

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.

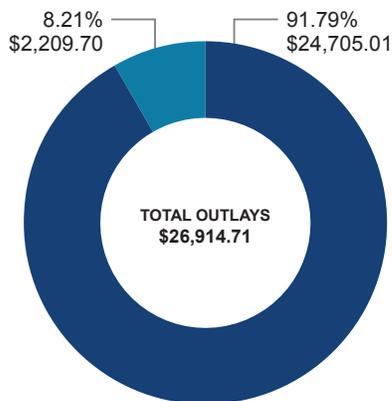
IMPROPER PAYMENT ESTIMATES

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.

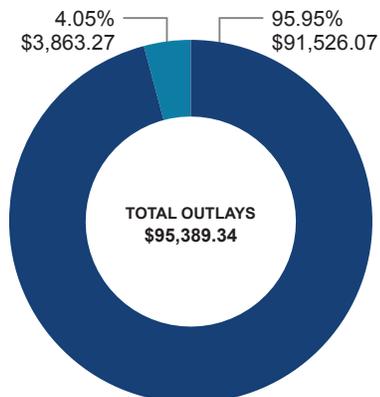
Readers can obtain more detailed information on improper payments and all of the information reported in the past agency financial reports (AFR) at <https://paymentaccuracy.gov/>.

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



■ PROPER PAYMENTS
■ IMPROPER PAYMENTS

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



■ PROPER PAYMENTS
■ IMPROPER PAYMENTS

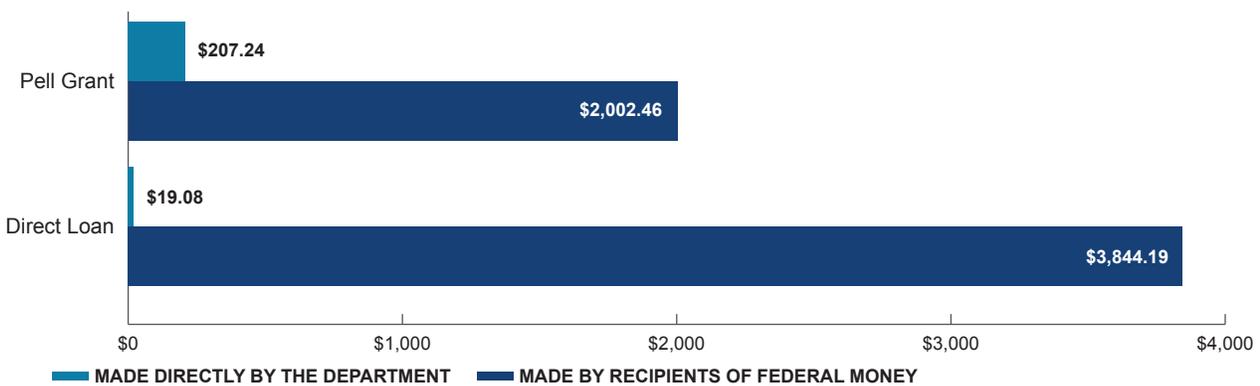
The source of the FY 2017 Pell Grant and Direct Loan outlay amounts is Federal Student Aid (FSA)'s Financial Management System (FMS).

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.

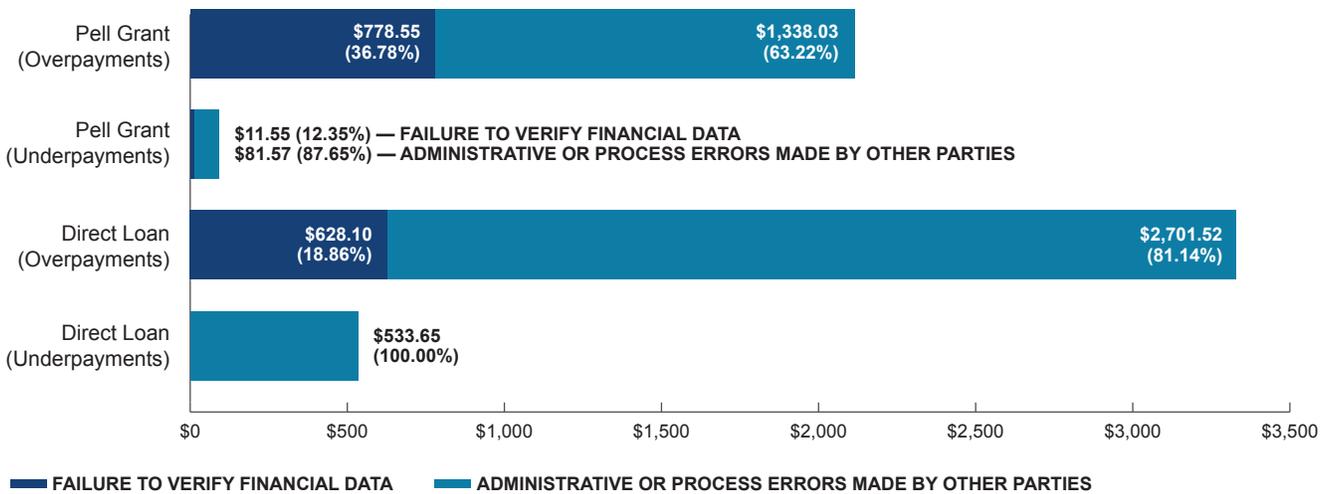
Figure 17. FY 2017 Source of Improper Payments
(Dollars in Millions)



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)	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>In FY 2018, FSA will publish an updated EFC Formula Guide for award year 2019–2020.</p> <p>FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017.</p> <p>In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated content which addresses incorrect awards based on EFC.</p> <p>In FY 2018, FSA will update the FSA Assessments to help address incorrect awards based on EFC.</p> <p>In FY 2018, the Department will maintain its blog, publishing additional articles which address incorrect awards based on EFC.</p> <p>In FY 2018, FSA will publish updated free training content via FSA Coach.</p>

<p>Failure to Verify Financial Data (Identified from Program Reviews)</p>	<p>Verification deficiencies</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017.</p> <p>In FY 2018, FSA will publish the 2018–2019 Verification Guide, including updated content which addresses verification deficiencies.</p> <p>In FY 2018, FSA will publish additional questions and answers about verification requirements to its website, if identified.</p> <p>In FY 2018, FSA will update the Verification Assessment to help address verification deficiencies.</p> <p>In FY 2018, FSA will publish updated free training content related to verification via FSA Coach.</p>
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<p>Failure to Verify Financial Data (Identified from Program Reviews)</p>	<p>Verification deficiencies</p>	<p>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.</p> <p>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.</p>	<p>Prior-prior was implemented on October 1, 2016.</p> <p>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.</p>
<p>Failure to Verify Financial Data (Identified from Program Reviews)</p>	<p>Verification deficiencies</p>	<p>FSA continues to utilize and promote the IRS DRT, which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online FAFSA. 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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>

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.

<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Incorrect processing of student data during normal operations</p>	<p>Incorrect processing of student data during normal operations includes inaccurate or inadequate tracking of clock hours, credit hours, and other documentation of attendance.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017.</p> <p>In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated content which addresses processing of student data during normal operations.</p> <p>In FY 2018, FSA will update the Fiscal Management and Student Eligibility Assessments.</p> <p>In FY 2018, FSA will publish updated free training content related to processing of funds during normal operations via FSA Coach.</p>
<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Incorrect awards based on eligibility</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017.</p> <p>In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including the Student Eligibility and School Eligibility and Operations volumes.</p> <p>In FY 2018, FSA will update the Student Eligibility and Institutional Eligibility Assessments.</p> <p>In FY 2018, FSA will publish updated free training content related to awarding funds to eligible students attending eligible programs and institutions.</p>

<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Satisfactory Academic Progress (SAP) deficiencies</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017.</p> <p>In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated SAP-related guidance.</p> <p>In FY 2018, FSA will update the Satisfactory Academic Progress Assessment.</p> <p>In FY 2018, FSA will publish updated free training content related to SAP via FSA Coach.</p>
<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Incorrectly calculated return records</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>FSA will hold the FY 2018 FSA Training Conference for Financial Aid Professionals from November 28 to December 1, 2017.</p> <p>In FY 2018, FSA will publish the 2018–2019 FSA Handbook, including updated content which addresses withdrawals and the return of Title IV funds.</p> <p>In FY 2018, FSA will update the Return of Title IV Funds Assessment.</p> <p>In FY 2018, FSA will publish updated free training content related to return of Title IV funds via FSA Coach.</p>

<p>Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)</p>	<p>Incorrect processing of Loan Verification Certificate (LVC)</p>	<p>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.</p> <p>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.</p> <p>FSA will initiate an assessment of the feasibility and effectiveness of the TIVAS implementing additional levels of QA/QC over processing of LVCs.</p>	<p>FSA will meet with the TIVAS in FY 2018.</p> <p>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.</p>
<p>Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)</p>	<p>Documentation provided by servicer</p>	<p>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.</p> <p>In FY 2018, FSA will reiterate the requirement to maintain sufficient documentation to support FFEL to Direct Loan Consolidations were made properly.</p>	<p>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.</p> <p>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.</p>
<p>Administrative or Process Errors by Other Party (Identified from Direct Loan Refunds)</p>	<p>Not applicable; no Direct Loan Refund improper payments were identified in FY 2017.</p>	<p>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.</p> <p>No additional corrective actions are identified for FY 2018 as no Direct Loan Refund improper payments were identified in FY 2017.</p>	<p>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.</p>

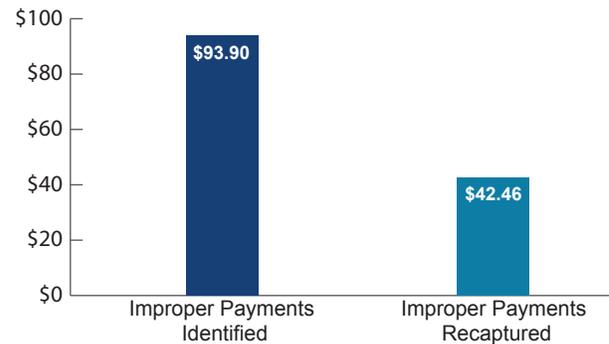
II. RECAPTURE OF IMPROPER PAYMENTS REPORTING

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.