

## 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?
<b>Federal Student Aid-Managed Programs</b>		
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
<b>Other Department Programs</b>		
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 <sup>(1)</sup>	PY IP % <sup>(2)</sup>	PY IP \$ <sup>(2)</sup>	CY Outlays <sup>(3)</sup>	CY IP % <sup>(4)</sup>	CY IP \$ <sup>(4)</sup>	CY Overpayment \$	CY Underpayment \$	CY + 1 Est. Outlays <sup>(5)</sup>	CY + 1 Est. IP % <sup>(6)</sup>	CY + 1 Est. IP \$	CY + 2 Est. Outlays <sup>(5)</sup>	CY + 2 Est. IP % <sup>(6)</sup>	CY + 2 Est. IP \$	CY + 3 Est. Outlays <sup>(5)</sup>	CY + 3 Est. IP % <sup>(6)</sup>	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 <sup>(7)</sup>	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
<b>TOTAL <sup>(8)</sup></b>	<b>144,395.93</b>	<b>1.29</b>	<b>1,866.27</b>	<b>125,371.32</b>	<b>4.85</b>	<b>6,080.67</b>	<b>5,796.53</b>	<b>284.14</b>	<b>126,658</b>	<b>4.79</b>	<b>6,068.59</b>	<b>134,327</b>	<b>4.82</b>	<b>6,479.66</b>	<b>140,942</b>	<b>4.82</b>	<b>6,787.06</b>

<sup>(1)</sup> The source of FY 2015 outlays for all programs is FSA's Financial Management System (FMS) as presented in the FY 2015 AFR.

<sup>(2)</sup> 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.

<sup>(3)</sup> The source of FY 2016 outlays for all program amounts is FMS.

<sup>(4)</sup> 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%.

<sup>(5)</sup> 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.

<sup>(6)</sup> 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.

<sup>(7)</sup> 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.

<sup>(8)</sup> 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](http://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)					
<b>TOTAL</b>		<b>\$3,771.26</b>	<b>\$96.61</b>	<b>\$2,025.27</b>	<b>\$187.53</b>

## 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
<p>Failure to Verify Financial Data</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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 <a href="#">FY 2012 AFR</a>.</p> <p>Promotion of the IRS DRT will continue in FY 2017 and beyond.</p> <p>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.</p> <p>Enhancements to verification procedures is a continuous process that is reviewed each award year.</p>

**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 <a href="#">FY 2012 AFR</a> .
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<sup>(1)</sup>**  
(Dollars in Millions)  
**Overpayments Recaptured outside of Payment Recapture Audits**

Program or Activity <sup>(2)</sup>	Amount Identified	Amount Recaptured
All Department programs (including FSA)	118.71	20.35
<b>TOTAL</b>	<b>118.71</b>	<b>20.35</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 <sup>(3)</sup>	Dollars (\$) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases <sup>(1)</sup>	1,357,920	187,815.45	0	0	851	.247781
Reviews with databases not listed in IPERIA <sup>(2)</sup>	168,787	1,564.60	0	0	171	.505709

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.