OTHER INFORMATION

ABOUT THE OTHER INFORMATION SECTION

The Other Information section includes:

- a summary of the Office of Inspector General's (OIG's) view on the Department's management and performance challenges for fiscal year (FY) 2018,
- a summary of assurances,
- payment integrity,
- fraud reduction efforts,
- reduce the footprint information,
- civil monetary penalty inflation adjustment information, and
- Grants Oversight and New Efficiency (GONE) Act of 2016 information.

OFFICE OF INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

The OIG's Management and Performance Challenges Report provides a summary of what the OIG believes are the Department's biggest challenges for FY 2018. The OIG identified the following four challenges: (1) Improper Payments, (2) Information Technology Security, (3) Oversight and Monitoring, and (4) Data Quality and Reporting. The full report is available at the **OIG website**.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the agency or through the audit process. The Department reported no material weaknesses in FY 2017.

PAYMENT INTEGRITY

This section summarizes the Department's efforts to maintain payment integrity and to develop effective controls designed to prevent, detect, and recover improper payments. It also includes information regarding the Department's high-risk programs.

REDUCE THE FOOTPRINT

This section 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 agencies to not increase the total square footage of their domestic office and warehouse inventory compared to an FY 2012 baseline.

GONE ACT OF 2016

The GONE Act summarizes the Department's efforts to track the number and status of grant closeouts and extensions.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

November 6, 2017

TO: The Honorable Betsy DeVos
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2018

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. Although the Department made some progress in addressing these areas, four of the five remain as a management challenge for fiscal year (FY) 2018. We removed information technology system development and implementation because our current body of work does not support its continued reporting as a challenge to the Department. Our planned work for FY 2018 includes audits of the Department's implementation of the Federal Information Technology Acquisition Reform Act and the Department's implementation of the Portfolio of Integrated Value-Oriented Technologies Contracts. Our conclusions from this and other work could result in this area returning as a management challenge in future years.

The FY 2018 management challenges are:

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

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 2018 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 2018 EXECUTIVE SUMMARY

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

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, four of the five remain as a management challenge for fiscal year (FY) 2018. We removed information technology system development and implementation because our current body of work does not support its continued reporting as a challenge to the Department. Our planned work for FY 2018 includes audits of the Department's implementation of the Federal Information Technology Acquisition Reform Act and the Department's implementation of the Portfolio of Integrated Value-Oriented Technologies Contracts. Our conclusions from this and other work could result in this area returning as a management challenge in future years.

The FY 2018 management challenges are:

(1) Improper Payments,

(2) Information Technology Security,

(3) Oversight and Monitoring, and

(4) Data Quality and Reporting.

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 2018 Management Challenges Report is available at **http://www2.ed.gov/about/offices/list/oig/managementchallenges.html**.

MANAGEMENT CHALLENGE 1—IMPROPER PAYMENTS

Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal Pell Grant (Pell) and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments. 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. In May 2017, we reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete; however, we identified opportunities for the Department to improve (1) its policies and procedures over the Direct Loan and Pell program's improper payment calculations, (2) the completeness of its improper payment corrective action reporting, and (3) the evidence or support for its Agency Financial Report reporting. We also concluded that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) because it (1) did not meet the reduction targets it established for the Direct Loan and Pell programs, (2) did not comply with applicable guidance regarding its risk assessment for the Vocational Rehabilitation State Grants program, and (3) did not consider all required risk factors in completing its risk assessments for certain grant programs and contracting activities.

Overall, our semiannual reports to Congress from April 1, 2014, through March 31, 2017, included more than $2.3 million in questioned or unsupported costs from audit reports and more than $44 million in restitution payments from our investigative activity. We also recently issued a report on Western Governors University that identified over $700 million in questioned costs.

Progress in Meeting the Challenge

The Department stated that it places a high value on maintaining payment integrity to ensure that Federal funds reach intended recipients in the right amount and for the right purpose. The Department stated that its work to sustain payment integrity in response to this challenge includes establishing policies, business processes, and controls over key payment activities that are intended to prevent, detect, and recover improper payments. The Department added that its efforts intend to achieve the appropriate balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome.

The Department reported that it had developed and implemented corrective actions in response to OIG recommendations to improve the accuracy and completeness of its 2017 improper payment estimates for the Direct Loan and Pell Grant programs. The Department added that it developed and implemented corrective actions to improve its improper payment risk assessment process for non-Federal Student Aid (FSA) grant programs and contracts.

The Department stated that it continues to assess and enhance its controls over payments. According to the Department, this includes routinely analyzing application and payment data and considering other factors, such as program reviews and audit reports, to help identify ways to further reduce risks and enhance its controls. The Department also stated that its payment integrity internal control framework includes more than 500 controls designed to help prevent and detect improper payments. According to the Department, those controls are included in the universe of internal controls that are tested annually to assess their design and operating effectiveness. When control deficiencies are detected, the Department works to identify the root causes, develops corrective action plans, and tracks the plans through resolution.

Finally, the Department stated that it has increased its efforts to enhance payment integrity through three new or ongoing initiatives. These included (1) establishing a payment integrity workgroup, (2) developing a continuous control monitoring system, and (3) developing policies and new business processes to more accurately report the number and amount of improper payments detected and collected.

What Needs to Be Done

The Department needs to continue to take action to improve its ability to reduce improper payments. The Department should continue its work to complete planned corrective actions to bring programs into compliance with IPERA and improve its quality control processes, process documents, and policies and procedures. While the Department continues to review its controls, it should continue to explore additional opportunities for preventing improper payments. Although the Department has added controls and seeks to strike a balance between burden and controls, it needs to consider options to strengthen existing internal controls and to develop new and cost-effective controls to reduce the level of risk.

The Department needs to develop and implement processes to more effectively and efficiently monitor Student Financial Assistance (SFA) program recipients, State educational agencies (SEA), and local educational agencies (LEA) to ensure they properly spend and account for Federal education funds. This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients.

MANAGEMENT CHALLENGE 2—INFORMATION TECHNOLOGY SECURITY

Why This Is a Challenge

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, 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.

The OIG's work related to information technology continues to identify control weaknesses and ineffective security management programs that the Department needs to address to adequately protect its systems and data. For example, our most recent report on the Department's compliance with the Federal Information Security Modernization Act of 2014 (FISMA) concluded that the Department's and FSA's overall information security programs were generally not effective. We found the Department and FSA were generally effective in two of the five security functions reviewed—identify and recover. However, they were not generally effective in the three remaining security functions—protect, detect, and respond.

Our report included specific findings in the areas of configuration management, identity and access management, security and privacy training, information security continuous monitoring, and incident response. We made recommendations to assist the Department and FSA with increasing the effectiveness of their information security program so that they fully comply with all applicable requirements.

Progress in Meeting the Challenge

The Department reported that it continued to make progress in implementing actions to mitigate risks associated with information technology security during FY 2017. The Department stated that it completed a cybersecurity workforce capability assessment to identify current gaps in the Department's cybersecurity workforce skills and certifications and developed several new cybersecurity guidance documents. The Department also noted that the Chief Information Security Officer (CISO) is leading coordination efforts to meet deadlines for assigning new cybersecurity codes to positions with information technology, cybersecurity, and cyber-related functions.

The Department further responded that beginning in December 2016, the CISO formally established and led a Cybersecurity Steering Committee to improve the Department's cybersecurity posture and communicate critical information. The Department stated that the committee also coordinated and resolved issues that impacted the quality and timely reporting of performance measures; coordinated reporting for the Department's high-value assets; ensured timely completion of high visibility, government-wide security operations directives; and completed risk assessment actions required by the President's Executive Order, Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure, and OMB M-17-25.

The Department reported that the CISO led a number of cybersecurity policy updates that include improving the Department's overarching cybersecurity policy guidance, revising its Handbook for Cybersecurity Incident Response and Reporting, and developing a Cybersecurity Strategy and Implementation Plan. According to the Department, its plan highlights Departmental cybersecurity initiatives, strategies, and action items that are directly mapped to the Cybersecurity Framework categories. Finally, the Department stated that it completed numerous other actions that included the completion of risk assessments for all systems in the FISMA inventory and the formal designation of a Senior Accountable Official for cybersecurity risk.

What Needs to Be Done

The Department is reporting significant progress towards addressing longstanding information technology security weaknesses. 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 information technology security controls, particularly in the areas of configuration management and identity and access management. Within configuration management, we identified weaknesses that include the Department using unsupported operating systems, databases, and applications in its production environment and not adequately protecting personally identifiable information. Within identity and access management, we identified weaknesses where the Department has not fully implemented its network access control solution or two-factor authentication and where the Department and FSA did not adhere to the required Federal background investigation process for granting and monitoring access to its external users.

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

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—SFA program participants and grantees.

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 2018 budget request includes $134.2 billion in new grants, loans, and work-study assistance to help an estimated 12.2 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 work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants.

Progress in Meeting the Challenge

The Department reported that it employs several oversight tools in its work to ensure program participants' compliance with statutes and regulations and to mitigate the inherent risks associated with the administration of financial assistance programs. These include (1) program reviews, (2) review and resolution of program participant's annual compliance audits and financial statements to ensure administrative capability and financial responsibility, and (3) certification activities to ensure continued eligibility for participation in the Federal student aid programs.

The Department stated that during FY 2017, FSA implemented actions to improve its oversight and monitoring process for schools, lenders, servicers, and guaranty agencies. In August 2017, the Department announced that FSA was adding several key senior executives to help lead and implement a more comprehensive, broader approach to its oversight function. The Department also reported that FSA had begun establishing an integrated system of oversight functions that were intended to better ensure compliance by all participating parties. The Department intends for this approach to oversight to begin with proactive risk management that identifies and mitigates risks before they pose a threat.

The Department stated that is has also taken steps to strengthen its accreditation oversight. According to the Department, this includes improving data sharing, enhancing its processes to determine agency effectiveness, and improving its processes to assess whether agencies evaluate institutions in a manner consistent with the Secretary's Criteria for Recognition.

The Department stated that this management challenge reflects the inherent risks associated with Federal student aid and the ongoing challenge to mitigate these risks through oversight and monitoring.

What Needs to Be Done

The Department continues to identify important accomplishments that are intended to improve its ability to provide effective oversight. We recognize the progress the Department is making and the need to balance controls with both cost and the ability to effectively provide necessary services. However, our audits and

investigations involving SFA programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to improve it processes.

The financial responsibility provisions that were planned to go into effect in July 2017 as part of the borrower defense regulation changes would have included tools to improve the Department's oversight of schools. Enforcement of such regulations could have improved FSA's processes for mitigating potential harm to students and taxpayers by giving FSA the ability to obtain financial protection from schools based on information that is broader and more current than information schools provide in their annual audited financial statements. The Department needs to implement provisions that will allow it to receive important, timely information from publicly traded, private for-profit, and private nonprofit schools that experience triggering events or conditions. Collecting and analyzing this information could improve FSA's processes for identifying Title IV schools at risk of unexpected or abrupt closure.

Overall, the Department needs to ensure that the activities of its new efforts to better coordinate oversight result in effective processes to monitor SFA program participants and reduce risk. It 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 its oversight functions work together to effectively provide the intended additional protections to students and taxpayers. Finally, the Department could enhance its oversight of SFA 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 2018 request would deliver $15.9 billion for local programs that provide extra academic support to help nearly 25 million students in high-poverty schools meet challenging 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 6.8 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve LEA and SEA control issues; fraud relating to education programs; fraud perpetrated by SEA, LEA, and charter school officials; and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

The Department noted that mitigating the risks associated with grants awarded to States, school districts, institutions of higher education, and other entities remains a significant challenge given the Department's relatively limited resources for oversight and monitoring. The Department stated that in response to this challenge, it initiated an enterprise-approach to risk management in FY 2017 and implemented targeted actions to improve support for grant recipients. The Department added that these actions focused on increasing staff expertise and leveraging risk-based tools and approaches to provide improved technical assistance and oversight.

The Department also reported that it completed several activities that were intended to improve its monitoring skills and capacity across offices through a variety of collaborative training and development efforts. Examples included developing training related to distance monitoring and providing technical assistance.

The Department added that it has implemented a number of new risk-based monitoring tools and approaches. The Department stated that its Risk Management Service provided analysis of complex monitoring issues that are intended to support well-informed, timely decision-making and preparation for site monitoring visits. The Department further

reported that it deployed two monitoring tools that were intended to (1) assist in analyzing risk and create risk-based monitoring plans and (2) centralize and automate key monitoring data while expanding the monitoring information into new areas.

The Department also noted that its grant offices had implemented a number of new risk-based approaches to better target limited resources on those educational agencies and entities in need of the most assistance. This included the expansion of the Office of Elementary and Secondary Education's (OESE) fiscal monitoring pilot that leverages joint reviews across its programs. The Department reported that this approach has better positioned it to work more proactively with SEAs and LEAs, identify issues of concern, and share best practices and lessons learned.

The Department further reported other improvements that included the Office of Career, Technical, and Adult Education's enhancements to its comprehensive monitoring web portal, the Office of Postsecondary Education's collaboration with other offices in developing and implementing a standard discretionary grant site visit monitoring tool, and the Institute of Education Sciences' efforts to improve the oversight of privacy and information security.

What Needs to Be Done

The Department acknowledges that this area is a major risk and points out actions it has taken to address this challenge. In particular, its efforts to pilot joint program fiscal monitoring reviews appear to leverage its limited resources to focus on areas of risk. The Department should closely review the results of this pilot and look for ways to improve it and expand it into other areas. Also, the Department should continue to make use of risk-based information, develop common training and procedures, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs.

As various offices implement improvements to monitoring, such as those cited above, the Department should review their effectiveness and replicate effective practices to other program areas. Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. Another area where there is the potential to make use of limited resources to improve oversight is to review the results of single audits and program monitoring efforts in order to revise the single audit process and updates to the 2 C.F.R. 200, Subpart F—Compliance Supplement to improve program compliance and help mitigate fraud and abuse.

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 relies on program data to evaluate program performance and inform 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 graduation rate information provided to the Department.

Progress in Meeting the Challenge

The Department reported that it made progress in FY 2017 to implement actions that are intended to mitigate the inherent risks associated with data quality. The Department stated that it continued to build standardized procedures to evaluate the quality of SEA-submitted data. As an example, the Department noted that two of its offices used a new tool to identify, follow-up, and track individual State data quality concerns after the submission of School Year 2015–16 Consolidated State Performance Reports.

The Department stated that it developed a policy that promotes a comprehensive approach to active and strategic data management with clearly identified roles and responsibilities for data management work. The Department added that the EDFacts Data Governance Board continues to promote and support program offices' stewardship of data through a unified Information Collection package, standardized technical reporting instructions, centralized data submission systems, and increasingly standardized post-submission data quality procedures. The Department also reported that it implemented a new certification for Consolidated State Performance Reports. The certification served as reminder that the person certifying the data was providing assurance, on behalf of the State, of the accuracy of the data submission to the Department.

The Department stated that the EDFacts Data Governance Board routinely meets to exchange best practices. For example, board members shared strategies used with State grantees to document data review procedures, build replicable processes, and generate meaningful and timely messages back to the grantees post-data submission. The Department further stated that the National Center for Education Statistics developed a basic Data Quality Summary Form that will be shared with the Department principal offices for use in their reviews of submitted data files.

The Department also reported that OESE initiated work to develop a plan to address issues of data quality, data security, data reporting, and overall data management. As part of the effort, OESE is using prior OIG data quality recommendations as areas for possible improvement. Finally, the Department stated that the Office of Career, Technical, and Adult Education continues to offer several ongoing initiatives to help States develop and implement accountability systems that yield valid, reliable, and complete data on the progress of career and technical education students. The Department reported that these efforts included annual conferences to improve the quality and consistency of the definitions and measurement approaches that States use to report performance data, conference calls to discuss emerging issues in accountability, and customized technical assistance to States to improve the validity, reliability, and completeness of their data.

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 effort remains important, as data quality contributes to effective program management and helps ensure the credibility of information published by the Department. Although 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 continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's efforts by the EDFacts Data Governance Board to promote common strong practices across its program offices is an important step to improving the quality of data the Department relies on. In addition, efforts to strengthen data certification statements and reach out to States and other entities that report data to the Department are important steps to reinforce the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should also make use of its current oversight mechanisms, such as single audits and program monitoring protocols, to ensure that program participants have strong controls to ensure the quality of data submitted to the Department and to ensure that they have good practices to support the data certifications they sign.

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 auditors' report can be found beginning on page 78 and the Department's management assurances on page 21.

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**

PAYMENT INTEGRITY

I. PAYMENT REPORTING

Office of Management and Budget (OMB) Memorandum M-15-02 defines an improper payment as any payment that should not have been made or that was supposed to be made, but was made in an incorrect amount under legally applicable requirements. Incorrect amounts include both overpayments and underpayments made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment even though the payment may be determined to be proper at a later date.

The Department places a high value on maintaining the integrity of all types of payments made to ensure that the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. The Department ensures payment integrity by establishing effective policies, business processes, systems, and controls over key payment activities, including those pertaining to: payment data quality, cash management, banking information, third party oversight, assessments of audit reports, and financial reporting. The number and dollar value of improper payments are key indicators of payment integrity. Accordingly, the Department created a robust internal control framework that includes over 500 controls designed to help prevent, detect, and recover improper payments. In designing controls, the Department attempts to strike the right balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. Because these "third-party" controls are outside of the Department's operational control, they present a higher risk to the Department, as evidenced by the work of the Department's Office of Inspector General (OIG) and our root cause analysis. When control deficiencies are detected, either within the Department or at external entities, the Department seeks to identify their root causes, develop corrective action plans, and track corrective actions through to completion.

Readers can obtain more detailed information on improper payments at **https://paymentaccuracy.gov/**.

RISK ASSESSMENTS

As required by OMB Circular A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program that is not reporting an improper payments estimate. When the Department conducts a program risk assessment, it considers the nine risk factors mandated by the OMB guidance. In FY 2017, the Department assessed the risk of improper payments for administrative payments, contract payments, the Title I program, the Vocational Rehabilitation State Grant program, and the following FSA programs: Federal Perkins Loan; Health Education Assistance Loan; Federal Family Education Loan; Federal Supplemental Educational Opportunity Grant; Federal Work-Study; Iraq and Afghanistan Service Grant; and Teacher Education Assistance for College and Higher Education Grant. Risk assessments for contracts and the Vocational Rehabilitation State Grant program had been conducted in FY 2016, but were repeated in FY 2017 because of concerns raised by the OIG in its FY 2016 IPERA audit. Based on the results of the FY 2017 risk assessments, the Department concluded that none of the programs reviewed were susceptible to risk of significant improper payments.

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2017, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. The Department continues to place additional emphasis to ensure payment integrity and minimize improper payments in these two important programs as required by OMB guidance. Please refer to the **Internal Controls** Section of this AFR for more information. Details on improper payment estimates for both programs are included within the **Payment Reporting Root Cause Categories**, Corrective Actions, and **Section VII** below.

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 post baccalaureate 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.

IMPROPER PAYMENT ESTIMATES

The Department used a non-statistical alternative sampling and estimation methodology to estimate the improper payment rate for the Pell Grant and Direct Loan programs in FY 2017. Please refer to Section VII, Sampling and Estimation Methodology, for additional details about the methodology and its statistical limitations.

The Department's alternative methodology lacks the precision that a statistical methodology would provide, but is less costly and more efficient. Although the methodology was revised in FY 2017 to address some of the volatility issues, as described further below in Section VII, Sampling and Estimation Methodology, there continues to be both imprecision and volatility in the improper payments estimates that limit our capacity to establish accurate out-year reduction targets. Accordingly, reduction targets were set to the current year improper payment percentages. We will continue to work with relevant stakeholders to consider ways to increase precision and decrease volatility in future year methodologies and estimates.

Readers can obtain more detailed information on improper payments and all of the information reported in the past agency financial reports (AFR) at **https://paymentaccuracy.gov/**.

Figure 15. FY 2017 Pell Grant Estimates
(Dollars in Millions)

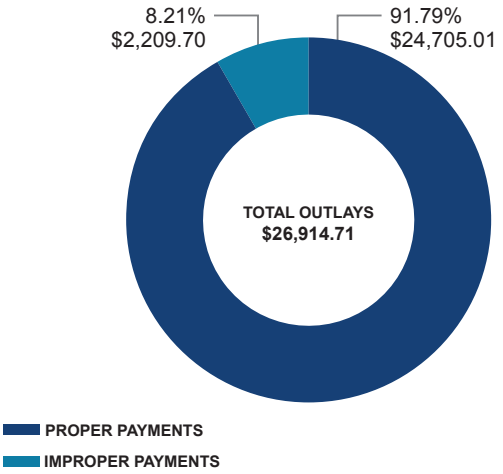
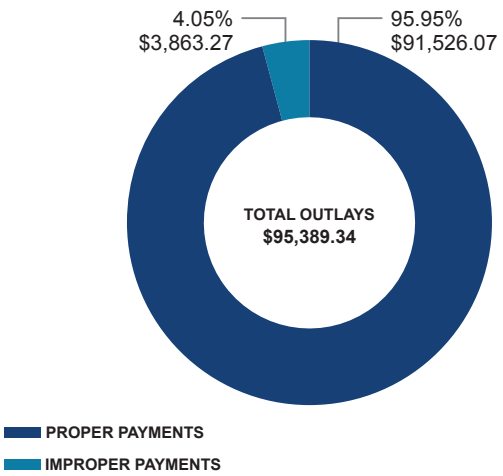


Figure 16. FY 2017 Direct Loan Estimates
(Dollars in Millions)



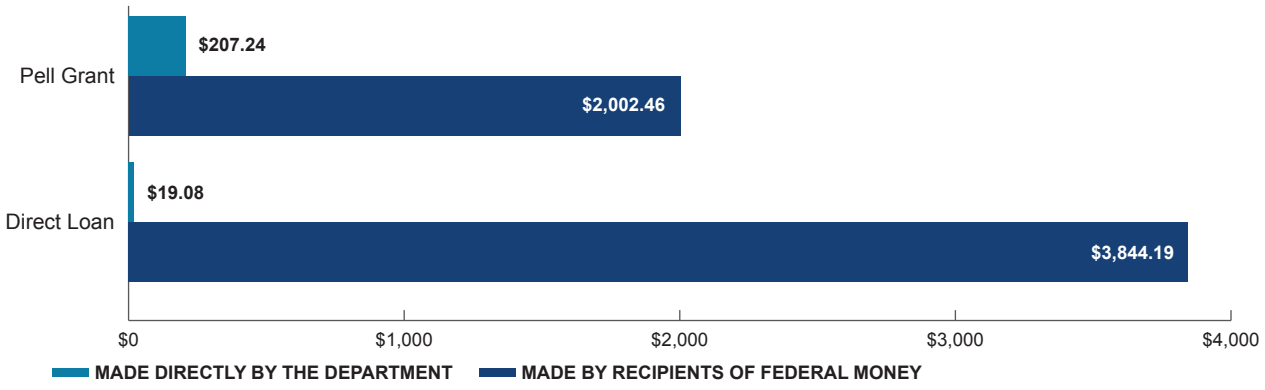
The source of the FY 2017 Pell Grant and Direct Loan outlay amounts is Federal Student Aid (FSA)'s Financial Management System (FMS).

Table 3. FY 2017 Improper Payments for Risk-Susceptible Programs

Program	Overpayments (Dollars in Millions)	Overpayments (%)	Underpayments (Dollars in Millions)	Underpayments (%)
Pell Grants	$ 2,116.58	95.79%	$ 93.12	4.21%
Direct Loans	$ 3,329.62	86.19%	$ 533.65	13.81%
Total	**$ 5,446.20**	**89.68%**	**$ 626.77**	**10.32%**

Figure 17, FY 2017 Source of Improper Payments, summarizes the estimated amount of improper payments made directly by the Department and the amount of improper payments made by recipients of Federal money in FY 2017 for the Pell Grant and Direct Loan programs. Improper payments attributed to the Department include, for Pell, estimates of misreported income for students not selected for verification and who did not use the IRS Data Retrieval Tool (DRT) and, for Direct Loan, Consolidation and Refund improper payments related to the Department's loan servicing operations. Improper payments attributed to recipients of Federal money include improper disbursements of Title IV funds by schools.

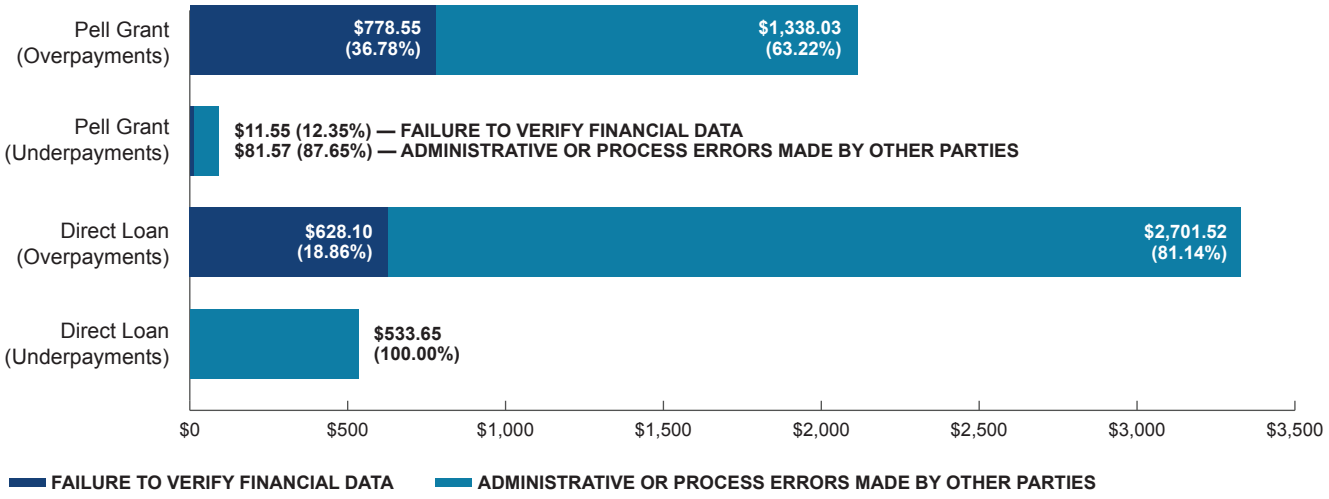
Figure 17. FY 2017 Source of Improper Payments
(Dollars in Millions)



PAYMENT REPORTING ROOT CAUSE CATEGORIES

Our analysis indicated that the underlying root causes of improper payments for the Pell Grant and Direct Loan programs in FY 2017 were "Failure to Verify—Financial Data" and "Administrative or Process Errors Made by—Other Party." The root causes were identified through improper payment fieldwork 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.

Figure 18. FY 2017 Root Causes of Improper Payments
(Dollars in Millions)



IMPROPER PAYMENT CORRECTIVE ACTIONS

This section presents the corrective actions for the Pell Grant and Direct Loan programs.

The Department has established an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. These oversight functions include FSA's Enforcement Unit and Program Compliance, among others. FSA's Enforcement Unit is focused on identifying, investigating and adjudicating statutory and regulatory violations of the federal student aid programs and on resolving borrower defense claims. The Unit plays a central role in coordinating efforts to prevent third-party companies associated with student aid programs from harming students, parents and borrowers. Program Compliance likewise plays a central role in monitoring and oversight of the institutions (i.e., schools, guaranty agencies, lenders, and servicers) participating in the Department's federal student aid programs. The office establishes and maintains systems and procedures to support the eligibility, certification, and oversight of program participants. Program Compliance annually conducts approximately 150–300 Program Reviews of the approximately 6,000 eligible schools to assess institutions' compliance with Title IV regulations. Program Compliance evaluates a school's compliance with federal requirements, assesses liabilities for errors in performance, and identifies actions the school must take 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. A school with serious violations may be placed on heightened cash monitoring (HCM) for disbursements, lose funding for specific programs, or be terminated from participation in all Title IV programs for non-compliance. As of June 1, 2017, 558 schools were on HCM, and in FY 2017, 424 schools closed due to non-compliance and other reasons.

The corrective actions listed below are specific to the root causes of improper payments identified from FY 2017 improper payment fieldwork.

Table 4. Corrective Actions—Root Cause Category

IPIA ERROR CAUSE	ROOT CAUSE CATEGORY	CORRECTIVE ACTIONS	COMPLETION TIMELINE
Failure to Verify Financial Data (Identified from Program Reviews)	Incorrect awards based on Expected Family Contribution (EFC)	EFC is a number that determines students' eligibility for federal student aid. The EFC formulas use the financial information students provide on their Free Application for Federal Student Aid (FAFSA) to calculate the EFC. Financial aid administrators (FAAs) subtract the EFC from students' cost of attendance (COA) to determine their need for federal student financial assistance offered by the Department. On July 10, 2017, FSA published the 2018–2019 EFC Formula Guide. The Guide includes EFC worksheets and tables for the 2018–2019 processing cycle which can help calculate an estimated EFC for students. The Guide provides information about the EFC formula worksheets, and direction about when to use the respective worksheets. FSA will publish the 2019–2020 Guide with updates to address any changes to the formulas and to clarify existing guidance. In FY 2017, the FSA Training Conference for Financial Aid Professionals was held from November 29 to December 2, 2016. The FSA Training Conference is a series of training and technical assistance programs provided by the Department for financial aid professionals charged with administering the Title IV student financial assistance programs on their campuses. In FY 2017, FSA addressed topics related to incorrect awards based on EFC. Over 2,000 unique schools registered for the FY 2017 conference. All 50 states were represented as well as the U.S. territories. More than 120 Foreign School officials attended from countries all over the world. The session recordings are publicly available. In FY 2018, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide guidance about preventing incorrect awards based on EFC. FSA annually publishes the FSA Handbook. This publication is intended to provide guidance to college financial aid administrators and counselors about the administration of Title IV aid. The 2017–2018 Handbook includes volumes about Student Eligibility and Calculating Awards & Packaging. These volumes provide examples and guidance about using EFC to determine and calculate eligibility. FSA will publish an updated volume for 2018–2019, including content which addresses incorrect awards based on EFC. FSA has also designed, in collaboration with financial aid professionals, the FSA Assessments to help schools with compliance and improvement activities. The Assessments contain links to applicable laws and regulations related to administering Title IV funds. The Assessments address topics related to incorrect awards based on EFC such as student eligibility and financial need and packaging. FSA updated the Assessments in May 2017. In FY 2018, FSA will again update the FSA Assessments to help address incorrect awards based on EFC. FSA also offers a free training program: FSA Coach. The FSA Coach training suite provides training in the fundamentals of federal student aid program administration, focused training in specific topics of interest such as those related to correctly awarding funds based on EFC such as Beyond the Basics of Packaging. The Basic Training Course for 2016–2017 included 38 lessons in the fundamentals of federal student aid program administration and over 45 hours of instruction. For FY 2018, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help users assess their mastery of the knowledge and skills needed to correctly award based on EFC. The Department maintains a blog to provide insights on the activities of schools, programs, grantees, and other education stakeholders to promote continuing discussion of educational innovation and reform. For example, on September 12, 2017, the Department published an article about common FAFSA mistakes including not reading definitions clearly and inputting incorrect information which may impact EFC. The Department will continue to update the blog to address incorrect awards based on EFC.	In FY 2018, FSA will publish an updated EFC Formula Guide for award year 2019–2020. FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017. In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated content which addresses incorrect awards based on EFC. In FY 2018, FSA will update the FSA Assessments to help address incorrect awards based on EFC. In FY 2018, the Department will maintain its blog, publishing additional articles which address incorrect awards based on EFC. In FY 2018, FSA will publish updated free training content via FSA Coach.

Failure to Verify Financial Data (Identified from Program Reviews)	Verification deficiencies	Verification is the process where schools, in partnership with FSA, confirm the accuracy of select data reported by students on their FAFSA. FSA's Central Processing System selects which applications are to be verified. Schools also have the authority to verify additional students. Students selected for verification are placed in one of several verification tracking groups to determine which FAFSA information must be verified. Items verified include Adjusted Gross Income (AGI), taxes paid, and other tax data. Income verification helps detect and prevent misreported income. FSA will complete an analysis of the verification data to inform the upcoming award year cycle before launch (to allow for system changes) using the most recently available data at that time. As with prior years' verification selection, data-based statistical analysis will continue to be used by the Department to select for verification of the 2018–2019 FAFSA applicants with the highest statistical probability of error and the impact of such error on award amounts. FSA will also continue to enhance verification procedures, requiring selected schools to verify specific information reported on the FAFSA by student aid applicants. FSA will publish an updated notice in the Federal Register announcing the FAFSA information schools and financial aid applicants may be required to verify, as well as the acceptable documentation for verifying FAFSA information. For FY 2017, this notice was published in the Federal Register on May 5, 2017. From November 29 to December 2, 2016, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. FSA addressed topics related to verification, including a session on verification requirements for the 2017–18 FAFSA cycle and details on the institutional resolution of conflicting information between the 2016–2017 and 2017–2018 FAFSAs. The session recordings are publicly available. In FY 2018, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance to help prevent verification deficiencies. FSA annually publishes the FSA Handbook. This publication is intended for college financial aid administrators and counselors. In FY 2017, FSA published a 2017–2018 Verification Guide as part of the 2017–2018 FSA Handbook. The Guide was updated as of May 2017. The updates for 2017–2018 include updates to address changing requirements, clarify existing requirements, and provide links to new resources including a new online Q and A. For 2018–2019, FSA will publish an updated Verification Guide to address any new requirements and to provide additional clarification about existing requirements. FSA also publishes questions and answers about verification on its website. Additional questions and answers were added in FY 2017. FSA added questions and answers to help clarify verification requirements if additional questions are identified. FSA designed, in collaboration with financial aid professionals, a Verification Assessment, part of the FSA Assessments which help schools with compliance and improvement activities. The Verification Assessment, updated in March 2017, contains a consolidated set of links to applicable laws and regulations to assist schools with understanding the verification requirements, and guidance and examples of verification issues, such as conflicting information. FSA also offers free verification related training via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs. For FY 2018, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help users assess their mastery of the knowledge and skills needed to properly perform verification.	In FY 2018, FSA will complete an analysis of the verification data to inform the upcoming award year cycle approximately nine months before launch (to allow for system changes) using the most recently available data at that time. FSA will publish an updated listing of FAFSA information schools and applicants may be required to verify for the 2019–2020 award year in the Spring 2018. FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017. In FY 2018, FSA will publish the 2018–2019 Verification Guide, including updated content which addresses verification deficiencies. In FY 2018, FSA will publish additional questions and answers about verification requirements to its website, if identified. In FY 2018, FSA will update the Verification Assessment to help address verification deficiencies. In FY 2018, FSA will publish updated free training content related to verification via FSA Coach.

Failure to Verify Financial Data (Identified from Program Reviews)	Verification deficiencies	Beginning with the 2017–2018 award year, applicants are able to complete their FAFSA using "prior-prior year" tax data. The use of prior-prior tax data on the FAFSA (as opposed to one-year prior information) allows students and families to file the FAFSA earlier. Historically, the FAFSA was made available January 1st of each calendar year, yet it was uncommon for a family or individual to be prepared to file an income tax return in the month of January. Under the prior-prior system change, the FAFSA is available on October 1st, rather than January 1st, and students are able to use the prior-prior year's completed income tax return. The IRS DRT which allows for automated population of a student's FAFSA with tax return data, reducing opportunity for misreported income, can now be used by more students and families, since tax data from two-years prior is readily available upon access to the application. The impact of prior-prior is assessed through annual reporting of IRS DRT usage as part of the Pell Grant and Direct Loan supplemental measures available via **paymentaccuracy.gov**.	Prior-prior was implemented on October 1, 2016. In FY 2018, FSA will expand the population available to use the IRS DRT to include amended tax returns, and tax data transferred using the IRS DRT will be masked to protect applicant and parent privacy.
Failure to Verify Financial Data (Identified from Program Reviews)	Verification deficiencies	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. To increase IRS DRT usage, and thereby reduce improper payments associated with misreported income, FSA has taken action to vigorously increase access to and promote the tool. For the 2018–2019 application cycle, FSA will be expanding the population available to use the tool to include amended tax returns. Additionally, the data transferred from the IRS will be masked to improve the privacy of applicant and parent tax information. As part of the ongoing effort to expand usage of the IRS DRT by applicants and parents, FSA publishes information about the benefits and use of the IRS DRT, including on its blog, and sends electronic announcements via Information for Financial Aid Professionals urging institutions to promote the use of the IRS DRT. The IRS disabled the IRS DRT in March 2017 for the 2017–18 FAFSA following concerns that data from the tool could be used by identity thieves to file fraudulent tax returns. Additional security and privacy protections have been added to address concerns that data from the tool could be used by identity thieves to file fraudulent tax returns. The IRS DRT is available to use with the 2018–19 FAFSA form. The IRS DRT remains the fastest, most accurate way to input tax return information into the FAFSA form. The latest information about the status of the IRS DRT is published on **studentaid.ed.gov**. FSA actively monitors the impact of its promotion of the IRS DRT. For example, FSA reports IRS DRT usage figures, disaggregated by dependency status and tax filing status on a quarterly basis. FSA also conducts an annual FAFSA/IRS Data Statistical Study (Study). This Study includes an analysis of Pell applicants based on IRS DRT usage. Additionally, FSA monitors anecdotal reports from schools and IRS DRT users via annual surveys, usability studies, and the FSA Feedback System, among other mechanisms.	Given the importance of IRS DRT usage in preventing misreported income, IRS DRT usage is reported on an annual basis on **paymentaccuracy.gov** as supplemental measures for the Pell Grant and Direct Loan programs. The supplemental measure results will be posted by the end of November, 2017.

Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrect processing of funds during normal operations	Incorrect processing of funds during normal operations include failure to properly pay credit balances, ineligible use of Title IV funds, incorrect disbursement periods, inaccurate application of credit balance to charges for program overages, incorrect calculation of lifetime eligibility used (LEU) and Direct Loan annual loan limits, and incorrect calculation of Cost of Attendance (COA). From November 29 to December 2, 2016, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2017 Training Conference included several sessions related to processing of funds during normal operations including: 150% Direct Subsidized Loan Limit; How Modules Can Affect Title IV; and Foreign Schools: Cost of Attendance. The session recordings are publicly available. In FY 2018, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance related to process of funds during normal operations. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2017–2018 Handbook includes volumes about Calculating Awards & Packaging, and Processing Aid and Managing FSA Funds, updated in September 2017 and August 2017, respectively. These volumes provide examples and guidance about processing of funds during normal operations. FSA will publish updated volumes for 2018–2019. FSA designed, in collaboration with financial aid professionals, a Fiscal Management and Student Eligibility Assessment, part of the FSA Assessments which help schools with compliance and improvement activities. The Fiscal Management Assessment and Student Eligibility Assessment, both updated in May 2017, contain a consolidated set of links to applicable laws and regulations related to processing of funds during normal operations, and related guidance, worksheets, and checklists to help schools comply with these requirements. FSA also offers free training related to processing of funds during normal operations via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs. For example, FSA offered a Limits to Direct Subsidized Loan Interest Benefits, and a Monitoring for Pell Grant LEU and Resolving Unusual Enrollment History Flags training course for 2016–2017 via FSA Coach. FSA also added a new course related to processing of funds during normal operations for 2016–2017: Administering Federal Student Aid Programs in Nonstandard Terms. For FY 2018, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help users assess their mastery of the knowledge and skills needed to process funds during normal operations.	FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017. In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated content which addresses processing of funds during normal operations. In FY 2018, FSA will update the Fiscal Management and Student Eligibility Assessments. In FY 2018, FSA will publish updated free training content related to processing of funds during normal operations via FSA Coach.

Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrect processing of student data during normal operations	Incorrect processing of student data during normal operations includes inaccurate or inadequate tracking of clock hours, credit hours, and other documentation of attendance. From November 29 to December 2, 2016, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2017 Training Conference included several related sessions: Administering Adds, Drops, and Withdrawals; Basics of Determining Academic Calendars (Standard, Non-Standard, and Non-Term); and Administering Title IV Aid for Transfer Students. The session recordings are publicly available. In FY 2018, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance about processing of student data during normal operations. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2017–2018 Handbook includes a Student Eligibility volume, updated in May 2017, which includes a section devoted to enrollment status. This volume provides examples and guidance about processing of student data during normal operations. FSA will publish an updated volume for 2018–2019. FSA designed, in collaboration with financial aid professionals, a Fiscal Management and Student Eligibility Assessment, part of the FSA Assessments which help schools with compliance and improvement activities. The Fiscal Management Assessment and Student Eligibility Assessment, both updated in May 2017, contain links to applicable laws and regulations about disbursing funds to regular students enrolled in eligible programs and enrollment record retention. The Assessments also include related guidance, worksheets, and checklists to help schools comply with these requirements. FSA also offers free training related to processing of student data during normal operations via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs. For FY 2018, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help users assess their mastery of the knowledge and skills needed to process student data during normal operations.	FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017. In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated content which addresses processing of student data during normal operations. In FY 2018, FSA will update the Fiscal Management and Student Eligibility Assessments. In FY 2018, FSA will publish updated free training content related to processing of funds during normal operations via FSA Coach.
Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrect awards based on eligibility	Schools that disburse Title IV funds must demonstrate that they are eligible to participate in these programs before they can be certified for participation and must maintain eligibility. Further, student and parent borrowers must satisfy eligibility requirements for the Title IV funds. From November 29 to December 2, 2016, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2017 Training Conference included several sessions related to student and institutional eligibility: Maintaining Your Institutional Eligibility; Resolving Citizen and Eligible Noncitizen Issues; and Foreign Schools: Student Eligibility, SAP, and R2T4. The session recordings are publicly available. In FY 2018, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance about confirming student and institutional eligibility. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2017–2018 Handbook includes volumes for Student Eligibility and School Eligibility and Operations, updated in March and June 2017, respectively. This volume provides examples and guidance about student and school eligibility. FSA will publish an updated volume for 2018–2019. FSA designed, in collaboration with financial aid professionals, Student Eligibility and Institutional Eligibility Assessments, part of the FSA Assessments which help schools with compliance and improvement activities. The Student Eligibility Assessment and Institutional Eligibility Assessment, both updated in May 2017, contain a consolidated set of links to applicable laws and regulations related to eligibility, and corresponding guidance, worksheets, and checklists. FSA also offers free training related to maintaining and confirming student and institutional eligibility via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs. For FY 2018, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help users assess their mastery of the knowledge and skills needed to award funds to eligible students attending eligible programs and institutions.	FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017. In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including the Student Eligibility and School Eligibility and Operations volumes. In FY 2018, FSA will update the Student Eligibility and Institutional Eligibility Assessments. In FY 2018, FSA will publish updated free training content related to awarding funds to eligible students attending eligible programs and institutions.

Administrative or Process Errors by Other Party (Identified from Program Reviews)	Satisfactory Academic Progress (SAP) deficiencies	According to federal regulations, all schools participating in Title IV programs must establish satisfactory academic progress (SAP) standards. SAP is a student-eligibility requirement and schools are responsible for making sure that students who are not making SAP do not receive student financial aid funds. From November 29 to December 2, 2016, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2017 Training Conference included two sessions related to SAP: Satisfactory Academic Progress (SAP); and Foreign Schools: Student Eligibility, SAP, and R2T4. The session recordings are publicly available. In FY 2018, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated SAP guidance. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2017–2018 Handbook includes a Student Eligibility volume, updated in May 2017, which includes a section devoted to SAP. This volume provides examples and guidance about SAP-related issues. FSA will publish an updated volume for 2018–2019. FSA designed, in collaboration with financial aid professionals, a Satisfactory Academic Progress Assessment, part of the FSA Assessments which help schools with compliance and improvement activities. The Satisfactory Academic Progress Assessment, updated in May 2017, contains a consolidated set of links to applicable SAP laws and regulations, and related guidance and worksheets. FSA also offers free training related to SAP via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs. For FY 2018, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help users assess their mastery of the knowledge and skills needed to monitor SAP.	FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017. In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated SAP-related guidance. In FY 2018, FSA will update the Satisfactory Academic Progress Assessment. In FY 2018, FSA will publish updated free training content related to SAP via FSA Coach.
Administrative or Process Errors by Other Party (Identified from Program Reviews)	Incorrectly calculated return records	When a recipient of Title IV funds ceases to be enrolled prior to the end of a payment period or period of enrollment, schools are required to determine the earned and unearned Title IV aid a student has earned as of the date the student ceased attendance based on the amount of time the student spent in attendance or, in the case of a clock-hour program, was scheduled to be in attendance. From November 29 to December 2, 2016, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2017 Training Conference included five sessions devoted to incorrectly calculated return records: Return to Title IV Funds (R2T4): Basic Principles; R2T4 Funds: Advanced Concepts; R2T4 and Credit-Hour Programs; R2T4 and Clock-Hour Programs; and Student Eligibility, SAP, and R2T4. The session recordings are publicly available. In FY 2018, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance for correctly calculating return records. FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2017–2018 Handbook includes a volume dedicated to Withdrawals and the Return of Title IV Funds, updated in June 2017. This volume provides examples and guidance about the actions a school is required to take when a student withdraws. FSA will publish an updated volume for 2018–2019. FSA designed, in collaboration with financial aid professionals, a Return of Title IV Funds Assessment, part of the FSA Assessments which help schools with compliance and improvement activities. The Return of Title IV Funds Assessment, updated in May 2017, contains a consolidated set of links to applicable laws and regulations for the treatment of Title IV funds when a student withdraws, and related guidance, worksheets, and checklists to help schools comply with these requirements. FSA also offers free training related to correctly calculating return records via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs. For example, the FSA Coach offered a Beyond the Basics of R2T4, Including R2T4 Modules intermediate training course for 2016–2017. For FY 2018, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help users assess their mastery of the knowledge and skills needed to correctly calculate return records.	FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017. In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated content which addresses withdrawals and the return of Title IV funds. In FY 2018, FSA will update the Return of Title IV Funds Assessment. In FY 2018, FSA will publish updated free training content related to return of Title IV funds via FSA Coach.

Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)	Incorrect processing of Loan Verification Certificate (LVC)	In FY 2017, of the 120 Direct Loan Consolidation payments sampled, 17 improper payments were identified due to incorrect processing of LVCs. There was a 5.20% FFEL to Direct Loan Consolidation error rate due to incorrect processing of LVCs. These improper payments represent 0.02% of the Direct Loan improper payment estimate. In FY 2018, FSA will meet with the TIVAS to discuss incorrect processing of LVCs, determine whether additional training may be beneficial to help ensure the correct account, lender, and loan information is processed, and whether the TIVAS' procedures for processing LVCs should be updated to mitigate the risk of improper payments. FSA will initiate an assessment of the feasibility and effectiveness of the TIVAS implementing additional levels of QA/QC over processing of LVCs.	FSA will meet with the TIVAS in FY 2018. In FY 2019, FSA will initiate an assessment of the feasibility and effectiveness of servicers implementing additional levels of QA/QC over processing of LVCs.
Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)	Documentation provided by servicer	In FY 2016, FSA developed and shared with the TIVAS a Direct Loan Consolidation improper payment fieldwork checklist. This checklist provides the TIVAS guidance on the documentation that should be maintained to demonstrate that FFEL to Direct Loan Consolidations were made to eligible borrowers, for eligible purposes, and for the correct amount. In FY 2016, of the 120 Direct Loan Consolidation payments sampled, 36 payments were identified as improper payments due to lack of sufficient supporting documentation provided by the TIVAS. In FY 2017, of the 120 Direct Loan Consolidation payments sampled, two improper payments were identified due to lack of sufficient supporting documentation. There was a 0.01% FFEL to Direct Loan Consolidation error rate due to lack of sufficient documentation provided by the servicers. These improper payments represent 0.00% of the Direct Loan improper payment estimate. In FY 2018, FSA will reiterate the requirement to maintain sufficient documentation to support FFEL to Direct Loan Consolidations were made properly.	In FY 2018, FSA will provide the Direct Loan Consolidation improper payment fieldwork checklist along with other guidance regarding documentation that must be maintained to the TIVAS. In FY 2018, FSA will also send a communication to the TIVAS reiterating the need to maintain sufficient documentation to support FFEL to Direct Loan Consolidations were made properly.
Administrative or Process Errors by Other Party (Identified from Direct Loan Refunds)	Not applicable; no Direct Loan Refund improper payments were identified in FY 2017.	In FY 2017, FSA developed and shared with the TIVAS a Direct Loan Refund improper payment fieldwork checklist. This checklist provides the TIVAS guidance on the documentation that should be maintained to demonstrate that refunds were made to eligible lenders and borrowers, for eligible purposes, and for the correct amount. In FY 2016, of the 120 Direct Loan Refund payments sampled, 10 payments were identified as improper payments due to lack of sufficient supporting documentation provided by the TIVAS. In FY 2017, of the 120 Direct Loan Refund payments sampled, no improper payments were identified. The Direct Loan Refund improper payment fieldwork checklist supported the collection of documentation from the servicers evidencing that all sampled Direct Loan Refunds were proper. No additional corrective actions are identified for FY 2018 as no Direct Loan Refund improper payments were identified in FY 2017.	In FY 2018, FSA will provide the Direct Loan Refund improper payment fieldwork checklist along with other guidance regarding documentation that must be maintained to the TIVAS.

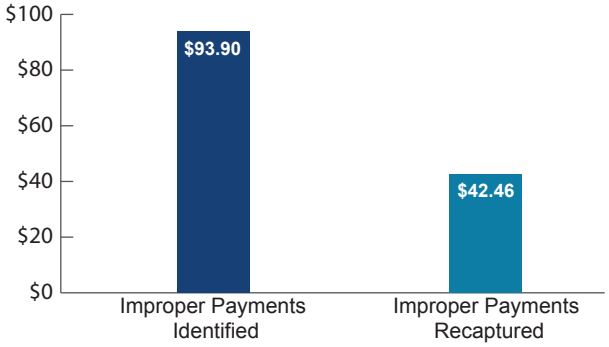
II. RECAPTURE OF IMPROPER PAYMENTS REPORTING

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 determined that payment recapture audits would not be cost effective for any of its loan and grant programs or for contracts. 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. The Department also analyzes the return of grant funds from recipients to determine if they are due to improper payments. When an improper payment is detected and deemed collectable, the Department establishes an account receivable and pursues collections. Recoveries are also made through grant program, payroll, and other offsets. Recipients of Department funds can appeal management's decisions regarding funds to be returned to the Department or they may go bankrupt before the Department can collect, thereby delaying or decreasing the amounts the Department is able to collect. Additionally, the Department has wide discretion to make a determination to not collect improper payments from grantees in cases where it determines that pursuing collections would cause more harm to the federal interest. For these and other reasons, not all identified improper payments will ultimately be collected and collections will not necessarily be made in the same year as when the improper payments were identified.

Improper payments recovered outside of formal recapture programs, depicted in the graph below, shows that $93.90 million of improper payments were identified and $42.46 million were recovered. For detailed information on identified and collected improper payments, readers can visit **https://paymentaccuracy.gov/**. The Department continues to work to improve its methods to identify, collect, and report on improper payment collections.

Figure 19. Improper Payments Identified and Captured
(Dollars in Millions)



III. AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY (DNP) INITIATIVE

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center Portal as required by the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). During FY 2017, 1,477,930 payments, totaling $163.2 billion, were reviewed for possible improper payments through the DNP Portal screening including the Death Master File and the System for Award Management File. The Department validated all potential improper payments identified through this screening process were properly adjudicated and reported to Treasury timely.

Treasury DNP Analytics—Agency Insights Report

The Department worked with Treasury Department's DNP Data Analytics team to assess approximately 2.85 million Education payments (totaling about $388.6 billion) disbursed through the Payment Automation Manager system from November 1, 2014 to November 30, 2016. Treasury's analysis on the Department's data quality was released in a June 2017 *Agency Insight Report* (AIR), which included a high-level overview of key findings and insights derived from the Treasury analysis.

The AIR report indicated that the Department's payment data is of high quality, to include having over 99.9% of the payment records containing legitimate Tax Identification Number data. Additionally, very few of the Department's payment patterns and trends indicated that there was a high risk of being improper. The Department intends to continue working with Treasury to conduct

further analysis of our payment data to ensure it remains at the highest quality possible.

IV. BARRIERS

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. 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, there are limitations to the availability of data necessary to verify FAFSA information without increasing the burden on schools and students. For example, the Internal Revenue Code does not currently permit a database match with the IRS which would eliminate the need to rely on tax transcripts submitted by the applicant (and the applicant's parent, if the applicant is a dependent) to verify income data in cases where the IRS DRT is not used to transfer tax information directly into the FAFSA.

A detailed discussion of program-specific barriers can be found in the **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

V. ACCOUNTABILITY

The Department offices, managers, and staff are held accountable for promoting payment integrity by being held accountable for maintaining effective controls in their day-to-day jobs and key management officials have specific expectations related to payment integrity included in their annual performance plans. Additionally, Accountable Officials are identified for the Department and FSA.

VI. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

Audit Follow-up

The Department gathers and manages thousands of audits of grantees related to our loan and grant programs. Audit records are managed, maintained, and analyzed in the Department's automated audit tracking systems. Audits are a key source of identifying risks and in identifying potential improper payments made by outside entities. The Department has demonstrated tremendous success in working with grant recipients to resolve audit findings timely. The Department is continuously looking for options to gain further insight from audit reports and is partnering with OMB and others to do so.

VII. SAMPLING AND ESTIMATION METHODOLOGY

For 2014 AFR reporting, the Department obtained approval from OMB to use an alternative methodology for estimating improper payments for the Pell Grant and Direct Loan programs. The methodology is an alternative estimation methodology as it has statistical limitations, including reliance on non-random sampling and limited sample size. The 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 provides for a more efficient use of resources by integrating the estimation methodology into core FSA monitoring functions. The Department also determined that it would be too costly and inefficient, and potentially increase the burden on schools and students to an unacceptable level, to increase the reviews that make up its alternative methodology to a level that would meet the precision rate prescribed by OMB.

On April 30, 2017, the Department submitted to OMB for approval updates to the alternative sampling plan and estimation methodology. These updates to the methodology incorporate changes in response to findings from the OIG's FY 2016 IPERA *Compliance Audit Report, U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2016*. The updates include grouping Program Reviews into two rather than three strata to help address the volatility of the improper payment estimates, which had been noted in the past by the Department and OIG. OMB approved the Department's updates to the alternative sampling plan and estimation methodology on September 28, 2017. The methodology is described in detail on the Department's **improper payments website**.

The Department recognizes that its alternative estimation methodology can lead to volatile improper payment estimates. This is largely due to fewer program reviews conducted at lower-risk schools even though the lower-risk schools often account for a much larger portion of the dollars disbursed and likely have lower rates of improper payment. As a result, the potential exists for

student-level improper payment fieldwork 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.

ADDITIONAL COMMENTS

The Department recently stepped up efforts to enhance payment integrity through two new initiatives: 1) establishment of a Payment Integrity Workgroup (PIWG) and 2) continued refinements to its Continuous Controls Monitoring System (CCMS).

PIWG

The Department formed the PIWG to create the framework and governance structure to assess the various types of payments made by the Department—including Contracts, Payroll, Interagency Agreements (IAAs), Government Purchase Cards (P-Cards), Travel, and Transit Benefits.[2] The PIWG is working to fully document and assess end-to-end business processes and existing controls by payment type to be sure that we understand the unique risks and other relevant characteristics so the Department can design more effective business processes and controls. The methodology for the PIWG work is based on information contained in OMB Circular A-123, Appendices A and C.

The standup of the PIWG and leadership involvement reflects the recognition by the Department of the critical importance that payment integrity plays in demonstrating financial stewardship to the American taxpayer, considering that the Department's gross outlays totaled over $300 billion in FY 2017.

CCMS

The Department developed CCMS to integrate payment analysis, case management, and reporting functions to automate and streamline the detection, referral for recovery, and prevention of improper payments. The Department intends to continue to expand the CCMS capacities and to integrate it with the Department's existing business processes and systems to provide additional assurance regarding payment integrity that is supported by data-driven evidence.

[2] The review of IAAs and Contracts did not include FSA policies and procedures.

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 pre-award 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 2017, the Department's discretionary grant 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*.

Enterprise Risk Management (ERM)

As required by OMB Circular A-123, the Department is developing a strategic objective to identify, assess, monitor, and manage enterprise risks. An important first step in that process was the establishment of a governance structure that included bringing together senior leadership from across the Department to begin to discuss and debate the most important risks to mission accomplishment. The implementation strategy for ERM will include actions intended to:

- Evaluate and improve the ERM framework, to include finalizing a risk profile, assigning risk owners, and identifying risk mitigation plans;
- Create a risk-aware culture where risk appetite and risk tolerance are openly discussed;
- Integrate the ERM concepts within the Department's existing internal control and governance frameworks; and
- Manage enterprise risks in a coordinated and integrated manner aligned with achievement of the Department's Strategic Plan, which would include considering risks in resource allocation decisions.

FRAUD REDUCTION EFFORTS

The Department actively participated with OMB and other agencies to develop the implementation plan for the *Fraud Reduction and Data Analytics Act* (FRDAA) of 2016. On May 12, 2017, OMB sent a FRDAA implementation plan to Congress. Since then, OMB has been working with federal agencies to issue additional guidelines and to share best practices. The Department will continue to work with OMB to implement the FRDAA. Although controls related to the prevention and detection of improper payments are often the same for fraud detection, reporting on fraud presents unique challenges for agencies, including:

- Establishing a common definition for fraud that is relevant to the specific agency programs and activities;
- Developing a fraud taxonomy to accurately address areas of fraud risk; and
- Accurately estimating and reporting the rate of fraud, considering that due-process, intent, and legal factors are involved with fraud, which are not present in improper payments.

Despite these challenges, the Department will continue to refine its business processes to be in a better position to define, deter, detect, and take action on fraud. In July 2015, GAO published its Fraud Risk Management Framework and Selected Leading Practices and the Department has implemented a number of leading practices consistent with that framework. For example, FSA continues to make expanded use of data analytics to identify anomalies, trends, and patterns in application and disbursement data to help identify potential fraud. FSA also continues to collaborate with OIG to receive and analyze fraud referrals to help identify potential fraud indicators for suspicious student activity. FSA established a fraud unit and recently appointed a Senior Advisor on Fraud to support OIG fraud referral analysis and disposition. FSA will use their analysis and the work of the fraud unit to strengthen its internal controls. FSA also conducts internal training on fraud prevention and detection as well as listening sessions with the school community on fraud trends and good practices in prevention and detection. Additionally, the Department has catalogued internal controls related to fraud prevention and detection, to include 52 detective and 109 preventive controls related to its grant programs and administrative payments.

To combat improper use of federal funding under the *Every Student Succeeds Act*, the Department requires that each recipient and sub-recipient publically display the contact information of the Department's OIG hotline to facilitate the reporting of suspected improper use of ESSA funding and that each recipient and sub-recipient provides assurance of truthfulness and accuracy of the information they provide in applications and in response to monitoring and compliance reviews.

REDUCE 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, and
- 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, and
- Reduce the space footprint.

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

Table 5. Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	2016	Change (FY 2015 Baseline–2016)
Square Footage	1,548,425	1,381,775	(166,650)

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.

Location for Penalty Update Details:

https://www.federalregister.gov/documents/2017/04/20/2017-08034/adjustment-of-civil-monetary-penalties-for-inflation

Table 6.

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)	1-Aug-16	20-Apr-17	$36,849
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	1-Aug-16	20-Apr-17	$30,694
Violation of Title IV of the HEA	20 USC 1082(g)	1-Aug-16	20-Apr-17	$54,789
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	1-Aug-16	20-Apr-17	$54,789
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	1-Aug-16	20-Apr-17	$1,617
Improper lobbying for government grants and contracts	31 USC 1352(c)(1)	1-Aug-16	20-Apr-17	$19,246 to $192,459
False claims and statements	31 USC 3802(a)(1)	1-Aug-16	20-Apr-17	$10,957

THE GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT OF 2016

The goal of the *Grants Oversight and New Efficiency (GONE) Act of 2016* (Pub. L. No. 114-117) is to close out grants and cooperative agreements that are in manual closeout with zero dollars and undisbursed balances and whose period of performance has exceeded two years.

Starting with an October 3, 2016, baseline of 8,948 grants and cooperative agreements totaling approximately $2 billion in various statuses of the closeout process, the Department achieved tremendous success as shown below.

While the Department succeeded in closing out over 99 percent of the required grants and cooperative agreements during FY 2017, this was not accomplished without challenges. The Department's most pressing challenges in the closeout process were: devotion of the time and resources of limited program office staff to the closeout process, while awarding grants and performing monitoring functions; delays in obtaining required final performance and financial reports and missing final reports; unresolved audit findings; and recording extensions in the Department's grants management system.

The Department's planned corrective actions to address these challenges include integrating a financial monitoring curriculum into the Department's grants training and updating our grants management system.

Table 7.

Category	2–3 Years	>3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	3	-	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	7	-	-
Total Amount of Undisbursed Balances	$7,488,316	-	-

Source: G5, grants management system linked to the Department's general ledger system.