Improper Payments Reporting Details

The Department is committed to preventing improper payments with front end controls, and detecting and recovering them if they occur. In FY 2013, the Department strengthened efforts to: 1) assess the risk of improper payments, 2) estimate improper payments, 3) address root causes of improper payments, and 4) recover improper payments. These four efforts are described in more detail below.

The Department implemented actions that meet the requirements of the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) (Public Law 112-248) and the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Public Law 111-204), both of which amend the *Improper Payments Information Act of 2002* (IPIA) (Public Law 107-300), as well as the Office of Management and Budget's (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. OMB also has established specific reporting requirements for agencies with programs that possess a significant risk of erroneous payments and for reporting on the results of recovery auditing activities. Agencies are required to review and assess all programs and activities to identify those susceptible to significant improper payments. The OMB guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually or that exceed $100 million.

Internal Controls and Accountability

The Department has the internal controls, human capital, and information systems and other infrastructure it needs in order to reduce improper payments to the levels the agency has targeted. As detailed in the *Analysis of Controls, Systems, and Legal Compliance* portion of this AFR, the Department's internal control framework is robust. It includes important controls at many levels of the payment process that are designed to help prevent and detect improper payments. These controls are periodically assessed for design and operating effectiveness as part of Department self-assessments of internal controls. For example:

- Schools are responsible and held accountable for recipient verification for need-based aid. FSA certifies a school's eligibility for participation in Title IV programs, conducts periodic program reviews of schools to verify compliance, and evaluates school financial statement and compliance audits to ensure any potential compliance issues or control weaknesses are resolved. In addition, FSA offices, managers, and staff responsible for these programs are accountable for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, and promptly detects and recovers any improper payments that may occur. Offices and managers are held accountable through a variety of mechanisms and controls, including annual performance measures aligned to the strategic plan, organizational performance review criteria, and individual annual performance appraisal criteria. FSA contractors are held accountable through various contract management and oversight activities and functions, control assessments, and audits.
- Department program staff work with the Department's Risk Management Service (RMS) to use the Decision Support System (DSS) Entity Risk Reviews (ERR) to assess

grantee risk and assist in the determination of special conditions for grant awards. In FY 2013, for 7 of 8 requesting Principal Offices, RMS produced 77 reports assessing risk for 1,768 applicants, including 91 competitions for new competitive grant awards, or 85 percent of all awards.

- The Department leverages continuous controls monitoring software to help detect anomalies and potential issues in agency payment-related data, including Department and FSA payments made through the core financial system.

Risk Assessments

As required by the OMB Circular A-123, Appendix C, the Department conducts an assessment of the risk of improper payments in each program at least once every three years. Below is a summary of these assessments.

Risk Assessment Results		
Program	**Last Risk Assessment**	**Risk-Susceptible?**
FSA Managed Programs		
Federal Pell Grants	FY 2011	Yes
Academic Competitiveness Grants	FY 2011	No
National Science and Mathematics Access to Retain Talent Grant	FY 2011	No
The Teacher Education Assistance for College and Higher Education Grant	FY 2011	No
Federal Supplemental Educational Opportunity Grant	FY 2011	No
Leveraging Educational Assistance Partnership/Special Leveraging Educational Assistance Partnership	FY 2011	No
Iraq and Afghanistan Service Grant	FY 2011	No
Federal Perkins Loan Program	FY 2011	No
Federal Direct Loan Program	FY 2011	Yes
Federal Family Education Loan Program	FY 2011	Yes
Federal Work-Study Program	FY 2011	No
Other Department Programs		
Other Grant Programs	FY 2013	No
Contract Payments	FY 2013	No

FSA-Managed Programs

The Department performed a risk assessment for all FSA-managed programs during FY 2011 and determined that the Direct Loan (DL), Federal Family Education Loan (FFEL), and Pell Grant programs were susceptible to risk of significant improper payments. The methodology and results can be found in the FY 2011 AFR. For each program, risk assessment meetings were held with program owners, key personnel, and other designees to discuss the following ten risk factors:

- Volume of Payments;
- Prior Improper Payments Reporting Results;
- Newness of Program or Transactions;
- Complexity of Program or Transactions;
- Level of Manual Intervention;
- Changes in Program Funding Authorities, Practices, and Procedures;
- History of Audit Issues;
- Human Capital Management;
- Nature of Program Recipients; and
- Management Oversight.

A risk rating was assigned to each factor based on established criteria. Weighted percentages were assigned to each risk factor rating based on the probability of an improper payment. An overall risk score was then computed for each program, calculated by the average of the sum of the weighted scores for each risk factor and overall rating scale.

Other Department Programs

The Department performed a risk assessment for all non-FSA grant programs during FY 2013 using the methodology described in the FY 2011 AFR. This methodology relies on an examination of the total questioned costs for each program that result from required OMB Circular A-133 Single Audits. The Department's FY 2013 assessment determined that none of these non-FSA grant programs were susceptible to significant improper payments. The specific grant programs reviewed are provided on our website.

During FY 2013, the Department also performed a risk assessment of all contract payments, including those for FSA. The risk assessment was based on the results of an ongoing FY 2013 contingency-based contract to review FY 2007 through FY 2012 contract payments as well as cyclical A-123 risk assessments. Based on an evaluation of the risk assessments and results of the recapture audit, we determined that contract payments are not susceptible to significant improper payments.

The Department intends to expand its risk assessment to other administrative payments in FY 2014, to include salary, benefits and travel payments.

Improper Payment Estimate Methodologies

FSA-Managed Programs

The Department continues to work with OMB to seek a mutually agreeable strategy for estimating improper payments in the FSA programs. While this work continues, OMB has agreed to the Department's use of proposed methodologies to estimate DL and FFEL program improper payments only for FY 2013 AFR reporting. The Department previously developed an estimation methodology for the Pell program that compares student-reported data on FAFSA with IRS data on income levels. This methodology and its limitations are described in the FY 2012 AFR. In an effort to address the limitations, FSA developed an alternate methodology for use in the DL, FFEL, and Pell programs that leverages data collected through FSA program reviews, which may include verifying student-reported income levels, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. OMB has tentatively approved the reporting of provisional improper payment rates in the FY 2013 AFR derived from the alternative methodology for the DL and FFEL programs pending an overall agreement on a revised strategy for estimating improper payments across the FSA portfolio. OMB did not approve use of the alternative methodology for the Pell program, but instead, agreed that FSA use its previously approved methodology to estimate the improper payments for the Pell program using the IRS data. The methodologies for all three programs are described on the Department's improper payment website. The Department and OMB continue to work collaboratively on suitable estimation methodologies for all three programs.

The Department believes improper payment estimates from these new methodologies yield the most accurate estimates using available program data. The approach is cost effective and it maximizes integration of existing program reviews. However, the Department acknowledges that its approach is not designed to use strict random sampling techniques intended solely to estimate improper payment rates. Accordingly, the Department considers its approach to use alternative sampling methodologies. The Department will continue working with OMB to examine our current methodologies versus other approaches with a goal of agreement in FY 2014 on the most cost effective long-term methodologies for the Pell, DL, and FFEL programs.

Elementary and Secondary Education Act of 1965, Title I, Part A Program

The Department estimates improper payments for this program using questioned cost data in audit reports. This methodology is described in the FY 2012 AFR. No reduction targets are proposed since the Department's risk assessments have not identified Title I as a program susceptible to significant improper payments; Title I is included in the table because it is a Section 57 program.

Improper Payment Estimates

Improper Payment Reduction Outlook ($ in millions)															
Program or Activity	FY 2012			FY 2013			FY 2014			FY 2015			FY 2016		
	Outlays $[2]	IP %	IP $	Outlays $[3]	IP %	IP $	Outlays $[4]	IP %	IP $	Outlays $[4]	IP %	IP $	Outlays $[4]	IP %	IP $
Pell Grants[1]	33,299	2.49	829	32,338	2.26	731	34,149	2.26	772	37,245	2.26	842	33,776	2.26	763
Direct Loan	N/A	N/A	N/A	102,497	1.03	1,056	174,708	1.03	1,799	181,173	1.03	1,866	186,639	1.03	1,922
FFEL	N/A	N/A	N/A	10,817	0.00	0	8,438	0.00	0	7,594	0.00	0	7,173	0.00	0
Title I	15,208	.186	28.3	14,724	.385	56.7	14,003	.385	53.9	11,862	.385	45.7	13,327	.385	51.3

(1) Pell estimates are reported using the previously developed methodology that relies on a comparison of student data with IRS data. As a point of comparison, the FY 2013 estimate for Pell using the alternate methodology that relies on data from FSA program reviews is 2.22 percent or $718 million.

(2) The source of FY 2012 outlays for Pell is FMS as presented in the FY 2012 AFR.

(3) The source of FY 2013 outlays for all program amounts is FMS.

(4) The source of FY 2014–2016 Pell outlay amounts is the supporting documentation for the FY 2014 President's Budget request. The source of FY 2014–2016 Direct Loan and FFEL outlay amounts is the supporting documentation for the FY 2014 President's Budget request at the Mid-Session Review.

NOTE: The FY 2013 Pell overaward improper payment rate estimate is 1.56 percent or $505 million and the underaward improper payment rate estimate is 0.70 percent or $226 million. The FY 2013 Direct Loan overaward improper payment rate estimate is 0.95 percent or $974 million and the underaward improper payment rate estimate is 0.08 percent or $82 million. The FY 2013 FFEL overaward and underaward improper payment rate estimates round down to 0.000 percent or $0 million.

Root Causes and Corrective Actions

General program information, charts summarizing the root causes of improper payments by program and the corrective actions in progress or planned are presented in this section.

FSA continues to utilize the Internal Revenue Service Data Retrieval Tool (IRS DRT), which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online Free Application for Federal Student Aid (FAFSA). In addition, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. These and other ongoing corrective actions, such as system edits, program reviews, and compliance audits, are described in the FY 2012 AFR.

In the charts that follow for each risk-susceptible program, the root causes presented were identified through improper payment testing and categorized by the *Improper Payments Information Act of 2002* Error Category. The corrective actions presented are recommendations to the schools (for Pell Grants and Direct Loans) and financial institutions (for FFEL) for findings that resulted from FSA program reviews.

Pell Grant Program. The Pell Grant Program includes the drawdown of funds by schools and the disbursement of aid from the school to the student; year-end closeout and the return of unsubstantiated funds; return of undisbursed funds to Title IV collections from schools; and collections by the school on overpayments from recipients.

Direct Loan Program. The Direct Loan Program includes the drawdown of funds by schools, the origination of a loan and disbursement of funds from the school to the student (or their account); consolidations; servicing of the loan and collections from loan holders; and return of Title IV collections (undisbursed funds or overpayments) from schools.

Root Causes and Corrective Actions for the Pell Grant and Direct Loan Programs

IPIA Error Category	Root Cause	Corrective Actions
Documentation and Administrative Errors	Incorrect Awards based on Expected Family Contribution (EFC)	• Institutions with this finding are required to improve policies and procedures to ensure that discrepancies between student's application and Institution Student Information Report (ISIR) have been resolved prior to disbursement of funds and EFC calculations are properly calculated and verified. • Institutions with this finding are required to improve written procedures to properly complete and retain EFC Verification Worksheets. • Institutions with this finding are required to improve written procedures to properly calculate Pell Grant and/or Direct Loan disbursement amounts.

IPIA Error Category	Root Cause	Corrective Actions
	Incorrect Processing of Student Data During Normal Operations	• Institutions with this finding are required to improve policies and procedures to ensure timely updates of student data are made. • Institutions with this finding are required to improve written procedures to track and monitor the completion of clock hours and to determine whether the student is adequately progressing towards the completion of the program within the maximum timeframe.
	Student Account Data Changes Not Applied or Processed Correctly	• Institutions with this finding are required to regularly conduct staff training courses (semi-annually) designed to ensure proper and timely processing of student data. • Institutions with this finding are required to improve policies and procedures to ensure timely updates of student data are made.
Verification Errors	Ineligibility for a Pell Grant/Direct Loan (e.g., validity of high school attended, history of degrees obtained)	• Institutions with this finding are required to regularly conduct staff training courses (semi-annually) designed to prevent ineligible students from receiving Pell Grants and/or Direct Loans. • Institutions with this finding are required to implement standards of care and diligence in administering and accounting for Pell Grants and Direct Loans. Institutions are required to constantly remind Financial Aid Administrators that their fiduciary responsibilities obligate them to the highest level of due care. • Institutions with this finding are required to develop a systematic process of oversight and internal tracking to ensure correct student files are obtained and retained.
	Satisfactory Academic Progress (SAP) Not Achieved	• Institutions with this finding are required to administer semi-annual audits of student's academic transcripts. Institutions are required to calculate Grade Point Averages (GPA), course completion, and maximum timeframes to establish conformity with Title IV policies. • Institutions with this finding are required to improve procedures and control mechanisms that will ensure that students receiving Pell Grants and/or Direct Loans are eligible in accordance with policies.
	Incorrectly Calculated Return Period	• Institutions with this finding are required to improve written procedures to properly perform Return to Title IV calculations and return applicable funds to the correct party.

Root Causes and Corrective Actions for the Direct Loan Consolidation Program

IPIA Error Category	Root Cause	Corrective Actions
Documentation and Administrative Errors	Incorrect Processing of Loan Verification Certificate (LVC)	• The underlying root causes of improper payments identified were due to processing errors at the servicer level; however, the legacy servicer's contract is ending and the day-to-day servicing of newly made traditional Direct Loan Consolidations will be transferred to three of the Title IV Additional Servicers (TIVAS) platforms for FY 2014. FSA will continue to monitor the transition of the consolidation function to these servicers. • Improper payments identified through the Direct Loan Consolidation testing for FY 2013 were remediated or are in the process of being remediated.
	Processing of Duplicate LVCs	
	Loan Not Intended for Consolidation was Processed	

FFEL Program. During FY 2013, the FFEL Program made no new loan originations. FY 2013 payment types and cash flows associated with the guarantees on loans originated in prior years (i.e., the existing FFEL portfolio) include: Special Allowance (SAP), Interest Benefits, Lender Fees, Origination Fees, Consolidation Loan Rebate Fees, Reinsurance, and Account Maintenance Fees.

Root Causes and Corrective Actions for the FFEL Program

Most of the reporting errors observed during FY 2013 were the result of smaller lenders using software systems that were not updated or were processed on bank systems not designed for processing the reporting of FFEL Program loans.

IPIA Error Category	Root Cause	Corrective Actions
Documentation and Administrative Errors	Manual Entries Processed Erroneously (e.g., using only one payment code during the billing quarter when an activity occurred that required the use of two billing codes)	• Lenders with this finding are required to regularly conduct staff training courses designed to prevent incorrect usage of payment codes, including SAP codes, and incorrect calculation of average daily balances. • Lenders with this finding are required to establish procedures that eliminate reporting errors related to manual entries processed erroneously. • Lenders with this finding are required to hire sufficient staff/employees that are knowledgeable of the FFEL program. • If unable to perform servicing requirements, lenders are required to seek the services of other individuals or firms to reduce and eliminate reporting errors due to manual processing.

IPIA Error Category	Root Cause	Corrective Actions
	Incorrect Calculation of the Average Daily Balance due to Software Formula Errors	• Lenders are required to obtain and install any necessary updates to their systems to certify software formulas are accurate.

Root Cause Summary

Consistent with FY 2012, the results of the root cause analysis of improper payments across all risk-susceptible programs from FY 2013 highlighted that the underlying root cause was due to the processing errors which occur at the institution level.

Further analysis of the improper payment findings identified through testing and associated root causes resulted in the following percentages of improper payment findings in dollars, attributed to Documentation and Administrative Errors (i.e., the absolute dollar amount of improper payments identified within the category proportional to the total dollar amount of error in the sample reviewed) and Verification Errors (i.e., the absolute dollar amount of improper payments identified within the category proportional to the total dollar amount of error in the sample reviewed), as follows:

IPIA Error Category	Pell Grants	Direct Loans	Direct Loan Consolidations	FFEL
Documentation and Administrative Errors	27%	31%	100%	100%
Verification Errors	73%	69%	0%	0%

Recovery Auditing

Agencies are required to conduct recovery audits for contract payments and programs that expend one million dollars or more annually if conducting such audits would be cost effective. The following table presents a summary of the Department's cost-benefit analysis.

Additional Recovery Auditing Cost Effectiveness	
Recovery Audit Program Area	Cost Effective
Non-FSA Grant Programs	No
FSA Programs	No
Contracts	No

A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's FY 2012 Report on the Department of Education's Payment Recapture Audits.

Contract Payment Recapture Audits. Although the Department has not found prior contract recovery audits to be cost effective, the Department issued a contingency-based contract during FY 2013 to audit all FY 2007 through FY 2012 contract payments for possible errors and recapture. This contract was awarded with the expectation that advances in data mining techniques might be able to detect payment errors that were previously undetected. Although the audit is ongoing, as in prior years, the results indicate a minimal level of improper payments.

The following chart presents the results of previous recapture efforts:

Contract Payment Recapture Audit Reporting ($ in millions)	
Amount Subject to Review for Current Year (2013) Reporting*	$10,027
Actual Amount Reviewed and Reported (2013)*	$10,027
Amounts Identified for Recovery (2013)	$0
Amounts Recovered (2013)	$0
% of Amount Recovered out of Amount Identified (2013)	NA
Amount Outstanding (2013)	$0
% Amount Outstanding out of Amount Identified (2013)	NA
Amount Determined Not to be Collectable (2013)	$0
% Amount Determined Not to be Collectable out of Amount Identified (2013)	NA
Amounts Identified for Recovery Prior Years (2005–13)	$0
Amounts Recovered (2005–13)	$0
Cumulative Amounts Identified for Recovery (2005–13)	$0
Cumulative Amounts Recovered (2005–13)	$0
Cumulative Amounts Outstanding (2005–13)	$0
Cumulative Amounts Determined Not to be Collectable (2005–13)	$0

*Includes FY 2007 through FY 2012 contract payments subject to the FY 2013 recapture audit contract.

The Department has not established formal recovery targets for contract payments given the consistently insignificant findings. Since FY 2004, the Department's audits have found no improper payments for recovery, and there are no outstanding overpayments to report. Should future contract payments be identified for recovery, the Department will establish recovery targets, taking into consideration the nature of the overpayments and any potential barriers to recovering funds.

Recoveries of Improper Payments. The Department works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in Compliance Audits, OIG Audits, and Department-conducted program reviews as potential improper payments. Accounts receivable are established for amounts determined to be due to the Department and collection actions are pursued. Recipients of Department funds can appeal the management decisions regarding funds to be returned to the Department, thereby delaying or decreasing the amounts the Department is able to collect. The following chart provides estimates of the amounts identified and recovered through all Compliance Audits, OIG Audits, and program reviews for FY 2011 through FY 2013. The Department anticipates recovering similar amounts in FY 2014.

Overpayments Recaptured Outside of Payment Recapture Audits ($ in millions)						
Agency Source	Amount Identified (FY 2013)	Amount Recovered (FY 2013)*	Amount Identified (FY 2012)	Amount Recovered (FY 2012)*	Cumulative Amount Identified (FY 2011–13)	Cumulative Amount Recovered (FY 2011–13)
Compliance Audit Reports	19.8	7.7	21.7	4.3	70.2	16.2
OIG Audit Reports	22.1	5.2	2.7	.2	38.3	8.8
Program Reviews	38.9	8.0	30.7	6.7	107.9	24.5

*Includes all amounts recovered during the year, not just the recoveries of amounts identified during the year.

In addition to the amounts above, for the Pell Grant Program, recoveries also occur when overpayments to students are assigned to Federal Student Aid for collection. Pell amounts recovered through student debt collection were approximately $13.0 million in FY 2013, $6.2 million in FY 2012, and $100.0 million cumulative from FY 2013 to FY 2004. While all programs may have student debts transferred to debt collection, the categorization of resulting collections as an improper payment recovery is unique to Pell. Unlike loans, Pell grant payments transferred to debt collection commonly indicate a potential improper payment at time of disbursement.

Statutory and Regulatory Barriers

The high burden of proof in the requirements of the *General Education Provisions Act* (GEPA) is a significant reason why the Department generally recovers a small percentage of the original questioned costs in audits. The GEPA, 20 U.S.C. 31 Subchapter IV § 1234a, requires the Department to establish a prima facie case for the recovery of funds, including an analysis reflecting the value of services obtained. In accordance with 20 U.S.C. 31 Subchapter IV § 1234b, any amount returned must be proportionate to the extent of harm the violation caused to an identifiable federal interest.