Other Information

About the Other Information Section

This section includes improper payments reporting details, the schedule of spending, a summary of assurances, a summary of the Office of Inspector General's view on the Department's management and performance challenges for FY 2016, freeze the footprint information, and civil monetary penalty inflation adjustment information.

Improper Payments Reporting Details

The Improper Payments Reporting Details summarizes the Department's efforts to prevent, identify, and recover improper payments. It includes data regarding the Department's high risk programs, including assessments of risk, estimates of improper payments, actions to mitigate improper payments, and recoveries of improper payments. Two new subsections have been incorporated based on the FY 2015 update to OMB Circular A-136, *Financial Reporting Requirements*: 1) The Improper Payment Root Cause Categories subsection provides a matrix showing estimated dollar amounts for each program deemed susceptible to significant improper payments, and 2) the Internal Control over Payments subsection provides additional details about our internal controls over improper payments.

Combined Schedule of Spending

The Schedule of Spending (SOS) presents: (a) what money was available to the Department to spend, (b) how the money was spent, and (c) who the money went to. For information on spending, USASpending.gov is a searchable website that provides information on federal awards and is accessible to the public at no cost.

Summary of Financial Statement Audit and Management Assurances

This summary table provides information on any material weaknesses reported by the agency or through the audit process. The Department reported no material weaknesses in FY 2015.

Office of Inspector General's Management and Performance Challenges

The Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2016 report is summarized in this section. The OIG identified the following five challenges: (1) Improper Payments, (2) Information Technology Security, (3) Oversight and Monitoring, (4) Data Quality and Reporting, and (5) Information Technology System Development and Implementation. The full report is available at the OIG website.

Freeze the Footprint

The Freeze the Footprint summarizes the Department's efforts to comply with OMB Management Procedures Memorandum 2013-02, the *Freeze the Footprint policy* implementing guidance. That guidance directs that all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to an FY 2012 baseline.

Improper Payments Reporting Details

The Office of Management and Budget's (OMB) Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, implements the provisions of the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), and directs federal agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments. Significant improper payments are defined as those in any particular program that exceed both 1.5 percent of program payments and $10 million annually or that exceed $100 million.

In FY 2015, the Department determined that the Pell Grant and Direct Loan programs were susceptible to significant improper payments risk. Details on improper payment estimates and reduction targets for both programs are included within the Improper Payment Reporting subsection.

As described in the Analysis of Systems, Controls, and Legal Compliance section, the Office of Inspector General (OIG) reported that the Department was not compliant with IPERA because it did not meet the FY 2014 annual reduction target for the Direct Loan program that was published in the FY 2013 AFR. The full report, including the Department's response, is available for review at the OIG website. The Department submitted a plan to Congress on August 11, 2015, describing the corrective actions the agency will take to address OIG's findings and become complaint with IPERA.

Risk Assessment

As required by OMB A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program that is not already reporting an improper payments estimate. A summary of this assessment is presented in the Risk Assessment Results table below.

Risk Assessment Results		
Program	**Last Risk Assessment**	**Risk-Susceptible?**
FSA Managed Programs		
Federal Pell Grant	FY 2014	Yes
The Teacher Education Assistance for College and Higher Education Grant	FY 2014	No
Federal Supplemental Educational Opportunity Grant	FY 2014	No
Iraq and Afghanistan Service Grant	FY 2014	No
Federal Perkins Loan Program	FY 2014	No

Risk Assessment Results		
Program	**Last Risk Assessment**	**Risk-Susceptible?**
Federal Direct Loan Program	FY 2014	Yes
Federal Family Education Loan Program	FY 2014	No(1)
Federal Work-Study Program	FY 2014	No
Health Education Assistance Loan Program	FY 2015	No(2)
Other Department Programs		
Title I	FY 2013	No(3)
Other Grant Programs	FY 2013	No
Contract Payments	FY 2013	No
Administrative Payments	FY 2014	No

(1) The Federal Family Education Loan (FFEL) program was formally reclassified in FY 2015 as no longer susceptible to significant improper payments.
(2) On July 1, 2014, the Health Education Assistance Loan (HEAL) program was transferred from the U.S. Department of Health and Human Services (HHS) to the Department. As a result, an additional FSA-managed program was identified for FY 2015. However, based on the results of the risk assessment, the HEAL program was determined not to be susceptible to significant improper payments.
(3) Title I is included in the Risk Assessment Results table because it is a Section 57 program. OMB A-11, dated 2002, Section 57, Exhibit 57B requires agencies to report on programs deemed at risk for erroneous payments. Further reporting on this program is contained in Tables 1 and 4.

FSA-Managed Programs

For all FSA-managed programs, risk assessment meetings were held with program owners, key personnel, and other designees to discuss the inherent risk of improper payments according to the following 10 risk factors:

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

Process owners assigned a risk rating to each risk factor based on their detailed understanding of the processes and risk of improper payment. Weighted percentages were assigned to each risk factor rating based on a judgmental determination of the direct or indirect impact on improper payments. An overall risk score was then computed for each program, calculated by the sum of the weighted scores for each risk factor and overall rating scale. Based on risk assessments conducted in FY 2014, the Department determined that the Pell Grant and Direct Loan programs were susceptible to risk of significant improper payments.

According to OMB Circular A-123, Appendix C, if a program has previously been identified as susceptible to improper payments, but has documented at least two consecutive years of improper payments that are below the IPERA threshold, the agency may request relief from the annual reporting requirement for this program. The Federal Family Education Loan (FFEL) program reported improper payment estimates below the statutory threshold during FY 2013 and FY 2014. On August 4, 2015, OMB approved the Department's request, with OIG's concurrence, for relief from improper payments reporting for the FFEL program. Accordingly, the Department has formally reclassified the FFEL program as not susceptible to significant improper payments.

Other Department Programs

The Department performed a risk assessment for all other grant programs during FY 2013 using the methodology described in the FY 2011 AFR, pages 114–115. 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 the other grant programs were susceptible to significant improper payments. The specific grant programs reviewed are provided at the Department's website. During FY 2013, the Department also completed a risk assessment of contract payments, including those made by FSA, and determined that contract payments were not susceptible to significant improper payments.

In 2014, the Department completed a risk assessment on administrative payments to employees in accordance with IPERIA. The areas of administrative payments that were examined include: Salary/Locality Pay, Travel, Purchase Cards, and Transit Benefits. The analysis was based on a review of actual recaptured payments versus total outlay for each of the related payment areas and the likelihood of payment errors. The Department determined that administrative payments to employees were not susceptible to significant improper payments.

Improper Payment Estimation Methodology

On September 17, 2014, the Department obtained approval from OMB to use an alternative methodology for estimating improper payments for the Pell Grant and Direct Loan programs. The alternative methodology leverages data collected through FSA Program Reviews, which include procedures such as verifying student-reported income levels, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. The alternative methodology, although it does not use statistical sampling techniques, provides for a more efficient allocation of resources by integrating the estimation methodology into core FSA monitoring functions. The methodology is described in detail on the Department's improper payments website.

On June 30, 2015, the Department submitted updates to the alternative sampling plan and estimation methodology to OMB for approval in response to findings from the OIG's FY 2014 IPERA compliance audit report, U.S. Department of Education's Compliance With

Improper Payment Reporting Requirements for Fiscal Year 2014. Updates included clarification of sample sizes, updates to formulas, citations and references, and inclusion of justification for use of the alternative methodology. OMB approved the Department's updates to the alternative sampling plan and estimation methodology on October 20, 2015.

During FY 2015, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments.

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

The Department estimates improper payments for Title I using questioned cost data in audit reports. This methodology is described in the FY 2012 AFR. The Department's risk assessment has not identified Title I as a program susceptible to significant improper payments. Title I is included in this section because it is a Section 57 program.

Improper Payment Reporting

Table 1. Improper Payment Reduction Outlook

($ in millions)

Program or Activity	PY Outlays [1]	PY IP % [2]	PY IP $ [2]	CY Outlays [3]	CY IP % [4]	CY IP $ [4]	CY Over-payment $	CY Under-payment $	CY + 1 Est. Outlays [5]	CY + 1 Est. IP %	CY + 1 Est. IP $	CY + 2 Est. Outlays [5]	CY + 2 Est. IP %	CY + 2 Est. IP $	CY + 3 Est. Outlays [5]	CY + 3 Est. IP %	CY + 3 Est. IP $
Pell Grant	31,554.13	2.16	681.57	29,909.28	1.88	562.29	457.59	104.70	31,013.00	1.87	579.94	31,664.00	1.86	588.95	32,504.00	1.85	601.32
Direct Loan	102,140.49	1.50	1,532.10	98,771.65	1.30	1,284.03	1,122.51	161.52	104,707.00	1.29	1,350.72	109,802.00	1.29	1,416.44	115,163.00	1.28	1,474.08
Title I [6]	16,372.00	.214	35.03	15,715.00	.127	19.95	19.95	0.00	16,444.00	.127	20.88	15,294.00	.127	19.42	16,411.00	.127	20.84
Federal Family Education Loan [7]	10,016.31	0.00	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL [8]	**160,082.93**	**1.40**	**2,248.70**	**144,395.93**	**1.29**	**1,866.27**	**1,600.05**	**266.22**	**152,164.00**	**1.28**	**1,951.54**	**156,760.00**	**1.29**	**2,024.81**	**164,078.00**	**1.28**	**2,096.24**

(1) The source of FY 2014 outlays for all programs is FMS as presented in the FY 2014 AFR.

(2) The PY improper payment estimates reported in the table above reflect the improper payment estimates for FY 2014 as reported in the FY 2014 AFR. FSA has published recalculated FY 2014 improper payment rates in response to the FY14 IPERA Compliance Audit Report published by OIG on May 15, 2015. The updated improper payment rates are prepared in accordance with OMB-approved methodologies and correct for data, calculation, and estimation methodologies errors. The estimated improper payment rate and improper payment total for the Direct Loan program as recalculated are 1.46% and $1,491 million, respectively. The estimated improper payment rate and improper payment total for the Pell Grant program as recalculated are 2.21% and $697 million, respectively. These estimates are reported using the alternative sampling and estimation methodology approved as of April 3, 2015.

(3) The source of FY 2015 outlays for all program amounts is FMS.

(4) In FY 2015, the Pell and Direct Loan program improper payment estimates are reported using the updated methodology. OMB approved the Department's updates to the alternative sampling plan and estimation methodology on October 20, 2015. The FY 2015 rates are based on program reviews performed in FY 2014 for award year 2012–2013 data.

(5) The source of FY 2016–2018 Pell, Direct Loan, and Title I outlay amounts is the FY 2016 President's Budget at the Mid-Session Review.

(6) Title I is included in this table because it is a Section 57 program. OMB A-11, dated 2002, Section 57, Exhibit 57B requires agencies to report on programs deemed at risk for erroneous payments.

(7) The Federal Family Education Loan (FFEL) program was granted a relief from reporting from OMB on August 4, 2015.

(8) The total of the estimates for the agency does not represent a true statistical estimate for the agency.

High-Priority Programs

In FY 2011, OMB designated the Pell Grant program a high-priority program, because estimated FY 2010 Pell Grant improper payments of $1,005 million exceeded the OMB FY 2010 high-priority program threshold of $750 million. Since then, the Department has worked with OMB to implement all applicable high-priority program requirements. On February 4, 2015, OMB also designated the Direct Loan program as a High Priority program as estimated improper payments of $1,532 million in FY 2014 exceeded the statutory $750 million threshold.

Under the Executive Order 13520, agencies with high-priority programs shall establish annual or semi-annual measurements or actions for reducing improper payments. The Department submitted supplemental measures for the Pell Grant and Direct Loan programs to OMB to be approved for FY 2015 reporting. OMB granted approval on October 3, 2015.

The supplemental measure for the Pell Grant program is based on the total number of Pell-eligible applicants who transferred tax data from the IRS to their Free Application for Federal Student Aid (FAFSA) as a percentage of the total number of Pell-eligible applicants who were determined to be eligible to use the Internal Revenue Service Data Retrieval Tool (IRS DRT) to transfer tax data. The rate for this measure for award year 2014–15 is 65.92 percent and the target for award year 2015–16 is 69.42 percent. This supplemental measure will be reported annually on PaymentAccuracy.gov.

For the Direct Loan program, a similar supplemental measure is in place based on the total number of Direct Loan recipients who transferred tax data from the IRS to the FAFSA as a percentage of the total number of Direct Loan recipients who were determined to be eligible to use the IRS DRT to transfer tax data. The rate for this measure for award year 2014–15 is 45.46 percent and the target for award year 2015–16 is 48.14 percent. This supplemental measure will be reported annually on PaymentAccuracy.gov.

Use of the IRS DRT to directly transfer tax information from IRS to the online FAFSA verifies applicants' income, and as applicable their parents' income to determine how much aid they are eligible to receive. Errors in income on an application is one of the most prevalent root causes of improper payments for both the Direct Loan and Pell Grant programs; transferring tax data to the FAFSA with the IRS DRT helps ensure that the income is more accurate and therefore reduces the likelihood of an improper payment being made.

Measures to Ensure Program Access

FSA is committed to ensuring program access and providing federal student aid to all eligible students pursuing postsecondary education. The IRS DRT supports access to aid programs by allowing students to transfer tax data directly from the IRS to the online FAFSA and lessens the burden of income verification. We continue to offer additional application methods to individuals to ensure that applicants can take advantage of an application option that best suits their personal needs. Furthermore, improvements in the last few years to the FAFSA and IRS DRT have resulted in a decrease in the average time it takes a student to complete the online FAFSA.

On February 4, 2013, FSA's Customer Experience group announced a partnership alliance between FSA and the IRS. The partnership focuses on reaching more individuals in low- to moderate-income communities with the goal of providing them with information, assistance, and access to relevant IRS and FSA services. The partnership is expected to contribute to increased awareness of FSA programs and create opportunities for increased access to the FAFSA.

Beginning with the 2013 tax year (the 2014–15 FAFSA Processing Year), the IRS has added a new, more efficient way that tax filers can request and receive Tax Return Transcripts. With the new IRS "Get Transcript Online" tool, the tax filer submits an online transcript request to the IRS and, if the request is authenticated, a second window displays the transcript in Portable Document Format (PDF). This new IRS tool potentially reduces the burden on FAFSA applicants who are requested to provide tax transcripts.

In March 2014, the Department launched the FAFSA Completion Initiative, through which the Department is partnering with state student grant agencies to allow these agencies to provide secondary schools, school districts, and certain designated entities with limited, yet important, information on student progress in completing the FAFSA form. The initiative will enable state student grant agencies and their school and district partners to identify those students who have not filed a FAFSA form and better target counseling, filing help, and other resources to those students.

Improper Payment Root Cause Categories

Our analysis indicated that the underlying root cause of improper payments for the Pell Grant and Direct Loan program in FY 2015 was failure to verify financial data and administrative or process errors made by other parties. The root causes were identified through improper payment testing and categorized using categories of error as defined in the October 2014 update to OMB Circular A-123, Appendix C (OMB Memorandum M-15-02). Specific root causes associated with the "Failure to Verify – Financial Data" category include, but are not limited to, ineligibility for a Pell Grant or Direct Loan and incorrect self-reporting of an applicant's income which leads to incorrect awards based on Expected Family Contribution (EFC). Specific root causes associated with the "Administrative or Process Errors Made by – Other Party" category include, but are not limited to, incorrect processing of student data by institutions during normal operations; student account data changes not applied or processed correctly; satisfactory academic progress not achieved; incorrectly calculated return records by institutions returning Title IV student aid funds; and processing errors at the servicer level. Table 2 below, Improper Payment Root Cause Category Matrix, summarizes the root cause categories for the Pell Grant and Direct Loan programs.

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.

Table 2. Improper Payment Root Cause Category Matrix
($ in millions)

Reason for Improper Payment		Direct Loan		Pell		Title I	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue							
Inability to Authenticate Eligibility							
Failure to Verify:	Death Data						
	Financial Data	152.90	59.98	38.89	44.21		
	Excluded Party Data						
	Prisoner Data						
	Other Eligibility Data (explain)						
Administrative or Process Error Made by:	Federal Agency						
	State or Local Agency						
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	969.61	101.54	418.70	60.49		
Medical Necessity							
Insufficient Documentation to Determine						19.95	
Other Reason (a) (explain)							
Other Reason (b) (explain)							
TOTAL		**1,122.51**	**161.52**	**457.59**	**104.70**	**19.95[1]**	

[1] Title I is included in this table because it is a Section 57 program. With current documentation, the Department is unable to disaggregate the estimated overpayments due to system restraints. The Department is working on enhancements for future reporting.

Corrective Actions

This section presents the corrective actions for the Pell Grant and Direct Loan programs. The corrective actions presented below are recommendations to the schools for findings that resulted from FSA Program Reviews. The discussion below also includes other long-term corrective actions applicable to these programs, such as the IRS DRT and verification.

As part of the Program Review process, FSA evaluates an institution's compliance with federal student aid requirements for institutional eligibility, financial responsibility, and administrative capability. FSA also assesses liabilities for errors, identifies corrective actions, and initiates referrals for sanctions if applicable. Final Program Review determinations indicate the action(s) the institution is required to take in order to make the Title IV, HEAL programs, or the recipients whole for any funds that were improperly managed and to prevent the same problems from recurring. Overall, FSA requires that all findings identified during the FSA Program Reviews are tracked through resolution via the Postsecondary Education Participants System (PEPS). This corrective action process is further described in the FY 2012 AFR.

FSA also continues to utilize the 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 FAFSA.

For the 2017–18 award year, applicants will be able to complete their FAFSA using "prior-prior year" tax data. This is in contrast with the current "prior year" process where many applicants submit their FAFSAs before tax returns have been completed, resulting in the need to estimate income and tax information that subsequently needs to be corrected once the tax return is filed; or worse, waiting to complete their FAFSA until after the tax return has been filed. Also, applicants will be able to initiate their application earlier in the 2017–18 award year. The start of the FAFSA cycle for 2017–18 will move up from January 1 to October 1. Both of these changes will assist in preventing improper payments as the IRS DRT is anticipated to be used more and there is more time for effective verification procedures.

Additionally, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. These and certain other ongoing corrective actions, such as system edits and compliance audits, are described in the FY 2012 AFR.

Going forward, FSA will expand the use of data analytics to identify anomalies, trends, and patterns in application and disbursement data to help identify potential risk factors that may inform risk-based decisions regarding program oversight. FSA will further collaborate with OIG to receive and analyze fraud referrals and to identify potential fraud indicators for suspicious student activity. FSA has engaged contract support and is in the process of establishing a fraud group to support OIG fraud referrals. The primary objective of initial activities includes the intake, analysis, and disposition of referrals. FSA will use this analysis to inform recommendations on data analytics and identify ways to improve controls.

Direct Loan Consolidations and Refunds

Improper payments identified through testing of Direct Loan Consolidations for FY 2014 were remediated or are in the process of being remediated. For Direct Loan Consolidations and Refunds determined to be improper payments during the current assessment year, FSA is coordinating with the respective Title IV Additional Servicers (TIVAS) and Not-For-Profit (NFP) servicers to develop and implement corrective action plans.

Internal Control over Payments

To minimize improper payments, the Department maintains strong internal controls designed to prevent, detect, and recover improper payments. These controls are an essential part of the Department's internal control framework described in the Analysis of Systems, Controls, and Legal Compliance section. The Department periodically assesses the payment controls for design and operating effectiveness as part of the Department self-assessments of internal controls. Key controls related to improper payments include: risk assessments; financial, programmatic, and control risks evaluations; use of automated systems to detect anomalies in payments; and grants management and audit resolution, among others.

FSA also has a robust and mature framework of internal control over payments which includes assessment of disbursement processes over Pell Grant and Direct Loan programs. Table 3 below summarizes FSA's self-assessment on the status of its internal control over payments for these programs.

Table 3. Status of Internal Controls

Internal Control Standards	Pell Grant	Direct Loan
Control Environment	4	4
Risk Assessment	4	4
Control Activities	3	3
Information and Communication	3	3
Monitoring	3	3

Legend:
4 = Sufficient controls are in place to prevent IPs
3 = Controls are in place to prevent IPs but there is room for improvement
2 = Minimal controls are in place to prevent IPs
1 = Controls are not in place to prevent IPs

FSA leverages its OMB Circular A-123 Appendix A (A-123A) assessment to evaluate the design and operating effectiveness of controls intended to prevent and detect improper payments. FSA assesses these controls overall and by the internal control components identified below:

- **Control Environment**. FSA has a robust entity-level controls framework that provides discipline and structure to help FSA achieve its objectives. Part of this framework is a governance structure that includes an Improper Payment Working Group, a body of accountable stakeholders that informs decisions related to improper payment requirements, estimation, and control.
- **Risk Assessment.** FSA uses a risk assessment approach to target high risk areas and focus resources. FSA's Office of Program Compliance, School Eligibility Service Group performs annual risk assessments to inform decisions on where and how to target each year's program reviews. As a function of its A-123 program, FSA performs annual risk assessment of business processes and systems, including Pell and Direct Loan payment processes, to determine where to focus control testing. FSA performs a qualitative risk assessment at least once every three years to identify FSA programs susceptible to significant improper payments.
- **Control Activities.** In FY 2015, FSA identified 292 controls related to improper payments prevention or detection through its A-123A assessment. As an example, FSA annually conducts approximately 300 Program Reviews of the approximately 6,000 eligible schools to assess institutions' compliance with Title IV regulations.
- **Information and Communication.** FSA's internal control framework supports quality information management and communication. FSA has an incident reporting process to collect information such as high-dollar overpayment on a quarterly basis; reports an estimate of the annual amount and rate of improper payments for all programs and activities susceptible to significant improper payments; and provides guidance to third parties through Federal Register notices, Dear Colleague Letters, and the Information for Financial Aid Professionals (IFAP) website, among others.

- **Monitoring.** FSA has a set of activities to monitor program performance, identify instances of improper payments, and promptly resolve findings of audits and other reviews related to improper payments. As an example, upon completion of Program Reviews, FSA monitors appropriate corrective action and resolution of improper payments.

As indicated above, the Department is committed to preventing improper payments with front-end controls, and detecting and recovering them if they occur. The Department continues 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.

Accountability

FSA and other Department offices, managers, and staff are held accountable for meeting applicable improper payments reduction targets and 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.

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. Department and FSA contractors are held accountable through various contract management and oversight activities and functions, control assessments, and audits.

Agency Information Systems and Other Infrastructure

Continuous Monitoring and Data Analytics

The Department has a Continuous Controls Monitoring System (CCMS) to help detect improper payments. This system applies a series of integrity checks to the Department's grant (non-FSA) and administrative payments and flags anomalous transactions for follow-up analysis. Examples of issues that can be detected include duplicate drawdown by grantees, unusual refunds by grantees, bank information alteration, and outlier drawdown amounts. The Department is implementing an upgrade to this system to expand the transactions being evaluated, improve the relevance of the checks with improved algorithms, and integrate new sources of comparative data. A key objective of this initiative is development of predictive modeling to prevent improper payments to the maximum degree possible.

Risk Management

The Department takes measures to prevent improper payments through the use of the Decision Support System (DSS) to run Entity Risk Review (ERR) reports for non-FSA grant awards. Using data drawn from the Federal Audit Clearinghouse, Dun & Bradstreet, the

Department's grant system, and Institutes of Higher Education (IHE) accreditation reporting, this report identifies financial, programmatic, and controls risks posed by award to the prospective grantee. Grant officers and awarding officials use the ERR reports in the preaward stage of the grant process to assess grantees' risk and assist in the determination of special conditions for grant awards. They also apply these reports in devising monitoring plans for the life of the grant, strengthening them as the Department's first line of defense against improper payments by grantees.

In FY 2015, the Department produced 261 reports assessing risk for 10,762 grant applicants to support the Department's award of 6,886 Discretionary awards. In total, 100 percent of all discretionary new and continuation awards were assessed for risk prior to award in the areas of: financial stability; adequacy of management systems to meet applicable standards; performance history; and compliance with applicable laws and regulations, including those related to Suspension and Debarment. This work successfully demonstrated the Department's early compliance with 2 C.F.R. Section 205, Federal Awarding Agency Review of Risk Posed by Applicants.

Audit Follow-up

The Department gathers and manages thousands of audits of grantees in an Audit Accountability and Resolution Tracking System (AARTS). AARTS data is analyzed to determine trends in audit findings and resolution, allowing the Department to search for and better understand commonalities. This effort is assisting the Department in reducing improper payments by strengthening audit resolution and grants management.

Barriers

The Department believes that the high burden of proof requirements in the *General Education Provisions Act* (GEPA) are a significant reason why the Department recovers such a small percentage of the original questioned costs in grant program 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. As it relates to FSA programs, the Department does not see significant barriers in taking corrective action in reducing improper payments. A detailed discussion of program-specific barriers can be found in the FY 2012 Report on the Department of Education's Payment Recapture Audits.

Recapture of Improper Payments Reporting

Agencies are required to conduct recovery audits for contract payments and programs that expend $1 million or more annually if conducting such audits would be cost-effective. The Department performed a cost-benefit analysis and determined that a payment recapture audit program would not be cost-effective for FSA programs, other grant programs, and contracts. OMB was notified on October 30, 2014,[1] that it was not cost effective to conduct a payment recapture audit and the programs/activities would be excluded from a payment

[1] The Department initially submitted a payment recapture audit plan to OMB on January 14, 2011, and has subsequently submitted its reports on an annual basis noting that it was not cost effective to conduct a payment recapture audit program. Latest report was submitted to OMB on October 30, 2014.

recapture audit program. OMB sent their concurrence to the Department on September 21, 2015. 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.

The Department identifies and recovers improper payments through sources other than payment recapture audits. 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 management's decisions regarding funds to be returned to the Department, thereby delaying or decreasing the amounts the Department is able to collect.

In addition, for the Pell Grant program, recoveries also occur when overpayments to students are assigned to FSA for collection. Pell Grant amounts recovered through student debt collection were approximately $10.3 million in FY 2015 and $13.7 million in FY 2014. 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.

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.

Table 4, Improper Payment Recaptures without Audit Programs, below provides estimates of the amounts identified and recovered through Compliance Audits, OIG Audits, and Program Reviews for FY 2015.

Table 4. Improper Payment Recaptures without Audit Programs[1]
($ in millions)

Overpayments Recaptured outside of Payment Recapture Audits		
Program or Activity[2]	**Amount Identified**	**Amount Recaptured**
FSA Programs	111.700	12.891
Other ED Programs		
Office of Career, Technical, and Adult Education	-	.002
Office of Elementary and Secondary Education	8.174	.688
Office of Postsecondary Education	.638	.760
Office of Special Education and Rehabilitative Services	1.078	.331
Consolidated Grants to the Outlying Areas, Recovery Act	-	.018
TOTAL	**121.590**	**14.690**

[1] The Department's cost-benefit analysis determined that a payment recapture audit program would not be cost-effective for FSA programs, other grant programs, and contracts. As a result, OMB A-136 Guidance Table 5, Disposition of Funds Recaptured Through Payment Recapture Audits, and Table 6, Aging of Outstanding Overpayments Identified in the Payment Recapture Audits, have been omitted.
[2] The Department is unable to show the breakdown of recoveries by program due to system restraints. The Department is working on enhancements for future reporting.

Additional Comments

No additional comments.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

Table 7. Results of the Do Not Pay Initiative in Preventing Improper Payments ($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate[3]	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases[1]	1.3666	190,262.2941	0	0	.0019	.7289
Reviews with databases not listed in IPERIA[2]	.0008	44.0173	0	0	.0004	19.4275

[1] IPERIA databases used for payment screening include the Death Master File (DMF) and the System for Award Management (SAM).
[2] Reviews with databases not listed in IPERIA include payments reviewed through the Department's Continuous Controls Monitoring System (CCMS).
[3] Payments requiring further review and identified as proper.

The Department continues its efforts to prevent and detect improper payments via the Do Not Pay (DNP) Business Center portal as required by IPERIA. During FY 2015, 1.37 million payments, totaling $190,262.29 million, were reviewed for potential improper payments through the DNP portal. There were 750 payment matches with the Death Master File and 1,116 matches with the System for Award Management. The Department validated that potential improper payments identified were adjudicated and reported to Treasury in a timely manner. The Department also reviewed 835 payments, totaling $44.02 million, for potential improper payments through the Continuous Controls Monitoring System. A total of 2,701 payments, with and without IPERIA databases, were further reviewed and determined to be accurate.

United States Department of Education
Combined Schedule of Spending

For the Years Ended September 30, 2015 and 2014

(Dollars in Millions)

	FY 2015 Budgetary	FY 2015 Non-Budgetary Credit Reform Financing Accounts	FY 2014 Budgetary	FY 2014 Non-Budgetary Credit Reform Financing Accounts
Section I: What Money Is Available to Spend?				
This section presents resources that were available to spend by the Department.				
Total Resources	$ 117,218	$ 232,460	$ 112,443	$ 243,566
Amount Available but Not Agreed to be Spent	(11,806)	(550)	(12,125)	(69)
Amount Not Available to be Spent	(2,968)	(13,887)	(2,712)	(10,040)
Total Amounts Agreed to be Spent	**$ 102,444**	**$ 218,023**	**$ 97,606**	**$ 233,457**
Section II: How Was the Money Spent?				
This section presents services and items purchased, is grouped by major program, and is based on outlays.				
Increase College Access, Quality, and Completion				
Credit Program Loan Disbursements and Claim Payments	$ 25,249	$ 198,431	$ 18,835	$ 216,506
Grants	35,569	-	37,223	-
Personnel Compensation and Benefits	273	-	270	-
Contractual Services	1,248	1,065	1,205	1,108
Other [1/]	37	-	35	-
Total Program Spending	**62,376**	**199,496**	**57,568**	**217,614**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs				
Grants	22,322	-	23,032	-
Personnel Compensation and Benefits	73	-	69	-
Contractual Services	106	-	96	-
Other [1/]	15	-	12	-
Total Program Spending	**22,516**	**-**	**23,209**	**-**
Ensure Effective Educational Opportunities for All Students				
Grants	16,474	-	16,793	-
Personnel Compensation and Benefits	148	-	162	-
Contractual Services	49	-	55	-
Other [1/]	23	-	23	-
Total Program Spending	**16,694**	**-**	**17,033**	**-**
Enhance the Education System's Ability to Continuously Improve				
Grants	1,661	-	1,519	-
Personnel Compensation and Benefits	94	-	91	-
Contractual Services	491	-	451	-
Other [1/]	15	-	15	-
Total Program Spending	**2,261**	**-**	**2,076**	**-**
Total Spending	**$ 103,847**	**$ 199,496**	**$ 99,886**	**$ 217,614**
Amounts Remaining to be Spent [2/]	(1,403)	18,527	(2,280)	15,843
Total Amounts Agreed to be Spent	**$ 102,444**	**$ 218,023**	**$ 97,606**	**$ 233,457**
Section III: Who Did the Money Go To?				
This section identifies with whom the Department is spending money based on obligations incurred.				
Nonfederal Obligations	$ 101,977	$ 218,023	$ 97,101	$ 233,457
Federal Obligations	467	-	505	-
Total Amounts Agreed to be Spent	**$ 102,444**	**$ 218,023**	**$ 97,606**	**$ 233,457**

[1/] Other primarily consists of payments for rent, utilities, communication, travel, and transportation.

[2/] The "Amounts Remaining to be Spent" line is the difference between "Total Spending" and "Total Amounts Agreed to be Spent." Actual spending in the current FY may include spending associated with amounts that are agreed to be spent during previous FYs, which may result in negative amounts shown for the "Amounts Remaining to be Spent" line.

The combined schedule of spending presents an overview of how and where the Department spent its funding. The budgetary information in this schedule is presented on a combined basis and not a consolidated basis.

- The “what money is available to spend” section summarizes the resources that were available to spend during the fiscal year.
- The “how was the money spent” section summarizes the Department’s outlays for the fiscal year, categorized by the OMB budget object class definitions found in Circular A-11, “Preparation, Submission and Execution of the Budget,” and by payment types.
- The “who did the money go to” section summarizes the Department’s obligations by federal and nonfederal components.
- The total amount agreed to be spent in each section is equal to the obligations incurred shown on the combined statement of budgetary resources. Similar data are also submitted to USAspending.gov; however, the amounts will not reconcile primarily because reporting requirements differ, particularly for loan programs and for payroll and employee benefits.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditor's report can be found beginning on page 107 and the Department's management assurances on pages 39–49.

Summary of Financial Statement Audit

Audit Opinion: Unmodified*
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting—*Federal Managers' Financial Integrity Act* (FMFIA) 2

Statement of Assurance: Unqualified*

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

The Department had no material weaknesses in the design or operation of the internal control over financial reporting.

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unqualified*

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: The Department systems conform to financial management system requirements.

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Nonconformances	**0**	**0**	**0**	**0**	**0**	**0**

Compliance with *Federal Financial Management Improvement Act (FFMIA)*

	Agency	Auditor
1. System Requirements	**No lack of substantial compliance noted**	**No lack of substantial compliance noted**
2. Federal Accounting Standards	**No lack of substantial compliance noted**	**No lack of substantial compliance noted**
3. United States Standard General Ledger at Transaction Level	**No lack of substantial compliance noted**	**No lack of substantial compliance noted**

*Table uses the term "unmodified" for financial statement audit opinions and "unqualified" for management assurances based on OMB guidance.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

The Inspector General

October 9, 2015

TO: The Honorable Arne Duncan
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2016

The Reports Consolidation Act of 2000 requires the U.S. Department of Education (Department), Office of Inspector General to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges. To identify management challenges, we routinely examine past audit, inspection, and investigative work, as well as issued reports where corrective actions have yet to be taken; assess ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyze new programs and activities that could post significant challenges because of their breadth and complexity.

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. While the Department remains committed to addressing these areas and has taken or plans action to correct many of their underlying causes, each remains as a management challenge for fiscal year (FY) 2016.

The FY 2016 management challenges are:

(1) Improper Payments,
(2) Information Technology Security,
(3) Oversight and Monitoring,
(4) Data Quality and Reporting, and
(5) Information Technology System Development and Implementation.

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2016 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2016 Executive Summary

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires the OIG to identify and report annually on the most serious management challenges the Department faces. The *Government Performance and Results Modernization Act of 2010* requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges.

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2016.

The FY 2016 management challenges are:

(1) Improper Payments,

(2) Information Technology Security,

(3) Oversight and Monitoring,

(4) Data Quality and Reporting, and

(5) Information Technology System Development and Implementation.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. This FY 2016 Management Challenges Report is available at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

Management Challenge 1—Improper Payments

Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal Pell Grant (Pell) and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments.

Our recent work has demonstrated that the Department remains challenged to meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments. In May 2015, we reported that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 because it did not meet the annual reduction target for the Direct Loan program. We have identified concerns in numerous areas relating to improper payments, including the completeness, accuracy, and reliability of improper payment estimates and methodologies and improper payments involving grantees. Our semiannual reports to Congress from April 1, 2012, through March 31, 2015, included more than $1.4 million in questioned or unsupported costs from audit reports and more than $36 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that it faces a significant challenge in striking the right balance between providing timely and accurate payments to grant recipients and students while at the same time ensuring that its policies and controls are not too costly and burdensome to the Department and fund recipients. The Department stated that it continuously assesses its business processes and controls to further enhance them, while striving to balance risks, costs, and benefits.

The Department stated that it has developed corrective actions in response to OIG recommendations that are intended to improve the accuracy and completeness of its improper payment estimates, provide more detailed reporting, and enhance its controls over student aid payments. It routinely analyzes payment data and considers other factors, such as OIG reports, to detect and recover improper payments that have occurred and to help devise ways to further reduce the risk of improper payments. The Department further stated that its primary strategy for minimizing improper payments is to implement front-end controls that prevent improper payments from occurring before it disburses Federal funds.

The Department added that the office of Federal Student Aid (FSA) has continued its efforts to catalog improper payment and fraud-related controls and to assess them for effectiveness. Additionally, FSA has improved its coordination with the OIG on fraud referrals, to include developing processes to analyze referrals and identify potential fraud indicators for suspicious student activity. The Department added that FSA plans to build on this collaboration with the OIG and establish a fraud group during FY 2016 to oversee its intake, analysis, and disposition of fraud referrals.

What Needs to Be Done

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. Overall, the Department needs to develop estimation methodologies that improve the accuracy, completeness, and reliability of improper payment estimations. The Department should continue to work to develop estimation methodologies that adequately address recommendations made in our audit work.

Management Challenge 2—Information Technology Security

Why This Is a Challenge

The OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. Department systems contain or protect an enormous amount of sensitive information such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

Over the last several years, IT security audits have identified controls that need improvement to adequately protect the Department's systems and data. This included weaknesses in configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. In addition, OIG investigative work has identified IT security control concerns in areas such as the FSA personal identification number system.

Progress in Meeting the Challenge

The Department identified numerous activities intended to improve its IT security in its response to our draft Management Challenges report. The Department stated that it provided corrective action plans to address the recommendations in FY 2012, FY 2013, and FY 2014 OIG audits. It further indicated it had completed actions designed to help address this challenges that included the following:

- implementing a new Department-wide Security Operations Management system, to provide overall case management and Security Operations Center operations;
- implementing a solution to provide two-factor authentication for accessing email remotely from personal computers and mobile devices, replacing the username and password authentication method;
- implementing a new student identification system as part of FSA's Enterprise Identity Management Program; and
- implementing the FSA Security Operations Center to strengthen FSA's network and data security.

What Needs to Be Done

Overall, the Department needs to effectively address IT security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

The Department needs to develop more effective capabilities to respond to potential IT security incidents. Although the Department and FSA have begun to implement their own incident response teams and establish Security Operations Centers, this capability is still being developed. The Department needs to continue to make progress within this area to ensure the timeliness and effectiveness of its response processes.

While the Department has made process towards implementing its two-factor authentication plans, it needs to continue its process of implementing and enforcing the use of two-factor authentication for all Federal employees, contractors, and other authorized users.

Vulnerabilities continue to exist in the programs intended to identify and protect critical technologies. The Department must continue to strive towards a robust capability to identify and respond to malware installations or intruder activity.

Management Challenge 3—Oversight and Monitoring

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended, programs are achieving goals and objectives, and the Department is obtaining the products and level of services for which it has contracted. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Four subareas are included in this management challenge—Student Financial Assistance (SFA) program participants, distance education, grantees, and contractors.

Oversight and Monitoring—SFA Program Participants

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the Higher Education Act of 1965, as amended, to ensure that the programs are not subject to fraud, waste, and abuse. During the 2014–2015 award year, FSA provided about $169.6 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2016 budget request outlines $176.1 billion in Federal student aid, including $28.9 billion in Pell Grants and more than $141.7 billion in student loans. More than 13.2 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

Our audits and inspections, along with work the Government Accountability Office conducted, continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. In addition, our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. OIG investigations have also identified various schemes by SFA program participants to fraudulently obtain Federal funds.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that it has made significant progress in providing the public with information about financial assistance options available for postsecondary education, while working at the same time to manage the risks inherent in providing Federal student aid.

The Department stated that FSA has a broad compliance and oversight monitoring program that includes making referrals to the OIG when it identifies potential fraud. The Department further reported that its reviews of institutions are risk-based and that FSA uses predictive analytics and data matching as part of its processes to address student financial assistance fraud.

The Department identified numerous specific activities designed to improve its effectiveness in overseeing and monitoring SFA program participants. This included the following:

- implementing and enhancing a customized verification process for Free Application for Federal Student Aid data elements that must be verified before an applicant received Title IV aid,
- providing training for Department employees,
- issuing guidance and proposing regulations,
- implementing a Quality Control Process regarding program reviews, and
- restructuring its external audit follow-up process.

What Needs to Be Done

Given the significant challenges that FSA faces in overseeing and monitoring SFA program participants, the Department needs to improve its systems to ensure it has controls in place to ensure funds are disbursed for only eligible students and to effectively manage the performance of the Federal student loan portfolio.

Additionally, FSA needs to establish systematic procedures to evaluate the risks within its programs, develop strategies to address risks identified, and implement those strategies to ensure effective operations. FSA further needs to assess its control environment to ensure that it is working to address known and newly identified risks including those OIG reviews and other sources have identified.

Oversight and Monitoring—Distance Education

Why This Is a Challenge

Management of distance education programs presents a challenge for the Department and school officials because there are few or no in-person interactions to verify the student's identity or attendance. In addition, laws and regulations are generally modeled after the campus-based classroom environment, which does not always fit delivering education through distance education. Distance education uses certain technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between the student and the instructor. The flexibility it offers is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment.

Our investigative work has noted an increasing risk of people attempting to fraudulently obtain Federal student aid through distance education programs. Our audits have identified noncompliance by distance education program participants that could be reduced through more effective oversight and monitoring.

Progress in Meeting the Challenge

The OIG issued an Investigative Program Advisory Report in 2011 alerting FSA to significant fraud vulnerability in distance education programs. The OIG report provided recommendations that, if implemented, would mitigate future risk of fraud ring activity in the Title IV programs. The Department reported that it has implemented numerous controls to address these concerns, including expanding data analysis capabilities to detect patterns and predict potential fraud and enhancing verification requirements. The Department stated that it is now incumbent on schools to verify certain data elements, such as the student's identity and whether the student completed secondary school or its equivalent. The Department added it has also expanded the program review procedures to strengthen oversight of distance education programs. The procedures were revised to expand general assessment reviews, collect additional distance education recipient data, and expand the annual risk assessment.

What Needs to Be Done

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs and other information needed to analyze the differences between traditional education and distance education. Because FSA does not require schools to indicate when a student is enrolled in a distance education program, it cannot identify, analyze, and mitigate system problems related to distance education. Our work indicates that the Department still needs to define instruction and attendance in a distance education environment and clarify how to calculate the return of Federal student aid in a distance education environment.

In addition, the Department should develop regulations that require schools offering distance education to establish processes to verify a student's identity as part of the enrollment process. Finally, the Department should work with Congress to amend the Higher Education Act to specify that a school's cost of attendance budget for a distance education student should include only those costs that reflect actual educational expenses.

Oversight and Monitoring—Grantees

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,900 public school districts and 50 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include Title I of the Elementary and Secondary Education Act, which under the President's 2016 request would deliver $15.4 billion to help nearly 24 million students in high-poverty schools make progress toward State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide about $11.7 billion to help States and school districts meet the special educational needs of 6.6 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve local educational agency (LEA) fiscal control issues, State educational agency (SEA) control issues, fraud perpetrated by LEA and charter school officials, and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that actions completed during FY 2015 included issuing policy and guidance and providing training and technical assistance to program staff to enhance business operations in the area of grant award monitoring and oversight. The Department reported that it planned additional activities for FY 2016 to improve its monitoring and oversight efforts that include new training for Department employees on grant monitoring in on-site and virtual environments, as well as training for grantees in the areas of cash management, internal controls, discretionary and formula grants administration, and indirect cost.

What Needs to Be Done

Effective implementation of the Office of Management and Budget Uniform Grant Guidance, with specific focus on requirements relating to internal control and recipient and subrecipient monitoring, provides an excellent opportunity for the Department to address longstanding challenges. The Department should also consider methods to use the single audit process and updates to the Office of Management and Budget A-133 Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs. Given its vast oversight responsibilities and limited resources, it is especially important for the Department to effectively implement actions that build its own capacity and leverage the resources of other entities that have roles in grantee oversight.

In addition to its efforts to improve grant administration and oversight, the Department should pursue several regulatory or statutory changes that would strengthen its ability to detect and address fraud and abuse in its programs.

Oversight and Monitoring—Contractors

Why This Is a Challenge

The Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. As of May 2015, more than $5.6 billion[2] has been obligated towards the Department's active contracts. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-on obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations. These services include systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations.

OIG audits have identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance. These issues are primarily related to the appropriateness of contract pricing and the effectiveness of contract management.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that its high percentage of fixed-price contracts and deliverable-based payment schedules inherently lowers the risk of improper payments and unsuccessful contract performance.

[2] This figure, from the Department's *active contracts* list, represents the total amount obligated to currently active contracts awarded by FSA, the Office of Chief Financial Officer's Contracts and Acquisition Management, and the National Assessment Governing Board. This list does not capture the amount obligated on contracts awarded by the principal office's executive office warrant holders.

The Department believed that this approach, coupled with annual Contract Monitoring Plan and Contract Management reviews, provides a comprehensive appraisal of contractor performance and helps ensure that the Department manages and monitors its contracts properly.

The Department stated that FSA's contractor control environment has been strengthened through process improvements and that FSA has recently established a Quality Assurance team within its acquisition organization. The Department also reported that its Contracts and Acquisitions Management function has undertaken actions to ensure that the Department has appropriately qualified staff in place and in sufficient number to provide effective oversight of its contracts.

What Needs to Be Done

The Department has outlined numerous processes and efforts that have to the potential to improve its oversight and monitoring of contractors. The Department needs to develop methods that can assist it in demonstrating the effectiveness of recent process changes. These may include items such as assessing the effect of FSA's Quality Assurance team on its contractor control environment and the success of hiring and training activities intended to increase its staffing of qualified contractor oversight professionals.

Management Challenge 4—Data Quality and Reporting

Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department uses data to make funding decisions, evaluate program performance, and support a number of management decisions.

Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. This includes weaknesses in controls over the accuracy and reliability of program performance and academic assessment data.

Progress in Meeting the Challenge

The Department cited controls in place to help it mitigate risks and verify and validate the data it relies on that included data system monitoring and edit checks, program monitoring, evaluation of the accuracy and effectiveness of reporting, and partnering with third-party reviewers. The Department further identified strategies that it is developing, considering, or implementing to ensure continuous improvements. These strategies include developing policies and procedures to improve and strengthen integrity in obtaining and reporting data; coordinating technical assistance with stakeholders to establish a common understanding of the verifiability, validity, and reliability of data sources; and continuing efforts to improve data quality in the ED*Facts* system.

What Needs to Be Done

The Department is working to improve staff capabilities and internal systems for analyzing data and using it to improve programs. It must continue to work to implement effective controls at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data are reported. The multiple initiatives that the Department has put in place to improve data quality show both the scope of the challenge it faces as well as the effort needed to address this challenge area. In particular, its efforts to develop and implement consistent policies and procedures and to assess the reliability of key data are important steps needed to show progress in addressing this challenge.

Management Challenge 5—Information Technology System Development and Implementation

Why This Is a Challenge

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with consistent staffing levels. The Department reported that its inflation-adjusted administrative budget is about the same as it was 10 years ago, while its full-time equivalent staffing level has declined by 8 percent. This makes effective information systems development and implementation, and the greater efficiencies such investments can provide, critical to the success of its activities and the achievement of its mission.

According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2015 was $683.1 million. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development; these weaknesses have negatively impacted operations and may have resulted in improper payments. For example, we reported that FSA could not ensure that its contractor delivered a fully functional debt management collection system because FSA did not develop an adequate plan, ensure milestones were met, or use appropriate systems development tools. We also identified additional areas for improvement, such as involving FSA's Technology Office to provide technical expertise in the analysis of cost proposals, future contract negotiations, and evaluations of contractor cost overruns.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that managing changes for numerous integrated systems requires effective enterprise change management and investment management processes and continuous review of and improvement on existing project and portfolio management activities. The Department stated that to build on these capabilities, it must hire qualified staff and ensure that they are appropriately trained.

The Department stated that FSA has established project and portfolio management practices that support information technology systems development and implementation.

The Department further stated that it has addressed the OIG-identified and FY 2012 self-reported issues related to Debt Management Collection System (DMCS) and ACS, Inc., Education Servicing System. A new contract was awarded to manage DMCS, and the new contract included explicit requirements related to the management and tracking of software development activities. The Department also noted that an independent validation and verification contract was awarded to bring more focus on DMCS development activities. The Department stated that FSA has not experienced any further material deficiencies related to system implementations, as the OIG confirmed in the FY 2014 financial statement audit, and has seen significant improvement in a number of areas related to DMCS operations and financial reporting.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that it corrects system deficiencies and that system performance fully supports the Department's financial reporting and operations. Similarly, the Department should ensure that all agreed-on corrective actions are completed timely.

Further actions needed to address this challenge include improving management and oversight of system development and life cycle management (to include system modifications and enhancements) and ensuring that appropriate expertise to manage system contracts (to include acceptance of deliverables) is obtained.

Freeze the Footprint

This effort strives to bring a new approach to the workplace at the Department, by building greater employee performance and productivity through innovative space designs and technology enhancements, while reducing the agency's space footprint and associated out-year costs. The project will also allow the agency to meet the new federal space guidelines (150–180 usable square footage/person vs. the current usable square footage of 338).

The Department Challenges are:

- Limited IT tools to support new mobile workforce
- IT infrastructure is outdated
- In some cases, telework expansion has outpaced space designs
- Agency employee recruitment efforts restricted to a limited number of states, limiting the size of the mobile workforce

The Department Strategy is to:

- Upgrade the IT infrastructure
- Provide mobile workers with 21st century tools
- Strengthen the Performance Management Program
- Promote cultural acceptance of a mobile workforce
- Design innovative work spaces
- Implement an Electronic Records Management System
- Reduce the space footprint

Freeze the Footprint Baseline Comparison

	FY 2012 Baseline	**2014**	**Change (FY 2012 Baseline–2014)**
Square Footage	1,563,641	1,550,158	13,483

The square footage totals are for the office and warehouse domestic assets, which are assets located in the 50 states, Washington, DC, and United States territories. The square footage total includes owned and leased assets. Updated square footage information is posted on the performance.gov website.

Civil Monetary Penalty Adjustment for Inflation

The *Federal Civil Penalties Inflation Adjustment Act of 1990,* as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the act, and in response to multiple audits and recommendations, agencies should report annually in the Other Information section the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	January 4, 2005	October 2, 2012	$30,000
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	January 4, 2005	October 2, 2012	$30,000
Violation of Title IV of the HEA	20 USC 1082(g)	November 18, 2002	October 2, 2012	$35,000
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	November 18, 2002	October 2, 2012	$35,000
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	No prior adjustment	October 2, 2012	$1,100
Improper lobbying for Government grants and contracts	31 USC 1352 (c)(1)	November 18, 2002	October 2, 2012	$15,000 to $140,000
False claims and statements	31 USC 3802(a)(1)	November 18, 2002	October 2, 2012	$7,000