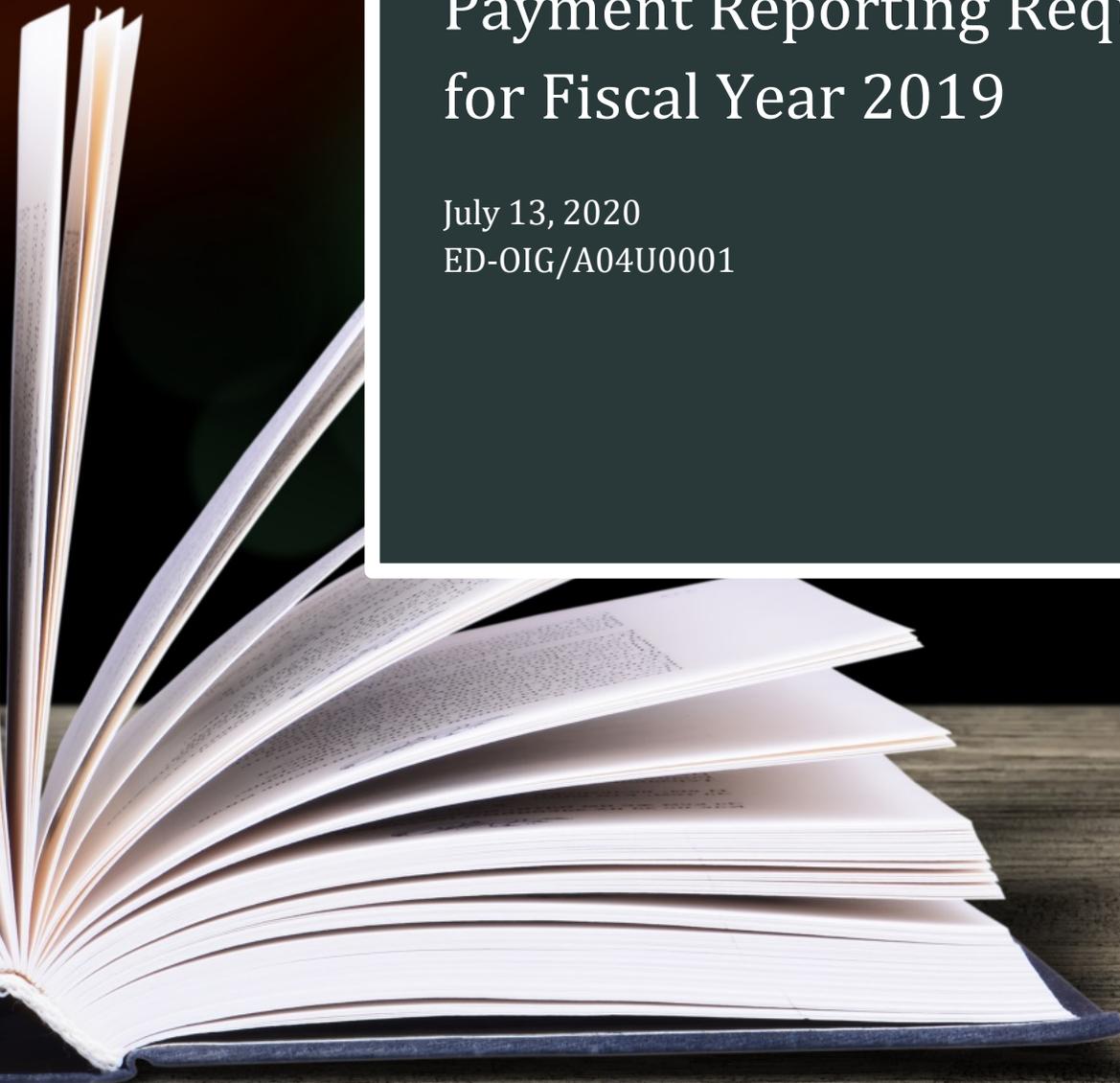




U.S. Department of Education  
Office of Inspector General

# U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2019

July 13, 2020  
ED-OIG/A04U0001



## 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

July 13, 2020

**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 2019" Control Number ED-OIG/A04U0001

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 2019. We have provided an electronic copy to your audit liaison officers. We received your comments including corrective actions planned or implemented, in response to each of the recommendations for the findings included in our discussion draft audit 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) 245-6051 or Selina Boyd, Acting Regional Inspector General for Audit, at (404) 974-9424 or [Selina.Boyd@ed.gov](mailto:Selina.Boyd@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 in high-priority programs. Our audit covered fiscal year (FY) 2019, October 1, 2018, through September 30, 2019.

## What We Found

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

**Table 1. FY 2019 IPERA Compliance Requirements**

Program Name	Published an Agency Financial Report	Conducted Risk Assessment, if required	Published an Improper Payment Estimate, if required	Published Corrective Action Plans, if required	Published and Met Reduction Targets, if required	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
Immediate Aid to Restart School Operations Program	Compliant	Not Required	Compliant	Not Required	Not Required	Compliant
Temporary Emergency Impact Aid for Displaced Students Program	Compliant	Not Required	Compliant	Not Required	Not Required	Compliant

The Department's improper payment estimate and methodology for the Restart program was generally accurate and complete. However, the Department published improper payments estimates that were unreliable for the Federal Pell Grant (Pell),

William D. Ford Federal Direct Loan (Direct Loan), and the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) programs in its FY 2019 Agency Financial Report (AFR). Specifically, the improper payment estimation methodologies the Department developed and the estimates it produced were not accurate, complete, and statistically valid, as described in [Finding 1](#) and [Finding 2](#).

The Department reported inaccurate and incomplete total program outlays and improper payments that it identified for the Emergency Impact Aid program in the Payment Integrity section of its FY 2019 AFR. Other information the Department reported in the Payment Integrity section of its AFR, such as the sources of improper payments, the root causes of improper payments, and the amounts of improper payments identified and recaptured in all the Department's programs and activities, was generally accurate and complete.

We could not evaluate the Department's performance in preventing and reducing improper payments because the Department did not measure the effectiveness of its corrective actions for the Pell and Direct Loan programs. However, the Department implemented corrective actions that could prevent and reduce improper payments in the Pell and Direct Loan programs.

We could not accurately evaluate the Department's performance in recapturing improper payments for its programs and activities. Specifically, we could not compare the Department's 27 percent recapture rate for FY 2019 to the 129 percent recapture rate it reported in FY 2018 because our FY 2018 IPERA audit found significant issues with the accuracy of the reported recapture rate.<sup>1</sup>

Since FY 2011, the Department has been reporting an improper payment estimate for its two high-priority programs: the Pell and Direct Loan programs. We evaluated the Department's assessment of the level of risk for these programs when we evaluated the quality of the high-priority programs' improper payment estimates. We determined that the Department included Pell and Direct Loan program risks, such as risks related to student eligibility, student disbursements, and return of Title IV funds, in the improper payment estimates for these programs. However, we found the reported estimates may not reflect the true level of risk because the improper payment estimates for the Pell and Direct Loan programs were unreliable. Lastly, the Department adequately described in its FY 2019 AFR the oversight and financial controls designed and implemented to identify and prevent improper payments in the high-priority programs, including the Department's performance of program reviews to assess schools' compliance with

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<sup>1</sup> ED-OIG/A04T0004, issued May 29, 2019.

<https://www2.ed.gov/about/offices/list/oig/auditreports/fy2019/a04t0004.pdf>

Title IV program requirements and its monitoring of annual compliance audits of schools that participate in Title IV programs.

### **What We Recommend**

We recommend that the Department develop and implement procedures to ensure that its (1) estimation methodologies for the Pell, Direct Loan, and Emergency Impact Aid programs are accurate, complete, and statistically valid; (2) improper payment estimates for the Pell, Direct Loan, and Emergency Impact Aid programs are based on, and represent, quality information (accurate and complete information); and (3) improper payments are appropriately identified and included in the improper payment estimate for the Emergency Impact Aid program.

### **Department Comments**

We provided a draft of this report to the Department for comment. The Department mostly disagreed with Finding 1. The Department did not agree that the improper payment methodologies for the Pell and Direct Loan programs were not statistically valid. These methodologies were based in part on data obtained from compliance audits; the Department determined that compliance audits provided the best available data because they were performed by auditors following auditing standards and reporting requirements. In addition, the Department did not agree that its handling of schools included in consolidated school group audits impaired the statistical validity of improper payment estimates.

The Department did not agree that it used inaccurate data in its Direct Loan calculations, stating that the use of loan origination data was deliberate. The Department mostly agreed that it did not accurately and completely record improper payments used to calculate estimates for the Pell and Direct Loan programs. In addition, the Department agreed that only sustained questioned costs should be included in the improper payment estimates. The Department partially agreed with two of the three recommendations associated with Finding 1.

The Department agreed with Finding 2 regarding the unreliable improper payment estimate for the Emergency Impact Aid Program and with both recommendations, indicating that it has taken steps to implement procedures for FY 2020. In addition, the Department accepted our suggestions related to the Other Matters section of the report.

### **OIG Response**

The Department's improper payment estimation methodology for the Pell and Direct Loan programs was not statistically valid because it did not meet the requirement in the Office of Management and Budget (OMB) Circular A-123, Appendix C for unbiased

randomized samples to be used. The Department did not provide additional information to support its contention that its methodologies were statistically valid, and it did not dispute our finding that the second-stage samples used in its methodology were not always unbiased randomized student samples from a complete population. In addition, the Department's handling of schools included in consolidated school group audits did not result in statistically valid improper payment estimates because, in addition to the reasons specified in the finding, independent auditors are not required to select schools in consolidated school groups as part of an unbiased randomized sample. As a result, the Pell and Direct Loan programs' improper payment estimates could be derived from audit results of both schools and students that were not sampled in an unbiased randomized manner.

We made two revisions to the report in response to the Department's comments on Finding 1. First, we accept that the Department's use of Direct Loan origination data was deliberate and removed this aspect of the finding and recommendation from the report. Second, we clarified why compliance audits were not a suitable data source for producing statistically valid and reliable improper payment estimates. Specifically, the estimates did not always include the needed data and independent auditors did not always select unbiased randomized student samples.

# Introduction

## Purpose

We conducted this audit to determine whether the Department complied with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Public Law 111-204) and met related improper payment reporting requirements in the Improper Payments Information Act of 2002 (Public Law 107-300), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) (Public Law 112-248), and in the OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement." IPERA 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 Improper Payments Information Act of 2002, 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 estimation plan, or a nonstatistically valid estimation plan using a methodology that OMB approved, of the improper payments made by each program and activity and include those estimates in the AFR.

## Improper Payments Requirements

According to OMB guidance, compliance with IPERA means that the agency has met all six of the following requirements:

- published an AFR or Performance and Accountability Report 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 United States Code (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 AFR or Performance and Accountability Report (if required);
- published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required); 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 AFR or Performance and Accountability Report.

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

IPERIA requires the Director of OMB to identify a list of high-priority programs for greater levels of oversight. OMB designated the Pell and Direct Loan 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. OMB Circular A-123, Appendix C, Part II, B(1), provides that the 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 Complied with All Six IPERA Requirements

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, 2019.
- 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 met this requirement because it performed required risk assessments of 266 grant activities of its approximately 118 non-FSA grant program authorities during FY 2019. In FY 2019, the Department was not required to conduct risk assessments of FSA-managed programs because it previously assessed FSA-managed programs for risk in FY 2017.<sup>2</sup> It was also not required to conduct risk assessments for the Emergency Impact Aid and Restart programs because the legislation authorizing their funding designated them to be programs susceptible to significant improper payments, thereby requiring the Department to report improper payment estimates for them in FY 2019.<sup>3</sup>

The Department was not required to conduct risk assessments for the high-priority programs (Pell and Direct Loan) in FY 2019 because these programs have been reporting improper payment estimates under IPERA since FY 2011,

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<sup>2</sup> According to OMB Circular A-123, Appendix C, Part I, C(1), “For programs that are deemed to be not susceptible to significant improper payments...agencies must perform risk assessments **at least once every three years.**” (Emphasis in original).

<sup>3</sup> Division B, Subdivision 1, Title XII, Section 21208(a) of the Bipartisan Budget Act of 2018 (Public Law 115-123) designated programs spending more than \$10,000,000 in any one fiscal year to be susceptible to significant improper payments, thereby requiring them to report improper payment estimates. See OMB Memorandum M-18-14, “Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations,” (March 30, 2018).

and 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, 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 the Pell, Direct Loan, Emergency Impact Aid, and Restart programs in the FY 2019 AFR.
- 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. Section 3(a)(3)(D) of IPERA requires the Department to report on actions it took to reduce improper payments for programs it deemed susceptible to significant improper payments. In its FY 2019 AFR, the Department published 10 corrective actions to address the root causes of improper payments in the Pell and Direct Loan programs. The Department was not required to publish corrective actions for the Emergency Impact Aid and Restart programs because the programs' gross annual improper payments did not exceed statutory thresholds. 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 publish and meet improper payment reduction targets for programs identified as susceptible to significant improper payments. In its FY 2019 AFR, the Department published reduction targets for FY 2020 of 2.22 percent for the Pell program and 0.51 percent for the Direct Loan program. For the Emergency Impact Aid and Restart programs, the Department was not expected to publish reduction targets for FY 2020 until a full baseline had been established and reported.

The Department met its previously established reduction targets. In its FY 2018 AFR, the Department set reduction targets for FY 2019 of 8.15 percent for the Pell program and 3.99 percent for the Direct Loan program. In its FY 2019 AFR, the Department published improper payment rates of 2.23 percent for the Pell program and 0.52 percent for the Direct Loan program. These rates met the reduction targets set in the previous AFR.

- 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 2.23 percent for the Pell program, 0.52 percent for the Direct Loan program, 2.42 percent for the Emergency Impact Aid program, and 0 percent for the Restart program.

## Review of the Department's Payment Integrity Activities

For our review of the Department's payment integrity activities, we evaluated the accuracy and completeness of the Department's improper payment reporting in the payment integrity section of the FY 2019 AFR; the Department's performance in preventing, reducing, and recapturing improper payments; the Department's assessment of the level of risk associated with the high-priority programs; and the oversight and financial controls used by the Department to identify and prevent improper payments in the high-priority programs.

### Improper Payment Reporting

We found that the Department's improper payment reporting was generally accurate and complete, except its reporting of total program outlays for the Emergency Impact Aid program, as described in [Finding 2](#). We reviewed the accuracy and completeness of the data in the charts, figures, and tables presented in the Department's FY 2019 AFR, including the improper payment charts for the Pell, Direct Loan, Emergency Impact Aid, and Restart programs, the source of improper payments, the root causes of improper payments, and the amounts of improper payments identified and recaptured.

### Preventing, Reducing, and Recapturing Improper Payments

We also found that the Department implemented corrective actions in FY 2019 that could prevent and reduce improper payments in the Pell and Direct Loan programs. For example, the Department reported that, in coordination with the Treasury Department and OMB, it pursued legislation that amended Section 6103 of the Internal Revenue Code of 1986 to allow taxpayer information to be shared with the Department for the purpose of administering the Title IV programs.<sup>4</sup> This amendment further streamlines FSA's ability to receive and verify income data for applicants and borrowers. Because inaccurate income data reported on the Free Application for Federal Student Aid (FAFSA) has been a longstanding root cause of Pell and Direct Loan improper payments, legislation that streamlines FSA's ability to receive and verify income data for applicants and borrowers could prevent and reduce improper payments in these programs. However, we could not accurately evaluate the Department's performance in preventing, reducing, and recapturing improper payments because the Department did

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<sup>4</sup> The Fostering Undergraduate Talent by Unlocking Resources for Education Act (Public Law 116-91) (FUTURE Act), December 19, 2019, with technical amendments made in the Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136) (CARES Act), contains this amendment to Section 6103 of the Internal Revenue Code.

not quantify the impact of its Pell and Direct Loan programs' corrective actions on reducing improper payments in FY 2019. Additionally, we could not compare the Department's recapture rate for FY 2019 for its program and activities to the recapture rate it reported in FY 2018 because our previous IPERA audit found significant issues with the accuracy of the reported recapture rate.

### **Risks Associated with Pell and Direct Loan High-Priority Programs**

We found that the Department included Pell and Direct Loan program risks, such as risks related to student eligibility, student disbursements, and return of Title IV funds, in the improper payment estimates for these high-priority programs. Since FY 2011, the Department has been reporting an improper payment estimate for its high-priority programs. Therefore, we did not evaluate the Department's assessment of the level of risk within a risk assessment; rather, we evaluated the Department's assessment of the level of risk when we evaluated the quality of the high-priority programs' improper payment estimates. We found that the high-priority programs' improper payment estimates may not reflect the true level of risk because the improper payment estimates for the Pell and Direct Loan programs were unreliable, as described in [Finding 1](#).

### **Oversight and Financial Controls**

Lastly, we found that the Department adequately described in its FY 2019 AFR the oversight and financial controls it designed and implemented to identify and prevent improper payments in its high priority programs. In its FY 2019 AFR, the Department described these controls as part of an internal control framework that includes FSA's Program Compliance that

- annually conducts about 100 to 300 program reviews of schools to assess their compliance with Title IV program requirements and
- monitors annual compliance audits of schools that participate in the Title IV programs and performs audit resolution of the annual compliance audits that includes reviewing and evaluating the effectiveness of a school's corrective action and mitigation efforts for noted exceptions in audit reports.

## **Finding 1. The Department Published Unreliable Improper Payment Estimates for the Pell and Direct Loan Programs**

We found that the Department's improper payment estimates for the Pell and Direct Loan programs were unreliable because the FSA Finance office's Financial Management Group (1) developed and executed improper payment estimation methodologies that were not statistically valid and complete, (2) did not accurately and completely include overpayments and underpayments in the improper payment calculations, (3) estimated improper payments from questioned costs instead of sustained questioned costs, (4) used data that was not suitable for the purpose of producing statistically valid and reliable improper payment estimates, and (5) impaired the statistical validity of the estimates through its weighting of schools included in consolidated school group single audits.

### **Improper Payment Estimation Methodologies for the Pell and Direct Loan Programs**

FSA intended that the improper payment estimation methodologies for the Pell and Direct Loan programs be based on statistically valid and rigorous plans as established in OMB Circular A-123, Appendix C, Part I, D(1). FSA's estimation methodologies for the Pell and Direct Loan programs were submitted to OMB on June 26, 2019, along with a certification that the methodologies would produce statistically valid estimates.

The Pell program improper payment estimation methodology was based on two components. The first component was based on a two-stage sampling methodology: at the first stage, the sampling unit was a school, and at the second stage, the sampling unit was the student. The first component consisted of the results of compliance audits for 367 randomly sampled schools.<sup>5</sup> For each selected school, FSA reviewed the most recently completed corresponding compliance audit for improper payments identified by the independent auditor. In performing a compliance audit, the independent auditor

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<sup>5</sup> For the Pell program, FSA selected 367 schools which included: 320 schools from the 347 schools it randomly selected from the Pell and Direct Loan programs population of schools; 20 schools randomly selected from the subpopulation of schools that only participated in the Pell program; 26 schools from the subpopulation of the top 20 percent highest Pell program disbursing schools that had not already been selected for either the Pell or Direct Loan program; and 1 school from the subpopulation of Pell disbursing schools that were not required to submit to FSA annual compliance audits because it did not exceed certain federal award thresholds during the fiscal year (i.e., schools that expend more than \$750,000 for single audits and \$200,000 for SFA audits).

selects a sample of students to review and assess the school's compliance with Title IV program requirements. Additionally, the Pell estimate incorporates improper payment rates reported in the FAFSA/Internal Revenue Service Data Statistical Study to account for improper payments associated with misreported income on the FAFSA. An improper overpayment rate of 1.04 percent and an improper underpayment rate of 0.68 percent, both due to misreported income on the FAFSA, were applied to certain Pell disbursements included in the Pell program improper payment calculations. FSA then combined the estimated improper payments for both components to estimate an overall Pell program improper payment rate.

The Direct Loan program estimation methodology included three components. The first component consisted of the results of compliance audits for 348 randomly selected schools, in a manner like the first component for the Pell estimate. The second component consisted of a sample of 120 Direct Loan consolidation overpayments and underpayments to determine which of them were improper payments. The third component consisted of 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 2018 through June 2019. The Department then combined the estimated improper payments for all three components to estimate an overall Direct Loan improper payment rate.

### **Compliance Audits**

The Pell and Direct Loan programs' improper payment estimates were based, in part, on the results of compliance audits of schools. Under Title IV of the Higher Education Act of 1965, as amended, each school participating in the Title IV student financial assistance (SFA) programs, which include the Pell and Direct Loan programs, is required to submit to FSA a compliance audit and a financial audit, generally on an annual basis. The type of compliance audit a school must undergo depends on the schools' entity type: proprietary school, public school, private nonprofit school, or foreign school.

- For proprietary schools, compliance audits must be conducted under the "Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs" (OIG Audit Guide)<sup>6</sup> issued by the Department's Office of the Inspector General (OIG). The OIG Audit

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<sup>6</sup> The OIG Audit Guide was issued in September 2016 and is effective for schools' fiscal years beginning after June 30, 2016. The guide supersedes the prior guide, "Audits of Federal Student Financial Assistance Programs at Participating Schools and School Servicers" issued January 2000 (prior OIG Audit Guide). Of the 301 compliance audits FSA used in the estimates, 49 were SFA audits: 40 under the OIG Audit Guide, 2 under the prior OIG Audit Guide, and 7 under the OIG Foreign School Audit Guide.

Guide applies to and provides requirements and guidance for financial statement audits and compliance audits of proprietary schools (referred to as SFA audits<sup>7</sup>) and compliance attestation engagements of third-party servicers that participate in the SFA programs.

- For public colleges and universities and private nonprofit schools, compliance audits must be conducted under Subpart F of 2 C.F.R. Part 200, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the OMB Compliance Supplement.<sup>8</sup> The Uniform Guidance and the OMB Compliance Supplement provide requirements and guidance for compliance audits of public schools and nonprofit schools (referred to as single audits) that are required under the Single Audit Act Amendments of 1996 (Public Law 104-156)(Single Audit Act).
- For foreign schools, compliance audits must be conducted under the OIG Foreign School Audit Guide issued by the OIG.<sup>9</sup> The OIG Foreign School Audit Guide applies to and provides requirements and guidance for financial statement audits and compliance audits of foreign schools (referred to as foreign school audits).

### **Pell and Direct Loan Programs Improper Payment Estimation Methodologies Were Not Statistically Valid and Complete**

The Pell and Direct Loan programs' improper payment estimation methodologies were not statistically valid because student-level sampling for some compliance audits, used to calculate the estimates, were based on nonrandom samples which would impact the ability to project a reliable statistical estimate. In addition, the estimation methodologies were not complete because procedures were missing on how to

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<sup>7</sup> SFA audits include audits performed under the OIG Audit Guide and OIG Foreign School Audit Guide.

<sup>8</sup> OMB issues the Compliance Supplement. Each year the Compliance Supplement is updated by both OMB and the related Federal agencies that issue funds that fall under single audits.

<sup>9</sup> The OIG Foreign School Audit Guide was issued in September 2002. Of the 301 compliance audits FSA used in the estimates, 7 were performed under OIG Foreign School Audit Guide.

incorporate schools included in consolidated school group<sup>10</sup> single audits into the estimates.

### **Pell and Direct Loan Improper Payment Estimation Methodologies Were Not Statistically Valid**

FSA's improper payment estimation methodologies for the Pell and Direct Loan programs were not statistically valid. FSA's Finance office hired a contractor to develop and implement statistically valid improper payment estimates for both programs. The methodologies were based, in part, on the most recently completed corresponding compliance audits that were performed by independent auditors.

Schools disburse Pell and Direct Loan program funds to eligible students who are awarded financial aid by their schools. The FSA Finance office decided to use compliance audits (single audits and SFA audits) that test these disbursements to students to estimate improper payments for the Pell and Direct Loan programs. Specifically, FSA's methodologies stated that one of the sampling units used to derive the estimates was "the students that were randomly selected by the auditor performing the compliance audit." Therefore, FSA's estimation methodologies relied on samples of students to identify improper payments that FSA would use to calculate improper payment rates.

Under the Higher Education Act of 1965, most schools are required to have a compliance audit performed at least annually. Under generally accepted government auditing standards, independent auditors must plan and perform the audit to obtain sufficient appropriate audit evidence so that audit risk will be limited to a low level that is, in independent auditors' professional judgment, appropriate for expressing an opinion on a school's compliance under the applicable guidance (OMB Compliance Supplement or OIG Audit guides<sup>11</sup>). For public and nonprofit schools, the independent auditors are required to follow the OMB Compliance Supplement when performing single audits. For proprietary and foreign schools, the independent auditors are required to follow the OIG Audit guides when performing SFA audits. The OMB Compliance Supplement and the OIG Audit guides each provide procedures that are unique to the

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<sup>10</sup> FSA considers a school group to be a collection of schools whereby a school within the group or a designated representative (such as a State Auditor) submits a single consolidated financial statement and compliance audit for all schools in the group (consolidated school group) or submits a consolidated financial statement and multiple compliance audits for all schools in the group (unconsolidated school group).

<sup>11</sup> OIG Audit guides refers to both the OIG Audit Guide and the OIG Foreign School Audit Guide.

type of entity. Therefore, what the guidance requires for one type of entity may be different from what the guidance requires for another.

Under the OMB Compliance Supplement and the OIG Foreign School Audit Guide, independent auditors are not required to randomly sample students to express an opinion on a school's compliance with Title IV program requirements.<sup>12</sup> However, FSA's methodology based the statistical validity of the Pell and Direct Loan programs improper payment estimates on the FSA contractor's incorrect belief, as stated in the estimation methodologies, that for single audits and foreign school audits, "a complete population of students who received Title IV program funds during the [compliance audit] engagement period (fiscal year) is randomly selected...." and "policies and procedures established by OIG and OMB mandate that auditors must randomly select students during the compliance audit process."

As a result of the FSA contractor's incorrect belief, the Pell and Direct Loan methodologies used to calculate the FY 2019 improper payment rates did not ensure random sampling of students. The random selection of students is required to perform statistical sampling in which the sample's results are used to make inferences about the entire population. Because the sample of students were not always random and thus not statistically valid, FSA cannot statistically make a reliable inference about the rate and amount of improper payments in the Pell and Direct Loan programs. Further, FSA may not identify the root causes and take appropriate corrective actions to prevent and reduce improper payments because it did not identify reliable rates and amounts of improper payments that occurred in the Pell and Direct Loan programs.

We reviewed a stratified random sample of 46 compliance audits and 1 judgmentally selected compliance audit of the 301 compliance audits that FSA used to produce the Pell and Direct Loan programs improper payment estimates. The 301 compliance audits were associated with 395 unique schools sampled by FSA (367 schools for the Pell program's estimate and 348 schools for the Direct Loan program's estimate). Table 2 shows the 301 compliance audit submission types, consisting of 252 single audits and 49 SFA audits, that FSA used to estimate the improper payments for the Pell and Direct Loan programs reported in the FY 2019 AFR.

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<sup>12</sup> Under the OIG Audit Guide, independent auditors are required to select random student samples from a complete population of students who received Title IV program funds during the fiscal year of the audit to test the schools' compliance with reporting, student eligibility, disbursements, and, if appropriate, withdrawal calculations requirements.

**Table 2. FSA Sampled Audit Submission Type Representation**

Audit Submission Type	Single Audit	SFA Audits	Sampled Total
Consolidated School Group <sup>a</sup>	43	0	43
Single School and Unconsolidated School Group	209	49	258
<b>Total</b>	<b>252</b>	<b>49</b>	<b>301</b>

<sup>a</sup> When selecting our sample, we divided the compliance audits into two strata based on the number of schools from a school group represented in FSA's sample of 301 compliance audits: the first stratum included consolidated school groups represented in FSA's sample and the second stratum included single schools and unconsolidated school groups represented in FSA's sample.

Table 3 shows the single audits and SFA audits we reviewed to assess the accuracy and completeness of the improper payment estimates for the Pell and Direct Loan programs reported in the FY 2019 AFR.

**Table 3. OIG Sampled Audit Submission Type Representation**

Audit Submission Type	Single Audit	SFA Audits	Sampled Total
Consolidated School Group	15	0	15
Single School and Unconsolidated School Group	26	6	32
<b>Total</b>	<b>41</b>	<b>6</b>	<b>47</b>

We found that for 8 of the 41 single audits performed under the OMB Compliance Supplement we sampled, the independent auditors reported that their samples of students were not random or not statistically valid. For the remaining 33 single audits, the independent auditors did not report that their samples of students were random or statistically valid. Independent auditors were not required to randomly sample students from a complete population under the OMB Compliance Supplement that was effective for the year audited.<sup>13</sup> Of the six SFA audits, five were performed under the OIG Audit

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<sup>13</sup> The OMB Compliance Supplement is annually updated and the applicable years for the single audits FSA sampled ranged from schools with fiscal years ending in 2015 through 2018. Over that period, the OMB Compliance Supplement did not require independent auditors to randomly sample students from a complete population to test for compliance with the Title IV requirements.

Guide, where the independent auditor was required to randomly sample students from a complete population, and one audit was performed under the OIG Foreign School Audit Guide, where the independent auditor was not required to randomly sample students from a complete population. Furthermore, under both the Uniform Guidance and OIG Audit guides, independent auditors were not required to report their sampling methodology in the audit report (e.g., whether students were sampled randomly, judgmentally, haphazardly, etc.), except in circumstances where that information would be necessary to provide proper perspective for judging the prevalence and consequences of an audit finding, such as whether the audit finding represents an isolated or systemic problem. In these circumstances, the Uniform Guidance states that “[t]he auditor should report whether the sampling was a statistically valid sample.”<sup>14</sup> The auditor also has the discretion to report in the audit report whether the sample was random and/or statistically valid. In addition, for the 47 compliance audits we sampled, FSA did not request that the independent auditors provide their sampling plans, which could specify if the selection of students was random or not. Therefore, without the independent auditor reporting on the selection of students and without the sampling plans, we are unable to determine whether the independent auditors’ selection of students was random or not for 33 of the 41 single audits and for 1 of the 6 SFA audits that we sampled. Table 4 summarizes the sampling method used in the single audits in which independent auditors reported or indicated to FSA that their sampling was not random or statistically valid.

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<sup>14</sup> 2 C.F.R. § 200.516, “Audit findings.”

**Table 4. Single Audits in Which the Independent Auditors Reported or Indicated to FSA that their Sampling was Not Random or Statistically valid**

Audit Submission Type	Sampling Information Reported by the Independent Auditor
Texas Statewide School Group	The sample of students was not statistically valid
California Statewide School Group	The sample of students was not statistically valid because students from five campuses were selected haphazardly
Florida Statewide School Group	The sample of students was not statistically valid
Chapman University School Group	The sample of students was not statistically valid
State of Arkansas Statewide School Group	The sample of students was not statistically valid
Webster University Single School	The sample of students was not statistically valid
Wiley College Single School	The sample of students was not statistically valid because the students sampled who received Direct Loan disbursements were selected from the sample of students who received Pell disbursements which was not a complete population of the Direct Loan program students
Johns Hopkins University Single School	The sample of students was not statistically valid because the students sampled who received Pell disbursements were selected from the sample of students who received Direct Loan disbursements which was not a complete population of the Pell program students

According to OMB Circular A-123, Appendix C, Part I, D(1) requirements for statistically valid and rigorous plans include selecting unbiased randomized samples that cover the entire population for a program for the given fiscal year. While SFA audits of proprietary schools conducted under the OIG Audit Guide are required to use random samples,<sup>15</sup> single audits conducted under the OMB Compliance Supplement and foreign school audits conducted under the OIG Foreign School Audit Guide are not required to use

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<sup>15</sup> For the 49 SFA audits, 40 were performed under the OIG Audit Guide, two under the prior OIG Audit Guide, and seven under the OIG Foreign School Audit Guide. The OIG Audit Guide and prior OIG Audit Guide require the independent auditor to select students randomly from a complete population. The OIG Foreign School Audit Guide does not require the independent auditor to select students randomly.

random samples. For single audits, the OMB Compliance Supplement requires auditors to follow the American Institute for Certified Public Accountants (AICPA) Auditing Standards for Audit Sampling and generally accepted government auditing standards, which requires the use of audit techniques and sample sizes that are sufficient to reduce sampling risk to an acceptably low level. Sampling techniques sufficient to reduce sampling risk are different than unbiased randomized sampling from a complete population. The Director of the Financial Management Group decided to use compliance audits for dual purposes (assessing schools' compliance with Title IV program requirements and estimating improper payments) because the Director understood it to be the least burdensome on the schools. However, the Director of the Financial Management Group did not assess whether the OMB Compliance Supplement and the OIG Foreign School Audit Guide required the independent auditors to select random samples from a complete population as required by OMB A-123, Appendix C. As a result, improper payment estimates based on the results of independent auditors' samples from single audits would not always result in statistically valid improper payment estimates required under OMB Circular A-123, Appendix C. Because the independent auditors' samples would not always result in statistically valid improper payment estimates, FSA cannot statistically make a reliable inference about the rate and amount of improper payments in the Pell and Direct Loan programs. Further, FSA may not identify the root causes and take appropriate corrective actions to prevent and reduce improper payments.

### **Pell and Direct Loan Improper Payment Estimation Methodologies Not Complete**

The Pell and Direct Loan programs' improper payment estimation methodologies that the Financial Management Group submitted to OMB on June 26, 2019, were not complete because the Financial Management Group did not describe how schools that were a part of consolidated school group single audits would be incorporated into the estimates.

FSA sampled 395 schools associated with 301 compliance audits for improper payment estimation purposes. About a third of the schools FSA sampled were schools that were part of consolidated school group single audits. For a consolidated school group single audit, there is no assurance that all the schools in the consolidated school group would be reviewed by the independent auditor performing the single audit. The improper payment estimation methodologies submitted to OMB did not describe how FSA would handle sampled schools that were part of a consolidated school group. However, in a document that was not submitted to OMB,<sup>16</sup> FSA described how the methodology

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<sup>16</sup> "FY19 Improper Payment Sampling Approach Decision Points Summary," February 7, 2019.

would handle sampled schools that were part of a consolidated school group. The Director of the Financial Management Group in conjunction with the FSA contractor decided to weight the audit results from each school within the school group and apply the weights across the consolidated school group regardless of whether the independent auditor performed audit procedures at the sampled schools. For example, if a consolidated school group single audit consisted of 10 schools, but the independent auditor performed audit procedures on only 4 of the 10 schools, FSA would weight the results based on the number of students, amount of student disbursements, and amount of questioned costs (if found by the independent auditor) of the 4 schools, and apply it to all ten schools proportionally (i.e., by the number of students and student disbursements of each school within the consolidated school group). Even if FSA sampled a school for which the auditor performed audit procedures, FSA weighted the results across the school group instead of using the results from the school's single audit. As a result of this approach, the weighted results that FSA used for schools sampled that were a part of consolidated school group single audits may not be representative of the single schools. The estimation methodologies used also did not describe how FSA would account for these approximations through a statistically valid sampling process.

The FY 2019 Improper Payment Sampling Approach Decision Points Summary stated that when a sampled school is part of a consolidated school group, FSA used the results from the consolidated school group audit, regardless of the extent to which the audit involved sampling of students at the sampled school. This involves assuming that the sampled students in the other schools that are a part of a consolidated school group are representative of students at the sampled school. However, replacing the results of randomly selected schools with the weighted results of the consolidated school group that is not representative of the randomly selected schools could add bias to the estimates. Furthermore, the estimation methodologies did not include procedures to assess whether students across the school groups were statistically representative of all the schools within the group.

OMB Circular A-123, Appendix C, Part I, D(1), states that agency sampling and estimation plans should generally provide sufficient documentation of the sample design so that a qualified statistician would be able to replicate what was done or so that OMB, agency Inspector General, or Government Accountability Office (GAO) personnel can evaluate the design. OMB requires that the plans explain and justify why the proposed methodology is appropriate for the program in question—this explanation must be supported by accurate statistical formulas, tables, and any additional materials to demonstrate how the sampling and estimation will be conducted and the appropriateness of those statistical methods for the program. Further, it states that an agency's sampling and estimation plan should include documentation of the statistical formulas that will be used to estimate the amount of improper payments and to project

those results to the entire program; the documentation should also include appropriate citations for these formulas.

According to the Director of the Financial Management Group, he did not include his approach for sampling schools that are a part of consolidated school group single audits in the estimation methodology because he believed that the level of detail was not needed to allow OMB, the agency Inspector General, or GAO personnel to evaluate the overall design of the methodology. However, as detailed above, FSA’s methodology would not produce statistically valid estimates because it did not address the impact of the bias from inputting audit results for schools that were part of consolidated school group single audits.

**FSA Did Not Accurately and Completely Record Overpayments and Underpayments in the Pell and Direct Loan Improper Payment Calculations**

We found that FSA did not accurately and completely record overpayments and underpayments in the Pell and Direct Loan fieldwork workbooks it used to calculate improper payment estimates. We reviewed a sample of 47 of the 301 compliance audits FSA used in calculating the improper payment estimates to determine whether FSA accurately and completely recorded the compliance audit results in the Pell and Direct Loan program fieldwork workbooks. Of the 47 compliance audits we reviewed, 18 audits identified improper payments while the other 29 audits did not. We found that for 9 of the 18 compliance audits that identified improper payments, FSA inaccurately recorded and/or omitted at least one overpayment or underpayment in the Pell and Direct Loan fieldwork workbooks. For the remaining 9 of the 18 compliance audits that identified improper payments, we found that FSA correctly included the overpayments and underpayments in the fieldwork workbooks. FSA correctly included the compliance audit results in the fieldwork workbooks for the 29 audits we sampled that did not have improper payments identified. Table 5 describes the inaccurate and incomplete recording of improper payments related to the nine compliance audits in question.

**Table 5. Inaccurate and Incomplete Recording of Overpayments and Underpayments**

Compliance Audit Name and Submission Type	Inaccurate Information Recorded in Fieldwork Workbooks	Information Omitted from Fieldwork Workbooks
State of North Carolina Consolidated School Group	Recorded \$799 instead of \$499 as a Pell program overpayment	\$2,081 Pell program underpayment \$3,229 Pell program overpayment
Texas Statewide Consolidated School Group	n/a	\$6 Pell program underpayment \$727 Direct Loan program underpayment

Compliance Audit Name and Submission Type	Inaccurate Information Recorded in Fieldwork Workbooks	Information Omitted from Fieldwork Workbooks
State of Arkansas Consolidated School Group	n/a	\$2,516 Pell program overpayment
State of Georgia Consolidated School Group	n/a	\$1,821 Pell program overpayment \$773 Pell program underpayment \$2,587 Direct Loan program underpayment \$806 Direct Loan program overpayment
Florida Statewide Consolidated School Group	n/a	\$621 Pell program overpayment \$1,453 Pell program overpayment \$18 Pell program underpayment \$4,578 Direct Loan program overpayment \$11 Direct Loan program underpayment \$170 Pell/Direct Loan program overpayment
University of Detroit Mercy Single School	n/a	\$18 Pell program underpayment \$11 Direct Loan program underpayment
Baton Rouge General Medical Center Single School	n/a	\$170 overpayment omitted from either Pell or Direct Loan programs; the independent auditor did not specify in the audit report or provide supplemental information that indicated to which program the questioned cost was related
Utah Statewide Consolidated School Group	\$64 and \$68 underpayments were entered into both the Direct Loan and Pell programs fieldwork workbooks; the independent auditor did not specify in the audit report or provide supplemental information that specified to which program the amounts were related to.	n/a

Compliance Audit Name and Submission Type	Inaccurate Information Recorded in Fieldwork Workbooks	Information Omitted from Fieldwork Workbooks
University of Miami Single School	Independent auditor did not retain either the program (Pell or Direct Loan) to which the improper payments were related, or the amounts of the identified improper payments; as a result, FSA entered the entire disbursement amounts totaling \$424,856 into both the Pell and Direct Loan programs' calculations.	n/a

In response to this issue, FSA stated that it performed a 100 percent review of 107 of the 301 compliance audits with questioned costs FSA used to estimate improper payments for the Pell and Direct Loan programs. FSA stated that it identified 7 additional audits out of the 107 it reviewed where the audit results were not accurately included in the fieldwork workbooks. FSA explained that the absolute value of the errors was \$9,129 or 0.2 percent of the total improper payments and that the errors had no impact on the Pell and Direct Loan programs improper payment estimates. Because of the issues we identified with the estimation methodologies, we could not assess the validity of FSA’s statement that the errors had no impact on the published estimates.

OMB Circular A-123 Appendix C, Part IV, B(2)(c) states that “agencies should ensure that the program improper payment rate estimates are accurate....”

According to the Director of the Financial Management Group, the FSA contractor inadvertently recorded incorrect amounts of overpayment and underpayments in the fieldwork workbooks, which resulted in inaccurate and incomplete improper payment totals being used to estimate improper payments for the Pell and Direct Loan programs. FSA’s quality assurance procedures did not detect or prevent these errors. The errors we found in the calculation of the improper payment estimates contributed to the unreliability of the Department’s improper payment estimates for the Pell and Direct Loan programs. As a result, stakeholders, such as the public, Congress, and other users of the Department’s AFR, do not have an accurate or reliable depiction of the estimated improper payments in the Pell and Direct Loan programs. Further, because of the unreliability of the improper payment estimates for the Pell and Direct Loan programs, FSA may not identify the root causes and take appropriate corrective actions to prevent and reduce improper payments.

## **FSA Estimated Improper Payments from Questioned Costs Instead of Sustained Questioned Costs**

We found that for 11 of the 15 compliance audits for the Direct Loan program and 6 of the 11 compliance audits for the Pell program we sampled that had findings associated with questioned costs, FSA's School Eligibility Service Group did not sustain the questioned costs through the final audit determination process and included the amounts in the Department's improper payment reporting for FY 2019. The FSA contractor estimated improper payments for the Pell and Direct Loan programs from findings associated with questioned costs the independent auditors reported or indicated to FSA in 107 of the 301 compliance audits for the schools that FSA sampled.<sup>17</sup>

FSA's School Eligibility Service Group monitors annual compliance audits of schools that participate in the Title IV programs and performs audit resolution activities for some of the compliance audits<sup>18</sup> which include reviewing and evaluating the effectiveness of a school's corrective actions and mitigation efforts for noted exceptions in audit reports. FSA's School Eligibility Service Group formally address compliance audits that it deems as deficient through the final audit determination process.<sup>19</sup> When FSA's School Eligibility Service Group sustains findings associated with questioned costs, for improper payment reporting purposes, it provides the compliance audits and the accounting information of the instance on noncompliance to the Department's Accounts Receivable

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<sup>17</sup> The FSA contractor requested that the independent auditors provide FSA with instances of noncompliance that the independent auditors were not required to include in the single audit report because it fell below the \$25,000 materiality threshold under the OMB Uniform Guidance. In addition, in some instances where the independent auditor was unable to determine the amount of the improper payment, the FSA contractor treated the entire student disbursement as an improper payment and used it to estimate improper payments for the Pell and Direct Loan programs.

<sup>18</sup> FSA School Participation Division resolves compliance audits that it deems to be deficient. Deficient compliance audits meet any one of the following criteria: questioned costs of \$10,000 or more; error rate greater than or equal to 10 percent for significant findings; error rate greater than or equal to 20 percent for minor findings; automatic deficiency code (e.g., codes for compliance audits with a disclaimer or adverse auditor opinion); repeat finding; or an eZ-Audit system flag that signals for the audit to be routed to the Program Compliance office for resolution (flags include, for example, the absence of required management assertions, a reportable condition, or a material weakness).

<sup>19</sup> FSA School Participation Division does not formally address nondeficient compliance audits through the audit resolution process. Compliance audits not formally addressed by the FSA School Participation Division are archived in the Department eZ-Audit system, which FSA uses to process schools' annual compliance audit submissions.

and Bank Management Group to establish liabilities with the Department for the school’s repayment of program funds. The FSA School Eligibility Service Group does not formally address compliance audits without findings or with minor findings that it determines to be acceptable through the final audit determination process; the FSA School Eligibility Service Group archives these audits in its eZ-Audit system after it determines their acceptability. For 4 of the 18 compliance audits with findings associated with questioned costs used to estimate improper payments, the FSA School Eligibility Service Group did not formally address the questioned costs through the final audit determination process.

For example, for 1 of the 11 compliance audits for the Direct Loan program we reviewed, the FSA contractor recorded \$437,708 of student disbursements as improper payments and from this amount estimated \$240.2 million (about 50 percent) of the \$483.1 million improper payments reported in the FY 2019 AFR for the Direct Loan program. We reviewed the final audit determination letter FSA issued to the school which formally addressed the finding. We found that the FSA School Eligibility Service Group did not sustain the \$437,708 questioned costs that the FSA contractor recorded in the fieldwork workbook for the Direct Loan program. Table 6 shows the fifteen compliance audits we sampled for the Direct Loan program with findings associated with questioned costs that FSA’s School Eligibility Service Group sustained.

**Table 6. Compliance Audits that contained Findings with Direct Loan Related Questioned Costs**

Compliance Audits with Questioned Costs	Questioned Costs Recorded in the Direct Loan Fieldwork Workbook	Were the Questioned Costs Sustained?
Argosy University Unconsolidated School Group <sup>b</sup>	\$6,267	No
Baton Rouge General Medical Center Single School <sup>a</sup>	\$170	No
Detroit Mercy Single School	\$11	No
Florida Statewide Consolidated School Group	\$680	Yes
Georgia Statewide Consolidated School Group	\$98,021	Yes
Lake Forest Graduate School of Management Single School <sup>a</sup>	\$168	No

Compliance Audits with Questioned Costs	Questioned Costs Recorded in the Direct Loan Fieldwork Workbook	Were the Questioned Costs Sustained?
North Carolina Statewide Consolidated School Group	\$1,481	No
State of Arkansas Consolidated School Group	\$4,287	No
Texas Statewide Consolidated School Group	\$91,281	Yes
University of Denver Single School	\$862	No
University of Dubuque Single School	\$4,500	No
University of Miami Single School	\$437,708	No
Utah Statewide Consolidated School Group	\$132	No
Walden University Unconsolidated School Group	\$3,055	No
Wiley College Single School	\$2,126	Yes
<b>TOTAL</b>	<b>\$650,749</b>	<b>-</b>

<sup>a</sup> The school's compliance audit was not subject to the formal audit resolution process because the FSA School Eligibility Service Group deemed the compliance audit to be nondeficient.

<sup>b</sup> The FSA School Eligibility Service Group did not complete the final audit determination process for the compliance audit at the time the Department published its Direct Loan improper payment estimate.

In addition, for 1 of the 6 compliance audits for the Pell program we reviewed, the FSA contractor recorded \$424,856 of student disbursements as improper payments and from this amount estimated \$51.23 million (about 8 percent) of the \$646.14 million improper payments reported in the FY 2019 AFR for the Pell program. We reviewed the final audit determination letter FSA issued to the school which formally addressed the finding. We found that the FSA School Eligibility Service Group did not sustain the \$424,856 questioned costs that the FSA contractor recorded in the fieldwork workbook for the Pell program. Table 7. describes the eleven compliance audits with findings associated with questioned costs we sampled for the Pell program that the FSA School Eligibility Service Group sustained.

**Table 7. Compliance Audits that contained Findings with Pell Related Questioned Costs**

Compliance Audits with Questioned Costs	Questioned Costs Recorded in the Pell Fieldwork Workbook	Were the Questioned Costs Sustained?
Argosy University Unconsolidated School Group	\$2,535	No
Detroit Mercy Single School	\$18	No
Florida Statewide Consolidated School Group	\$37,330	Yes
Georgia Statewide Consolidated School Group	\$23,118	Yes
Louisiana Culinary Institute Single School <sup>a</sup>	\$466	No
Monroe College Single School	\$52	Yes
Texas Statewide Consolidated School Group	\$27,438	No
University of Denver Single School	\$919	Yes
University of Miami Single School	\$424,856	No
Utah Statewide Consolidated School Group	\$132	No
Virginia College Unconsolidated School Group	\$988	Yes
<b>TOTAL</b>	<b>\$517,852</b>	<b>-</b>

<sup>a</sup> The school’s compliance audit was not subject to the formal audit resolution process because the FSA School Eligibility Service Group deemed the compliance audit to be non-deficient.

OMB Circular A-123, Appendix C, Part I, A(1), states that, “[a] ‘questioned cost’ should not be considered an improper payment until the transaction has been completely reviewed and is confirmed to be improper.”

The Financial Management Group did not include a procedure in the improper payment estimation methodologies to determine whether the questioned costs recorded in the fieldwork workbooks for the Direct Loan and Pell programs were sustained by the FSA School Eligibility Service Group. As a result of the inaccuracies referenced above and shown in the tables, the estimated improper payments for the Pell and Direct Loan programs were unreliable.

## **FSA Used a Data Source that was Not Suitable for Producing Statistically Valid and Reliable Improper Payment Estimates**

FSA used compliance audits as the data source to produce the Pell and Direct Loan programs' improper payment estimates. Compliance audits were not a suitable data source for producing statistically valid and reliable improper payment estimates because they did not always include required audit data needed to estimate improper payments, and independent auditors did not always select unbiased randomized student samples. Furthermore, FSA did not assess the accuracy of some of the audit data required to produce the estimates or whether the independent auditors performing the single audits and foreign school audits selected unbiased randomized student samples.

### **Data Accuracy and Completeness Not Assessed**

The FSA contractor did not assess the accuracy and completeness of some of the data required for FSA to use compliance audits as a source for estimating improper payments. This data included student disbursements, sample size, program population data, and any instances of noncompliance that were identified during the audit but were not required to be reported in the compliance audit report. For the 47 compliance audits we reviewed that were included in FSA's improper payment calculations, the FSA contractor attempted to obtain the required audit data needed to estimate improper payments directly from the independent auditors who performed the compliance audits. FSA's contractor emailed the independent auditors and requested information be returned to FSA via email. When the FSA contractor requested the information from the independent auditors, the emails did not specifically request the sampling plans or request information as to whether the independent auditors selected unbiased randomized student samples. In addition, the FSA contractor did not require the independent auditors to provide assurances that the information they provided to FSA was accurate and complete. Therefore, FSA cannot ensure that the improper payment estimates were calculated using data determined to be accurate and complete. In our review of the 47 compliance audits that were included in FSA's improper payment calculations, we found that for 11 of the audits, the independent auditors responded to the FSA contractor's request that they did not retain the program population size from which the student samples were drawn. In such cases, FSA obtained the data directly from the school or through internal reports from the FSA Enterprise Data Warehouse. However, because the FSA contractor did not assess the reliability of the data received from the independent auditors, it did not know if the population data was the same population data the independent auditors used when drawing student-level samples.

According to GAO's Standards for Internal Control in the Federal Government (GAO Internal Control Standards), management should use quality information. Specifically, principle 13.04 states,

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements.... Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability.

Further, GAO Internal Control Standards provides that management processes data into quality information. Specifically, principle 13.05 states,

Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information.

The Director of the Financial Management Group stated that FSA did not perform procedures to assess the reliability of the additional information it received from the independent auditors because the independent auditors performed the audits in accordance with generally accepted government auditing standards. Furthermore, FSA did not engage the independent auditors to confirm the accuracy and completeness of the information the FSA contractor requested for statistical purposes. In addition, the independent auditors did not provide assurance of the accuracy and completeness of the data the independent auditors provided to FSA because it was not an objective of the compliance audit and was not included in the information reported in the compliance audit (it was unaudited data). Instead, the independent auditors expressed an opinion in the compliance audit on whether the school complied, in all material respects, with the compliance requirements described in the OMB Compliance Supplement or the OIG Audit guides, which could have a direct and material effect on each school's major Federal programs.

### **Internal Auditors' Sampling Not Always Random**

For 6 of the 47 compliance audits we reviewed, the independent auditors stated that their sampling method was not statistical or not statistically valid. In addition, for 2 of the 47 compliance audits we reviewed, the independent auditor did not randomly sample students for the Direct Loan program for one audit and the Pell program for the other. For example, in one of the audits, the independent auditor stated in the

supplemental audit documentation provided to FSA that the nine Direct Loan program students were sampled from the 25 randomly sampled Pell program students. The independent auditor's sample of the nine Direct Loan program students was not random, and therefore not statistically valid, because the independent auditor did not select the students from the complete population of Direct Loan program students. Therefore, for 8 (17 percent) of the 47 compliance audits we reviewed, the independent auditors did not select unbiased randomized student samples from a complete population.

OMB Circular A-123, Appendix C, Part I, D(1), states that statistically valid improper payment estimation plans are based on unbiased randomized sampling. Random samples are a form of statistical sampling. Because not all compliance audits were required to use random samples, the samples used in single audits and foreign school audits were not always appropriate for FSA to use to meet OMB's requirements of statistically valid improper payment estimates. SFA audits performed under the OIG Audit Guide are required to use random samples. However, single audits performed under the OMB Compliance Supplement and foreign school audits performed under the OIG Foreign School Audit Guide are not required to select unbiased randomized student samples from a complete population.

The FSA contractor assumed that the OMB Compliance Supplement and the OIG Foreign School Audit Guide required independent auditors to select unbiased randomized student samples from a complete population. In addition, the Financial Management Group did not provide adequate oversight of the contractor to ensure that the contractor assessed the reliability of the unaudited information the independent auditors provided to FSA, and the FSA contractor did not assess whether independent auditors of single audits and foreign school audits selected unbiased randomized student samples from a complete population. The Director of the Financial Management Group stated that, although the independent auditors did not always select unbiased randomized student samples, the compliance audits were the best available documentation of compliance with FSA financial requirements because the performance of those audits required independent auditors to follow the AICPA Auditing Standards and the generally accepted government auditing standards. However, the independent auditors' audit objectives for expressing an opinion on compliance with the Title IV program requirements is not the same as FSA's objective for producing statistically valid improper payment estimates for the Pell and Direct Loan programs. To achieve FSA's objective to produce statistically valid improper payment estimates, FSA must select unbiased randomized samples from a complete population in accordance with the requirements of OMB A-123, Appendix C, Part I, D(1). The independent auditors audit objectives for expressing an opinion on compliance with the Title IV program requirements are not sufficient to meet the OMB A-123, Appendix C, Part I, D(1) requirements because neither the AICPA Auditing Standards nor the

generally accepted government auditing standards require independent auditors to select unbiased randomized student samples from a complete population.

FSA could not produce statistically valid improper payment estimates using the unaudited information provided by the independent auditors and the audit results from single audits and foreign school audits where the independent auditors did not select unbiased randomized student samples. Therefore, unaudited information from compliance audits and the results from compliance audits where the independent auditor did not randomly sample students from a complete population in accordance with OMB A-123, Appendix C, Part I, D(1) are unsuitable data sources for estimating statistically valid improper payments. As a result, the improper payment estimates for the Pell and Direct Loan programs were unreliable.

### **FSA's Impaired the Statistical Validity of the Estimates Through Its Weighting of Schools Included in Consolidated School Group Single Audits**

We found that FSA's handling of schools included in consolidated school group single audits impaired the statistical validity of the Pell and Direct Loan programs' improper payment estimation calculations, thereby rendering the estimates unreliable. For schools that FSA sampled for improper payment testing that were included in consolidated school group single audits, FSA weighted the results of the entire school group audit and then applied it to the sampled school, regardless of the extent to which the audit involved the sampling of students at the sampled school. In so doing, FSA used the audit results from schools that it did not sample and applied those results to the schools that it randomly sampled. This impaired the statistical validity of the improper payment estimates because the audit results used did not come from an unbiased randomized selection of schools. For example, FSA randomly sampled 120 public and nonprofit schools that were included in consolidated school group single audits. When entering the audit results for these 120 schools into the Direct Loan program's improper payment estimation calculation, FSA used audit results based in part on 223 schools that FSA did not randomly sample. Specifically, 78 of the 120 schools had school-level audit results for the sampled school; rather than use the school-level audit results for each of the 78 schools, FSA used the audit results for the respective school group. For 42 of the 120 schools that did not have school-level audit results, FSA used the audit results for the respective school group. Table 8 shows the schools FSA sampled that contained audit results at the school-level along with schools that FSA sampled where FSA used the weighted results from the entire school group audit and applied them to the sampled school for the Direct Loan program.

**Table 8. FSA Sample by Audit Submission Type for the Direct Loan Program**

<b>Audit Submission Type</b>	<b>Audit Guidance</b>	<b>Schools FSA Sampled with Audit Results from the School</b>	<b>Schools FSA Sampled without Audit Results from the School</b>	<b>Schools FSA Did Not Sample but Used the School’s Audit Results</b>
Public and Nonprofit Consolidated School Group Single Audits	OMB Compliance Supplement	78	42	223
Public and Nonprofit Single School and Unconsolidated School Group Single Audits	OMB Compliance Supplement	185	1	2
Proprietary Single School and Unconsolidated School Group SFA Audits	OIG Audit Guide	35	0	0
Foreign Single School and Unconsolidated School Group SFA Audits	OIG Foreign School Audit Guide	7	0	0
<b>Total</b>	-	<b>305</b>	<b>43</b>	<b>225</b>

In addition, FSA randomly sampled 142 public and nonprofit schools that were included in consolidated school group single audits. When entering the audit results for these 142 schools into the Pell program’s improper payment estimation calculation, FSA used audit results based in part on 218 schools that FSA did not randomly sample. Specifically, for 85 of the 142 schools that had school-level audit results for the sampled school, rather than use the school-level audit results for each of the 85 schools, FSA used the audit results for the respective school group. For 57 of the 142 schools that did not have school-level audit results, FSA used the audit results for the respective school group. Table 9 shows the schools FSA sampled that contained audit results at the school-level along with schools that FSA sampled where FSA used the weighted results from the school group audit and applied them to the sampled school for the Pell program.

**Table 9. FSA Sample by Audit Submission Type for the Pell Program**

Audit Submission Type	Audit Guidance	Schools FSA Sampled with Audit Results from the School	Schools FSA Sampled without Audit Results from the School	Schools FSA Did Not Sample but Used the School's Audit Results
Public and Nonprofit Consolidated School Group Single Audits	OMB Compliance Supplement	85	57	218
Public and Nonprofit Single School and Unconsolidated School Group Single Audits	OMB Compliance Supplement	182	2	1
Proprietary Single School and Unconsolidated School Group SFA Audits	OIG Audit Guide	42	0	0
Foreign Single School and Unconsolidated School Group SFA Audits	OIG Foreign School Audit Guide	Not Applicable	Not Applicable	Not Applicable
<b>Total</b>	-	<b>309</b>	<b>59</b>	<b>219</b>

Specifically, we found that 17 of the 47 compliance audits we sampled were consolidated school group single audits. For 7 of the 17 consolidated school group single audits, the independent auditors did not select students and perform Title IV compliance testing of at least 1 school that FSA sampled that was a part of the consolidated school group. In these instances, FSA weighted the audit results of the other schools (those schools that FSA did not randomly sample) in the consolidated school group single audit and applied it to the schools FSA sampled. For the remaining 10 of the 17 consolidated school group single audits we sampled, the independent auditors selected students and performed Title IV compliance testing at each school that FSA sampled. However, rather than use the student-level results for each sampled school, FSA replaced the randomly sampled school's audit results with the weighted audit results of the consolidated school group single audits.

According to the GAO Internal Control Standards, management should use quality information. Specifically, principle 13.04 states,

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements.... Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what

they purport to represent. Management evaluates both internal and external sources of data for reliability.

Further, GAO Internal Control Standards provides that management processes data into quality information. Specifically, principle 13.05 states,

Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information.

The FSA contractor weighted the audit results from consolidated school group single audits because it assumed that the sampled students from the consolidated group single audits were representative of students at the school FSA sampled. In addition, because FSA did not submit to OMB its sampling approach for weighting schools that are a part of consolidated school group single audits, FSA could not receive appropriate clarification or feedback on the statistical validity of the approach.

As a result of FSA applying the audit results from schools that it did not sample to schools that it randomly sampled, the statistical validity of the improper payment estimates for the Pell and Direct Loan programs was unreliable.

## **Recommendation**

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

- 1.1 Develop and implement procedures to ensure that the Department's sampling and estimation plans for the Pell and Direct Loan programs are accurate, complete, and statistically valid.
- 1.2 Develop and implement quality control procedures to ensure that the data the Department uses to calculate the improper payment estimate for the Pell and Direct Loan programs is accurate, complete, and reliable.
- 1.3 Develop and implement procedures to ensure that the Department's improper payment estimates for the Pell and Direct Loan programs are based on, and represent, quality information. Specifically, evaluate the data used to determine whether it is relevant (for example, estimates are based on sustained

questioned costs rather than questioned costs identified in compliance audits); reliable (for example, the quality of any supplemental data, if used for the estimates, has been evaluated); and appropriate (for example, estimates are based on randomly selected student-level samples from compliance audits).

## **Department Comments and OIG Response**

The Department mostly disagreed with this finding, did not agree with Recommendation 1.1, and partially agreed with Recommendations 1.2 and 1.3. In the following sections, we summarize the Department's comments and then provide our response.

### **Pell and Direct Loan Programs Improper Payment Estimation Methodologies Were Not Statistically Valid and Complete**

#### ***Department Comments***

The Department did not agree that its improper payment methodology for the Pell and Direct Loan programs was not statistically valid and complete. The Department stated that its methodology was statistically valid and met all of the requirements in OMB Circular A-123, Appendix C, Part I, D(1). The Department stated its two-stage estimation methodology, consisting of unbiased random samples of schools and compliance audit data for schools, was statistically valid. The Department provided multiple reasons why the methodology included the use of compliance audits.

The Department also stated that its methodology was complete. The estimation methodology sufficiently explained the approach in order to be evaluated, included a description of the second-stage sampling methodology and key statistical formulas required to estimate improper payments, and accounted for the sampling design for all categories of schools.

#### ***OIG Response***

As stated in our finding, the Department's improper payment estimation methodology for the Pell and Direct Loan programs was not statistically valid because it did not meet the requirements in OMB Circular A-123, Appendix C, Part I, D(1) for unbiased randomized samples to be used. In its comments, the Department did not provide additional information to support its contention that its methodologies were statistically valid, and it did not dispute our finding that the second-stage samples used in its methodology were not always unbiased randomized student samples from a complete population.

We did not revise these aspects of the finding based on the Department's comments, which cited information that was already reflected in the finding, or information that was not material to our conclusions contained in the finding.

## **FSA Used Incorrect Data in its Direct Loan Calculations**

### ***Department Comments***

The Department did not agree that it used inaccurate data in its Direct Loan calculations, stating that the use of loan origination data was deliberate and represented a relevant data source.

### ***OIG Response***

We considered the Department's response to the draft report and accept that the use of loan origination data was deliberate. We note that the supplemental documentation the Department provided us was ambiguous; it stated it would weight schools included in consolidated school group audits by "applying a weight to each school within the system that factors in the number of recipients" but the actual formula specified "aid recipients." The Department's decision to use loan origination data rather than loan recipient data would not cause us to revise our conclusion that the Direct Loan program's improper payment estimation methodology was not statistically valid. As a result, we revised our report to remove this aspect of the finding.

## **FSA Did Not Accurately and Completely Record Overpayments and Underpayments in the Pell and Direct Loan Improper Payment Calculations**

### ***Department Comments***

The Department agreed that it did not accurately and completely record overpayments and underpayments in the Pell and Direct Loan improper payment calculations for 9 of the 11 single schools and school groups identified in Table 5. For 2 of the 11 schools, the Department stated that it took an appropriate approach based on OMB guidance.

The Department disagrees with the statement, "... because of the unreliability of the improper payment estimates for the Pell and Direct Loan programs, FSA may not identify the root causes and take appropriate corrective actions to prevent and reduce improper payments." The Department appropriately identified root causes and took appropriate corrective actions that prevent and reduce improper payments.

### ***OIG Response***

We do not agree with the Department's statement that it accurately and completely recorded improper payments for 2 of the 11 schools. Specifically, the Department did not determine the improper payment amounts through its audit determination process and applied the same improper payment amounts to both the Pell and Direct Loan programs when calculating improper payment rates.

The Department's root cause analysis is based on the improper payment estimates. When those estimates are not accurate and complete, the root cause analysis based on such estimates may not completely and accurately identify all root causes or corrective actions needed to address the root causes.

### **FSA Estimated Improper Payments from Questioned Costs Instead of Sustained Questioned Costs**

#### ***Department Comments***

The Department agreed that only sustained questioned costs should be included in the improper payment estimates.

### **FSA Used a Data Source that was Not Suitable for Producing Statistically Valid and Reliable Improper Payment Estimates**

#### ***Department Comments***

The Department stated that compliance audits provided the best available data source because they were performed by independent auditors who were required to follow professional standards and reporting requirements and because OMB encourages agencies to use compliance audits for improper payment estimation purposes.

The Department stated that its use of compliance audits, coupled with the outreach to independent auditors, provides quality data for a statistically valid and complete estimation methodology.

#### ***OIG Response***

We considered the Department's response to the draft report and revised this part of the finding to clarify why compliance audits were not a suitable data source for producing statistically valid and reliable improper payment estimates because they did not always include the data needed to estimate improper payments and independent auditors did not always select unbiased randomized student samples. Other than this change, we did not revise other aspects of the finding based on the Department's comments, which cited information that was already reflected in the finding or information that was not material to our conclusions contained in the finding.

## **FSA’s Handling of Schools Included in Consolidated School Group Single Audits Impaired the Statistical Validity of the Improper Payment Estimates**

### ***Department Comments***

The Department did not agree that its handling of schools included in consolidated school group single audits impaired the statistical validity of the improper payment estimates, stating their approach was consistent and provided “a more accurate representation of the consolidated school group.”

### ***OIG Response***

As noted in this part of the finding, for schools that the Department sampled for improper payment testing that were included in consolidated school group single audits, the Department weighted the results of the entire school group audit and then applied it to the sampled school. The Department’s weighting of audit results in consolidated school groups did not meet the requirement of OMB A-123, Appendix C, Part I, D(1) for statistically valid improper payment estimates based on unbiased randomized samples. Specifically, in addition to the reasons specified in the finding, the independent auditors are not required to select schools in consolidated school groups as part of an unbiased randomized sample. Further, independent auditors did not always select unbiased randomized student samples. As a result, the improper payment estimates could be derived from audit results of both schools and students that were not sampled in an unbiased randomized manner.

## **Recommendations**

### ***Department Comments***

The Department disagreed with Recommendation 1.1, stating that it developed and implemented procedures to ensure that its improper payment sampling and estimation plans for the Pell and Direct Loan programs are accurate, complete, and statistically valid.

The Department partially agreed with Recommendations 1.2 and 1.3, stating that it already performed its development and implementation of the procedures noted in each recommendation. In addition, the Department indicated that it would revise these procedures.

### ***OIG Response***

We did not revise Recommendation 1.1 or 1.3. because we did not revise the parts of the finding that support those recommendations. We revised Recommendation 1.2 to

reflect the change we made to the finding concerning the Department's use of Direct Loan origination data.

## **Finding 2. The Department Published an Unreliable Improper Payment Estimate for the Emergency Impact Aid Program**

The Department's improper payment estimate for the Emergency Impact Aid program was unreliable because it was not accurate, complete, and statistically valid. In addition, the Department's improper payment methodology for the Emergency Impact Aid program was not statistically valid.

The Department hired a contractor to develop and implement a statistically valid and rigorous improper payment estimation methodology for the Emergency Impact Aid program. The methodology for the Emergency Impact Aid program implemented a random sampling approach that tested payments made from State educational agencies (SEA) to local educational agencies during FY 2018. The Department obtained supporting documentation to determine whether there were any overpayments and underpayments.<sup>20</sup>

### **Emergency Impact Aid Program Improper Payment Estimate Was Not Accurate, Complete, and Statistically Valid**

We found that the Department's improper payment estimate for the Emergency Impact Aid program was not accurate because of errors in sampling. Specifically, the estimate was not accurate because the Department contractor used inaccurate financial data that it received from three of the eight SEAs that drew down program funds from the Department during FY 2018. For the three SEAs, the financial data used to determine the Emergency Impact Aid program population, sampling frame, and total program outlays<sup>21</sup> incorrectly included \$11.3 million of obligations, which are financial commitments and not actual payments.

In addition, we found that the Department's improper payment estimate for the Emergency Impact Aid program was not complete because the Department contractor excluded financial data for one of the eight SEAs from its program population, sampling frame, and total program outlays. The program population, sampling frame, and total program outlays used by the Department contractor should have represented the full amount of SEAs' drawdowns of Emergency Impact Aid program funds from the

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<sup>20</sup> The Department used the same methodology for the Restart program.

<sup>21</sup> The program population and outlays represent SEAs' drawdowns of program funds from the Department. The sampling frame represents program payments SEAs made to their LEAs from which the Department selected its sample.

Department during FY 2018, which totaled \$196.5 million (as discussed in the next section).

Table 10 shows details of the program population, sampling frame, and total program outlays that the Department used to produce its improper payment estimate for the Emergency Impact Aid program.

**Table 10. FY 2018 Population of Payments, Sampling Frame, and Program Outlays Used in the Emergency Impact Aid Improper Payment Estimate**

State Educational Agency	Drawdowns by State Educational Agency from the Department's Grants Management System	Population of Payments, Sampling Frame, and Total Program Outlays	Payments Incorrectly Included	Payments Incorrectly Excluded
Louisiana Department of Education	\$934,969	\$934,969	\$0	\$0
Wisconsin Department of Public Instruction	\$3,274,668	\$3,396,195	\$121,527	\$0
Texas Education Agency	\$85,140,392	\$85,140,392	\$0	\$0
Delaware Department of Education	\$11,514	\$636,875	\$625,360	\$0
Florida Department of Education	\$95,677,105	\$48,076,088	\$0	\$47,601,017
Iowa Department of Education	\$594,000	\$594,000	\$0	\$0
New Jersey Department of Education	\$10,909,875	\$10,909,875	\$0	\$0
Connecticut Department of Education	\$0	\$10,570,625	\$10,570,625	\$0
<b>Total Program Outlays</b>	<b>\$196,542,523</b>	<b>\$160,259,019</b>	<b>\$11,317,512</b>	<b>\$47,601,017</b>

Because the Department's improper payment estimate was not accurate and did not sample payments from a complete program population, the improper payment estimate was not statistically valid.

## **Emergency Impact Aid Program Improper Payment Methodology Was Not Statistically Valid**

We found that the improper payment estimation methodology for the Emergency Impact Aid program was not statistically valid because the methodology did not rely on a complete program population. Specifically, the Department's improper payment estimation methodology for the Emergency Impact Aid program included procedures to sample and review payments that SEAs made to their local educational agencies. During FY 2018, the Florida Department of Education retained \$47.6 million of the \$95.7 million it drew down for reimbursement of State funds used to serve displaced students. Under Department guidance, SEAs were allowed to retain a share of their Emergency Impact Aid program grant funds in an amount that did not exceed the State's proportion of the total cost of education of displaced students. However, because the \$47.6 million was not a payment from an SEA to a local educational agency, the Department did not include it in its Emergency Impact Aid program population and did not determine whether the Florida Department of Education accurately calculated its retained share.

According to OMB Circular A-123, Appendix C, Part I, D(1) all improper payment estimation plans must be statistically valid, or the agency must obtain approval from the director of OMB. It also states that statistically valid and rigorous improper payment estimation plans, "... cover the entire population for a program for the given Fiscal Year." In addition, OMB guidance provides that, "Agencies should clearly identify the frame or source for sampling payments and document its accuracy and completeness." Further, OMB Circular A-123, Appendix C, Part IV, B(2)(c) states that, "... agencies should ensure that the program improper payment rate estimates are accurate and that the sampling and estimation plan used is appropriate given program characteristics."

The Department's improper payment estimate was not accurate because the Data Integrity and Financial Controls Division did not provide adequate oversight of the contractor to ensure that the data it received from SEAs and used to calculate the improper payment estimate were accurate for the purpose of estimating improper payments. Specifically, the Department did not ensure that the payments population consisted of Emergency Impact Aid program funds that were drawn down from the Department during FY 2018 and not SEA obligations. The Department's contractor did not have a process to evaluate the data used to calculate the estimate to determine whether the data were relevant (obligations versus program outlays). According to the Department's contractor, to validate the accuracy of the SEAs' payment data, the contractor verified that the SEAs provided payment data for the Emergency Impact Aid program and that total Emergency Impact Aid program payments by the SEAs were equal or less than their awarded amounts.

The Department's improper payment estimation methodology and the estimate it produced were not complete and statistically valid. This occurred because the

Department's Data Integrity and Financial Controls Division did not adequately oversee the contractor's development and implementation of its estimation methodology to ensure that the contractor sampled and tested payments from a complete program population of SEA drawdowns of Emergency Impact Aid program funds during FY 2018.

Because the Department's improper payment estimation methodology and the improper payment estimate it produced were not accurate, complete, and statistically valid, the Department's improper payment estimate for the Emergency Impact Aid program was unreliable. Further, because the improper payment estimate was unreliable, stakeholders, such as the public, Congress, and other users of the Department's AFR, do not have an accurate or reliable depiction of the estimated improper payments for the Emergency Impact Aid program. The random selection from a complete population of payments is required to perform statistical sampling in which the sample's results are used to make inferences about the entire population. Because the sample of payments were not from a complete population and thus not statistically valid, the Department cannot statistically make a reliable inference about the rate and amount of improper payments in the Emergency Impact Aid program. Further, the Department may not identify the root causes and take appropriate corrective action to prevent and reduce improper payments because it did not identify reliable rates and amounts of improper payments that occurred in the Emergency Impact Aid program.

## **Recommendations**

We recommend that the Chief Financial Officer for the Department—

- 2.1 Develop and implement procedures to ensure that the Department's improper payment estimate for the Emergency Impact Aid program is based on and reflects accurate and complete information. Specifically, evaluate the data used to calculate the estimate to determine whether the data is relevant (obligations versus program outlays) and will produce a reliable improper payment estimate.
- 2.2 Develop and implement procedures to ensure that the Department's improper payment methodology for the Emergency Impact Aid program samples and tests payments from a complete program population.

## **Department Comments**

The Department agreed with this finding and our recommendations and indicated that it has taken steps to implement corrective action. The full text of the Department's response is included at the end of this report.

## **OIG Response**

The Department's proposed actions, if effectively implemented, are responsive to our recommendations.

## Other Matters. The Department's Improper Payment Risk Assessments Need Strengthening

The Department's FY 2019 AFR states that the Department's risk assessments of its non-FSA grant programs did not identify any additional programs as being susceptible to significant improper payments. We reviewed the risk assessments the Department conducted for its 266 non-FSA grant subprograms (associated with approximately 118 programs) and the amount of improper payments attributed to each of these subprograms and concluded that the Department's determination was appropriate. However, in reviewing these risk assessments, we found that the Department (1) did not include improper payment totals by program, (2) did not consider all sustained questioned costs, and (3) lacked adequate supporting documents for its conclusions related to its risk assessment spreadsheets.

The Department's improper payment risk assessment methodology did not include steps to aggregate at the program-level the amount of overpayments and underpayments, attributed to each of the non-FSA grant subprograms, which is necessary to determine whether these programs are susceptible to significant improper payments.<sup>22</sup> The Director of the Data Integrity and Financial Controls Division stated that staff conducting the risk assessments did not determine the aggregate amount of overpayments and underpayments for the Department's non-FSA grant programs. The Director also stated that other staff used an accounts receivable spreadsheet they compiled and observed that none of the non-FSA grant programs had improper payments that exceeded \$10 million.

However, the accounts receivable spreadsheet reviewed was not suitable for ensuring that improper payments in the Department's non-FSA grant programs did not exceed statutory thresholds because the spreadsheet did not include all improper payments. Specifically, it did not include sustained questioned costs that were confirmed to be improper payments identified in audits and program reviews in which (1) the grantee refunded the improper payment back to the applicable grant through the Department grants management system, (2) the school credited the improper payment amount to a subsequent cash draw from the applicable grant, or (3) the Department did not require the school to pay back the improper payment.

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<sup>22</sup> The statutory threshold for significant improper payments is (1) both \$10 million and 1.5 percent of the program's outlays for the year or (2) \$100 million.

In addition, the Department did not document its review of the improper overpayments and underpayments identified in the accounts receivable spreadsheet for non-FSA grant programs' liabilities<sup>23</sup> associated with audits and programs reviews, or provide other documentation to support its conclusion that none of the non-FSA grant programs had improper payments that exceeded statutory thresholds.

OMB Circular A-123, Appendix C, Part I, C(2)(d) states that qualitative risk assessments must be "designed to accurately determine whether the program is or is not susceptible to significant improper payments." In addition, Part I, B(1) defines significant improper payments as overpayments and underpayments that exceed \$10 million and 1.5 percent of program outlays for the year or (2) \$100 million.

OMB Circular A-123, Appendix C, Part I, A(1), states that, "[a] 'questioned cost' should not be considered an improper payment until the transaction has been completely reviewed and is confirmed to be improper."

OMB Circular A-123, Appendix C, Part IV, B(2)(b) states that, "[t]he agency should ensure that the result of the [risk] assessment is reasonably supported whether the program or activity is or is not susceptible to significant improper payments."

We suggest that the Chief Financial Officer for the Department include in its risk assessments (1) the improper payment totals for each program, (2) sustained questioned costs in the improper payment totals, and (3) adequate documentation to support its conclusions.

### **Department Comments**

The Department accepted this suggestion and stated that it is in the process of developing corrective action. The full text of the Department's response is included at the end of this report.

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<sup>23</sup> Liabilities confirmed to be improper payments.

## 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. We reviewed control activities pertaining to the Department's calculations of improper payment estimates, its improper payment risk assessments, and improper payment reporting. We also reviewed improper payment calculations for accuracy and completeness.

Our audit covered October 1, 2018, through September 30, 2019. We conducted site visits at the Department's offices located in Washington, D.C., in December 2019 and January 2020. We held an exit conference with Department officials on April 10, 2020.

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

- reviewed laws, regulations, and guidance, including the following:
  - Improper Payments Elimination and Recovery Improvement Act of 2012;
  - Improper Payments Elimination and Recovery Act of 2010;
  - Improper Payments Information Act of 2002, as amended;
  - OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement," June 26, 2018; and
  - OMB Circular A-136, Section II.4.5. "Payment Integrity," June 28, 2019.
- reviewed background information about the Department and its programs susceptible to significant improper payments (Pell, Direct Loan, Emergency Impact Aid, and Restart 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, FSA Acquisitions, and FSA's designated contractor for calculating Pell and Direct Loan programs improper payment estimates);
- interviewed officials from various offices within the Department's Office of Finance and Operations including Office of Financial Management Operations, Office of Acquisition Management, and the Department's designated contractor for calculating Emergency Impact Aid and Restart programs improper payment estimates; 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 2019 AFR to ensure that it contained all the required components for improper payment reporting, including the results of the Department’s improper payment risk assessments, improper payment estimates, 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, figures, and tables presented in the Department’s FY 2019 AFR, including the improper payment charts for the Pell, Direct Loan, Emergency Impact Aid, and Restart programs; the sources 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 Pell and Direct Loan programs (see “Sampling Methodology” for more details); and
- reviewed the Department’s FY 2018 AFR to compare the improper payment reduction targets established for FY 2019 with the improper payment rates reported in the Department’s FY 2019 AFR for the Pell and Direct Loan programs.

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

- reviewed the methodologies the Department submitted to OMB for calculating improper payment estimates for the Pell, Direct Loan, Emergency Impact Aid, and Restart programs for FY 2019;
- reviewed compliance audit reports to determine whether the questioned costs and related disbursements identified in compliance audits were accurately included in the Pell and Direct Loan improper payment calculations (see “Sampling Methodology” for more details);
- reviewed compliance audit information the Department received from the independent auditors that performed the audits to determine whether the questioned costs and related disbursements identified in compliance audit reports were accurately included in the Pell and Direct Loan improper payment calculations (see “Sampling Methodology” for more details);

- reviewed payment testing procedures the Department performed to determine whether SEAs' payments to local educational agencies during FY 2018 that resulted in improper payments were accurately included in the Emergency Impact Aid and Restart programs improper payment calculations (see "Sampling Methodology" for more details);
- reviewed the Department's and FSA's improper payment extrapolation spreadsheet for the Pell, Direct Loan, Emergency Impact Aid, and Restart programs to determine whether the calculations performed and logic applied adhered to the Department's estimation methodologies; and
- reviewed the Department's and FSA's Quality Assurance/Quality Control Procedures over the improper payment extrapolation spreadsheet.

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 and from various offices within FSA, including Finance office, Customer Experience Office, and FSA Acquisitions;
- 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 in its Pell and Direct Loan programs; and
- reviewed documents related to improper payments from the Department's Debt Management Collection System, accounts receivables for program reviews and audits, to identify any obvious errors or irregularities and to determine whether they were included in the Department's identified and recaptured improper payment reporting.

To test the completeness of the account receivables spreadsheet the Department used to compile improper payments identified in program reviews and audits, we compared the program reviews and audits listed in the spreadsheet to a list of program reviews with liabilities from the Postsecondary Education Participants System and a list of audits with liabilities from FSA's eZ-Audit and the Department's Audit Accountability and Resolution Tracking System. We identified 25 program reviews, 30 audits from eZ-Audit, and 9 audits from the Audit Accountability and Resolution Tracking System that did not contain a match. We obtained documentation from FSA and the Department to determine whether the audits and program reviews should or should not have been

included in the account receivable spreadsheet for improper payment reporting. We found that the accounts receivable spreadsheet was generally complete.

To test the completeness of the Restart and Emergency Impact Aid programs payment data the Department obtained from SEAs and used to estimate improper payments in these programs we: (1) obtained a report of SEA drawdowns for both programs from the Department grants management system for FY 2018, and determined whether the Department included all the SEAs that drew down program funds during FY 2018; (2) compared the total dollar amount and number of program payments according to the payment data the Department obtained from the SEAs to the total dollar amount and number of program payments the Department reported in its statistical sampling plan and estimation methodology results for both programs; and (3) for each SEA, we compared the total dollar amount in program payments each SEA made during FY 2018 according to the payment data the Department obtained from the SEAs, to the total dollar amount in program drawdowns by SEA from the Department grants management system. We found that the payment data for the Restart program was complete. However, as discussed in Finding 2, we found that the Department used inaccurate financial data from three of the eight SEAs that drew down Emergency Impact Aid program funds during FY 2018 and that the financial data used from a fourth SEA was excluded.

## **Sampling Methodology**

We selected samples of documentation to answer our audit objectives. We generally selected random samples but used auditor judgment to develop strata from which we sampled and to determine sample size. For the random and judgmental samples we selected, the results from our review pertain only to the samples we selected and are not intended to be projected to the entire universes.

### **Sample of Compliance Audits Used to Derive the Improper Payment Estimates for the Pell and Direct Loan Programs**

We selected a stratified random sample of 46 and judgmentally selected 1 out of the 301 compliance audits used to derive the improper payment estimates for the Pell program, Direct Loan program, or both and reviewed the related supporting documentation. We initially selected 46 compliance audits using a stratified random sample. First, we categorized the 301 compliance audits by submission type and then identified how many schools FSA sampled from each submission type. We selected compliance audits from each submission type (consolidated and unconsolidated school groups and single schools) using random selection. We also judgmentally selected an additional compliance audit for which the students sampled received Pell disbursements that significantly exceeded the students' award year maximum amounts. We reviewed these 47 compliance audits to determine whether the compliance audit results were correctly and accurately included in the Direct Loan and/or Pell programs' improper

payment calculations, with no material errors. Table 11 summarizes the submission types and our sampling method.

**Table 11. Compliance Audits and Sample for Review Included in Improper Payment Calculations**

Audit Submission Type	FSA Sample Count	OIG Sample Count	Sample Selection Method
Consolidated School Group Single Audits	42	15	Randomly selected
Consolidated School Group SFA Audits	0	0	School submission type not represented in the FSA sample
Single School and Unconsolidated School Group Single Audits	210	26	Randomly selected 25 schools and judgmentally selected one school with high Pell program disbursements
Single School and Unconsolidated School Group SFA Audits	49	6	Randomly selected
<b>Total</b>	<b>301</b>	<b>47</b>	-

**Sample of Payments Used to Derive the Improper Payment Estimate for the Emergency Impact Aid and Restart Programs**

We selected a random stratified sample of 20 out of the 104 SEA payments included in the improper payment calculation for the Emergency Impact Aid program. We categorized the SEA payments by those that resulted in improper payments and those that did not and then randomly selected from both categories, as shown in Table 12. We reviewed the improper payment testing procedures for the Emergency Impact Aid program. For our sample, we reviewed the results of the improper payment testing procedures performed in the Emergency Impact Aid fieldwork workbook for accuracy.

**Table 12. SEA Payments and Sample for Review included in the Emergency Impact Aid Improper Payment Calculations**

SEA Payments	Department Sample Count	OIG Sample Count	Sample Selection Method
SEA payments the Department identified as an Improper Payment	16	10	Randomly selected
SEA payments the Department did not identify as an Improper Payment	88	10	Randomly selected
<b>Total</b>	<b>104</b>	<b>20</b>	-

We also selected a random stratified sample of 13 out of the 37 payments included in the improper payment calculation for the Restart program. We categorized the SEA payments by SEA and then randomly selected from each category, as shown in Table 13. We reviewed the improper payment testing procedures for the Restart program. For our sample, we reviewed the results of the improper payment testing procedures performed in the Restart workbook for accuracy.

**Table 13. SEA Payments and Sample for Review included in the Restart Improper Payment Calculations**

SEA Payments	Department Sample Count	OIG Sample Count	Sample Selection Method
California Department of Public Instruction	1	1	Randomly selected
Texas Department of Education	35	11	Randomly selected
Puerto Rico Department of Education	1	1	Randomly selected
<b>Totals</b>	<b>37</b>	<b>13</b>	-

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

From 6 spreadsheets, we randomly selected and tested for accuracy a total of 115 invoices and payments which totaled \$8.44 million. The six spreadsheets supported the amounts the Department reported in in its FY 2019 AFR in Figure 26, “Improper Payments Identified and Recaptured in FY 2019.” The 6 spreadsheets contained a total

of 129,550 invoices and payments<sup>24</sup> that represented \$220.48 million in identified improper payments and \$58.70 million in recaptured improper payments that were included in the identified and recaptured improper payments the Department reported in its FY 2019 AFR.<sup>25</sup>

### **Samples of Improper Payment Corrective Actions**

The Department identified 10 corrective actions in its FY 2019 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 all the reported corrective actions in FY 2019. We selected for review all 10 corrective actions to determine whether the Department implemented the corrective actions and whether it reported the results of the implemented actions in its FY 2019 AFR. To make these determinations, we interviewed Department officials responsible for the implementation or reporting of the 10 corrective actions, reviewed documentation to support that the corrective actions had been implemented, and reviewed the FY 2019 AFR to determine whether the Department reported the results of the implemented corrective actions.

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

To determine whether compliance audit data in the Department's eZ-Audit system were reliable, we reviewed a random sample of 10 of 30 audits from eZ-Audit that we identified in a separate test as not appearing in the accounts receivables spreadsheet the Department used to compile improper payments identified in program reviews and audits. 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 school 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, we selected a random sample of five of nine audits from the Audit Accountability and Resolution Tracking System that we identified

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<sup>24</sup> The 129,550 invoices and payments were related to improper payments identified in program reviews, audits, contract payments, and Title IV grant payments to students.

<sup>25</sup> The sample of 115 invoices and payments included 101 invoices containing \$2,694,012.63 in identified and \$2,726,961.16 in recaptured improper payments and 14 payments containing \$509,768.19 in identified and \$203,064 in recaptured improper payments.

in a separate test as not appearing in the account receivables spreadsheet the Department used to compile improper payments identified in program reviews and audits. For the five 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 Audit Accountability and Resolution Tracking System. The data we compared included the school name, audit control number, and liability amounts.

### **Sample 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 was reliable, we selected a random sample of 10 of 30 program reviews from the Postsecondary Education Participants System that we identified in a separate test as not appearing in the accounts receivables spreadsheet the Department used to compile improper payments identified in program reviews and audits. For the 10 selected program reviews, we obtained the final program review determination letters to determine whether the data in those documents matched the data in FSA's Postsecondary Education Participants System. The data we compared included the school name, program review control number, final program review determination date, 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 three systems to obtain specific universes of program reviews and audits that we used to evaluate the completeness of the account receivables spreadsheet<sup>26</sup> the Department used to compile improper payments identified in program reviews and audits. 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 material discrepancies between the data sources and found them to be complete; therefore, 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.

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<sup>26</sup> We found that the accounts receivable spreadsheet was generally complete.

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
AICPA	American Institute for Certified Public Accountants
C.F.R.	U.S. Code of Federal Regulations
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
Emergency Impact Aid	Temporary Emergency Impact Aid for Displaced Students Program
FSA	Federal Student Aid
FY	fiscal year
GAO	Government Accountability Office
GAO Internal Control 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
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant Program
SEA	State educational agency
SFA	Student Financial Aid

Restart

Immediate Aid to Restart School Operations Program

Uniform  
Guidance

Title 2 of C.F.R., Chapter II, Part 200 Uniform  
Administrative Requirements, Cost Principles, and Audit  
Requirements for Federal Awards

# Department Comments



## UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF FINANCE AND OPERATIONS

### MEMORANDUM

**DATE:** June 18, 2020

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

Selina Boyd  
Acting Regional Inspector General  
Office of Inspector General

**FROM:** Denise Carter *Denise Carter*  
Acting Assistant Secretary  
Office of Finance and Operations  
Department of Education

Alison L. Doone *Alison L. Doone*  
Chief Financial Officer, Federal Student Aid  
Department of Education

**SUBJECT:** Response to Discussion Draft Audit Report, "The U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2019" Control Number ED-OIG/A04U0001

We appreciate the opportunity to respond to the subject Discussion Draft Audit Report. The Department is committed to maintaining effective internal controls to demonstrate payment integrity and prevent, detect, and recover improper payments.

Following are the responses 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 acknowledge the OIG's conclusion that the Department complied with IPERA for FY 2019 by meeting all six compliance requirements.

The OIG identified one finding and provided three recommendations specific to Federal Student Aid (FSA). Except as noted, the Department does not concur with the FSA improper payment finding. The Department does not concur with Recommendation 1.1 and partially concurs with Recommendations 1.2 and 1.3. The overarching methodology of drawing a random sample of schools and using compliance audit data to develop an improper payments rate is statistically valid. The FSA methodology relies on Single Audit Act compliance audits, which are the best available data for calculation of the estimates of improper payment rates. We also request that the report refer collectively to FSA's estimation methodology and related procedures rather than specifically to procedures performed by the "Director of the Financial Management Group" and "FSA contractor."

The OIG identified one finding and provided 2 recommendations specific to the Department's non-FSA programs. The Department concurs with this finding and agrees with OIG's recommendations. The Director of the Data Integrity and Financial Controls Division has already taken steps to implement data validation procedures in its sampling plans and estimation methodologies to improve the accuracy and completeness of the data.

The OIG also suggested the Department strengthen its improper risk assessments by including improper payment totals for each program (including sustained questioned costs) and adequate documentation to support its conclusions. The Department accepts this suggestion and is already in the process of developing standard operating procedures to ensure these steps are incorporated into its risk assessment methodology for non-FSA programs.

## **FSA Response to Finding 1**

### **Finding 1. The Department published unreliable improper payment estimates for the Pell and Direct Loan programs**

#### **Pell and Direct Loan Program Improper Payment Estimation Methodologies Were Not Statistically Valid and Complete**

FSA does not concur that its improper payment estimation methodology was not statistically valid and complete. The FSA improper payment estimation methodology is statistically valid and meets all of the requirements for "Statistically Valid and Rigorous Plans" in the Office of Management and Budget (OMB) M-18-20, Part I.D.1, step 2, paragraph d.1.

In fiscal year (FY) 2018, FSA's Risk Management Group developed FSA's statistically valid improper payment estimation methodology. The first stage of the methodology included selection of institutions by unbiased random sampling. The second stage included data obtained in part from compliance audits, which are a suitable data source that OMB encourages agencies

to use for improper payment estimation purposes in OMB Circular A-123 Appendix C Part I, when paired with the additional data elements collected by FSA through outreach to the auditors and schools, which FSA reconciled to compliance audit reports.

The methodology includes the use of compliance audits conducted under the Single Audit Act for the following reasons:

- OMB guidance supports leveraging Single Audits to assist estimating improper payment rates and amounts.
- Compliance audits are prepared by professional independent accountants who perform student transaction level sampling in accordance with audit standards set by Uniform Guidance, the OMB Compliance Supplement, AICPA Standards, and/or GAGAS (GAO Yellow Book), which require auditors to follow sampling guidance and use audit techniques and sample sizes that are sufficient to reduce sampling risk to an acceptably low level. As a result, the compliance audits are the best available data source.
- Using compliance audits is more cost effective than other options that would cost significantly more in taxpayer dollars and significantly increase the burden on institutions.

In August 2018, FSA briefed OMB that compliance audits would be data sources included in estimating improper payments. In accordance with OMB requirements, an FSA statistician certified that the FSA plan was statistically valid, and FSA submitted the statistician's certification to OMB with the plan. OMB reviewed the plan and did not express any concerns.

In FY 2019, the FSA Finance Office implemented the methodology to replace the previous non-statistical methodology. Since then, FSA has continued to collaborate with OMB on the use of compliance audit data to estimate improper payments. In FY 2019 and 2020, FSA worked with OMB to add Compliance Supplement requirements for auditors to provide population and sample information needed to estimate improper payments. During this audit's exit conference, OMB representatives who attended reiterated their support of FSA's continued use of compliance audit data in estimating improper payments.

The FSA improper payment estimation methodology is also complete. FSA provided documentation to the OIG that explained the use of consolidated school group single audits. This detail was not required to be included in the estimation methodology submitted to OMB, in order for OMB, agency Inspector General, or GAO personnel to evaluate the overall design of the methodology as required by OMB Circular A-123, Appendix C (M-18-20). Per OMB M-18-20, Part I.1.D.1, step 2, paragraph e: "Agency sampling and estimation plans should generally provide sufficient documentation of the sample design so that a qualified statistician would be able to replicate what was done **or** so that OMB, agency Inspector General, or GAO personnel can evaluate the design." (*emphasis added*) The FSA estimation methodology sufficiently explained the approach in order to be evaluated, included a description of the second-stage sampling methodology and key statistical formulas required to estimate improper payments, and accounted for the sampling design for all categories of schools.

### **FSA Used Incorrect Data in its Direct Loan Calculations**

FSA does not concur that it used inaccurate data in its Direct Loan calculations. FSA used data that “factors in the number of recipients at the school,” as indicated in supplemental documentation provided to the OIG. FSA used recipient data for Pell calculations because one student typically receives one Pell grant for a given award year at a given school. However, since a recipient could have more than one loan, FSA elected to use loan origination data for Direct Loan calculations because it provides a relevant data source to proportionally allocate systemwide improper payments to the sampled schools, factoring in the potential for increased improper payment occurrences. FSA appropriately considered this risk when applying the system-school weighting within the improper payment calculations. The decision was deliberate and was not the result of inadequate controls. FSA also validated that using the number of recipients instead of the number of loans originated to develop system school weightings for the Direct Loan program would not have changed the reported improper payment rate or precision percentage.

### **FSA Did Not Accurately and Completely Record Overpayments and Underpayments in the Pell and Direct Loan Improper Payment Calculations**

Except for the errors identified for Utah Statewide and the University of Miami, FSA concurs with the findings identified by the OIG in the Discussion Draft’s *Table 6 – Inaccurate and Incomplete Recording of Overpayments and Underpayments*. FSA recalculated the improper payment estimate based on the items identified in the Discussion Draft’s *Table 6* and FSA’s 100% review of all compliance audits used to estimate improper payments for the Pell Grant and Direct Loan programs and found that no changes were required to the published estimates. For Utah Statewide and the University of Miami, FSA took the appropriate approach required in OMB M-18-20 guidance: “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.”

FSA disagrees with the OIG’s repeated statement, “... because of the unreliability of the improper payment estimates for the Pell and Direct Loan programs, FSA may not identify the root causes and take appropriate corrective actions to prevent and reduce improper payments.” FSA has a robust approach to identify root causes, which has resulted in identification of 10 summary and 40 detailed root causes. This approach considers historical data, leverages prior root causes, and continually refines root causes based on reporting guidance updates and identification of new improper payments. The errors identified by the Discussion Draft’s *Table 6* did not result in a failure to accurately update the list of root causes identified. FSA appropriately identified root causes and took appropriate corrective actions that continually prevent and reduce improper payments.

### **FSA Estimated Improper Payments from Questioned Costs Instead of Sustained Questioned Costs**

FSA concurs that only sustained questioned costs for identified audit findings should be included in the estimates for improper payment.

### **FSA Used a Data Source that was Not Suitable for Producing Statistically Valid and Reliable Improper Payment Estimates**

As noted above, FSA determined compliance audits provided the best available data because they were performed by professional independent auditors who were required to follow stringent auditing standards and reporting requirements. In addition, OMB encourages agencies to use compliance audits for improper payment estimation purposes.

In the following statements, the OIG appears to misinterpret FSA's request for supplemental data: "...the FSA contractor did not require the independent auditors to provide assurances that the information they provided to FSA was accurate and complete. Therefore, FSA cannot ensure that the improper payment estimates were calculated using data determined to be accurate and complete." FSA did not request new, unaudited information. FSA requested existing supporting information that auditors would have documented in their audit work papers in performing required procedures as part of compliance audits to which they have attested. FSA believes it is unnecessary to require auditors to provide assurances about the accuracy of information auditors developed during audits and subsequently delivered to FSA. The assurances provided at the time of the audit cover the requested information, which was supporting documentation used to conduct the audit and provide the auditor's statements and report.

FSA has and will continue to rely on the quality of information produced by independent auditors. FSA's use of compliance audits, coupled with the outreach and questions specifically targeted to identify improper payment findings, provides quality data for a statistically valid and complete estimation methodology. FSA will continue to coordinate with OMB to enhance FSA's statistically valid estimation methodology to request auditors perform random, unbiased sampling.

### **FSA's Handling of Schools Included in Consolidated School Group Single Audits Impaired the Statistical Validity of the Improper Payment Estimates**

FSA does not concur that its handling of institutions included in consolidated school group Single Audits impaired the statistical validity of the improper payment estimates and believes the OIG's statements are inaccurate and misleading. The FSA estimation methodology included procedures on how institutions included in consolidated school group Single Audits would be incorporated into the estimates. As the OIG previously acknowledged, FSA developed and documented the approach for the system-wide schools in the FY19 Improper Payment Sampling Approach Decision Points Summary dated February 7, 2019. The methodology states that if a school "is a part of a school-wide system and the compliance audit is for the school system, (i.e. covers multiple campuses), we will use the results from the system-wide audit for the sampled school."

The FSA statisticians determined that this methodology was a statistically valid approach and that if a sampled school/campus was a part of a school-wide system and the compliance audit was for the school system, FSA would use the results from the system-wide audit, regardless of the extent to which the audit involved sampling of students at

the school/campus. FSA developed this approach to ensure consistency across system-wide audits and avoid bias. FSA decided not to use a less accurate/representative approach of requiring only the use of school-level data for system-wide schools because a school within a consolidated school group that is selected into FSA's randomized, unbiased sample has the potential to be out of scope for the system-wide audit. Since audits of consolidated school groups currently do not require auditors to include all schools within the scope of the audit, FSA's consistent and statistically valid approach addressed this possibility. If FSA did not apply the results of the system audit to the school, FSA would need to select a replacement sample or exclude out of scope system-schools, which could potentially introduce bias. FSA's approach to apply the results of the consolidated school group audit to the sampled schools is statistically valid and provides a more accurate representation of the consolidated school group.

#### **FSA's Response to Recommendation 1.1**

*Develop and implement procedures to ensure that the Department's sampling and estimation plans for the Pell and Direct Loan programs are accurate, complete, and statistically valid.*

FSA does not concur with this recommendation and considers it closed. FSA developed and implemented procedures to ensure that the improper payment sampling and estimation plans for the Pell and Direct Loan programs are accurate, complete, and statistically valid. FSA will continue to coordinate with OMB to request random sampling in compliance audits and continue to evaluate ways to further enhance and refine the estimation methodology and plan.

#### **FSA's Response to Recommendation 1.2**

*Develop and implement quality control procedures to ensure that the data and the formulas the Department uses to calculate the improper payment estimate for the Pell and Direct Loan programs is accurate, complete, and reliable.*

FSA partially concurs with this recommendation. FSA developed and implemented quality control procedures to ensure the data and formulas used to calculate improper payment estimates for the Pell and Direct Loan programs are accurate, complete, and reliable. However, FSA will revise its quality assurance procedures to improve the accuracy of the processing of data used to calculate improper payment estimates.

#### **FSA's Response to Recommendation 1.3**

*Develop and implement procedures to ensure that the Department's improper payment estimates for the Pell and Direct Loan programs are based on, and represent, quality information. Specifically, evaluate the data used to determine whether it is relevant (for example, estimates are based on sustained questioned costs rather than questioned costs identified in compliance audits); reliable (for example, the quality of any supplemental data, if used for the estimates, has been evaluated); and appropriate (for example, estimates are based on randomly selected student-level samples from compliance audits)*

FSA partially concurs with this recommendation. FSA developed and implemented procedures to ensure the improper payment estimates for the Pell and Direct Loan programs are based on, and represent, quality information. This includes the evaluation of supplemental data provided by independent auditors. However, we will revise our quality assurance procedures to ensure only sustained questioned costs are used in future improper payment estimates.

### **Department's Response to Finding 2**

#### **Finding 2. The Department published an unreliable improper payment estimate for the emergency impact aid program**

The Department concurs with OIG's finding that it published an unreliable improper payment estimate for the Emergency Impact Aid program for the reasons cited in its report.

#### **Department's Response to Recommendation 2.1**

*Develop and implement procedures to ensure that the Department's improper payment estimate for the Emergency Impact Aid program is based on and reflects accurate and complete information. Specifically, evaluate the data used to calculate the estimate to determine whether the data is relevant (obligations versus program outlays) and will produce a reliable improper payment estimate.*

The Department agrees with the OIG's recommendation to develop and implement procedures to ensure that the improper payment estimate for the Emergency Impact Aid program is based on and reflects accurate and complete information. The Director of the Data Integrity and Financial Controls Division has already taken steps to implement data validation procedures within its estimation methodologies for FY2020 and beyond.

#### **Department's Response to Recommendation 2.2**

*Develop and implement procedures to ensure that the Department's improper payment methodology for the Emergency Impact Aid program samples and tests payments from a complete program population.*

The Department agrees with the OIG's recommendation to develop and implement procedures to ensure that the Department's improper payment methodology for the Emergency Impact Aid program samples and tests payments from a complete program population. The Director of the Data Integrity and Financial Controls Division has already taken steps to improve the completeness of data in its sampling method for FY2020 and beyond.

## **Department's Response to Other Matters**

### **Other Matters. The Department's improper payment risk assessments need strengthening**

*We suggest that the Chief Financial Officer for the Department include in its risk assessments (1) the improper payment totals for each program, (2) sustained questioned costs in the improper payment totals, and (3) adequate documentation to support its conclusions.*

The Department accepts this suggestion and is already in the process of developing standard operating procedures to ensure these steps are incorporated into its risk assessment methodology for non-FSA programs.

The Department appreciates the opportunity to review and respond to the report. If there are questions, or for additional information regarding this response, please contact Carolyn Dempster at (202) 245-6677 or [Carolyn.Dempster@ed.gov](mailto:Carolyn.Dempster@ed.gov).