Other Information

About the Other Information Section

The Other Information section includes:

- improper payments reporting details,
- the schedule of spending,
- a summary of assurances,
- a summary of the Office of Inspector General's (OIG's) view on the Department's management and performance challenges for fiscal year (FY) 2017,
- freeze the footprint information, and
- civil monetary penalty inflation adjustment information.

Improper Payments Reporting Details

The Improper Payments Reporting Details summarize the Department's efforts to prevent, detect, and recover improper payments. It includes data regarding the Department's high risk programs, estimates of improper payments, root causes and corrective actions to mitigate improper payments and recoveries of improper payments.

Combined Schedule of Spending

The Schedule of Spending (SOS) presents what money was available to spend, how the money was spent, and who the money went to for the fiscal years ended September 30, 2015 and 2016. More information on the Department's spending can be found at USAspending.gov, 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

The Summary of Financial Statement Audit and Management Assurances provides information on any material weaknesses reported by the agency or through the audit process. The Department reported that it had not identified any material weaknesses in FY 2016.

Office of Inspector General's Management and Performance Challenges

The OIG's Management and Performance Challenges Report summarizes the Department's challenges for FY 2017. 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 Office of Management and Budget (OMB) Management Procedures Memorandum 2013-02, the *Freeze the Footprint policy* implementing guidance. That guidance directs that all *Chief Financial Officers Act of 1990* 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

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*, 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.

The Department determined that the Pell Grant and Direct Loan programs were susceptible to significant improper payments risk based on the OMB Circular A-123, Appendix C, definition. The Department also determined these two programs were susceptible to improper payments risk based on the last risk assessments performed in FY 2014, as described in the Risk Assessment subsection. In FY 2016, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments. Furthermore, the Pell Grant and Direct Loan programs were designated by OMB as high-priority programs in 2011 and 2015, respectively. The Department continues to address the requirements to comply with reporting on the Pell Grant and Direct Loan programs as risk susceptible and high-priority programs. 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, despite a robust internal controls framework, including controls intended to estimate, prevent, detect, and recover improper payments, the OIG reported that the Department was not compliant with IPERA because the FY 2015 improper payment rate did not meet the annual reduction target for the Direct Loan program. The full report, including the Department's response, is available for review at the OIG website. The Department convened a workgroup with OIG and OMB participation to evaluate and recommend improvements to the FY 2016 estimation methodology, and develop proposed corrective actions in response to the FY 2015 IPERA Compliance Audit Report. The outcome of the workgroup included revisions to the FY 2016 estimation methodology to address the findings, and to make additional enhancements to the methodology as described in the Improper Payment Sampling and Estimation Methodology subsection.

Programs Description

Pell Grant

The Pell Grant program, authorized under Title IV of the *Higher Education Act of 1965* (HEA), provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education.

Direct Loan

The Direct Loan program, added to HEA in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents.

Title I

The Title I program, authorized by the *Elementary and Secondary Education Act of 1965*, as amended by the *No Child Left Behind Act of 2002* and the *Every Student Succeeds Act of 2015*, ensures that all children have a fair, equal, and significant opportunity to obtain a high-quality education and reach, at a minimum, proficiency on challenging state academic achievement standards and state academic assessments.

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. Detailed information on the risk assessment process and results is included within this subsection. A summary of the assessment is presented in the Risk Assessment Results table below.

Risk Assessment Results

Program	Last Risk Assessment	Risk-Susceptible?
Federal Student Aid-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
Federal Direct Loan Program	FY 2014	Yes
Federal Family Education Loan Program	FY 2014	No
Federal Work-Study Program	FY 2014	No
Health Education Assistance Loan Program	FY 2015	No
Other Department Programs		
Title I	FY 2016	No
Other Grant Programs	FY 2016	No
Contract Payments	FY 2016	No
Administrative Payments	FY 2014	No

Federal Student Aid-Managed Programs

During FY 2014, a risk assessment was performed on all Federal Student Aid (FSA)-managed programs, with the exception of the Health Education Assistance Loan (HEAL) program. The HEAL program was transferred from the U.S. Department of Health and Human Services to FSA on July 1, 2014, and a risk assessment was subsequently performed in FY 2015.

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 rating to each risk factor based on their detailed understanding of the programs and risk of improper payments. 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 and FY 2015, 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.

In FY 2016, it was confirmed that there were no significant changes in legislation and/or increases in funding necessitating reassessment of programs' risk susceptibility. As a result, risk assessments for FSA-managed programs will next be performed in FY 2017.

Other Department Programs

In 2014, the Department completed a risk assessment on administrative payments to employees in accordance with IPERIA. These payments were inclusive of FSA. The areas of administrative payments that were examined include: Salary/Locality Pay, Travel, Purchase Cards, and Transit Benefits. The analysis included 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. Administrative payments risk assessment will next be performed in FY 2017.

The Department conducted a risk assessment of contract payments in FY 2013. During FY 2016, the Department reassessed the risk of improper payments on contract payments, including contracts managed by FSA, as required by OMB Circular A-123, Appendix C. Given robust internal controls, the Department continues to experience an extremely low volume of improper payments in contracts; as such, the assessment found contract payments are not susceptible to significant improper payments.

The Department conducted risk assessments of all non-FSA managed grant programs in FY 2013. During FY 2016, the Department reassessed the risk of improper payments on all non-FSA-managed grant programs. While there is inherent risk that grant recipients may fail to adequately document expenditures or expend funds on unallowable activities, the FY 2016 assessments determined that none of the other grant programs were susceptible to significant improper payments. The analysis included a quantitative review of questioned costs from Single Audit findings versus total program expenditures, as well as a qualitative review of other risk factors including changes in legislation or regulations and history of audit findings. The list of all programs assessed in FY 2016 can be located here.

The non-FSA grant programs assessed in FY 2016 include Title I, which was not found to be susceptible to significant improper payments. During FY 2016, the Department requested relief, with OIG's concurrence, from reporting Title I estimates on improper payments since it demonstrated that the program had more than two consecutive years of improper payments reporting below the IPERA thresholds. OMB approved the Department's request on March 4, 2016, with the caveat that a risk assessment be conducted in both FY 2016 and FY 2017 to ensure that the enactment of the *Every Student Succeeds Act* has not caused the Title I program to become susceptible to significant improper payments. Given the Department's plan and timeline for implementing the *Every Student Succeeds Act*, the Department did not find the new legislation to increase the risk of improper payments for Title I in FY 2016 to a significant level.

Sampling and 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 determining whether schools properly performed verification of students' self-reported income, identifying conflicting applicant data, 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 Department determined that it would be too costly and inefficient, and significantly increase the burden on schools and students, to develop a rigorous statistical sampling methodology that would provide a very tight precision rate (such as providing no more than 0.1 percent over the established target as prescribed by OMB). The methodology, including updates to address findings from the OIG's FY 2015 IPERA Compliance Audit Report, is described in detail on the Department's improper payments website.

On June 30, 2016, 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 2015 IPERA *Compliance Audit Report, U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2015*. In its report, OIG noted that the prior estimation methodology did not include all improper payments in the calculation of the estimates, such as improper payments resulting from recipients submitting inaccurate self-reported income on the Free Application for Federal Student Aid (FAFSA), all improper payments resulting from schools disbursing Pell Grant and Direct Loan funds to students enrolled in ineligible programs or students attending ineligible locations, and other improper payments not identified in Program Reviews. The OIG also noted that the prior estimation methodology was susceptible to volatility and potential inordinate impact of a single improper payment finding, and does not account for Program Reviews that do not reach the Program Review Report stage in time for inclusion in the estimated improper payment rates. The Department updated its methodology for FY 2016 to address these findings and to make additional enhancements. These updates include: incorporation of misreported income over- and under-payment estimates from the FAFSA/IRS Data Statistical Study into the Pell Grant improper payment rate to address improper payments associated with inaccurate self-reported income on the FAFSA; inclusion of Pell Grant and Direct Loan funds improperly disbursed to students enrolled in ineligible programs or at ineligible locations within the Pell Grant and Direct Loan improper payment rates; and expansion of the population of Program Reviews eligible for review. OMB approved the Department's updates to the alternative sampling plan and estimation methodology on October 14, 2016.

The Department acknowledges that its alternative estimation methodology can lead to volatile improper payment estimates. Although the sample size has increased year-over-year, there continues to be variability in the improper payment estimates. This is largely due to fewer program reviews being conducted at lower-risk schools. This category of schools accounts for a large portion of the Direct Loan and Pell Grant program disbursements. As a result, the potential exists for student-level test results of a single observation (such as a single student or school) at lower-risk schools to significantly influence the improper payment estimates, resulting in volatility of the model.

Improper Payment Reporting

Table 1. Improper Payment Reduction Outlook
(Dollars in Millions)

Program or Activity	PY Outlays [1]	PY IP % [2]	PY IP $ [2]	CY Outlays [3]	CY IP % [4]	CY IP $ [4]	CY Overpayment $	CY Underpayment $	CY + 1 Est. Outlays [5]	CY + 1 Est. IP % [6]	CY + 1 Est. IP $	CY + 2 Est. Outlays [5]	CY + 2 Est. IP % [6]	CY + 2 Est. IP $	CY + 3 Est. Outlays [5]	CY + 3 Est. IP % [6]	CY + 3 Est. IP $
Pell Grant	29,909.28	1.88	562.29	28,188.55	7.85	2,212.80	2,025.27	187.53	26,553	7.85	2,084.41	29,288	7.85	2,299.11	30,428	7.85	2,388.60
Direct Loan	98,771.65	1.30	1,284.03	97,182.77	3.98	3,867.87	3,771.26	96.61	100,105	3.98	3,984.18	105,039	3.98	4,180.55	110,514	3.98	4,398.46
Title I [7]	15,715.00	.127	19.95	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]	**144,395.93**	**1.29**	**1,866.27**	**125,371.32**	**4.85**	**6,080.67**	**5,796.53**	**284.14**	**126,658**	**4.79**	**6,068.59**	**134,327**	**4.82**	**6,479.66**	**140,942**	**4.82**	**6,787.06**

[1] The source of FY 2015 outlays for all programs is FSA's Financial Management System (FMS) as presented in the FY 2015 AFR.
[2] The PY improper payment estimates reported in the table above reflect the improper payment estimates for FY 2015 as reported in the FY 2015 AFR. FSA has published recalculated FY 2015 improper payment rates in response to the FY 2015 IPERA Compliance Audit Report published by OIG on May 10, 2016. The updated improper payment rates are prepared in accordance with OMB-approved methodologies. The estimated improper payment rate and improper payment total for the Direct Loan program as recalculated are 2.63% and $2,597.69 million, respectively. The estimated improper payment rate and improper payment total for the Pell Grant program as recalculated are 1.52% and $454.62 million, respectively. These estimates are reported using the alternative sampling and estimation methodology approved as of October 20, 2015.
[3] The source of FY 2016 outlays for all program amounts is FMS.
[4] In FY 2016, the Pell Grant and Direct Loan program improper payment estimates are reported using the updated alternative sampling and estimation methodology approved by OMB on October 14, 2016. FY 2016 rates are based on program reviews performed in FYs 2014–16 for award year 2013–14 data. Under the updated methodology, two new sources were incorporated into the FY 2016 improper payment estimates, which impacted the estimates for both programs. For the Pell Grant program, incorporating improper payment estimates resulting from recipients submitting inaccurate self-reported income on the FAFSA impacted the estimate by approximately 1.34% while incorporating improper payment estimates resulting from schools disbursing funds to students enrolled in ineligible programs/locations impacted the estimate by approximately 0.13%. For the Direct Loan Program, incorporating improper payment estimates resulting from schools disbursing funds to students enrolled in ineligible programs/locations impacted the Direct Loan estimate by approximately 1.15%.
[5] The source of FYs 2017–19 Pell Grant and Direct Loan outlay amounts is the FY 2017 President's Budget at the Mid-Session Review.
[6] The Department uses an OMB-approved alternative estimation methodology to estimate improper payments for the Pell Grant and Direct Loan programs. These estimates lack the precision of other estimates developed using random, statistical methodologies. As disclosed above, although the sample size has increased year over year, there continues to be both imprecision and variability in the improper payments estimates that limit management's confidence in using these results to establish out-year reduction targets. Accordingly, out-year targets are set to the CY IP% until the methodology is stabilized and the precision and volatility constraints are addressed. In FY 2017, the Department will continue to work with relevant stakeholders to consider ways to increase precision and decrease volatility in future year methodologies and estimates. Increases in the improper payment rates over the prior year and failure to meet the targets can be attributed to changes to and the imprecision of the alternative methodology, as opposed to a control failure or increase in actual improper payments in the underlying programs.
[7] Title I has historically been included in this table because it is a former Section 57 program and OMB A-11, dated 2002, Section 57, Exhibit 57B required agencies to report on programs deemed at risk for erroneous payments. However, in FY 2016, the Department requested relief, with OIG's concurrence, from reporting Title I estimates on improper payments since it demonstrated that the program had more than two consecutive years of improper payments reporting below the IPERA thresholds. OMB approved the Department's request on March 4, 2016, with the caveat that a risk assessment be conducted in FY 2016 and FY 2017 to ensure the enactment of the *Every Student Succeeds Act* has not caused the Title I program to become susceptible to significant improper payments.
[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 semiannual 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 Grant-eligible applicants who transferred tax data from the IRS to their FAFSA as a percentage of the total number of Pell Grant-eligible applicants who were determined to be eligible to use the Internal Revenue Service Data Retrieval Tool (IRS DRT) to transfer tax data.

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 supplemental measures for the Pell Grant and Direct Loan programs focus on the higher risk area of misreported income by the student/parent on the FAFSA. 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 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. The Department continues to focus on efforts to increase the population of applicants eligible to use the IRS DRT as described in the Improper Payment Corrective Actions section below.

The Pell Grant and Direct Loan supplemental measure rates for award year 2015–16 are 61.99 and 59.26, respectively. The Pell Grant and Direct Loan supplemental measure targets for award year 2016–17 are also 61.99 and 59.26, respectively. The supplemental measures, current FY supplemental measure rates, and supplemental measure targets are reported annually on PaymentAccuracy.gov for both programs.

On May 10, 2015, the Federal Student Aid PIN was replaced with FSA ID, improving the security and customer experience for the Department's student- and borrower-based websites. Students, parents, and borrowers are required to use an FSA ID, made up of a username and password, to access certain Department websites and tools, including the IRS DRT. As a result of the transition, IRS DRT usage dropped from previous levels. IRS DRT usage is expected to remain at award year 2015–16 levels through award year 2016–17. FSA continues to work to ensure that the transition to the FSA ID is as seamless as possible

for its customers. The Department also continues to encourage students and parents to use the IRS DRT to import data from their tax return and not change it. It is the fastest, easiest, and most secure method of meeting income verification requirements. FSA has modified FAFSA on the Web to encourage all eligible applicants and parents to use the IRS DRT, including displaying new messages to explain the advantages to using the IRS DRT on the initial student and parent finances pages, and directing eligible applicants and parents who do not opt to link to the IRS from these pages to a new page that recommends IRS DRT use.

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. 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 programs in FY 2016 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 that leads to incorrect awards based on Expected Family Contribution. 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.

Table 2. Improper Payment Root Cause Category Matrix (Dollars in Millions)

Reason for Improper Payment		Direct Loan		Pell Grant	
		Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue					
Inability to Authenticate Eligibility					
Failure to Verify:	Death Data				
	Financial Data	$92.39	$0	$328.28	$24.41
	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)	$3,678.87	$96.61	$1,696.99	$163.12
Medical Necessity					
Insufficient Documentation to Determine					
Other Reason (a) (explain)					
Other Reason (b) (explain)					
TOTAL		**$3,771.26**	**$96.61**	**$2,025.27**	**$187.53**

Improper Payment 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.

Corrective Actions – Root Cause Category: Failure to Verify Data

Error Cause	Corrective Actions	Completion Timeline
Failure to Verify Financial Data	Final Program Review Determinations indicate the action(s) institutions are required to take in order to make the Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. FSA continues to utilize and promote 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 are able to complete their FAFSA using "prior-prior year" tax data. For the 2017–2018 FAFSA, students and families provide income information from calendar year 2015 and not from calendar year 2016. This is in contrast with the "prior year" process previously employed where many applicants submitted their FAFSAs before tax returns were completed, resulting in the need to estimate income and tax information that subsequently needed to be corrected once the tax return was filed; or worse, waited to complete their FAFSA until after the tax return had been filed. Additionally, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. As with prior years' verification selection, data-based statistical analysis will continue to be used by the Department to select for verification the 2017–2018 FAFSA applicants with the highest statistical probability of error and the impact of such error on award amounts.	Completion dates for findings identified via the Program Review process vary. 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. Promotion of the IRS DRT will continue in FY 2017 and beyond. On October 1, 2016, the 2017–18 FAFSA became available, as opposed to January 1, 2017, with the ability to use "prior-prior year" tax data. Both of these changes will assist in preventing improper payments as it provides greater access to IRS DRT and there is more time for effective verification procedures. Enhancements to verification procedures is a continuous process that is reviewed each award year.

Corrective Actions – Root Cause Category: Administrative or Process Errors

Error Cause	Corrective Actions	Completion Timeline
Administrative or Process Errors by Other Party	Final Program Review Determinations indicate the action(s) the institution is required to take in order to make the Title IV, HEA programs, or the recipients whole for any funds that were improperly managed and to prevent the same problems from recurring.	Completion dates for findings identified via the Program Review process vary. Overall, FSA requires that all findings identified during the FSA Program Reviews are tracked through resolution via PEPS. This corrective action process is further described in the FY 2012 AFR.
Administrative or Process Errors by Other Party (Improper FFEL to Direct Loan Consolidations)	FSA is coordinating with the respective Title IV Additional Servicers (TIVAS) and Not-For-Profit (NFP) servicers to develop and implement corrective action plans to address consolidation errors, such as funds returned due to duplicate funding or multiple Loan Verification Certificates (LVCs), inclusion of student loans that the borrower desired to exclude or were determined to be ineligible, and payoffs sent to the wrong address. FSA will work to reevaluate the current LVC processing procedures and will consider improvements in system edits to prevent the processing of duplicate LVCs and ineligible loans. Additionally, management will consider additional trainings on processing LVCs to ensure the correct account, lender, and loan information is processed in an effort to reduce the risk of potential improper payments.	Improper payments identified through testing of Direct Loan Consolidations for FY 2016 were remediated or are in the process of being remediated during FY 2017.
Administrative or Process Errors by Other Party (Improper Direct Loan Refunds)	FSA is coordinating with the respective TIVAS and NFP servicers to develop and implement corrective action plans to address refund errors, such as refunds made to ineligible lenders and borrowers, made for ineligible purposes, made in the incorrect amount, and/or sent to the incorrect payee. FSA will also consider additional trainings on refund processing to help ensure refunds are made in a manner consistent with FSA guidance.	Improper payments identified through testing of Direct Loan Refunds for FY 2016 were remediated or are in the process of being remediated during FY 2017.

Additional Corrective actions are described in the FY 2012 AFR. These include actions the Department continues to take to prevent improper payments, such as activities to improve

institutional level administration of Title IV Aid through development and dissemination of information, resources, and tools to institutions.

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 established a fraud group and engaged contract support to review and act on OIG fraud referrals. The primary objective of initial activities includes the intake, analysis, and disposition of referrals. FSA uses this analysis to inform recommendations on data analytics and identify ways to improve controls.

Internal Control Over Payments

The Department developed robust internal controls to prevent, detect, and recover improper payments. In designing controls, the Department strives to strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time ensuring that the controls are not too costly and burdensome to fund recipients. Additionally, the Department must rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational authority and present higher risks, as evidenced by OIG work identifying instances of questioned costs and restitution payments along with the fact that the majority of the estimated improper payments in FY 2016 are attributed to root causes associated with these third parties.

The Department's controls over improper payments are an essential part of the Department's internal control framework described in the Analysis of Systems, Controls, and Legal Compliance section. As described above, the Department uses an alternative methodology to estimate the improper payment rates for the Pell Grant and Direct Loan programs. The Department continues to assess and enhance its controls over student aid payments. For example, the Department routinely analyzes application and payment data and considers other factors, such as program reviews and audit reports, to inform control enhancements and to devise ways to further reduce the risk of improper payments. For any deficiencies identified, root causes are identified and corrective action plans established and tracked to resolution.

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 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 Grant 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 2016, FSA identified 328 controls related to improper payments prevention or detection through its A-123A assessment. As an example, FSA annually conducts approximately 250–300 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. FSA reports an estimate of the annual amount and rate of improper payments for all programs and activities susceptible to significant improper payments. In addition, FSA provides guidance to third parties through Federal Register notices, Dear Colleague Letters, and the Information for Financial Aid Professionals 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

Audit Follow-up

The Department gathers and manages thousands of audits of grantees. Audit records are managed and maintained in an Audit Accountability and Resolution Tracking System for non-FSA-managed programs and an EZ Audit system for FSA-managed programs. Audits are a key risk management tool, and the Department has demonstrated great success working with grant recipients to resolve audit findings in a timely manner. Data from these audit systems are 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

For 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, that it was not cost effective to conduct a payment recapture audit and the programs/activities would be excluded from a payment 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. Payments can also be collected through offsets and other means. 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 $9.25 million in FY 2016, and $10.3 million in FY 2015. While all programs may have student debts transferred to debt collection, the categorization of resulting collections as an improper payment recovery is unique to the Pell Grant program. 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 2016.

Table 4. Overpayment Recaptures without Recapture Audit Programs[1]
(Dollars in Millions)
Overpayments Recaptured outside of Payment Recapture Audits

Program or Activity[2]	Amount Identified	Amount Recaptured
All Department programs (including FSA)	118.71	20.35
TOTAL	**118.71**	**20.35**

[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 amount identified and recaptured by program due to system restraints. A system change was put in place during 2016 that will allow the Department to capture the data by program for FY 2017.

Additional Comments

Continuous Monitoring and Data Analytics

The Department has a Continuous Controls Monitoring System to help detect improper payments. This system applies a series of integrity checks to the Department's grant (non-FSA) payments and flags anomalous transactions for follow-up analysis. Examples of issues that can be detected include duplicate or incorrect drawdowns and unusual refunds and adjustments by grantees. The Department continues upgrading 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 took measures to prevent improper payments through the use of the Decision Support System to run Entity Risk Review reports for non-FSA grant awards. Using data drawn from the Department's grants business system, the Federal Audit Clearinghouse, the Institutes of Higher Education accreditation reporting, and Dun & Bradstreet, this report identifies financial, programmatic, and controls risks posed by award to the prospective grantee. Grant officers and awarding officials use the Entity Risk Review 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 2016, 100 percent of Department's discretionary grants 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.*

Payment Integrity Workgroup

The Department has an internal workgroup intended to demonstrate payment integrity as opposed to being focused solely on improper payments. The workgroup includes representatives from different offices that are working collaboratively to evaluate the Department's framework for assessing the risk of improper payments and for strengthening the controls on estimating, preventing, detecting, and recovering improper payments. The workgroup is intended to identify, categorize, assess, and improve controls, as well as to train staff on their responsibilities with respect to ensuring the integrity of Department payments.

The Department also participates in the Improper Payments Federal Community of Practice group organized by the Social Security Administration. The workgroup is focused on the prevention of improper payments and sharing best practices between federal agencies. The group's vision is to increase interagency relationships, collaboration, and cooperation; share ideas and best practices to map knowledge and find solutions; and use the combined leadership to foster innovation.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

Table 7. Results of the Do Not Pay Initiative in Preventing Improper Payments (Dollars 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]	1,357,920	187,815.45	0	0	851	.247781
Reviews with databases not listed in IPERIA[2]	168,787	1,564.60	0	0	171	.505709

[1] IPERIA databases used for payment screening include the Death Master File and the System for Award Management. Data for the period October 1, 2015, to September 30, 2016.
[2] Reviews with databases not listed in IPERIA include payments reviewed through the Department's Continuous Controls Monitoring System (CCMS). This system applies a series of integrity checks to the Department's grant (non-FSA) payments and flags anomalous transactions for follow-up analysis. Examples of issues that can be detected include duplicate or incorrect drawdowns and unusual refunds and adjustments by grantees. The Department continues upgrading 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. Data for the period October 1, 2015, to September 30, 2016.
[3] Payments requiring further review and identified as proper.

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center portal as required by IPERIA. During FY 2016, 1,357,920 payments, totaling $187.8 billion, were reviewed for possible improper payments through the DNP portal. A total of 851 payments, totaling $247,781, were further reviewed and determined to be accurate. The Department validated that potential improper payments identified were adjudicated and reported to Treasury in a timely manner. The Department also reviewed 168,787 payment refunds, totaling $1.6 billion, for potential improper payments through the Continuous Controls Monitoring System. A total of 212 transactions were further reviewed for potential improper payments and 171 transactions, totaling $505,709, were determined to be accurate.

The Department is also looking at ways to partner with the Treasury Department's DNP Business Center to enhance data analytics capabilities, reduce gaps, and improve processes to ensure payments are proper.

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.

United States Department of Education
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016		FY 2015	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	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	$ 103,245	$ 231,821	$ 117,218	$ 232,460
Amount Available but Not Agreed to be Spent	(10,280)	-	(11,806)	(550)
Amount Not Available to be Spent	(2,163)	(15,479)	(2,968)	(13,887)
Total Amounts Agreed to be Spent	**$ 90,802**	**$ 216,342**	**$ 102,444**	**$ 218,023**
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	$ 12,608	$ 196,012	$ 25,249	$ 198,431
Grants	33,880	-	35,569	-
Personnel Compensation and Benefits	291	-	273	-
Contractual Services	1,351	775	1,248	1,065
Other [1/]	36	-	37	-
Total Program Spending	**47,626**	**196,787**	**62,376**	**199,496**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs				
Grants	21,523	-	22,322	-
Personnel Compensation and Benefits	74	-	73	-
Contractual Services	87	-	106	-
Other [1/]	13	-	15	-
Total Program Spending	**21,697**	-	**22,516**	-
Ensure Effective Educational Opportunities for All Students				
Grants	16,691	-	16,474	-
Personnel Compensation and Benefits	151	-	148	-
Contractual Services	43	-	49	-
Other [1/]	23	-	23	-
Total Program Spending	**16,908**	-	**16,694**	-
Enhance the Education System's Ability to Continuously Improve				
Grants	1,659	-	1,661	-
Personnel Compensation and Benefits	94	-	94	-
Contractual Services	451	-	491	-
Other [1/]	17	-	15	-
Total Program Spending	**2,221**	-	**2,261**	-
Total Spending	**$ 88,452**	**$ 196,787**	**$ 103,847**	**$ 199,496**
Amounts Remaining to be Spent[2/]	2,350	19,555	(1,403)	18,527
Total Amounts Agreed to be Spent	**$ 90,802**	**$ 216,342**	**$ 102,444**	**$ 218,023**
Section III: Who Did the Money Go To?				
This section identifies with whom the Department is spending money based on obligations incurred.				
Nonfederal Obligations	$ 90,323	$ 216,341	$ 101,977	$ 218,023
Federal Obligations	479	1	467	-
Total Amounts Agreed to be Spent	**$ 90,802**	**$ 216,342**	**$ 102,444**	**$ 218,023**

[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 SOS 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 new obligations and upward adjustments 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 92 and the Department's management assurances on pages 30–40.

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: Unmodified

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: Unmodified

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 compliance noted**	**No lack of compliance noted**
2. Federal Accounting Standards	**No lack of compliance noted**	**No lack of compliance noted**
3. United States Standard General Ledger at Transaction Level	**No lack of compliance noted**	**No lack of compliance noted**

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

The Inspector General

October 14, 2016

TO: The Honorable John B. King Jr.
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2017

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) 2017.

The FY 2017 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 2017 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 2017 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. On September 22, 2016, the Office of the Deputy Secretary announced an initiative to review the identified management challenges, assigned senior managers to be accountable for each, and assembled a workgroup of other senior managers throughout the Department to address the noted challenges. The Department further noted that this effort is intended to help identifying systemic root causes and ensure that Department's actions are impactful and produce results. We consider this initiative to be a positive step towards addressing long-standing management challenges and encourage the Department to continue to explore approaches that result in targeted focus within each of these areas. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2017.

The FY 2017 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 2017 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 and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments. In addition, the Office of Management and Budget (OMB) has designated these programs as high-priority programs, which are subject to greater levels of oversight.

Our recent work has demonstrated that the Department remains challenged to meet required improper payment reduction targets and to intensify its efforts to successfully prevent and identify improper payments. We have identified concerns in numerous areas relating to improper payments, including the completeness, accuracy, and reliability of improper payment estimates and methodologies.

In May 2016, we reported that the Department's published improper payment estimates for both the Pell Grant and Direct Loan programs were inaccurate and unreliable because they used incorrect formulas in performing calculations and deviated from OMB-approved methodologies. We concluded that the Department did not comply with IPERA because it did not meet the annual reduction target for the Direct Loan program. The Department's recalculated FY 2015 improper payment rate (2.63 percent) for the Direct Loan program to correct for formula execution errors we identified did not meet its reduction target (1.49 percent).

Our semiannual reports to Congress from April 1, 2013, through March 31, 2016, included more than $2.3 million in questioned or unsupported costs from audit reports and more than $59 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

The Department stated that it had developed internal controls that are intended to prevent, detect, and recover improper payments. The Department stated that it strives to provide timely and accurate payments to grant recipients and students while ensuring that the related controls are not too costly or burdensome to fund recipients. The Department further noted that it also relies on controls established by fund recipients who make payments on behalf of the Department.

In response to OIG recommendations, the Department stated that it developed and implemented corrective actions to improve the accuracy and completeness of its 2016 improper payment estimates. This included the establishment of a working group with OIG and OMB participation to review changes to the Department's alternative improper payment estimation methodology to resolve identified risks. The Department also convened a senior level working group to identify and evaluate estimation methodology options for 2017 that would ensure IPERA compliance going forward. The Department added that it had revised its 2016 estimation methodology to decrease the volatility of the estimate and to address the other issues noted by the OIG.

The Department reported that it continues to assess and enhance its controls over student aid payments. The Department stated that it routinely analyzes application and payment data and considers other factors, such as program reviews and audit reports, to inform control enhancements and to devise ways to further reduce the risk of improper payments. The Department added that it has implemented an internal control framework intended to prevent or detect improper payments and has established processes to annually assess the design and operating effectiveness of these controls. The Department also stated that when weaknesses are identified, it identifies root causes and establishes corrective action plans.

What Needs to Be Done

The Department's efforts to revise its estimation methodology are a good step forward to better identifying improper payments, so that corrective actions can be developed and tracked. The OIG will continue to review the Department's efforts, with a focus on assessing how the new methodology is functioning to identify potential sources of improper payments. Ultimately, the ability of the Department to address this management challenge hinges on its ability to identify root causes, develop corrective actions, and demonstrate that its efforts have resulted in reductions in improper payments. While the Department correctly acknowledges that it relies on the internal controls of fund recipients who make payments on behalf of the Department, it is important that the Department's efforts to reduce improper payments includes processes to identify high-risk recipients and ensure that those recipients have effective systems of internal control.

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.

Progress in Meeting the Challenge

The Department stated that it has taken a number of steps to strengthen the cybersecurity posture of the Department's networks and systems over the past fiscal year, including:

- Working to identify and protect high value information and assets that resulted in a better understanding of the potential impact from a cyber incident and helped to ensure

that physical and cybersecurity protections were in place for the Department's high value assets.

- Strengthening its capability to respond to cybersecurity incidents and identifying a plan for future action to establish a mature incident response capability.
- Establishing daily integrated Security Operations Center calls to communicate events or requirements with all necessary stakeholders.
- Deploying enhanced capabilities for the detection of cyber vulnerabilities and protection from cyber threats.
- Strengthening its partnership with the Department of Homeland Security to accelerate the deployment of continuous diagnostics and mitigation capabilities.

The Department expected that recent actions would sustain and improve the advances seen over the past fiscal year. The Department stated that it had completed a significant step toward improving overall cybersecurity by requiring all privileged users use hardware-based Personal Identity Verification cards or alternative forms of strong authentication. The Department added that other significant activities included leveraging existing capabilities to perform independent verification and validation of contractor submitted data, reviewing contractual requirements and assessments for contractor abilities to provide infrastructure services and malware detection, continuing employee awareness training, and developing IT security staff skills and competencies.

What Needs to Be Done

The Department reported significant progress towards addressing long-standing IT security weaknesses in the past fiscal year. However, we continue to identify significant weaknesses in our annual FISMA audits despite the Department's reported corrective actions to address our prior recommendations. While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of IT security controls. Our FISMA audits will continue to assess the Department's efforts and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes.

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 and programs are achieving goals and objectives. 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. Two subareas are included in this management challenge—Student Financial Assistance (SFA) program participants and grantees.[1]

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. The Department's FY 2017 budget request includes 139.7 billion in new grants, loans, and work study assistance to help an estimated 12.1 million students and their families pay for college.

The growth of distance education has added to the complexity of the Department's oversight of SFA program participants. The management of distance education programs presents challenges to the Department and school officials because little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the federal student aid laws and regulations and creates new opportunities for fraud, abuse, and waste in the SFA programs. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to obtain federal student aid.

Our audits and inspections, along with work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. Our audits of individual SFA program participants frequently identified noncompliance and waste and abuse of SFA program funds.

Progress in Meeting the Challenge

Overall, the Department reported that FSA remains committed to use more innovative and efficient methods to bolster its oversight and compliance efforts. This included efforts intended to expand the Department's ability to perform these activities in a more proactive and preemptive fashion. The Department reported that it focused on three priority areas in its efforts to improve the oversight and monitoring of SFA program participants during FY 2016; (1) bolstering capacity to provide adequate Title IV enforcement; (2) enhancing oversight of contracts, loan servicing activities, and schools; and (3) expanding *Clery Act* and borrower defense work.

As part of this effort, the Department created the Enforcement Office within FSA to respond more quickly and efficiently to allegations of illegal actions by higher education institutions.

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[1] This area includes two changes from our previous Management Challenges report. In FY 2016 we included *Distance Education* as a distinct management challenge; however it is included as an element of *Oversight and Monitoring – SFA Program Participants* in this report. The change was made after consideration of the Department's feedback to our prior report. Our FY 2016 report also included *Oversight and Monitoring – Contractors* as a subpart to this section. That element was removed because our current body work does not support its continued reporting as a challenge to the Department.

FSA also noted accomplishments in enhancing its oversight activities made by its multiregional review team, Program Compliance unit, and Clery team.

With respect to the challenges presented by distance education, the Department stated that FSA's Program Compliance unit enhanced the Recipient Data Sheet that is used to determine which students are receiving a portion or all of their education via distance education. The Department added that in FY 2016, Program Compliance developed and delivered a training program for program reviewers on the process to evaluate distance education. The training program included three components: a lecture on distance education requirements, case studies, and a question-answer session. In addition, a recommended work tool was created to assist reviewers in evaluating distance education courses. The Department believed that enhanced outcomes were evidenced in subsequent reviews of distance education programs. FSA plans to conduct continuous training to current and new reviewers to reinforce distance education review requirements and plans to monitor program reviews for distance education outcomes. The Program Compliance team also plans to work with other parts of FSA to offer training to institutions on distance education requirements through conference sessions, webinars, and other trainings.

What Needs to Be Done

The Department identified several important accomplishments that are intended to collectively improve its ability to provide effective oversight. We recognize the progress being made and the need to balance controls with both cost and the ability to provide necessary services effectively. However, our audits and investigations involving FSA programs continue to identify numerous instances of noncompliance and fraud.

Overall, the Department needs to ensure that the activities of its Program Compliance office result in effective processes to monitor FSA program participants and reduce risk. It also should work to ensure that its program review processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure that development and implementation of its Enforcement Office effectively provides the intended additional protections to students and taxpayers. Finally, the Department could enhance its oversight of FSA programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

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 18,200 public school districts and 50 million students attending more than 98,000 public schools and 32,000 private schools. Key programs administered by the Department include Title I of the *Elementary and Secondary Education Act*, which under the President's 2017 request would deliver $15.4 billion to help more than 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 $11.9 billion

to help States and school districts meet the special educational needs of 6.7 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

To further improve monitoring and promote effective grant oversight, the Department has issued guidance to offices that manage formula and discretionary grant programs, provided training for staff, and engaged in technical assistance to both staff and external stakeholders to enhance business operations in the area of grant award monitoring and oversight. In addition, some program offices have piloted new processes to improve coverage, efficiency, and consistency in fiscal monitoring across programs.

What Needs to Be Done

The Department's issuance of new grant management guidance to its program offices should provide an improved basis for their monitoring activities. However, the Department still needs to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable federal education programs. We acknowledge that the Department has worked to enhance the knowledge and capabilities of its existing employees. However, given the Department's generally limited staffing in relation to the amount of federal funding it oversees, it is important for the Department to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. This could include methods to use the single audit process and updates to the OMB 2 CFR 200, Subpart F—Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs.

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 certain 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 Department, SEA, and LEA level. This included weaknesses in controls over the accuracy and reliability of program performance and academic assessment data.

Progress in Meeting the Challenge

The Department stated that it continues to work to promote SEA controls over data, improve its own controls over data submitted by grantees, and ensure the transparency of data quality. The Department's efforts to improve the data that it collects, publishes, and uses to inform grant management are coordinated by senior officials who are members of the Department's Data Strategy Team and the ED*Facts* Governing Board. The Department

also reported that in the past year it had taken steps to promote grantee awareness of data quality issues and strengthen its review of grantee data.

The Department further stated that it has multiple initiatives underway to improve data quality and help strengthen the accuracy and reliability of data reported by the Department. These included (1) strengthening the procedures for tracking issues with grantee data, (2) communicating the importance of grantee internal controls over data quality in monitoring, (3) strengthening the language in the certifications that grantees sign when submitting data to the Department, (4) improving the process for following up and resolving questions about grantee data submitted to ED*Facts,* and (5) supporting State agencies in improving their own data quality procedures.

The Department added that it continues to include information about data limitations when reporting data in the Annual Performance Report and other publications and was implementing a corrective action plan in response to the OIG's recommendation that the Department improve its data quality through monitoring efforts.

What Needs to Be Done

The Department continues to complete significant work that is intended to improve the overall quality of data that it collects and reports. This work should remain a priority, as data quality contributes to effective program management and helps ensure the credibility of information published by the Department. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge.

Our recent audits have found weaknesses in grantees' internal controls over the accuracy and reliability of program performance data and student testing data. Overall, the Department needs to ensure that it is providing effective oversight and monitoring to grantees regarding their controls over data quality. Of note, the Department's efforts to strengthen its procedures for tracking issues with grantee data could serve as a basis for sharing information across its program offices and identify entities for enhanced monitoring and support. The Department should also continue its efforts to provide appropriate technical assistance to grantees as necessary. Overall, the Department must continue to work to implement effective controls at all applicable levels to of the data collection and review processes to ensure that accurate and reliable data are reported.

Management Challenge 5—Information Technology System Development and Implementation

Why This Is a Challenge

The President's budget for FY 2017 stated that ensuring the efficiency, effectiveness, and security of federal IT has never been more central to how Americans are served by their government. It further notes that the current administration has focused on driving efficiencies in the way the government buys, builds, and delivers IT solutions to provide improved services to citizens. It adds that with the ongoing evolution of technology, the federal government has an unprecedented opportunity to accelerate the quality and timeliness of services delivered to the American people.

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with declining staffing levels. The Department reported that it has the smallest staff but the third-largest discretionary budget among the 15 Cabinet agencies. The Department further reported that between 2005 and 2015 it experienced a 6 percent decrease in full-time equivalent usage. This makes effective information systems development and implementation and the greater efficiencies such investments can provide critical to the success of the Department's activities and the achievement of its mission.

The Department's current IT investments include systems that support business processes such as student application processing and eligibility determination for federal student financial assistance; grant and loan award processing; procurement and acquisition; and the collection, storage, and reporting on Title IV aid disbursements and aid recipients. According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2015 was $689 million, with FSA's IT spending accounting for more than $458 million of the total.

Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development that have negatively impacted operations and may have resulted in improper payments.

Progress in Meeting the Challenge

The Department reported that it had made progress in the overall program management and oversight of IT systems. This included developing a Lifecycle Management Methodology at FSA, conducting Independent Validation and Verification of a high risk system, and establishing a formal contract monitoring plan. The Department stated that it planned to continue its progress within this area by further educating project owners of lifecycle processes, enhancing program management oversight capabilities, and providing additional guidance to new IT system contracts.

In addition, the Department stated that it continues to execute its *Federal Information Technology Acquisition Reform Act* (FITARA) implementation plan and at the time of this report was on track to meet internal CIO and external OMB commitments in the FITARA areas of budget formulation and planning, acquisition planning, acquisition execution, and organization and workforce. The Department reported that of the 44 baseline tasks, 33 have been completed and 11 are in progress and scheduled for completion by December 31, 2016. Finally the Department stated that its FITARA working group continues to meet and address challenges that include improving planning and execution processes.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that system deficiencies are corrected and that system performance fully supports the Department's financial reporting and operations. The Department further needs to enhance its management and oversight of system modifications and enhancements and ensure that appropriate expertise to manage system contracts is in place. While Lifecycle Management Methodology was established in FSA, management needs to ensure it is implemented and followed.

Looking forward, the Department also needs to continue implementing the requirements of the *Federal Information Technology Acquisition Reform Act* and the revised OMB Circular A-130, "Managing Information as a Strategic Resource."

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	2015	Change (FY 2012 Baseline–2015)
Square Footage	1,563,641	1,548,425	15,216

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)	October 2, 2012	August 1, 2016	$36,256
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	October 2, 2012	August 1, 2016	$30,200
Violation of Title IV of the HEA	20 USC 1082(g)	October 2, 2012	August 1, 2016	$53,907
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	October 2, 2012	August 1, 2016	$53,907
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	October 2, 2012	August 1, 2016	$1,591
Improper lobbying for government grants and contracts	31 USC 1352 (c)(1)	October 2, 2012	August 1, 2016	$18,936 to $189,261
False claims and statements	31 USC 3802(a)(1)	October 2, 2012	August 1, 2016	$10,781