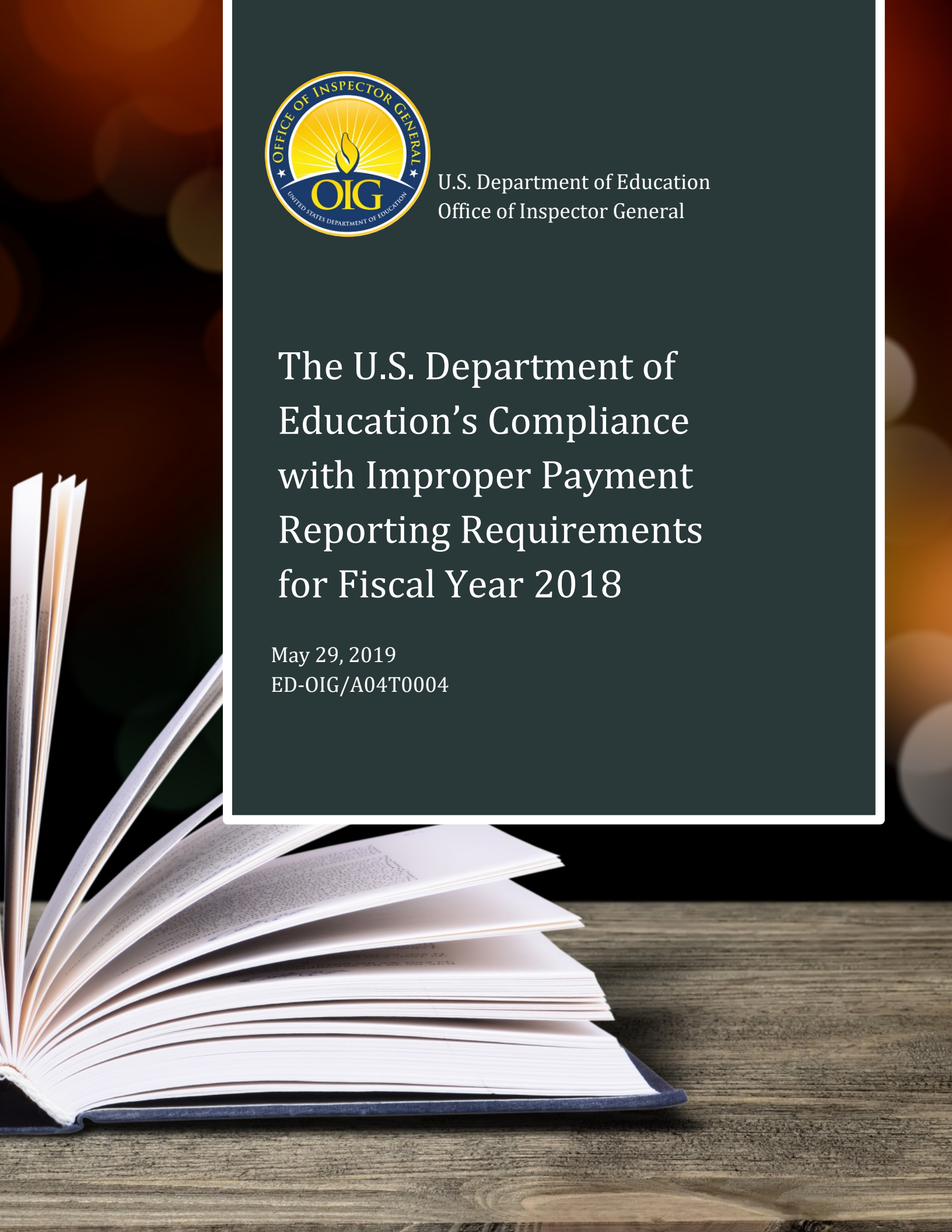

U.S. Department of Education
Office of Inspector General

The U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2018

May 29, 2019
ED-OIG/A04T0004

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 29, 2019

TO: Denise Carter
Acting Assistant Secretary
Office of Finance and Operations
U.S. Department of Education

Alison Doone
Chief Financial Officer
Federal Student Aid

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 2018"
Control Number ED-OIG/A04T0004

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) 2018. 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, Regional Inspector General for Audit, at (404) 974-9417 or Christopher.Gamble@ed.gov.

Attachment

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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 preventing, 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 used by the Department to identify and prevent improper payments. Our audit covered fiscal year (FY) 2018 (October 1, 2017, through September 30, 2018).

What We Found

The Department complied with IPERA because it met all six compliance requirements, as indicated in Table 1.

Table 1. FY 2018 IPERA Compliance Requirements

Program Name	Published an Agency Financial Report	Conducted Risk Assessments, if Required	Published an Improper Payment Estimate	Published Corrective Action Plans	Published and Met Reduction Targets	Reported an Improper Payment Rate of Less Than 10 Percent
Federal Pell Grant Program	Compliant	Not Required	Compliant	Compliant	Compliant	Compliant
William D. Ford Federal Direct Loan Program	Compliant	Not Required	Compliant	Compliant	Compliant	Compliant

The Department's improper payment estimates and methodologies for the Federal Pell Grant Program (Pell) and William D. Ford Federal Direct Loan Program (Direct Loan) were generally accurate and complete. However, the Department reported inaccurate and incomplete information in its FY 2018 Agency Financial Report (AFR). Specifically, the amounts of identified and recaptured improper payments for all programs and activities were inaccurate and incomplete.

In addition, the Department did not report the amount of improper underpayments related to one root cause of improper payments in the Direct Loan program. The

Department implemented corrective actions that could prevent and reduce improper payments in its Pell and Direct Loan programs; however, we could not accurately evaluate the Department's performance in recapturing improper payments because the amounts of identified and recaptured improper payments the Department reported for all programs and activities were inaccurate and incomplete.

The Department was not required to conduct a risk assessment of its high-priority programs (Pell and Direct Loan) in FY 2018 because these programs have been reporting improper payment estimates under IPERA since FY 2011. However, we determined that the Department adequately assessed the level of risk associated with its high-priority programs through implementation of its improper payment estimates and methodologies. Lastly, the Department adequately described in its FY 2018 AFR the oversight and financial controls it designed and implemented to identify and prevent improper payments.

What We Recommend

We recommend that the Department design and implement controls to ensure that its accounting and reporting of identified and recaptured improper payments are accurate and complete.

We provided a draft of this report to the Department for comment. The Department agreed with the finding and recommendations. We include the full text of the Department's response 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. Office of Management and Budget (OMB) issued revised government-wide guidance on the implementation of IPERA on June 26, 2018, 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 preventing, 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 AFR.

According to 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 June 26, 2018, which is contained in OMB Circular A-123, Appendix C. The current OMB-established threshold for high-priority program determinations is $2 billion 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, evaluate the quality of the improper payment estimates and methodology; and review the oversight or financial controls used to identify and prevent improper payments under the program.

The Department Met All Requirements for Compliance with IPERA

We found that the Department complied with IPERA because it met each of the six compliance requirements, 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 and accompanying materials on November 15, 2018.
2. **Conducted Program-Specific Risk Assessments.** The Department complied with the requirement for 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. The Department performed a risk assessment on all of its programs, except the Pell and Direct Loan programs, in FY 2017, as required by IPIA, as amended. Therefore, the Department was not required to conduct risk assessments for its programs in FY 2018. The Department was not required to conduct a program-specific risk assessment for the Pell and Direct Loan programs because the methodology used to report the annual estimates fulfills the risk assessment requirement under IPERA.
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 2018 AFR, the Department identified 31 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 programs and activities.

5. **Published and Met its Reduction Targets**. The Department complied with the requirement to publish and meet its reduction targets. Under Section 3(a)(3)(E), the Department is required to report and meet improper payment reduction targets for programs identified as susceptible to significant improper payments. In the Department's FY 2018 AFR, it published reduction targets for FY 2019 that matched the reported FY 2018 improper payment percentages: 8.15 percent for the Pell program, and 3.99 percent for the Direct Loan program. Both improper payment percentages for FY 2018 are lower than the reduction targets of 8.21 percent for the Pell program and 4.05 percent for the Direct Loan program, as published in its FY 2017 AFR. Therefore, the Department published and met its improper payment reduction targets.

6. **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 8.15 percent for the Pell program and 3.99 percent for the Direct Loan program.

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

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

  The Department initiated 608 program reviews during FYs 2016, 2017, and 2018. Of the 608 program reviews, the Department included 358 program reviews in the FY 2018 improper payment calculations for the Pell program, Direct Loan program, or both; it excluded 271 of the 608 program reviews from the Pell program, Direct Loan program, or both.[1] We reviewed samples of program reviews to determine whether the Department accurately and

[1] The number of program reviews included in and the number of program reviews excluded from the Pell and/or Direct Loan programs improper payment calculations do not equal the total number of program reviews conducted because some of the program reviews fall into both categories.

completely included the results of applicable program reviews in the Pell and Direct Loan program improper payment calculations and correctly excluded program reviews from the calculations. We found the following.

1) From our sample of 27 of 358 program reviews the Department included in the Pell and/or Direct Loan program improper payment calculations, we found that all 27 reviews were applicable, correctly included, and the results of the reviews were correctly included in the improper payment calculations.

2) From our sample of 20 of 271 program reviews the Department excluded from the Pell and/or Direct Loan program improper payment calculations, we found that all 20 of the sampled program reviews were correctly excluded from the Pell and/or 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 Pell and Direct Loan programs.

  The improper payment estimate for the Direct Loan program was based on three components: the results of 343 program reviews of schools that the FSA School Eligibility Service Group conducted during FYs 2016, 2017, and 2018 that included a review of Direct Loan program disbursements made to students for award year 2015–2016; 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 2017 through June 2018. 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 352 program reviews of schools that the FSA School Eligibility Service Group conducted during FYs 2016, 2017, and 2018 that included a review of Pell program disbursements made to students for award year 2015–2016. The second component consisted of the results of the Free Application for Federal Student Aid (FAFSA)/Internal Revenue Service Data Statistical Study for award year 2015–2016, which focuses on misreported income on the FAFSA. An improper overpayment rate of 1.09 percent and an improper underpayment rate of 1.06 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.

The Department was not required to conduct a risk assessment of its high-priority programs (Pell and Direct Loan) in FY 2018 because these programs have been reporting improper payment estimates under IPERA since FY 2011. The Department's improper payment estimates and methodologies take into consideration improper payment risk areas for the Pell and Direct Loan programs. We evaluated the quality of the Department's estimates and methodologies and found them to be accurate and complete. Based on this evaluation, we determined that the Department adequately assessed the level of risk associated with its high-priority programs.

We found that the Department adequately described in its FY 2018 AFR the oversight and financial controls it designed and implemented to identify and prevent improper payments. In its FY 2018 AFR, the Department described some of these controls and assessments as including

- the more than 500 controls to help prevent and detect improper payments that are part of its payment integrity internal control framework;
- the Continuous Controls Monitoring System, a system the Department used to identify improper payments in grant refunds; and
- the Decision Support System, which provides Entity Risk Review reports on prospective grantees to identify financial, programmatic, and control risks that the Department uses to devise controls that could prevent improper payments in non-FSA grant programs.

Lastly, we found that some information in the Department's improper payment reporting was inaccurate and incomplete, as described in Finding 1. As a result, we could not accurately evaluate the Department's performance in recapturing improper payments. However, we found that the Department implemented corrective actions in FY 2018 that could prevent and reduce improper payments for the Pell and Direct Loan programs. For example, the Department reported that it was coordinating with the Treasury Department and OMB to pursue legislation that would provide an exemption to the Internal Revenue Service Tax Code Section 6103 that would further streamline

FSA's ability to receive and verify income data for applicants and borrowers.[2] Because inaccurate income data reported on the FAFSA has been a longstanding root cause of Pell and Direct Loan improper payments, legislation that would streamline FSA's ability to receive and verify income data for applicants and borrowers could prevent and reduce improper payments for these programs in the future.

[2] In the 115th Congress, the U.S. Senate passed S.3611, the Faster Access to Federal Student Aid Act of 2018; however, Congress adjourned before the House took action. In January 2019, H.R. 640, the Student Aid Simplification Act, was introduced before the 116th Congress and currently awaits action.

Finding 1. The Department Reported Inaccurate and Incomplete Identified and Recaptured Improper Payment Information in its Fiscal Year 2018 AFR

The Department's improper payment estimates and methodologies for the Pell and Direct Loan programs were generally accurate and complete. However, the Department reported inaccurate and incomplete information in its FY 2018 AFR. Specifically, the amounts of identified and recaptured improper payments for all programs and activities were inaccurate and incomplete. As a result, the reported recapture percentage was unreliable; therefore, we could not accurately evaluate the Department's performance in recapturing improper payments for its programs and activities. In addition, the Department did not report the amount of improper underpayments related to one root cause in the Direct Loan program.

Inaccurate and Incomplete Identified and Recaptured Improper Payments

In the Department's FY 2018 AFR, it reported in "Figure 19. Improper Payments Identified and Recaptured in FY 2018" inaccurate and incomplete identified and recaptured improper payments used to calculate the recapture percentage, which measures the Department's performance in recapturing improper payments for its programs and activities. The Department reported an improper payment recapture percentage of 129 percent. The Department determined its FY 2018 recapture percentage by dividing the recaptured improper payments of $45.06 million by the identified improper payments of $34.84 million. However, the Department understated recaptured improper payments by $20.43 million. It also understated identified improper payments by approximately $104.74 million.[3] Table 2 describes the identified and recaptured improper payment amounts for all Department programs and activities the Department reported in its FY 2018 AFR and accompanying materials.

[3] The $104.74 million includes interest and penalties associated with the identified improper payments; therefore, we identify the amount as an approximation of understated improper payments. In addition, the $104.74 million is a net understatement of identified improper payments comprising both excluded and duplicated amounts.

Table 2. Identified and Recaptured Improper Payments Reported for FY 2018

Source of Improper Payment Data	Identified Improper Payments (in Millions)	Recaptured Improper Payments (in Millions)
Debt Management Collection System	$2.11	$10.13
Accounts Receivable for Program Reviews and Audits	$29.80	$32.00
Contract Refund Tracking Spreadsheet	$2.93	$2.93
Travel Improper Payment Tracking Spreadsheet	$0.0018	$0.0018
Total	**$34.84**	**$45.06**

Identified Improper Payments Not Reported: $84.31 Million (Net)[4]

We found 96 program reviews and 52 audits with improper payment liabilities totaling about $84.95 million that were not included in the accounts receivable for program review and audit data the Department gathered for its identified improper payment reporting. We tested a judgmental sample of 20 of the 96 program reviews and 12 of the 52 audits[5] to determine the causes for the Department's omission of these program reviews and audits from its identified improper payment reporting. We found the following.

- For 14 program reviews and 1 audit, the Department's Accounts Receivable and Bank Management Group did not establish the accounts receivable when it received notices[6] of the program review and audit improper payment liabilities from FSA's School Participation Division. Department policies and procedures

[4] The $84.31 million represents the $84.95 million of excluded liabilities as explained on page 11, minus the $636,916 of duplicated liabilities as explained on page 12.

[5] Of the 52 audits, 50 were compliance audits from eZ-Audit and 2 were external audits from the Department's Audit Accountability and Resolution Tracking System.

[6] The notices were requests to establish accounts receivable for the improper payment liabilities that would enable the Department to invoice and collect the liabilities.

specify that accounts receivable are to be established after receipt of the notices.

- For six program reviews and eight audits, the Department's Accounts Receivable and Bank Management Group established the accounts receivable for the liabilities. However, there was an error in the query the Department used to generate the accounts receivable report it used for improper payment reporting. As a result, the query did not capture all program review and audit liabilities. In addition, the Accounts Receivable and Bank Management Group did not validate the report as requested by a financial management analyst from the Department's Financial Management Operations in advance of the AFR being published.
- For three audits, the Accounts Receivable and Bank Management Group stated that it did not establish the accounts receivable for the liabilities because it did not receive notice to establish the accounts receivable. However, FSA's School Participation Division stated that it provided the notices. The Department's Accounts Receivable and Bank Management Group did not reconcile the accounts receivable in the Department's accounting system before publishing its FY 2018 AFR. In addition, FSA's School Participation Division did not confirm that the Accounts Receivable and Bank Management Group received the notices to establish accounts receivable for program review and audit liabilities.

We also found 14 invoices totaling $636,916 in program review and audit liabilities that were included twice in the report the Department generated from its accounts receivable for program review and audit data for identified improper payment reporting. According to an account manager responsible for accounts receivable, the Accounts Receivable and Bank Management Group did not validate the report as requested by a financial management analyst from the Department's Financial Management Operations before publishing the AFR.

Identified and Recaptured Improper Payments Not Reported: $20.43 Million

We found that the Department excluded $20.43 million in identified and recaptured improper payments of grant refunds flagged by its Continuous Controls Monitoring System as potential improper payments. According to the Deputy Director of Financial Management Operations, management decided not to report the $20.43 million in grant refunds as identified and recaptured improper payments because the Continuous Controls Monitoring System was still in development. However, staff from the Department's program offices and subject matter experts from the Office of Chief Financial Officer confirmed during a formal review and verification process that these refunds were actual improper payments. Therefore, the Department should have

reported the $20.43 million in identified and recaptured grant refund improper payments in its FY 2018 AFR.

As a result of the Department reporting in its FY 2018 AFR inaccurate and incomplete identified and recaptured improper payment amounts, we could not accurately evaluate the Department's performance in recapturing improper payments. In addition, stakeholders and other users of the Department's AFR did not have an accurate depiction of the Department's performance in identifying and recapturing improper payments.

OMB Circular A-136, Part II.4.5, Section II.d.ii, states that for each program or activity that spends $1 million or more annually and recaptures payments outside of a payment recapture audit "report amounts recovered through sources other than payment recapture audits in that fiscal year, including the percent such amounts represent of the total overpayments identified for recapture through sources other than payment recapture audits in the fiscal year."

According to the U.S. Government Accountability Office's Standards for Internal Control in the Federal Government (GAO Standards), Federal agencies are required to establish internal controls. Agencies should design control activities, such as policies and procedures, to achieve objectives, such as the reliability of financial and nonfinancial reporting, and respond to risks and document those policies and procedures. In addition, information systems should provide management with quality information, and management needs quality information to make informed decisions and to evaluate the entity's performance in achieving objectives and addressing risks. The GAO Standards state that "Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis."

Direct Loan Underpayment Root Cause Not Reported

We found that the Department did not report in "Figure 18. FY 2018 Root Causes of Improper Payments" of its FY 2018 AFR complete information for one of the underlying root causes it identified for Direct Loan program underpayments. According to supporting documentation, the Department determined that $2.03 million of Direct Loan underpayments resulted from the failure to verify financial data. Although the Department listed in its AFR that the failure to verify financial data was an underlying root cause of improper payments for the Direct Loan program, it did not report the amount of improper payments associated with the root cause, as required.

According to a group manager in Financial Management Operations, the $2.03 million was inadvertently omitted from the Department's AFR during the editing process.

According to OMB Circular A-136, Part II.4.5, Section I.d., agencies are required to identify in their AFRs, the "[r]oot cause for overpayments and underpayments by amount and by program or activity for the current fiscal year."

According to the GAO Standards, Federal agencies are required to establish internal controls. Agencies should design control activities, such as policies and procedures, to achieve objectives, such as the reliability of financial and nonfinancial reporting.

Because the Department did not report complete data on the root causes of improper payments, stakeholders and other users of the Department's AFR did not have complete information about the root causes and associated amounts related to the Department's Direct Loan improper payments for FY 2018.

Recommendations

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

1.1. Develop and implement policies and procedures to ensure that the Accounts Receivable and Bank Management Group establishes accounts receivable for schools' liabilities from program reviews and audits.

1.2. Revise the query the Department uses to gather accounts receivable data from its accounting system so that it captures all program review and audit liabilities that should be used in its improper payment reporting, and ensure that the report generated as a result of the query is validated for accuracy.

1.3. Develop and implement policies and procedures to require the Accounts Receivable and Bank Management Group to reconcile all program review and audit liabilities to the accounts receivable in the Department's accounting system for FY 2018, and for future years ensure that the reconciliation is completed before the AFR is published.

1.4. Develop and implement policies and procedures to require FSA's School Participation Division to confirm that the Accounts Receivable and Bank Management Group received the notices it sent to establish accounts receivable for program review and audit liabilities.

1.5. Ensure that all identified and recaptured improper payments from grant refunds that have been confirmed to be improper payments are included in the AFR's Payment Integrity reporting.

1.6. Develop and implement controls to ensure that all improper payment root cause data and associated amounts are reported in the improper payment root cause section of the AFR, as required.

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 with IPERA and development of its improper payment rate estimates, as detailed below. We determined that control activities were significant to our audit objectives and 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, 2017, through September 30, 2018. We conducted site visits at the Department's offices located in Washington, D.C., in December 2018, January 2019, and February 2019. We held an exit conference with Department officials on March 27, 2019.

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
  - 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," June 26, 2018; and
  - OMB Circular A-136, Section II.4.5. "Payment Integrity," July 30, 2018;
- reviewed background information about the Department and its programs susceptible to significant improper payments (Pell and Direct Loan programs);
- reviewed prior Office of Inspector General audit reports on the Department's compliance with IPERA;
- interviewed officials from various FSA offices (including the Internal Controls Group, Customer Experience office, School Eligibility Service Group in the Program Compliance office, Acquisitions, Enforcement Unit, and Audit Advisory Group) and FSA's designated contractor for calculating Pell and Direct Loan program improper payment estimates;
- interviewed officials from various offices within the Department Office of Chief Financial Officer including Financial Management Operations, Contracts and

Acquisition Management, Audit Resolution Division, Analytics and Digital Services, and Budget Executive Office; and

- interviewed officials from the Department's Office of the Chief Information Officer.

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

- reviewed the Department's FY 2018 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 (if required), improper payment estimates for applicable 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 2018 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 (see "Sampling Methodology" for more details); and
- reviewed the Department's FY 2017 AFR to compare the improper payment reduction targets established for FY 2018 with the improper payment rates reported in the Department's FY 2018 AFR.

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

- reviewed the Department's OMB-approved methodologies for calculating improper payment estimates for the Pell and Direct Loan programs for FY 2018;
- reviewed program review reports to determine whether the improper payments and related disbursements identified in the program reviews were accurately included in the Pell and Direct Loan programs improper payment calculations (see "Sampling Methodology" for more details);
- reviewed improper payment calculation spreadsheets for the Pell program and Direct Loan 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 performance in preventing, reducing, and recapturing improper payment and related controls, we

- interviewed officials from various offices within the Department Office of Chief Financial Officer, including Financial Management Operations, and Contracts and Acquisition Management;
- interviewed officials from the Department's Office of the Chief Information Officer;
- reviewed the Department's policies and procedures to obtain an understanding of how the Department identifies and recaptures improper payments; and
- reviewed documents related to improper payments from the Department's Debt Management Collection System, Continuous Controls Monitoring System, accounts receivable for program reviews and audits, contract refunds, and travel payments to identify any obvious errors or irregularities or to determine whether they were included in the Department's identified and recaptured improper payment reporting.

Sampling Methodology

We selected judgmental samples of the documentation to answer our audit objectives. For the judgmental samples we selected, the results from our review pertain only to the samples we selected and cannot be projected to the entire universes.

Sample of Program Reviews Included in Improper Payment Calculations

We judgmentally selected 27 out of the 358 program reviews included in the improper payment calculations for the Pell program, Direct Loan program, or both and reviewed the related supporting documentation. We initially selected 25 program reviews. First, we categorized the 358 program reviews by potential reasons program reviews could be incorrectly included in the improper payment calculations and then selected program reviews from each category using both random selection and judgmental selections, as shown in Table 3. We also judgmentally selected an additional two program reviews for which none of the students sampled received Pell disbursements although the schools had made large Pell disbursements. We reviewed these 27 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.

Table 3. Program Review Universe Size and Sample for Reviews Included in Improper Payment Calculations

Category	Universe Count	Sample Count	Selection Method
The scope of the review did not include award year 2015–2016,[a] and no student disbursements were sampled according to the improper payment calculation spreadsheets	29	5	School with highest Direct Loan program disbursements, school with highest Pell program disbursements, a school with program level or school level findings under $10,000, plus two randomly selected schools
The scope of the review did not include award year 2015–2016, but student disbursements for the 2015--2016 award year were sampled according to the improper payment calculation spreadsheets	30	5	School with highest Direct Loan program disbursements, school with highest Pell program disbursements, a school with program level or school level findings under $10,000, plus two randomly selected schools
The scope of the review did include award year 2015–2016, but no student disbursements were sampled according to the improper payment calculation spreadsheets	20	5	School with highest Direct Loan and Pell program disbursements, a school with program level or school level findings under $10,000, plus three randomly selected schools
All other reviews that included the 2015–2016 award year	279	10	School with highest Direct Loan and Pell program disbursements, a school with program level or school level findings under $10,000, plus eight randomly selected schools
Total	**358**	**25**	**-**

[a] *Program reviews that do not include a review of the 2015–2016 award year should not be included in the improper payment calculations, according to the Department's improper payment calculation methodologies.*

Sample of Program Reviews Excluded from the Improper Payment Calculations

We judgmentally selected 20 of the 271 program reviews that were excluded from the Pell and/or Direct Loan program improper payment calculations. When making our selections, we considered the categories established by the Department and selected program reviews randomly from each category as shown in Table 4. We reviewed the sample to determine whether the Department correctly excluded these reviews from the Pell and/or Direct Loan programs improper payment calculations. To make this determination, we reviewed the program review reports and verified the reason the Department provided for excluding the reviews from the improper payment calculations.

Table 4. Program Review Universe Size and Sample for Reviews Excluded from Improper Payment Calculations

Category	Universe Count	Sample Count
Review was not issued by the documentation acceptance cutoff date[a]	153	6
Review was not applicable to the 2015–2016 award year	85	5
The subject matter reviewed would not identify Direct Loan or Pell program improper payments	8	3
Review contains school and program-level improper payments only, and a Final Program Review Determination has not been issued	5	3
School did not disburse either Direct Loan or Pell funds	20	3
Total	**271**	**20**

[a] The documentation acceptance cutoff date is August 6, 2018. The program review had to have a report issued by August 6, 2018, for FSA to consider including it in the Pell and/or Direct Loan program improper payment calculations.

Sample of Invoices and Payments Included in the Department's Identified and Recaptured Improper Payment Reporting

From 3 spreadsheets, we judgmentally selected and reviewed a total of 53 invoices and payments which totaled $3.69 million. The 3 spreadsheets contained a total of 77,321 invoices and payments[7] that totaled $34.84 million in identified improper payments and $45.06 million in recaptured improper payments that were included in the identified and recaptured improper payments the Department reported in its FY 2018 AFR.[8] We based our selection of 48 of the 53 invoices and payments on irregularities identified in 2 of the 3 spreadsheets. For the remaining five invoices and payments from the third spreadsheet, we selected the payments with the highest dollar amounts.

[7] The 77,321 invoices and payments were related to improper payments identified in program reviews, audits, contract payments, and Title IV grant payments to students.

[8] The sample of 53 invoices and payments included 38 invoices containing $1,273,901 in identified and $40,703 in recaptured improper payments and 15 payments containing $1,179,343 in identified and $1,193,137 in recaptured improper payments.

Samples of Program Reviews and Audits Excluded from the Department's Identified Improper Payment Reporting

We selected judgmental samples of 121 of 218 program reviews and 16 of 21 external audits issued with liabilities in FY 2018, and 70 of 92 compliance audits issued with liabilities in FY 2018 that required the Department's Accounts Receivable and Bank Management Group to establish an accounts receivable. The judgmental selections were the program reviews and audits the Department did not include in the accounts receivable report it used for reporting its identified improper payments in its FY 2018 AFR. We reviewed the samples of program reviews and audits to determine whether the related liabilities should have been included in the accounts receivable report the Department used for reporting its identified improper payments for FY2018. To make this determination, we obtained from FSA and the Department the dates they sent the emails to the Department's Accounts Receivable and Bank Management Group requesting for the accounts receivable to be established. This data allowed us to determine whether FSA and the Department program offices sent the emails during FY 2018 and therefore should have been included in the FY 2018 accounts receivable report, or FSA sent the emails outside FY 2018 which would mean the program review and audit liabilities were appropriately excluded from the accounts receivable report. Table 5 displays the universes and sample sizes.

Table 5. Universes and Sample Sizes of Program Reviews and Audits with Liabilities that Required an Accounts Receivable to be Established

Program Reviews or Audits	Universe Count	Liabilities Related to Universe (in Millions)	Sample Count	Liabilities Related to Sample (in Millions)
Program Reviews	218	$225.58	121	$198.39
Compliance Audits from eZ-Audit	92	$11.66	70	$9.05
External Audits from Audit Accountability and Resolution Tracking System	21	$2.02	16	$1.99

For the program reviews and audits that we determined should have been included in the accounts receivable report but were not, we selected samples to determine why they were excluded from the accounts receivable report. For the selected samples, we had discussions with the Accounts Receivable and Bank Management Group and the Department's Information Technology Specialist/Systems Accountant to determine the causes for the Department's omission of these program reviews and audits from its identified improper payment reporting. Table 6 describes the samples.

Table 6. Program Reviews and Audits Inappropriately Excluded from Accounts Receivable Report

Group	Group Count	Liabilities Related to Group Count (in millions)	Sample Count	Liabilities Related to Sample Count (in millions)	Selection Methodology
Program Reviews from the Postsecondary Education Participants System Inappropriately Excluded from Accounts Receivable Report	96	$78.73	20	$60.11	Random with probability of selection proportionate to size
Compliance Audits from eZ-Audit Inappropriately Excluded from Accounts Receivable Report	50	$4.91	10	$2.15	Judgmental, the 10 we were aware of at the time of selection[a]
External Audits from Audit Accountability and Resolution Tracking System Inappropriately Excluded from Accounts Receivable Report	2	$1.31	2	$1.31	Reviewed all

[a] At the time of selection, we had only been provided with 10 of the 51 compliance audits that we determined were inappropriately excluded from the accounts receivable report. Due to time constraints we reviewed only those 10 compliance audits.

Samples of Grant Refunds Excluded from the Department's Identified and Recaptured Improper Payment Reporting

From a universe of 927 grant refunds that the Department's Continuous Controls Monitoring System flagged as potential improper payments, we judgmentally selected the 454 grant refunds that the Department's program office staff confirmed as improper payments. We confirmed that the 454 grant refund improper payments were not included in the Department's identified and recaptured improper payment reporting in its FY 2018 AFR.

Samples of Improper Payment Corrective Actions

The Department identified 31 corrective actions in its FY 2018 AFR that were to address the root causes of improper payments related to the Pell and Direct Loan programs. The Department reported that it implemented 15 of the 31 corrective actions in FY 2018. We judgmentally selected for review the 15 corrective actions to determine whether the Department implemented the corrective actions and whether it reported the results of the implemented actions in its FY 2018 AFR. To make these determinations, we interviewed Department officials responsible for the implementation or reporting of the

15 corrective actions, reviewed documentation to support that the corrective actions had been implemented. We also reviewed the FY 2018 AFR to determine whether the Department reported the results of the implemented corrective actions.

Samples of Program Reviews for Data Reliability Testing of the Postsecondary Education Participants System

To determine whether program review data in the Department's Postsecondary Education Participants System were reliable, we reviewed a judgmental sample of 17 program reviews from a universe of 608 program reviews the Department initiated in FYs 2016, 2017, and 2018. We judgmentally selected seven program reviews FSA identified as having no review of award year 2015–2016, but the Department's Postsecondary Education Participants System indicates otherwise. We randomly selected the remaining 10 program reviews. For the 17 selected program reviews, we obtained the program review reports, final program review determination letters, and/or expedited determination letters to determine whether data in the reports and letters matched the data in the Department's Postsecondary Education Participants System. The data we compared included the school name, program review control number, report date, review start date, and liability amounts.

Samples of Audits for Data Reliability Testing of the eZ-Audit System and the Audit Accountability and Resolution Tracking System

To determine whether audit data in the Department's eZ-Audit system were reliable, we used the same sample of 10 compliance audits we selected in the section "Samples of Program Reviews and Audits Excluded from the Department's Identified Improper Payment Reporting" above. For the 10 selected compliance audits, we obtained the final audit determination letters or the audit control documents to determine whether the data in those documents matched the data in the Department's eZ-Audit system. The data we compared included the institution name, audit control number, final audit determination date, and liability amounts.

To determine whether external audit data in the Department's Audit Accountability and Resolution Tracking System were reliable, from a universe of 21 final external audit reports with liabilities issued in FY 2018, we selected a random sample of 10 external audits. We obtained the final audit determination letters or the audit control documents to determine whether the data in those documents matched the data in the Department's Audit Accountability and Resolution Tracking System. The data we compared included the institution name, audit control number, and liability amounts.

Use of Computer-Processed Data

Our use of computer-processed data for the audit included program review data from the Department's Postsecondary Education Participants System, compliance audit data from the Department's eZ-Audit system, and external audit data from the Department's Audit Accountability and Resolution Tracking System. We used the Department's three systems to obtain specific universes of program reviews and audits that we used to evaluate the accuracy and completeness of (1) the Department's improper payment estimation methodologies for the Pell and Direct Loan programs, and/or (2) the identified and recaptured improper payments the Department reported in its FY 2018 AFR. We assessed the reliability of the data in the Department's three systems by comparing data from samples of program review and audit reports to data in the Department's three systems. We did not identify any major discrepancies between the data sources; therefore, based on our analysis, we concluded that the program review and audit data in the Department's Postsecondary Education Participants System, eZ-Audit system, and Audit Accountability and Resolution Tracking System were sufficiently reliable for the objectives 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

AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
FY	fiscal year
GAO Standards	Government Accountability Office's Standards for Internal Control in the Federal Government
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
OMB	Office of Management and Budget
Pell	Federal Pell Grant Program
U.S.C.	United States Code

Department Comments

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF FINANCE AND OPERATIONS

MEMORANDUM

DATE: May 9, 2019

TO: Bryon Gordon
Assistant Inspector General for Audit
Office of Inspector General

Christopher Gamble
Audit Manager
Office of Inspector General

FROM: Denise Carter [redacted]
Acting Assistant Secretary
Department of Education
[redacted]
Alison L. Doone
Chief Financial Officer, Federal Student Aid
Department of Education

SUBJECT: Response to OIG's Review of the Department's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for Fiscal Year (FY) 2018– ED-OIG/A04T0004

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 for FY 2018. The Department is committed to maintaining effective internal controls to demonstrate payment integrity and prevent, detect, and recover improper payments.

Following is the response to each finding and recommendation.

cc: Jeffrey Nekrasz
Director of Advice and Assistance
Office of Inspector General

Russell Jones
Auditor in Charge
Office of Inspector General

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

Overall Comments

We are pleased that the OIG has concluded that we are compliant with IPERA for FY 2018, having met all six compliance requirements.

The OIG provided one finding and six specific recommendations. We concur with the finding and the recommendations. Our responses are below:

Department's Response to Finding 1

The Department Reported Inaccurate and Incomplete Identified and Recaptured Improper Payment Information in its Fiscal Year 2018 AFR.

The Department concurs with this finding. We agree that we can improve the accuracy and completeness of our improper payment accounting and reporting of identified and recaptured improper payments.

Department's Response to Recommendation 1.1

Develop and implement policies and procedures to ensure that the Accounts Receivable and Bank Management Group establishes accounts receivables for schools' liabilities from program reviews and audits.

The Department concurs with this recommendation. The Accounts Receivable and Bank Management Division (ARBMD) has initiated corrective actions to ensure all accounts receivable for schools' liabilities from program reviews and audits are established.

Department's Response to Recommendation 1.2

Revise the query the Department uses to gather accounts receivable data from its accounting system so that it captures all program review and audit liabilities that should be used in its improper payment reporting, and ensure that the report generated as a result of the query is validated for accuracy.

The Department concurs with this recommendation. The ARBMD has initiated corrective actions to revise the query the Department uses to gather accounts receivable data from our accounting system to ensure it captures all program review and audit liabilities for improper payment reporting purposes.

Department's Response to Recommendation 1.3

Develop and implement policies and procedures to require the Accounts Receivable and Bank Management Group to reconcile all program review and audit liabilities to the accounts receivables in the Department's accounting system for FY 2018, and for future years ensure that the reconciliation is completed before the AFR is published.

The Department concurs with this recommendation. The ARBMD has initiated corrective actions to reconcile all program review and audit liabilities to the accounts receivables in our accounting system for FY 2018 and beyond.

Department's Response to Recommendation 1.4

Develop and implement policies and procedures to require FSA's School Participation Division to confirm that the Accounts Receivable and Bank Management Group received the notices it sent to establish accounts receivables for program review and audit liabilities.

The Department concurs with this recommendation. The FSA Program Compliance/Performance Improvement and Procedures Service Group will work with ARBMD to enhance the Department's current procedures regarding receipt of notice to establish accounts receivables for all program review and audit liabilities by ARBMD.

Department's Response to Recommendation 1.5

Ensure that all identified and recaptured improper payments from grant refunds that have been confirmed to be improper payments are included in the AFR's Payment Integrity reporting.

The Department concurs with this recommendation, provided that it is still required in order to comply with OMB Circular A-136, *Financial Reporting Requirements*, for the FY 2019 AFR Payment Integrity reporting section.

Department's Response to Recommendation 1.6

Develop and implement controls to ensure that all improper payment root cause data and associated amounts are reported in the improper payment root cause section of the AFR, as required.

The Department concurs with this recommendation. The Department will improve its AFR quality assurance procedures to ensure that all improper payment root cause data and amounts are clearly identified and reported in our AFR.

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 Carolyn Dempster at (202) 245-6677.