

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.