

Eye on ED

Episode 5—Improper Payments

[Introduction] This is Eye on ED. Your source for information about audits, investigations, and other work by the U.S. Department of Education Office of Inspector General. Tune in for the latest news on our efforts to find and stop fraud, waste, and abuse in Federal education programs, operations, and funding.

[Stephanie Bloom] Hi! I'm Stephanie Bloom and welcome to another episode of Eye on ED. Today we're going to talk about the OIG's work involving improper payments.

So what are improper payments? Improper payments are payments made by the government to the wrong person, in the wrong amount, or for the wrong reason. Identifying and recovering improper payments is a statutory requirement for Federal agencies, as effective stewardship of taxpayer funds is a critical responsibility of every agency within the Federal Government.

The subject of improper payments may sound like a challenging topic for a short podcast, but we have two people here who are up for the challenge. With us today are Robert Janney, an auditor from our Philadelphia office, and Michelene Matthews, an auditor from our Atlanta office. Robert, Michelene, thank you for being here to today.

[Robert Janney] Happy to be here

[Michelene Matthews] Thank you Stephanie. I'm glad to be here.

[Stephanie Bloom] My first question may be an obvious one: are all improper payments fraud?

[Michelene Matthews] No, not all improper payments are fraud. It doesn't always mean that someone intended to defraud the government. Improper payments can be payments that were simply made in error, or transactions that lack sufficient supporting documentation. Also, not all improper payments represent a loss to the government—an improper payment can be an underpayment. An example of an underpayment could be a Pell Grant recipient who doesn't get the full amount of student aid they should have received. So whether overpayments or underpayments, all improper payments degrade the integrity of government programs and compromise citizens' trust in government.

[Stephanie Bloom] And that's why Federal agencies are required to report on the amount of improper payments they issue each year and take steps to address the root causes of the problem, correct?

[Robert Janney] Correct. There are laws that require Federal agencies to identify and report on improper payments, to measure improper payments, and to put in place plans to address and reduce improper payments.

[Michelene Matthews] And there are also laws that require the Inspectors General to review and report on those plans and measures every year.

[Stephanie Bloom] Alright. Let's start with the Department. How big of a problem are improper payments at the Department of Education?

[Robert Janney] The Department's improper payments estimate is about \$6 billion, and it basically comes from two of its student aid programs, the Pell Grant program and the Direct Loan program. Per its Agency Financial Report, the Department says that improper payments in these programs are generally a result of administrative or process errors made by recipients of Federal money.

[Micheline Matthews] I know that amount sounds very high, but it is not nearly as large as some other Federal programs at other agencies. But anytime you are talking about billions of taxpayer dollars, improper payments are an issue. In fact, it's one of our top Management Challenges for the Department. Every year, we are required to identify and report on the most serious management challenges the Department faces. Improper payments is regularly one of the top challenges that we identify.

[Stephanie Bloom] Robert, what's the Department required to do to prevent improper payments?

[Robert Janney] Well, the Improper Payments Elimination and Recovery Act, referred to as IPERA, requires each Federal agency to periodically perform a risk assessment of all programs and activities that the agency administers and identify all programs that may be susceptible to *significant* improper payments.

[Micheline Matthews] And by significant we mean improper payments in the preceding fiscal year that exceeded \$10 million of all program or activity payments made during that fiscal year and 1.5 percent of the program expenditures.

[Robert Janney] Right. And once they identify programs or activities that are susceptible to significant improper payments, to comply with IPERA, the agency must do 6 things—and I'll just read these so the listeners can easily understand—number one, publish and post on the agency website a report for the most recent fiscal year; number two, it has to conduct a program-specific risk assessment for each program or activity; three, publish improper payment estimates; four, publish corrective action plans; five, publish, and meet, annual reduction targets for each program that has significant improper payments; and six, report an improper payment rate of less than 10 percent for each program and activity. The agency has to meet all six requirements to comply with the law; if it does meet even one of them, the agency is out of compliance.

[Micheline Matthews] And Federal law requires the Office of Management and Budget to identify a list of high-priority programs that require greater levels of oversight for improper payments. And they identified two of those programs at the Department, the Direct Loan and Pell Grant programs.

[Stephanie Bloom] Are there additional requirements or activities that the Department has to do involving those two high-priority programs?

[Micheline Matthews] Well actually, yes. The Department has to report any action it has taken or plans to take to recover improper payments and any action it intends to take to prevent future improper payments. And it has to make this report available to the public.

[Stephanie Bloom] Alright, so let me try to sum this up: the Department has to identify and report on programs susceptible to improper payments, come up with activities and plans to reduce improper payments in those programs, set specific improper payments reduction targets, and make all of this information available to the public. Is that correct?

[Robert Janney] Yep.

[Stephanie Bloom] Micheline, what is the OIG required to do?

[Micheline Matthews] Well, the OIG has to determine whether the Department complied with all improper payments laws and guidance. So basically, we look at whether the Department reported everything that it was supposed to, whether it accurately assessed program risk levels, whether it established and met targets to reduce improper payments, and whether it published plans to show how it would correct any problems.

[Robert Janney] This is the information we include in our annual improper payments audits, and in May, we issued our most recent report, which covered fiscal year 2018.

[Stephanie Bloom] So let's do this, before we get to the OIG's most recent report, Robert can you give us high-level summary of the previous reports?

[Robert Janney] Sure. Our reports covering fiscal years 2014 through 2017 found that the Department did not comply with IPERA. In each of these fiscal years, the Department failed to meet one or more of the law's six compliance requirements that I mentioned previously. In some years they met four, others five, but they did not meet all six. For each of those same 4 years, the Department failed to meet its reduction target for at least one of the two programs identified to be susceptible to significant improper payments—meaning the Pell Grant program and the Direct Loan program. And for 2016, the Department failed to meet its reduction targets for both of those programs.

[Stephanie Bloom] Did you have any other significant findings during this time period?

[Robert Janney] Yes, we did. Our reports covering 2014 through 2016 found issues with the Department's improper payment estimates and estimation methodologies. Specifically, for 2014, we found the estimates and estimation methodologies to be inaccurate, incomplete, and unreliable. For 2015, we found their methodologies to be flawed, resulting in estimates that were incomplete and unreliable. And in 2016, although the estimates and methodologies were generally accurate and complete, we still identified issues that required the Department to follow-up.

[Stephanie Bloom] Did the Department address these issues?

[Robert Janney] Yes. For each of these years, we made a number of recommendations to ensure that all applicable improper payments are included in their estimation calculations. And the Department took corrective actions based on our recommendations, so we did not have any findings on the estimations or methodology in 2017. Now keep in mind that the Department was not in compliance with IPERA for 2017, but their lack of compliance was not due to their estimates or methodologies.

[Stephanie Bloom] Alright, so that brings us to 2018. Michelene, what did you find?

[Michelene Matthews] Well, for the first time in 4 years, we found that the Department complied with IPERA because it met all six requirements. We did, however, find some challenges with the accuracy and completeness of the Department's reporting of identified and recaptured improper payments for all its programs and activities. In its Agency Financial Report, the Department has to report on both its identified improper payments and the amount of improper payments it has recaptured. For 2018, we found that the Department underreported both these numbers. As a result, we could not accurately evaluate how they did.

[Stephanie Bloom] So based on this finding, what did you recommend that the Department do?

[Michelene Matthews] Well, we made six recommendations, including that the Department, develop and implement policies and procedures related to its accounting system so it can report all identified improper payments and those it had recaptured.

[Stephanie Bloom] Did the Department agree with your recommendations?

[Michelene Matthews] Yes they agreed with our finding and all of our recommendations.

[Stephanie Bloom] That's great. So it looks like the Department is moving in the right direction on improper payments and that's good news for the Department and for taxpayers. Thank you both so much for your work on this issue.

[Robert Janney] Absolutely. And I would encourage the listeners to read our most recent report because it goes into a lot more detail about what we did, what we found, and what we recommended.

[Stephanie Bloom] Definitely, and for our listeners, you'll find a link to our most recent report on our website, so please be sure to give it a read! Robert, Michelene, thank you for taking the time to be with us today.

[Robert Janney] De nada.

[Michelene Matthews] Thank you, Stephanie. It was a pleasure to be here.

[Stephanie Bloom] And thanks to our listeners for tuning in. And if you are interested in reading more about the progress all Federal agencies are making towards preventing and recovering improper payments, visit the Payment Accuracy website at www.paymentaccuracy.gov.

I'm Stephanie Bloom with the U.S. Department of Education Office of Inspector General, and this has been Eye on ED.