates, its improper payment risk assessments, and improper payment reporting. We also reviewed improper payment calculations for accuracy and completeness.

Our audit covered October 1, 2016, through September 30, 2017. We conducted onsite visits at the Department's offices located in Washington, D.C., in December 2017 and January 2018. We held an exit conference with Department officials on March 14, 2018.

To gain an understanding of IPERA, the Department's compliance with IPERA, controls related to the Department's compliance with IPERA, and the programs for which an improper payment estimate was required, we

- reviewed laws, regulations, and guidance, including the following:
    - Improper Payments Elimination and Recovery Improvement Act of 2012;
    - Improper Payments Elimination and Recovery Act of 2010;
    - Improper Payments Information Act of 2002;
    - OMB Circular A-123, Appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments," October 20, 2014;
    - Executive Order 13520, "Reducing Improper Payments," November 20, 2009; and
    - OMB Circular A-136, Section II.5.5. "Payment Integrity," August 15, 2017;
- reviewed background information about the Department and its programs susceptible to significant improper payments (Pell and Direct Loan programs);
- reviewed prior OIG audit reports on the Department's compliance with IPERA;
- interviewed officials from various FSA offices (including Internal Controls Group, Customer Experience, and Program Compliance/School Eligibility Service Group) and FSA's designated contractor for calculating Direct Loan and Pell program improper payment estimates;
- interviewed officials from various offices within the Department Office of Chief Financial Officer (OCFO), including Financial Improvement Operations, Financial Management Operations, Internal Controls and Operations Group, Contracts and Acquisition Management, and Payment Integrity Workgroup; and

- interviewed officials from the Department's Office of Management, Office of Human Resources and from the Office of the Chief Information Officer, Functional Application Team.

For our review of the Department's improper payment calculations and related controls, we

- reviewed the Department's OMB approved methodologies for calculating improper payment estimates for the Direct Loan and Pell programs for FY 2017;
- reviewed program review reports to determine whether the improper payments and related disbursements identified in the program reviews were accurately included in the Direct Loan and Pell program improper payment calculations (see "Sampling Methodology" for more details);
- reviewed improper payment calculation spreadsheets for the Direct Loan program and the Pell program to determine whether the calculations performed and logic applied adhered to the Department's approved methodologies; and
- reviewed FSA's Improper Payment Extrapolation Workbooks Quality Assurance/Quality Control Procedures.

For our review of the Department's improper payment reporting, we

- reviewed the Department's FY 2017 AFR to ensure that it contained all the required components for improper payment reporting, including the results of the Department's improper payment risk assessment, improper payment estimates for required programs, reduction targets, root causes, corrective action plans to address the root causes, and results of corrective actions implemented;
- verified the accuracy of the data in the charts and tables presented in the Department's FY 2017 AFR, including the improper payment charts for the Pell and Direct Loan programs, the source of improper payments, the root causes of improper payments, and the amounts of improper payments identified and recaptured;
- verified the Department implemented corrective actions to address and reduce improper payment root causes for the Direct Loan and Pell programs, and determined whether the Department reported the results of the implemented corrective actions in its FY 2017 AFR (see "Sampling Methodology" for more details); and
- reviewed the Department's FY 2016 AFR to compare the improper payment reduction targets established for FY 2017 with the improper payment rates reported in the Department's FY 2017 AFR.

For our review of the Department's improper payment risk assessments for contracts, grant programs, administrative payments, and FSA programs to ensure that it complied with IPERA and OMB guidance, we reviewed

- the Department OCFO's FY 2017 white papers on improper payment risk assessment for contracts, grants, and administrative payments;
- FSA's "OMB Circular A-123, Appendix C, FY 2017 Risk Assessment Results;"
- FSA's "OMB Circular A-123, Appendix C, FY 2017 Risk Assessment Plan;"
- the Department OCFO's contracts, grants, and administrative payments risk assessment methodologies;
- the Department OCFO's risk assessments for the Vocational Rehabilitative Services State Grant program, Title I program, contracts, and administrative payments;
- other supporting documentation the Department used in its FY 2017 risk assessments.

Sampling Methodology

We selected judgmental samples of program reviews to evaluate the accuracy and completeness of the Direct Loan and Pell program improper payment calculations. We also selected all the corrective actions the Department reported that it implemented in its 2017 AFR to address improper payment root causes. Because we used judgmental samples, the results from our review pertain only to the program reviews sampled and cannot be projected to the entire universes of program reviews.

Samples of Program Reviews

Of the 764 program reviews[1] initiated by the Department during FYs 2015, 2016, and 2017, 401 program reviews were included in the improper payment calculations for the Direct Loan program, Pell program, or both.[2] From these 401 program reviews, we

[1] FSA's Internal Controls Group provided a list of 762 program reviews that FSA's School Eligibility Service Group initiated in FYs 2015, 2016, and 2017. In FSA's Postsecondary Education Participants System (its program review record-keeping system) we found two additional program reviews FSA initiated in FY 2017 that were not included in the list FSA's Internal Controls Group provided to us. The reviews were initiated after the documentation acceptance cutoff date.

[2] Of the 401 program reviews, 371 were included in both the Direct Loan and Pell program improper payment calculations; 12 were included in the Direct Loan program improper payment calculation only; and 18 were included in the Pell program improper payment calculation only.

judgmentally selected for review 32 program reviews and the related supporting documentation (see the section "Sample of Program Reviews Included in Improper Payment Calculations"). The remaining 363 of the 764 program reviews were excluded from the Direct Loan and Pell program improper payment calculations. From these 363 program reviews, we judgmentally selected for review 19 program reviews and the related supporting documentation (see the section "Sample of Program Reviews Excluded from Improper Payment Calculations").

Sample of Program Reviews Included in Improper Payment Calculations

We selected a judgmental sample of 32 program reviews by classifying the 401 program reviews included in the improper payment calculations into 1 of 4 categories. We categorized the program reviews by potential reasons program reviews could be incorrectly included in the improper payment calculations. Within each of the four categories, we first judgmentally selected the program review with the highest dollar disbursement amount for both the Pell and Direct Loan programs[3] and then randomly selected from the remaining reviews as shown in Table 1 below.

[3] In some categories, the program review of the school with the largest disbursement of Direct Loan program funds was not the same school that had the highest disbursement of Pell program funds; therefore, we included both schools' program reviews.

Table 1. Program Review Universe and Sample (Reviews Included in Improper Payment Calculation)

Category	Universe	Sample	Selection Method
The scope of the review did not include award year 2014–2015,[a] and no student disbursements were sampled according to the Pell and/or Direct Loan improper payment calculation spreadsheets[b]	15	7	School with highest Direct Loan program disbursements, school with highest Pell program disbursements, plus five randomly selected schools
The scope of the review did not include award year 2014–2015, but student disbursements for the 2014–2015 award year were sampled according to the improper payment calculation spreadsheets	10	7	School with highest Direct Loan program disbursements, school with highest Pell program disbursements, plus five randomly selected schools
The scope of the review included award year 2014–2015, but no student disbursements were sampled according to the improper payment calculation spreadsheets[b]	34	7	School with highest Direct Loan program disbursements, school with highest Pell program disbursements, plus five randomly selected schools
All other reviews that included the 2014-2015 award year.	342	11	School with highest Direct Loan and Pell program disbursements, plus 10 randomly selected schools
Totals	**401**	**32**	**-**

[a] Program reviews that do not include a review of the 2014-2015 award year should not be included in the improper payment calculations, according to the Department's improper payment calculation methodologies.

[b] The scope of these reviews includes institutional eligibility, academic program eligibility, or review of entire population of students with invalid high school credentials, as it pertains to the 2014–2015 award year.

We reviewed the 32 program reviews to determine whether the program review results were correctly and accurately included in the Direct Loan and/or Pell programs' improper payment calculations, with no material errors.

Sample of Program Reviews Excluded from the Improper Payment Calculations

We judgmentally selected 19 of the 363 program reviews that were excluded from the Direct Loan and Pell program improper payment calculations by the categories established by the Department, as shown in Table 2 below.

Table 2. Program Review Universe and Sample (Reviews Excluded from Improper Payment Calculation)

Category	Universe	Sample	Selection Method
Review was not issued by the documentation acceptance cutoff date[a]	241	8	• 7 reviews that have been in progress for the most number of days with no report issued, and included a review of the 2014–2015 award year. • 1 of 10 reviews on the same school (different campuses) that related to a settlement.
Review was not applicable to the 2014–2015 award year	110	7	• 5 reviews that FSA reported to not include 2014–2015 as a reviewed award year even though a spreadsheet in the improper payment calculation workbook shows that 2014–2015 was reviewed. • 2 reviews that FSA reported to not include 2014–2015 as a reviewed award year and for which no award years were listed in a spreadsheet in the improper payment calculation workbook.
Review was completed by the documentation acceptance cutoff date and no report will be issued[b]	3	2	• 1 review that resulted in a close-out letter instead of a report. • 1 random selection
The subject matter reviewed would not identify Direct Loan or Pell program improper payments	7	1	• School with highest Direct Loan and Pell program disbursements.
Review was excluded from the Direct Loan calculation for one reason and excluded from the Pell program calculation for a different reason[c]	2	1	• Random selection
Totals	**363**	**19**	**-**

[a] The documentation acceptance cutoff date is August 4, 2017. The program review had to have a report issued by August 4, 2017, for FSA to consider including it in the Direct Loan and/or Pell program improper payment calculations.

[b] No report was issued for one program review because there is no documentation to support the on-site work the Department performed; for another program review the school closed; and for the other program review the school settled with the Department. According to the improper payment calculation methodologies, only program reviews with issued program review reports are to be included in the improper payment calculations.

[c] One program review was excluded from the Direct Loan program calculation because the school did not disburse Direct Loan program funds, and was excluded from the Pell program calculation because award year 2014–2015

was not reviewed. The other program review was excluded from the Direct Loan program calculation because award year 2014–2015 was not reviewed, and was excluded from the Pell program calculation because the subject matter was not related to the Pell program.

We reviewed the sample of 19 program reviews to determine whether the Department correctly excluded these reviews from the Direct Loan and Pell program improper payment calculations. To make this determination, we reviewed the reports for the 19 program reviews and verified the reason the Department provided for excluding the reviews from the improper payment calculations.

Population of Implemented Improper Payment Corrective Actions

The Department identified 25 corrective actions in its FY 2017 AFR that were to address the root causes of improper payments related to the Direct Loan and Pell programs. The Department reported that it implemented 11 of the 25 corrective actions in FY 2017 and plans to implement the remaining 14 after FY 2017. We reviewed the 11 corrective actions to determine whether the Department implemented the corrective actions and whether it reported the results in its FY 2017 AFR. To make these determinations, we interviewed FSA officials responsible for the implementation of the 11 corrective actions, reviewed documentation to support that the corrective actions had been implemented, and reviewed the FY 2017 AFR to determine whether the results of the implemented corrective actions were reported.

Use of Computer-Processed Data

Our use of computer-processed data for the audit was limited to the spreadsheets provided by the Department to support its Direct Loan and Pell programs improper payment calculations. We used the spreadsheets to evaluate the accuracy and completeness of the Department's estimation methodologies for the Pell and Direct Loan programs. We assessed the reliability of the data by comparing program review data to data contained within the spreadsheets and by interviewing Department officials and its contractor staff knowledgeable about the data. Based on our analysis, we concluded that the spreadsheets were sufficiently reliable for the objectives of our audit (for details regarding this work, see the section "The Department Did Not Meet All Requirements for Compliance with IPERA").

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix B. Acronyms and Abbreviations

AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
DRT	Data Retrieval Tool
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant Program

Department Comments

MEMORANDUM

DATE: April 20, 2018

TO: Pat Howard
Assistant Inspector General for Audit
Office of Inspector General

Christopher Gamble
Acting Regional Inspector General (Region IV)
Office of Inspector General

CC: Selina Boyd
Auditor in Charge
Office of Inspector General

Douglas Webster
Chief Financial Officer
Office of the Chief Financial Officer

FROM: John W. Hurt, III
Chief Financial Officer
Federal Student Aid

SUBJECT: Response to OIG's Review of the Department's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) – A04S0003

We appreciate the opportunity to respond to the draft audit results of the Office of Inspector General's (OIG) review of the Department's compliance with IPERA. Please find below our response to each recommendation.

We also appreciate the OIG's recognition that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete. The Department is committed to establishing effective internal controls to demonstrate payment integrity and to preventing, detecting, and recovering improper payments when they occur.

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

830 First St. N.E., Washington, DC 20202

Overall Comments

We acknowledge and concur with the OIG's determination that we are non-compliant with IPERA for FY 2017 reporting because the Pell Grant program did not meet the FY 2017 reduction target established in the FY 2016 Agency Financial Report (AFR). Our responses to the draft finding and recommendations are included below.

We thank the OIG for its efforts to evaluate the Department's compliance with IPERA and for its recommendations. We look forward to continuing to work closely with the OIG as we continuously look for ways to improve the accuracy and completeness of our reporting and prevent, detect, and recapture improper payments.

Department's Response to Finding 1

The Department concurs with this finding.

We agree that the Department did not meet the established reduction target for the Pell Grant program. The Department uses an OMB-approved alternative estimation methodology to estimate improper payments for the Pell Grant and Direct Loan programs. These estimates lack the precision of other estimates developed using random, statistical methodologies. We estimate that the precision or margin of error for the 2017 Pell estimate, had this been a statistical estimate, is +/- 6.78% and the established reduction target would have been within the margin of error. We have engaged contract support to finalize and implement a plan to develop a statistically valid improper payment estimation methodology for 2019 reporting.

The Department continues to invest in maintaining a strong control framework to include internal controls over payments. In FY 2017, as part of its internal control framework, the Department documented over 500 controls designed to help prevent, detect, and recover improper payments. The Department regularly assesses the effectiveness of these controls and, where applicable, takes action to remediate deficiencies or implement improvements. For example, FSA is in the process of designing and building a much more accurate methodology for selecting applications for verification. This more accurate verification methodology will be implemented for the 2019-20 FAFSA, beginning on October 1, 2018.

In designing controls, the Department attempts to strike the right balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome; and, thereby, deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. As these "third-party" controls are outside of the Department's operational control, they present a higher risk to the Department. As noted in the Department's FY 2017 AFR, it is estimated that over 96 percent of improper payments were made by recipients of Federal money whereas about four percent were made directly by the Department. Nevertheless, the Department continues to focus on reducing improper payments.

Department's Response to Recommendation 1.1

As required by IPERA, if the Director of OMB determines that additional funding is needed to help the agency become compliant with IPERA, take the necessary steps to implement OMB's recommendation.

The Department concurs with this recommendation. The Department will coordinate with OMB on whether additional funding is needed to help the agency become compliant with IPERA.

Department's Response to Recommendation 1.2

As required by OMB guidance, take the necessary steps to implement any other actions OMB may recommend to assist the agency with becoming compliant with IPERA.

The Department concurs with this recommendation. The Department is currently working with OMB to identify and develop improvements to the estimation methodology. The Department will continue to work with OMB to address any additional requirements OMB may identify to assist the Department with becoming compliant with IPERA.

We appreciate the opportunity to review and respond to the report. If you have any questions, or need additional information regarding this response, please contact Jay Hurt at (202) 377-3453.