U.S. Department of Education
Office of Inspector General

Federal Student Aid's Process to Select Free Application for Federal Student Aid Data Elements and Students for Verification

April 26, 2019
ED-OIG/A02Q0007

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

April 26, 2019

TO: Mark A. Brown
Chief Operating Officer
Federal Student Aid

Diane Auer Jones
Delegated to Perform the Duties of Assistant Secretary
Office of Postsecondary Education

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

SUBJECT: Final Audit Report, "Federal Student Aid's Process to Select Free Application for Federal Student Aid Data Elements and Students for Verification," Control Number ED-OIG/A02Q0007

Attached is the subject final audit report that consolidates the results of our review of the Federal Student Aid's process to select data elements and students for verification. We have provided an electronic copy to your audit liaison officers. We received your comments, including corrective actions that Federal Student Aid has planned or implemented, in response to the findings and recommendations in our draft report.

U.S. Department of Education 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 findings 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) 245-6900 or Bryon.Gordon@ed.gov or Alyce Frazier, Regional Inspector General of Audit at (646) 428-3871 or Alyce.Frazier@ed.gov.

FINAL REPORT

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Results in Brief

What We Did

The objective of our audit was to determine the effectiveness of Federal Student Aid's (1) evaluation of its processes for selecting Free Application for Federal Student Aid (FAFSA) data elements to be verified and (2) evaluation and monitoring of its processes for selecting students for verification. Our audit covered Federal Student Aid's (FSA's) verification processes implemented for the 2015–2016 and 2016–2017 award years. For the 2015–2016 award year, the processing cycle was January 1, 2015, through June 30, 2016, and for the 2016–2017 award year, the processing cycle was January 1, 2016, through June 30, 2017.

What We Found

FSA did not evaluate its process for selecting FAFSA data elements to verify. FSA also did not effectively evaluate three of its four processes we reviewed for selecting students for verification but did effectively evaluate one process. Additionally, FSA did not evaluate the effectiveness of its 30-percent limitation for selecting students it required postsecondary educational institutions (institutions) to verify. Finally, FSA did not monitor its processes for selecting students for verification to ensure the processes performed as expected and any significant differences were addressed. As a result, there is no reasonable assurance that the verification processes effectively identified FAFSAs with errors that would result in improper payments.

What We Recommend

We recommend that FSA and the Office of Postsecondary Education (OPE) ensure that the FAFSA data elements that are selected for verification are those that have the greatest impact on the expected family contribution and are most likely to be misreported. We recommend that FSA evaluate its processes for selecting students for verification and its 30-percent limitation for selecting students for verification. We also recommend that FSA monitor its verification processes to ensure they perform as expected and significant differences are addressed.

FSA's Comments

In its response to the draft report, FSA concurred with the majority of our findings and recommendations. However, FSA stated that while the findings were valid at the time of our review, the draft report did not acknowledge that FSA had made significant improvements to its evaluation and monitoring of the verification processes. Further, FSA stated that it implemented changes that enhanced FSA's ability to oversee the verification process and improve the verification selection model as early as fall 2017.

We maintained contact with FSA during our audit through September 7, 2018. During our audit, FSA did not inform us of any planned initiatives that would improve its evaluation and monitoring of the verification processes. For example, we were aware, as reported in Finding 2 (see FSA Did Not Monitor its Processes for Selecting Students for Verification), that statisticians with FSA's Enterprise Data Office reviewed its contractors work for the 2017–2018 processing cycle; however, we were not informed of the statisticians involvement with reviewing the contractors work that began in the fall of 2017 until we received FSA's response on April 3, 2019. We summarized and responded to FSA's comments at the end of each finding and included the full text of FSA's comments at the end of this report (see FSA's Comments).

OIG's Response

FSA did not inform us of planned initiatives or actions taken as described in its comments prior to its written response. Also, FSA did not provide documentation to support those improvements. Therefore, we did not evaluate or discuss these initiatives in our audit report. However, as described by FSA, the improvements are aligned with our recommendations. We did not make any changes to the report as a result of FSA's comments.

Introduction

Background

Title IV of the Higher Education Act of 1965, as amended, provides Federal financial aid for applicants[1] in the form of grants, loans, and work study. For the period reviewed, students applied for Federal financial aid by completing a FAFSA. The information applicants report on the FAFSA, which we refer to as FAFSA data elements throughout the report, was used to calculate the expected family contribution. If the expected family contribution was less than the student's cost of attendance, a student had a financial need and could be eligible to receive Federal financial aid.

FSA contracted with General Dynamics One Source, LLC (General Dynamics) to operate and maintain systems that support the Federal financial aid processes. Specifically, General Dynamics operates and maintains the Central Processing System, which is the system that processes FAFSAs. Under the contract, General Dynamics must conduct an annual requirements analysis to evaluate the logic within the Central Processing System. General Dynamics must also develop effective selection criteria for selecting applicants for verification. General Dynamics' work is documented in a deliverable report to FSA. FSA is responsible for inspecting the deliverable for content, completeness, accuracy, and conformance with the contract requirements.

Verification is the process by which institutions confirm the accuracy and completeness of certain information reported on the FAFSA for selected students.[2] Verification helps ensure that students receive the appropriate amount of Federal financial aid. The Central Processing System uses criteria approved by FSA to select the students that institutions must verify. Institutions also have the authority to verify additional students.

Verification is also an important control to prevent improper payments of Federal financial aid. According to the U.S. Department of Education's (Department's) fiscal year 2017 Agency Financial Report, the failure to verify financial data is one of the underlying root causes of improper payments for the Federal Pell Grant and Federal Direct Loan programs. The Department reported that specific root causes associated with the failure to verify financial data included, but were not limited to, ineligibility for a Federal Pell Grant or Federal Direct Loan and incorrect self-reporting of an applicant's income that leads to incorrect awards based on expected family contribution. For fiscal year 2017,

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[1] Federal financial aid applicants can be students or parents of dependent students. In this report, we used students and applicants interchangeably.

[2] Verification is required under Title 34 of the Code of Federal Regulations, Part 668 Subpart E. All regulatory citations are from the volume dated July 1, 2015.

the Department estimated improper payments of more than $790 million for the Federal Pell Grant program and more than $628 million for the Federal Direct Loan program due to the failure to verify financial data.

Data Elements Selected for Verification

When a student is selected for verification, the institution must verify certain data elements on the student's FAFSA. Before the 2012–2013 award year, institutions were required to verify the same five FAFSA data elements for all students selected for verification: (1) adjusted gross income or income earned from work for a non-tax filer, (2) income taxes paid, (3) number of family members in the household, (4) number of family members in college, and (5) certain untaxed income and benefits. For a list of all FAFSA data elements to be verified see Table 1.

In October 2010, the Department revised the verification regulations, effective July 1, 2012, and first applicable for the 2012–2013 award year. The new regulations required the Department to publish annually in the Federal Register the FAFSA data elements that institutions must verify for each processing cycle. Under this revised verification process, the data elements that institutions must verify would be limited to the specific elements the Department selected for each applicant. Officials from FSA's Policy Liaison and Implementation Office and OPE's Policy Development Group collaboratively determined the FAFSA data elements that were required to be verified. In the preamble to the October 2010 final regulations, the Department stated that it was confident that, when fully implemented, the targeted selection of FAFSA information to be verified would result in a more efficient and effective verification process.

Students Selected for Verification

During our audit period, FSA implemented five processes for selecting students for verification: targeted, automatic, identity, discretionary, and random. FSA's methodology for selecting students for each of the five selection processes varied, as described below.

1. For the targeted selection process, FSA selected students by using a statistical model to identify criteria with the highest likelihood of significant errors on FAFSAs that would affect award amounts. General Dynamics developed the selection criteria to select students under the targeted selection process.[3] The former director of FSA's Policy Liaison and Implementation Office stated that

[3] General Dynamics subcontracted with ICF International to develop the statistical analysis used to select students for the targeted selection process. However, for the purposes of our audit report, we refer to only General Dynamics when discussing the contractor's work.

most of the students selected for verification were selected through the targeted selection process.

2. For the automatic selection process, FSA and OPE used professional judgment to identify specific characteristics of FAFSA data elements. For example, all students that reported a specific amount of change in their adjusted gross income were automatically selected for verification.

3. For the identity selection process, FSA selected students whose FAFSAs had conditions that matched suspected fraud criteria.

4. For the discretionary selection process, FSA had the flexibility to select students for verification to address specific concerns.

5. For the random selection process,[4] the Central Processing System randomly selected 2.5 percent of students for verification.

Once the FAFSAs successfully passed through initial edit checks, the Central Processing System selected students whose FAFSA records met the criteria for any of the five selection processes. These criteria consisted of parameters or characteristics of specific data elements that applicants reported on or derived from their FAFSAs. Out of more than 19 million students who applied for Federal financial aid during the 2015–2016 processing cycle, more than 6 million students were selected for verification. For the 2016–2017 processing cycle, more than 5 million students were selected for verification out of more than 18 million who applied for Federal financial aid.

Before July 1, 2012, the verification regulations required an institution to verify no more than 30 percent of its students who submitted a FAFSA. Starting with the 2012–2013 award year, this limitation was removed from the regulations. Instead, FSA limited the number of students it selected for verification through the Central Processing System to 30 percent of all students who submitted a FAFSA, which according to a supervisory program specialist from OPE's Policy Development Group was done because it seemed to strike a balance between undue burden to students and institutions and program integrity. Subsequently, institutions were required to verify all students the Central Processing System selected for verification, unless a student met the criteria to be excluded. Examples of students excluded from verification include students who died, students who did not receive any Federal financial aid, and students who received only unsubsidized Federal financial aid.

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[4] Because a random process has no expected outcome, there is no criteria against which we could measure how well it worked. Therefore, we did not include the random selection process in our review.

In the spring of 2014 and 2015, officials at FSA's Customer Experience Office met with FSA's contractor to discuss and decide on the verification selection processes to be used to select students for the 2015–2016 and 2016–2017 processing cycle, respectively. After receiving FSA's approval of the selection criteria for each selection process, FSA's contractor performed testing to ensure that the criteria functioned in the Central Processing System. FSA then reviewed all of the contractor's testing results for the verification selection processes and, in December, approved the production of the Central Processing System to start on January 1.

The Central Processing System assigned verification tracking flags to FAFSA records for those students that were selected for verification. The verification tracking flags indicated the specific FAFSA data elements that institutions needed to verify for the selected students. Institutions subsequently reported whether or not they completed verification for the selected students in the Department's Common Origination and Disbursement System. Table 1 shows the verification tracking flags and the FAFSA data elements that institutions were required to verify during the 2015–2016 and 2016–2017 processing cycles.

Table 1. Verification Tracking Flags Based on the Selection Process and the Related FAFSA Data Elements to be Verified

Selection Process	Verification Tracking Flag[a]	FAFSA Data Elements to be Verified

Random, automatic,[b] or targeted	V1	• Adjusted gross income
		• Income earned from work (non-tax filers)
		• Income taxes paid
		• Household size
		• Number in college
		• Untaxed income and benefits
		  o Untaxed individual retirement account distributions
		  o Untaxed portion of pensions
		  o Tax exempt interest income
		  o Individual retirement account deductions and payments
		  o Education tax credits
		  o Supplemental Nutrition Assistance Program
		  o Child support paid

Discretionary[c]	V3	• Child support paid
Identity	V4	• High school completion status • Identity and statement of educational purpose • Supplemental Nutrition Assistance Program • Child support paid
Identity and random, automatic, or targeted	V5	• All data elements under V1 and V4

Automatic	V6	• Other untaxed income
		  o Child support received
		  o Payments to tax deferred pensions and savings
		  o Veterans non-education benefits
		  o Housing/food/living allowances to military, clergy, and others
		  o Money received/paid on behalf of student
		• All data elements under V1

[a] The V2 verification tracking flag was not used in the 2015–2016 and 2016–2017 processing cycles.
[b] The V1 or V6 verification tracking flags were assigned to the automatic selection process based on the specific criteria used to select the student.
[c] The V3 verification tracking flag was used in the 2015–2016 processing cycle; it was not used in 2016–2017 processing cycle.

Finding 1. FSA Did Not Evaluate its Process for Selecting FAFSA Data Elements for Verification

FSA did not evaluate its process for selecting FAFSA data elements that institutions were required to verify during the 2015–2016 and 2016–2017 processing cycles. FSA and OPE determined the FAFSA data elements to be verified were those data elements that had the greatest impact on expected family contribution and most likely to be misreported. The Department met the regulatory requirement of annually publishing the FAFSA data elements that institutions had to verify. However, FSA and OPE did not base the selected data elements on a recent analysis that identified the data elements that had the greatest impact on the expected family contribution and that applicants were most likely to misreport.

When the revised verification regulations went into effect for the 2012–2013 award year, FSA and OPE continued to use the five FAFSA data elements required to be verified under prior regulations and added new data elements based on FSA's and OPE's professional judgment and suggestions and comments made by financial aid administrators. However, FSA and OPE did not evaluate any data to determine whether the FAFSA data elements required to be verified had the greatest impact on the expected family contribution and were most likely to be misreported by students or parents on the FAFSA. The supervisory program specialist from OPE's Policy Development Group stated that the five FAFSA data elements from the prior regulations were based on an analysis of historical data. The supervisory program specialist stated that these FAFSA data elements had the biggest impact on the expected family contribution and were most prone to error; therefore, they continued to include them in the verification process. However, FSA and OPE could not provide the analysis of the historical data and did not perform an analysis to support FSA's decision to continue using the original five or any other new data elements required to be verified.

According to the U.S. Government Accountability Office "Standards for Internal Control in the Federal Government" (September 2014), Federal managers must establish effective internal controls that provide reasonable assurance of the effectiveness and efficiency of the organization's operations. Management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving its objectives or addressing related risks.

FSA and OPE did not evaluate the process for selecting FAFSA data elements that must be verified because, according to the acting director of FSA's Policy Liaison and Implementation Office, there are limited FAFSA data elements that affected the expected family contribution. Since FSA and OPE has not performed any analysis of available data, they could not determine whether other available data elements would result in changes to a student's expected family contributions or be misreported on the FAFSA. Because FSA and OPE did not evaluate data to select FAFSA data elements for

verification, FSA and OPE cannot be assured its verification process focuses on data elements that have the greatest impact on the expected family contribution and are most likely to be misreported.

Recommendations

We recommend that FSA's Acting Chief Operating Officer, in collaboration with the Assistant Secretary for OPE, ensure that its staff—

1.1 Establish procedures to periodically evaluate data to identify those FAFSA data elements that have the greatest impact on the expected family contribution and are most likely to be misreported on the FAFSA.

1.2 Select for verification the FAFSA data elements identified based on the evaluation performed as a result of Recommendation 1.1.

FSA's Comments

FSA partially agreed with Recommendation 1.1 and agreed with Recommendation 1.2. FSA stated that it conducted analyses to determine which FAFSA data elements, when changed, have the greatest impact on the expected family contribution. Further, FSA stated that these analyses would be repeated when any changes occur to either the expected family contribution formula or the FAFSA data elements that impact the expected family contribution. FSA did not agree to evaluate data elements that were most likely to be misreported on the FAFSA. FSA stated that in order to conduct the analysis, each FAFSA data element would need to be selected for verification and such analyses would require significant FSA resources. Further, FSA stated that mistakes in data elements that did not directly relate to the expected family contribution did not justify verification selection.

OIG's Response

While FSA stated that the analyses in response to Recommendation 1.1 were expected to be completed by March 31, 2019, the analyses results were not included in its response. Therefore, OIG could not determine whether the analyses were sufficient to address the recommendation. While FSA expressed concerns that our recommendation calls for them to evaluate data elements based solely on the likelihood that the data are misreported, we intended the recommendation to ensure that the evaluation of data elements considered both the impact on expected family contribution and the likelihood they were misreported. The analyses FSA described on data elements with the greatest impact on expected family contribution should also include a determination if those same data elements would likely be misreported on the FAFSA. Therefore, we did not change Recommendation 1.1.

Finding 2. FSA Generally Did Not Effectively Evaluate and Monitor its Processes for Selecting Students for Verification

FSA did not effectively evaluate three of its four processes we reviewed for selecting students for verification. Specifically, FSA did not effectively evaluate the targeted, automatic, and identity selection processes used for verification. We also found FSA did not evaluate its 30-percent limitation for selecting students it required institutions to verify. In addition, we found that FSA did not monitor its processes for selecting students for verification.

As a result of not effectively evaluating the targeted, automatic, and identity selection processes, FSA has not ensured that the processes selected students with errors on their FAFSAs and prevented students from improperly receiving Federal financial aid. By not evaluating its 30-percent limitation, FSA could not support that the selection rate was appropriate and did not create an undue burden to schools and students. Further, by not monitoring its processes for selecting students for verification, FSA could not assess whether the processes were meeting expected results.

FSA Effectively Evaluated the Discretionary Selection Process

We found FSA effectively evaluated the discretionary selection process before the 2016–2017 processing cycle. During the 2015–2016 processing cycle, FSA required institutions to verify the child support paid, as noted in Table 1, for all students selected under the discretionary selection process. FSA evaluated the effect changes to child support paid had on the student's expected family contribution and found that this process did not yield a significant amount of change to a student's expected family contribution that would affect the student's award amount. Since FSA did not have other specific concerns it wanted to address with the discretionary selection process, it did not use that process for the 2016–2017 processing cycle.

FSA Did Not Effectively Evaluate the Targeted Selection Process

We found FSA did not effectively evaluate the targeted selection process used to select students for verification for the 2015–2016 and 2016–2017 processing cycles. Specifically, FSA did not evaluate whether the targeted selection criteria used to select students resulted in changes to the students' award amounts. In addition, we found FSA did not effectively evaluate the work of its contractor before implementing the targeted selection process.

Evaluating the Targeted Selection Criteria

FSA did not evaluate whether the targeted selection criteria used to select students for verification for the 2015–2016 and 2016–2017 processing cycles resulted in changes to

the student's award amounts. FSA contracted with General Dynamics to develop effective criteria for selecting students for the targeted selection process. General Dynamics used payment data from prior processing cycles[5] of randomly selected students to develop a statistical model that would identify the most effective targeted selection criteria. The targeted selection criteria were based on parameters of specific data elements reported on or derived from the FAFSA. For each targeted selection criteria identified, General Dynamics calculated an expected "percentage wrong": that is, the percentage of students who would have a change in award amount of more than $100. However, FSA did not evaluate the extent to which students selected by each implemented targeted selection criteria had changes in their award amounts.

FSA did not evaluate the targeted selection criteria because it did not consider an evaluation necessary. FSA's former director of the Policy Liaison and Implementation Office stated that FSA did not need to evaluate the effectiveness of the targeted selection criteria because the targeted selection criteria used to select students changed every processing cycle. While the targeted selection criteria changed between the 2015–2016 and the 2016–2017 processing cycles, by not evaluating the targeted selection criteria, FSA did not know how effective the statistical model was for identifying the targeted selection criteria that resulted in changes in award amounts of students that were selected for verification. Additionally, by not evaluating the targeted selection criteria, any deficiencies in the statistical model remained undetected.

Evaluating the Contractor's Work

FSA also did not effectively evaluate the work of its contractor before implementing the targeted selection process. General Dynamics documented its methods for developing its statistical model to identify the targeted selection criteria in the Central Processing System Annual Requirements Analysis (Annual Report).[6] General Dynamics submitted the Annual Reports each January, after the processing cycles began. The contract terms did not include a specific delivery date for the Annual Report, but it did state that FSA must review the Annual Report for accuracy and completeness. However, FSA did not effectively review the Annual Reports for the 2015–2016 and the 2016–2017 processing cycles as required by the contract. We found discrepancies in the Annual Reports and that the statistical model was not properly specified. Specifically, we found General

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[5] General Dynamics calculated the award at payment amount based on expected family contribution and cost of attendance information from the Common Origination and Disbursement System. For the 2015–2016 and the 2016–2017 processing cycles, the contractor used data from the 2013–2014 and 2014–2015 processing cycles, respectively.

[6] The Annual Reports also documented various analyses of the financial aid application processes and recommended changes for the Central Processing System.

Dynamics did not perform all the steps described in the Annual Reports, presented inconsistent information in its Annual Report, and developed and implemented the targeted selection criteria based on a poorly specified statistical model. FSA did not detect and correct the issues we found before implementing the targeted selection process.

FSA Did Not Detect Discrepancies in the Annual Reports

We found three discrepancies in the Annual Reports submitted by General Dynamics that were not detected by FSA. First, General Dynamics did not perform all the steps described in the 2015–2016 and the 2016–2017 Annual Reports. According to both years' Annual Reports, General Dynamics stated that it performed a step to reduce the effect nonrecipients (students who submitted a FAFSA but did not receive Federal financial aid for various reasons) had on its statistical model, as nonrecipients had dominated the results in the past. To reduce the effect nonrecipients had on its statistical model, General Dynamics stated that the incorrect award amount would be calculated as the difference between the initial award amount and half the award at last transaction plus half the award at payment. We requested the datasets that were used to construct the 2016–2017 statistical model and found that General Dynamics did not calculate the incorrect award amount according to the step it described in the Annual Report. Based on our review, it appeared that the incorrect award amount calculation was half the difference between the amount paid and the initial award amount. During our follow-up meeting, General Dynamics' subcontractor statistician stated that there was an error in the calculation of the incorrect award amount that also occurred for the 2015–2016 processing cycle, but General Dynamics corrected the error for the 2017–2018 processing cycle.

Second, in the Annual Reports, General Dynamics stated that it matched for a sample of FAFSA applicants the adjusted gross income and taxes paid reported on the FAFSA to the Internal Revenue Service records to identify discrepancies of information used in the statistical model. General Dynamics performed this step to validate the prioritization of the targeted selection criteria. During our meeting with General Dynamics, the statistician stated that General Dynamics did not perform this step for the 2016–2017 processing cycle, but performed the step for the 2015–2016 processing cycle. We reviewed a report that supported the FAFSA data was matched to the Internal Revenue Service records for the 2015–2016 processing cycle; however, the statistician could not explain how the information from the Internal Revenue Service match was used to validate the prioritization of the targeted selection criteria.

Third, in the 2015–2016 Annual Report, General Dynamics reported inconsistent information that indicated that students selected using the random selection process for verification would have greater total changes in award amounts than students selected using the targeted selection process for verification. In its analysis, General

Dynamics identified the targeted selection criteria that would result in the greatest change in award due to verification, described as "mean savings." General Dynamics reported a mean savings for randomly selected students that exceeded the mean savings it reported for some of the targeted selection criteria that were recommended for implementation. The targeted selection criteria were developed to identify students with errors on their FAFSAs that would result in award changes. However, the data in the report suggest that the random selection process would have resulted in greater total changes in award amounts. In response to our finding, General Dynamics stated that the mean savings information in the report was incorrectly reported and the issue was corrected starting with the 2016–2017 processing cycle.

FSA Did Not Ensure the Statistical Model Was Properly Specified

We found that as part of its process to develop the targeted selection criteria for the 2015–2016 and 2016–2017 processing cycles, General Dynamics developed the targeted selection criteria using a statistical model that was not properly specified because it treated three different groups of students identically. The statistical model did not distinguish between three groups of students: nonrecipients,[7] students who were overpaid by more than $100, and students who were underpaid by more than $100. A properly specified statistical model would have accounted for the different groups of students. General Dynamics did not assess whether or not the similarities and differences among the three groups of students justified the identical treatment within the statistical model for the processing cycles included in our audit. The subcontractor's former business analyst stated that the decision to combine the outcomes of these three groups of students was made several years ago and the decision remained unchanged. Therefore, the statistical model used to develop the targeted selection criteria may not have effectively identified students at higher risk of misreported information.

In January 2016, FSA questioned General Dynamics' identical treatment of the groups of students in the development of the targeted selection criteria for the 2016–2017 processing cycle. According to a document provided by General Dynamics for the 2016–2017 processing cycle, FSA stated that logically it made sense to model overpaid and underpaid students separately. However, FSA did not ensure General Dynamics corrected this flaw in developing the targeted selection criteria. General Dynamics implemented this same treatment of the three groups of students for the 2017–2018 processing cycle. FSA's Enterprise Data Office Analytics Team reviewed the 2017–2018 Annual Report and found that General Dynamics' identical treatment of the students in the statistical model could be less likely to predict the targeted selection criteria that would select students at higher risk of misreported information. General Dynamics'

[7] Nonrecipients were counted as overpaid or underpaid in the statistical model.

subcontractor statistician stated that it would analyze students with overpayments and underpayments separately for the 2018–2019 processing cycle.

We also found that as part of its process for implementing the targeted selection criteria for the 2015–2016 and 2016–2017 processing cycles, General Dynamics selected the targeted selection criteria using different information than what was included in the statistical model. In our review of the Annual Reports, we found that General Dynamics reported conflicting information about its calculation of the expected percentage wrong (the percentage of students who would have a change in award amount of more than $100 for the students). Specifically, it presented an expected percentage wrong in a table that differed from the expected percentage wrong calculated using the statistical model and presented in a graph. However, General Dynamics' subcontractor statistician stated that the percentages wrong reported in the table differed because the subcontractor used different information when developing the statistical model than it used to prioritize the statistical model results. The statistician stated that this method was based on a strategic decision to develop the targeted selection criteria to lessen the effect nonrecipients would have on the statistical model; however, she later acknowledged that there were errors in the calculation of the incorrect award amounts (see the section "FSA Did Not Detect Discrepancies in the Annual Reports"). Because General Dynamics constructed a model and prioritized results using different sets of information, FSA implemented targeted selection criteria that were not based on the statistical model. The decision to use different data when developing and implementing the targeted selection criteria further calls into question whether the statistical model was correctly specified to meet its objective to identify applicants that had the highest chance of having errors on the FAFSA that would result in a change in award amount.

FSA did not effectively evaluate the work described in the 2015–2016 and 2016–2017 Annual Reports because FSA's Customer Experience and Policy Liaison and Implementation Offices staff responsible for implementing the targeted selection process did not have training and experience to effectively evaluate the statistical modeling techniques used in General Dynamics' work. Because FSA did not effectively evaluate the 2015–2016 and 2016–2017 Annual Reports, it missed the opportunity to identify and correct deficiencies in the work General Dynamics reported. FSA also missed the opportunity to ensure that General Dynamics developed and implemented targeted selection criteria based on a properly specified statistical model before performing the targeted selection process.

Having staff with training and experience in statistical modeling techniques review the Annual Report would better ensure that deficiencies in General Dynamics' work to develop the statistical model were identified. For example, for the 2017–2018 Annual

Report,[8] FSA's Enterprise Data Office Analytics Team reviewed the statistical model. The analytics team had staff members that had training and experience with statistical modeling techniques and they found several issues with the approach the contractor used in the statistical model. FSA's Enterprise Data Office Analytics Team does not have an assigned role to review General Dynamics' statistical model.

FSA Did Not Effectively Evaluate the Automatic Selection Process

FSA did not effectively evaluate the automatic selection process used to select students for verification during the 2015–2016 and 2016–2017 processing cycles. For the automatic selection process, FSA used its professional judgment to identify specific characteristics of FAFSA data elements to select students for verification. Officials at FSA's Policy Liaison and Implementation Office and OPE's Policy Development Group collaboratively identified the criteria for the automatic selection process. We found FSA did not evaluate the automatic selection process for the 2015–2016 processing cycle and only partially evaluated it for the 2016–2017 processing cycle.

Evaluating the 2015–2016 Automatic Selection Process

FSA did not evaluate the two criteria used to select students for the automatic selection process before implementing the 2015–2016 processing cycle. The two criteria implemented for the 2015–2016 processing cycle were based on specific characteristics of (1) total income and income taxes paid and (2) household size and total income. FSA first implemented the criterion related to the total income and income taxes paid in the 2007–2008 processing cycle, and it first implemented the criterion related to family household size and total income during the 2014–2015 processing cycle. FSA did not evaluate the criteria to determine whether these characteristics were effective in identifying students with errors on their FAFSAs.

Evaluating the 2016–2017 Automatic Selection Process

FSA partially evaluated the automatic selection process used for the 2016–2017 processing cycle. Of the three criteria used to select students for verification, FSA adequately evaluated one criterion, did not evaluate a second criterion, and could not evaluate the third criterion because data were unavailable. FSA adequately evaluated the criterion related to the household size and total income used to select students. Before implementing the 2016–2017 processing cycle, FSA obtained the verification

[8] We did not include a review of the 2017–2018 Annual Report in our audit report because our audit scope only covered FSA's verification selection processes implemented for the 2015–2016 and 2016–2017 processing cycles.

information for students selected during the 2015–2016 processing cycle under this automatic criterion that resulted in corrections to the household size and/or total income after verification. FSA evaluated the effect the changes had on the selected students' expected family contribution and decided to continue to use the household size and total income criterion for the automatic selection process for the 2016–2017 processing cycle.[9] However, FSA did not evaluate the criterion related to total income and income taxes paid before implementing the criterion for the 2016–2017 processing cycle. Additionally, the third criterion related to a specific loan status in the National Student Loan Data System was added as a criterion for the 2016–2017 processing cycle. Since the third automatic criterion was first used to select students for verification during the 2016–2017 processing cycle, FSA could not evaluate the third criterion because data were unavailable.

FSA's Application Processing Division did not evaluate the automatic criterion regarding the total income and income taxes paid during our audit period because FSA's Policy Liaison and Implementation Office officials did not request an evaluation of the criterion. FSA's director of the Application Processing Division stated it evaluated the selection processes only when requested by FSA's Policy Liaison and Implementation Office. Further, the supervisory program specialist of OPE's Policy Development Group stated that an evaluation was not necessary because the total income and income taxes paid criterion would always be implemented for every processing cycle as significant changes in total income and income taxes should be verified. By not effectively evaluating the automatic selection process, FSA does not have reasonable assurance that the process was effective in identifying FAFSAs with errors that would result in improper payments.

FSA Did Not Effectively Evaluate the Identity Selection Process

FSA did not effectively evaluate the identity selection process used to select students for verification for the 2015–2016 and 2016–2017 processing cycles. The identity selection process identified criteria based on information regarding suspected fraud criteria to select students for verification and prevent students from improperly receiving Federal financial aid. We found FSA's evaluation was ineffective to support its conclusion that the criteria used were effective in preventing students from improperly receiving Federal financial aid.

Institutions were required to use the Financial Aid Administrator Access to the Central Processing System Online website to report the status of their verification of a student's identity and high school completion status for students selected by the identity

[9] The evaluation was based on verification results as of March 25, 2015, and the decision to use the criterion for the 2016–2017 processing cycle was made on April 27, 2015.

selection process. Institutions reported that they either (1) found issues with a student's identity or high school completion status, (2) found no issues with a student's identity or high school completion status, or (3) were unable to locate the student or did not receive a response from the student.

General Dynamics provided FSA with a quarterly analysis of the identity selection process, which included information summarized from the Central Processing System. The lifecycle manager of FSA's Application Processing Division stated that when students did not respond or were not located, the fraud criteria prevented the students from receiving financial aid. However, we found the lifecycle manager's conclusion was not supported because students' disbursement information was not included in the quarterly analysis. Even if the verification identified errors, FSA did not determine whether funds were disbursed to the students. In addition, the quarterly analysis included responses from multiple institutions for some of the same students; therefore, the count of students that were not located by institutions could be misinterpreted. For example, if a student listed five institutions on its FAFSA, FSA could receive a "found issue" or "found no issue" response from the institution the student attended and an "unable to locate" response from the other four institutions.

FSA's quarterly analysis of the identity selection process was ineffective because FSA did not include disbursement data in the analysis. While FSA had controls to track the verification status of students selected based on the identity selection process, its evaluation was based on partial data. FSA did not perform further analysis to determine whether the students who were not located or did not respond to verification were actually prevented from improperly receiving Federal financial aid. Since FSA ineffectively evaluated the identity selection process, it could not reasonably ensure the process prevented students from improperly receiving Federal financial aid.

FSA Did Not Evaluate its 30-Percent Limitation for Verification

FSA did not evaluate the effectiveness of its 30-percent limitation for selecting the number of students it required institutions to verify. According to the final rule on program integrity issues published in the Federal Register on October 29, 2010, the Department eliminated the 30-percent limitation on the number of students institutions were required to verify, effective July 1, 2012.[10] The Department stated the decision was based on an analysis and improvements to the verification process to select those applicants whose FAFSA information was most error prone.

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[10] Before the final rule, institutions were required to verify no more than 30 percent of their total number of students that applied for Federal financial aid that the Department selected for verification.

Starting with the 2012–2013 processing cycle, FSA required institutions to verify all students that the Department selected for verification. From all FAFSAs submitted in the Central Processing System, FSA implemented a 30-percent limitation for selecting students for verification. FSA reviewed weekly reports that detailed the number of FAFSAs submitted and the number of students selected for verification to ensure the number selected did not exceed its 30-percent limitation.[11] However, FSA did not determine whether the 30-percent limitation it established was appropriate for selecting students it required institutions to verify.

The supervisory program specialist from OPE's Policy Development Group stated it decided to limit the total number of students it selected for verification to 30 percent as in prior regulations because it seemed to strike a balance between undue burden to students and institutions and program integrity. While FSA tracked the percentage of students selected for verification, it did not evaluate whether limiting the number of students selected to 30 percent for the 2015–2016 and 2016–2017 processing cycles was appropriate. By not evaluating the change to the 30-percent limitation for selecting students it required institutions to verify, FSA could not reasonably ensure that the established limitation was sufficient to prevent an undue burden to students and institutions or that it maximized the selection of those applicants whose FAFSA information was most prone to error.

FSA Did Not Monitor its Processes for Selecting Students for Verification

FSA did not monitor its processes for selecting students for verification to assess whether the processes performed as expected. For each verification process, selection criteria were used to select students that may have errors on FAFSAs that would result in improper payments of Federal financial aid. We found that FSA ensured the selection criteria for each selection process would be functional in the Central Processing System before implementing each processing cycle. However, FSA did not perform monitoring activities of its verification selection processes that would ensure actual performance of the processes met expected results for the 2015–2016 and 2016–2017 processing cycles and any significant differences were addressed.

FSA reviewed the statistical model for the targeted selection process for the 2017–2018 processing cycle.[12] In May 2017, FSA's Enterprise Data Office Analytics Team duplicated

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[11] The actual number of students selected for verification during the 2015–2016 and 2016–2017 processing cycles slightly exceeded 30 percent.

[12] This review took place after our audit period and did not include steps to review the automatic and identity selection processes that were implemented during the 2017–2018 processing cycle.

the processing of the criteria for the 2017–2018 targeted selection process and found that the number of students that should have been selected for verification based on the targeted selection criteria did not match the numbers the Central Processing System selected. The director of research and modeling of FSA's Enterprise Data Office stated that some students were erroneously assigned to the wrong targeted selection criteria; therefore, students who should have been selected for verification were not selected. On further review, FSA's Customer Experience Office found that from October 2016 through June 2017, about 53,000 students with a blank response for certain FAFSA numeric data elements were not selected for verification for the 2017–2018 processing cycle due to an error in the Central Processing System. During this period, about 14 million students submitted FAFSAs. According to the director of FSA's Application Processing Division, the error also occurred during the 2016–2017 processing cycle; however, FSA did not quantify the number of students impacted by the error and stated the specific error in the Central Processing System did not affect the 2015–2016 processing cycle.

FSA did not monitor the verification selection processes implemented during the 2015–2016 and 2016–2017 processing cycles because it did not establish effective monitoring policies and procedures for the verification selection process. While FSA tracked the number of students selected for verification, according to the lifecycle manager of FSA's Application Processing Division, it did not request and review data to determine whether verification actually performed as expected. Without that data, FSA could not effectively monitor its processes for selecting students to determine whether verification was meeting intended outcomes.

Federal Managers Must Establish Effective Internal Controls and Review Them as Needed

According to the U.S. Government Accountability Office "Standards for Internal Control in the Federal Government" (September 2014), Federal managers must establish effective internal controls that provide a reasonable assurance of the effectiveness and efficiency of the organization's operations. In addition, management should design control activities for appropriate coverage of objectives and risks in the operations. It also states that management should periodically review its policies and procedures for continued relevance and effectiveness in achieving its objectives or addressing risks and evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues. Additionally, if an entity's process changes significantly, management must timely review the process after the change to determine whether the control activities are designed and implemented appropriately.

Since FSA did not (1) effectively evaluate the targeted, automatic, and identity selection processes, (2) ensure its contractor completed all steps described in the Annual Reports, (3) evaluate its process for limiting the percentage of students selected for verification,

and (4) monitor its processes for selecting students for verification, it could not be assured of the effectiveness and efficiency of the verification selection processes. Having efficient and effective verification selection processes is important to preventing improper payments of Federal financial aid.

Recommendations

We recommend that FSA's Chief Operating Officer require the Chief Customer Experience Officer and the Acting Director of the Policy Liaison and Implementation Office work collaboratively to—

2.1 Establish and implement procedures to evaluate the effectiveness of the targeted, automatic, and identity selection processes.

2.2 Ensure staff members have training and experience with statistical modeling to evaluate the work General Dynamics performs to develop the statistical model for identifying the targeted selection criteria before implementing the processing cycle.

2.3 Evaluate whether the 30-percent limitation for selecting students for verification is appropriate to prevent an undue burden on students and institutions and maximizes the selection of applicants whose FAFSA information is most prone to error.

2.4 Establish and implement procedures to monitor the results of its selection processes to ensure the verification processes are performing as expected and significant differences are addressed.

FSA's Comments

FSA agreed with all four recommendations. FSA stated that, in the fall of 2018, it established and implemented processes to conduct an annual analysis of the effectiveness of the targeted and automatic selection criteria and is in the process of developing a model that focused on fraud for the identity selection process. FSA stated that it currently conducts a monthly review of the verification percentages to determine what percentage of applicants were selected for verification and to verify that the selection processes were working as predicted. FSA also stated that as of fall 2017, it tasked statisticians from the Customer Analytics and Enterprise Data Office with evaluating General Dynamics' work to ensure the involvement of FSA staff with the appropriate education and experience oversee General Dynamics' work. Beginning in the fall of 2018, FSA changed the timing of reviewing the Annual Reports and the statisticians now review methodologies during the development of the statistical model to ensure improvements or changes can be made prior to implementing the verification selection criteria. In addition, FSA stated that it conducted a cost-benefit analysis to determine the percentage of FAFSA filers that should be selected for verification; the results of this analysis will guide verification selection rates starting spring 2019. Finally, FSA stated that it recognizes an analysis of prior year verification results is critical to monitoring and improving verification selection and is in the process of completing an analysis of the 2018–2019 processing cycle.

OIG's Response

FSA did not provide documentation of the (1) processes it established and implemented to annually analyze the effectiveness of the targeted and automatic selection criteria, (2) model that it is developing for the identity selection process, (3) monthly review of current verification percentages, and (4) analysis of prior year verification results to monitor and improve the verification selection processes that FSA described in its response. As a result, we did not assess whether FSA's corrective actions would work as intended. However, the initiatives FSA stated it implemented to evaluate and monitor the verification selection processes are aligned with the recommendations. In addition, the statisticians' involvement in evaluating the work to develop the statistical model prior to implementing the verification process should address our recommendation, if properly implemented.

Appendix A. Scope and Methodology

Our audit focused on FSA's verification processes implemented for the 2015–2016 and 2016–2017 award years. To address the audit objective, we reviewed the extent to which FSA evaluated its verification processes for continued relevance and effectiveness when selecting FAFSA data elements and students for verification.[13] For monitoring, we reviewed the extent to which FSA compared the actual performance of the verification process to expected results and analyzed significant differences.

To achieve our audit objective, we:

- Reviewed Federal regulations, and guidance applicable to FSA's verification processes, which included:
    - Program Integrity Issues, Proposed Rule, 75 Federal Register 34806 (June 18, 2010);
    - Program Integrity Issues, Final Rule, 75 Federal Register 66832 (October 29, 2010);
    - FAFSA Information to be Verified for the 2015–2016 Award Year, 79 Federal Register 36040 (June 25, 2014);
    - FAFSA Information to be Verified for the 2016–2017 Award Year, 80 Federal Register 36783 (June 26, 2015);
    - Verification and Updating of Student Aid Application Information, Title 34 of the Code of Federal Regulations Part 668, Subpart E (July 1, 2015);
    - U.S. Government Accountability Office's "Standards for Internal Control in the Federal Government" (September 2014); and
    - Office of Management and Budget's Circular A-123, "Management's Responsibility for Internal Control" (December 2004).
- Reviewed prior audit reports issued by the Office of Inspector General that addressed the FAFSA verification process.
- Obtained an understanding of the roles and responsibilities of Department personnel involved in selecting students and FAFSA data elements for verification.
- Interviewed FSA, OPE, and contractor officials to obtain an understanding of the processes for selecting students and FAFSA data elements and related internal controls.
- Reviewed FSA reports and documentation used to implement the verification processes during our audit period. The reports and documents included:

[13] Because a random process has no expected outcome, there is no criteria against which we could measure how well it worked. Therefore, we did not include the random selection process in our review.

- functional specifications that listed the selection criteria for each selection process and active criteria table;
- Central Processing System Annual Requirements Analysis (Annual Reports) that reported the contractor's analysis used in the statistical model to develop the targeted selection criteria;
- User Acceptability Testing procedures, test cases, and test results;
- the Verification Selection Process, which documented decisions, evaluations, and open issues addressed during meetings held between FSA, OPE, and the contractor staff before implementing the verification process;
- the Analysis of Identity Verification Results, which analyzed the verification results of students selected using the fraud criteria;
- management information system reports that provided information related to FAFSA applications processed in the Central Processing System and FAFSA applications selected for verification;
- data used to develop the targeted selection criteria for the 2016–2017 processing cycle; and
- data resulting from the Internal Revenue Services and FAFSA data match of certain data elements for the targeted selection criteria in the 2015–2016 processing cycle.

We held an entrance conference with FSA and OPE officials on January 31, 2017. We performed fieldwork at FSA's and General Dynamics' offices in Washington, DC, and held exit conferences to discuss the results of the audit with FSA and OPE officials on May 10, 2018, and May 16, 2018. We held a follow-up meeting on September 7, 2018, with FSA and General Dynamics officials to discuss additional information provided to us.

Internal Control

To gain an understanding of FSA's system of internal control relevant to our audit objective, we interviewed FSA and OPE officials to determine the processes and procedures used to select FAFSA data elements and students for verification. Since FSA did not have written procedures that addressed the evaluation and monitoring of its verification selection processes, we requested and reviewed documents to support FSA completed the procedures described to us in meetings. The results of our assessment of internal control are detailed in the findings.

Use of Computer-Processed Data

To conduct this audit, we used computer-processed data including reports that showed total students who submitted a FAFSA and the number of students selected for verification for the 2015–2016 and 2016–2017 processing cycles. We did not assess the reliability of this computer-processed data. We used it for informational purposes only.

We also obtained the contractor's data that the contractor used to develop the targeted selection criteria for the 2016–2017 processing cycle. We performed steps to confirm that the data we received was the data used to develop the statistical model by comparing the number of records and the incorrect award amount to the data reported in the 2016–2017 Annual Report. We found the number of records matched; however, there was an error in the calculation of the incorrect award amount. The calculation was to reduce the effect nonrecipients had on the statistical model. As discussed in Finding 2 (FSA Did Not Detect Discrepancies in the Annual Reports), we reported that FSA did not detect the discrepancy in the Annual Reports related to the calculation of the incorrect award amount. During the follow-up meeting with General Dynamics, we confirmed the discrepancy was due to a calculation error. Therefore, we determined the data were sufficiently reliable for the purposes of our audit.

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

Annual Report	Central Processing System Annual Requirements Analysis
Department	U.S. Department of Education
FSA	Federal Student Aid
FAFSA	Free Application for Federal Student Aid
General Dynamics	General Dynamics One Source, LLC
institutions	postsecondary educational institutions
OPE	Office of Postsecondary Education

FSA's Comments

Federal Student Aid
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April 3, 2019

TO: Alyce Frazier
Regional Assistant Inspector General for Audit

FROM: Mark A. Brown
Chief Operating Office[redacted]
Federal Student Aid

SUBJECT: Draft Audit Report, "Federal Student Aid: Process to Select Free Application for Federal Student Aid Data Elements and Students for Verification," Control Number ED-OIG/A02Q0007

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) draft audit report "Federal Student Aid's Process to Select Free Application for Federal Student Aid Data Elements and Students for Verification," dated February 14, 2019. The purpose of the audit was to determine the effectiveness of Federal Student Aid's (FSA) evaluation and monitoring of its processes for selecting *Free Application for Federal Student Aid* (FAFSA®) data elements and students for verification.

FSA understands the importance of the FAFSA® verification process and recognizes the potential burden and impact on applicants. In our efforts on verification, we must balance that burden against our fiduciary responsibility to taxpayers as the verification process is a key way FSA prevents, detects, and remediates improper payments. FSA concurs with the majority of the OIG's findings with the following caveat. While we believe the findings were valid at the time of the review, the report should acknowledge that there was a 20-month delay between the end of the audit period and the issuance of the draft report. The OIG should also acknowledge that during that same time period FSA had moved proactively and made significant improvements to our evaluation and monitoring of verification processes. The usefulness of the report's findings and recommendations to assist FSA today in process improvement to our critical evaluation and monitoring of verification processes 20-months after the fact is limited.

Because this audit covered FSA's verification processes implemented from January 1, 2015 through June 30, 2017, the report does not reflect two key changes that enhance FSA's ability to provide oversight of the verification process and to improve the verification selection model. Beginning in fall 2017, to enhance FSA's oversight of the verification process, FSA expanded the group reviewing the statistical modeling and validation reports, created by General Dynamics Information Technology (GDIT), to include statisticians from FSA's Customer Analytics Group and FSA's Enterprise Data Office. This ensured that all GDIT work was reviewed thoroughly for consistency and accuracy by staff that had the knowledge and skill-set necessary to do so. In summer 2018, FSA began working with GDIT to change the timing of the review of reports. FSA statisticians now provide oversight and feedback during GDIT's development of selection models rather than after implementation, allowing them to improve the selection process and work to increase the accuracy of verification selection. This change has already

allowed FSA to detect an error in GDIT's proposed improper payment methodology for the upcoming verification analysis report, and FSA was able to correct the error prior to implementation.

To improve FSA's verification selection model to better identify applicants for whom an error on the FAFSA was more likely to impact their Expected Family Contribution (EFC) and, ultimately, their federal aid award, FSA provided funding for the creation of an advanced python-coded machine learning model in September 2017. This model updates the criteria used for selection of FAFSA® filers for verification from an older Classification and Regression Tree (CART) model to a gradient boosting classification and regression model. This enhanced model has been used to select FAFSA® applicants for verification since October 1, 2018.

This audit was also conducted before the Department moved to the use of prior-prior year (PPY) data on the FAFSA®. This change increased use of the IRS-DRT, because nearly all filers had filed a PPY tax return by the time they filed a FAFSA® and therefore many more were eligible to use the IRS-DRT to import their tax data. Use of the IRS-DRT serves as verification of tax income data, simplifying the verification process for those FAFSA® applicants who used the IRS-DRT. The move to PPY was beneficial to students and families, but it did consume limited resources that would have been used by the Department to further expedite changes to the verification process.

Additionally, the Department is supporting an exemption to Section 6103 of the Internal Revenue Code of 1986 (IRC) which provides that tax returns and tax return information are confidential and cannot be disclosed or used unless permitted under the IRC. A 6103 exemption would allow the IRS to disclose tax return information directly to the Department of Education for the purpose of administering programs authorized under Title IV of the Higher Education Act of 1965. With a 6103 exemption, FSA would receive the applicant's tax return information directly from the IRS, eliminating the need for students and families to verify income.

On the following pages, FSA responds to the specific audit recommendations. Specifically, FSA agrees with five of the six OIG recommendations and agrees in part with the remaining recommendation. In fact, FSA has implemented, or is in the process of implementing, all six recommendations in whole or in part.

FSA Response to Findings and Recommendations

Finding No. 1: FSA Did Not Evaluate its Process for Selecting FAFSA® Data Elements for Verification.

FSA Response to Recommendations

Recommendation 1.1: Establish procedures to periodically evaluate data to identify those FAFSA® data elements that have the greatest impact on the expected family contribution and are most likely to be misreported on the FAFSA®.

FSA agrees with the first part of this recommendation to evaluate data elements with the greatest impact on EFC and is currently conducting analyses to determine which variables, when changed, have the greatest impact on EFC. The results of those analyses are expected by March 31, 2019. Going forward, these analyses will be repeated when any change in the EFC formula occurs or when any changes are made to FAFSA® data elements that could otherwise impact the EFC, such as modifications to matching agreements with other entities.

In response to the second part of the recommendation to evaluate any data element that is likely to be misreported on the FAFSA®, FSA does not agree. To determine which fields are most likely to be misreported on the FAFSA®, FSA would need to conduct an analysis where every FAFSA® field is selected for verification to know which fields are most often misreported. However, mistakes in fields not directly related to EFC calculation – for example, filing status – do not justify verification selection. These fields have, at most, a tangential impact on expected family contribution, and significant FSA resources would be required to conduct such an analysis. As a result, the analyses to determine the elements with the greatest impact on EFC will provide the best indicator of which fields on the FAFSA® should be chosen for verification purposes.

Recommendation 1.2: Select for verification the FAFSA® data elements identified based on the evaluation performed as a result of Recommendation 1.1.

FSA agrees with this recommendation to the extent it is consistent with the points we discuss in Recommendation 1.1. As a result of the analyses described above, FSA will determine which elements of the EFC formula have the greatest impact on EFC and, thus, should be included as elements chosen for verification.

Finding No. 2: FSA Generally Did Not Effectively Evaluate and Monitor its Processes for Selecting Students for Verification

Recommendation 2.1: Establish and implement procedures to evaluate the effectiveness of the targeted, automatic, and identity selection processes.

FSA agrees with this recommendation, and significant work on this is already underway. In fact, in the fall of 2018, FSA established and implemented the process to conduct an annual analysis of the effectiveness of targeted and automatic selection criteria. This analysis will inform the targeted and

automatic selection processes going forward. In addition, FSA currently conducts a monthly review of current verification percentages to determine what percentage of applicants are being chosen for verification and to verify that the selection process is working as predicted or if parameter values should be adjusted.

Like the machine learning model FSA implemented for verification selection in October 2018, FSA is building an advanced python-coded machine learning model with identity and fraud as its key focus areas. We expect this model to be in operation early in 2020.

Recommendation 2.2: Ensure staff members have training and experience with statistical modeling to evaluate the work General Dynamics performs to develop the statistical model for identifying the targeted selection criteria before implementing the processing cycle.

FSA agrees with this recommendation, and significant work on this is already underway. In fall 2017, FSA tasked statisticians from the Customer Analytics and Enterprise Data Office with evaluating GDIT's work to ensure the involvement of FSA staff who have the appropriate education and experience needed for this oversight. In the fall of 2018, FSA changed the timing for review and approval of the verification reports and analysis provided by GDIT. Previously, statisticians reviewed reports and analysis conducted by GDIT after implementation, when it was too late to implement changes or improvements for the current application cycle. FSA statisticians now review methodologies during the development phase and can make changes prior to the implementation of verification selection criteria.

Recommendation 2.3: Evaluate whether the 30-percent limitation for selecting students for verification is appropriate to prevent an undue burden on students and institutions and maximizes the selection of applicants whose FAFSA® information is most prone to error.

FSA agrees with this recommendation, and significant work on this is already underway. FSA has completed an analysis of verification that has determined the percentage of FAFSA® filers that should be submitted for verification. This cost-benefit analysis took into consideration the costs to schools, students, and families for verification, and benefits to the federal government of reducing improper payments. The results of this analysis will guide verification selection rates going forward and will be put into place in spring 2019.

Recommendation 2.4: Establish and implement procedures to monitor the results of its selection processes to ensure the verification processes are performing as expected and significant differences are addressed.

FSA agrees with the recommendation to monitor prior year verification results, and significant work on this is already underway. In fact, FSA is completing an analysis of the 2018-19 FAFSA® verification process in spring 2019. FSA recognizes how critical this analysis is to monitoring and improving verification selection. This annual analysis will allow FSA to learn lessons from the previous year that will be used to better inform future models used to select applicants for verification.

While FSA conducts user-acceptance testing before the start of each FAFSA® cycle to confirm that the verification selection model is functioning as expected, it is not possible to monitor current cycle verification selection results. In order to ensure that verification processes are performing as expected in the current cycle, FSA must have a large enough sample that has completed verification to conduct such an analysis. Because many applicants do not complete verification until August or September of the year they are attending school (10 or 11 months after the FAFSA® cycle starts the previous October) that sample is not available until too late in the cycle. However, those results will be evaluated and used to inform the following year's verification process.

Again, thank you for the opportunity to review and comment on this draft report.