

PAYMENT INTEGRITY

I. PAYMENT REPORTING

OMB Memorandum M-18-20 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are 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 payment 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 should also be considered an improper payment.

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 maintains a robust internal control framework that includes internal 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 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 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.

To further promote payment integrity, the Department continues to develop its Payment Integrity Monitoring Application, which detects anomalies in grants payment data. Case management files for payment anomalies are established within the application for follow-up investigation by the Department's grants program officials to validate improper payments and determine root causes. Additionally, the Department continues to develop its internal control framework to address gaps, strengthen internal control processes, and align assessments with enterprise risk management. Both efforts reflect the Department's recognition of the critical importance that payment integrity plays in demonstrating financial stewardship to the American taxpayer.

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

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2019, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. Also, in FY 2019, the Department began monitoring outlays of grant programs receiving funding for disaster relief. According to OMB Memorandum M-18-14, *Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations*, any disaster-related program with \$10 million or more in outlays in a given fiscal year is deemed susceptible to significant improper payments. The Department identified two programs that met this criterion: the

Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) and Immediate Aid to Restart School Operations (RESTART) programs.

The Department continues to place additional emphasis to ensure payment integrity and minimize improper payments in these important programs as required by OMB guidance. Details on improper payment estimates, root causes, and corrective actions for the programs are included within the Improper Payment Estimates, Payment Reporting - Root Cause Categories, and Improper Payment Corrective Actions sub-sections that follow.

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.

TEMPORARY EMERGENCY IMPACT AID FOR DISPLACED STUDENTS

The Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program awards emergency impact aid funding to State educational agencies (SEAs). SEAs provide subgrants to local educational agencies (LEAs) to reimburse the costs of educating students enrolled in public schools (both traditional and charter) and non-public elementary and secondary schools, who were displaced by a covered disaster or emergency.

IMMEDIATE AID TO RESTART SCHOOL OPERATIONS

The Immediate Aid to Restart School Operations (RESTART) program awards grants to eligible SEAs to assist eligible LEAs and non-public schools with

expenses related to the restart of elementary schools and secondary schools in areas impacted by a covered disaster or emergency. Funds may be used to assist school administrators and personnel in restarting school operations, re-opening schools, and reenrolling students.

IMPROPER PAYMENT ESTIMATES

In FY 2019, the Department used statistically valid and rigorous sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, Emergency Impact Aid and RESTART programs. Please refer to **Section VII, Sampling and Estimation Methodology**, for additional details about these methodologies.

In FY 2018, the Department collaborated with stakeholders to identify an approach to overcome previously identified challenges with implementing a statistically valid estimation methodology for the Pell Grant and Direct Loan programs, and in FY 2019, FSA implemented a new statistically valid and rigorous estimation methodology. This new methodology improves the accuracy of the improper payment estimates. The prior, non-statistical methodology relied on non-random, limited-size sampling of the 100-300 annual FSA Program Compliance reviews which target high-risk schools of the approximately 5,700 schools that receive Title IV aid. The new methodology implemented in FY 2019 is based on a larger, random sample of the universe of schools receiving Title IV aid. As this is the first year implementing the new methodology, modest reduction targets were set. The reduction target for the Pell Grant program is 2.22 percent and the reduction target for the Direct Loan program is 0.51 percent.

According to OMB guidance, reduction targets for programs are not expected to be published until a full baseline has been established and reported. Baselines for the Emergency Impact Aid and RESTART programs will not be established until the conclusion of a 24-month reporting cycle in FY 2020.

Readers can obtain more detailed information on reporting improper payment estimates in FY 2019 and prior years at <https://paymentaccuracy.gov>.

Figure 18. FY 2019 Pell Grant Estimates
(Dollars in Millions)

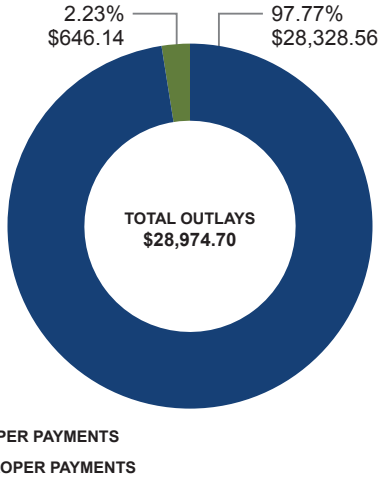
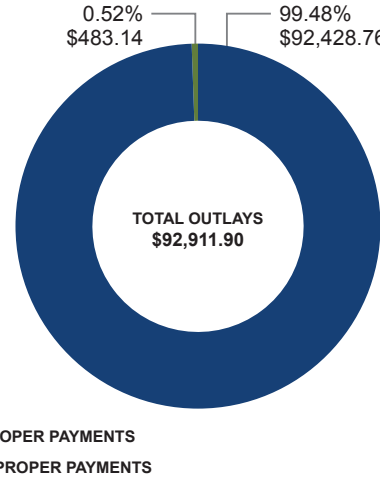


Figure 19. FY 2019 Direct Loan Estimates
(Dollars in Millions)



The FY 2019 Pell Grant estimates include results from the Free Application for Federal Student Aid (FAFSA®) Internal Revenue Service (IRS) Data Statistical Study which estimates Pell Grant improper payment rates based on a comparison between information reported by applicants on the FAFSA and income details reported to the IRS. Rates from the Study are included in the Pell Grant improper payment estimate as a proxy for improper payments associated with misreported income. This proxy of misreported income accounts for approximately 77% of the estimated FY 2019 Pell Grant improper payments.

Figure 20. FY 2019 Emergency Impact Aid Estimates
(Dollars in Millions)

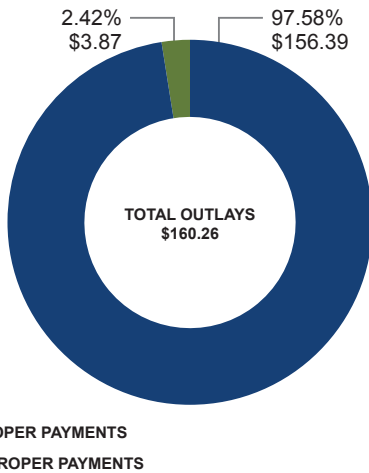
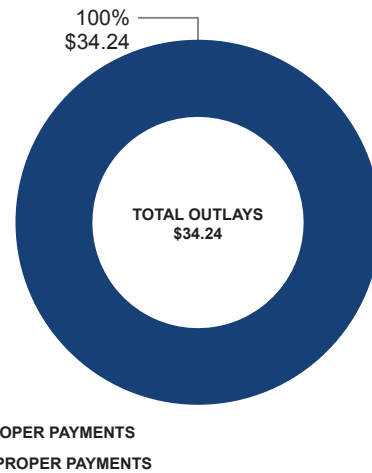


Figure 21. FY 2019 RESTART Estimates
(Dollars in Millions)



The source of the FY 2019 Pell Grant and Direct Loan outlay amounts is FSA's Financial Management System (FMS). The source of Emergency Impact Aid and RESTART outlay amounts is the Office of Finance and Operations (OFO)'s Grants Management System (G5). Emergency Impact Aid and RESTART outlays are taken from prior year program data. No improper payments were identified in FY 2019 for the RESTART program.

Table 5. FY 2019 Improper Payments for Risk-Susceptible Programs

Program	Overpayments (Dollars in Millions)	Overpayments (%)	Underpayments (Dollars in Millions) ¹	Underpayments (%)	Unknown (Dollars in Millions) ²	Unknown (%)
Pell Grants	\$380.04	58.82%	\$211.18	32.68%	\$54.92	8.50%
Direct Loans	\$199.34	41.26%	\$40.47	8.38%	\$243.33	50.36%
Emergency Impact Aid	\$3.87	100%	\$0	0%	\$0	0%
RESTART	\$0	0%	\$0	0%	\$0	0%
Total	\$583.25	51.47%	\$251.65	22.21%	\$298.25	26.32%

¹ In FY 2019, Emergency Impact Aid's estimated underpayments totaled just \$39.50 (not in millions) resulting in an improper payment rate of <0.01%.

² For the Pell Grant and Direct Loan programs, "Unknown" improper payments include overpayments and underpayments where the exact amount of the overpayment and underpayment is unknown due to lack of supporting documentation maintained by third parties.

Figure 22. FY 2019 Sources of Improper Payments (Dollars in Millions)

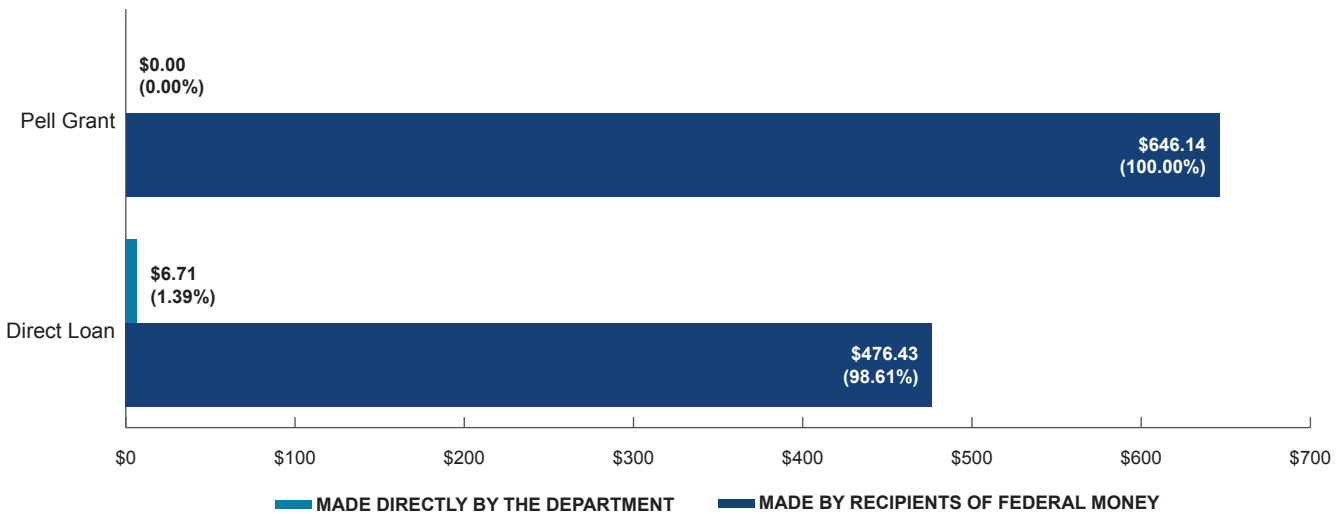


Figure 23. FY 2019 Sources of Improper Payments
(Dollars in Millions)

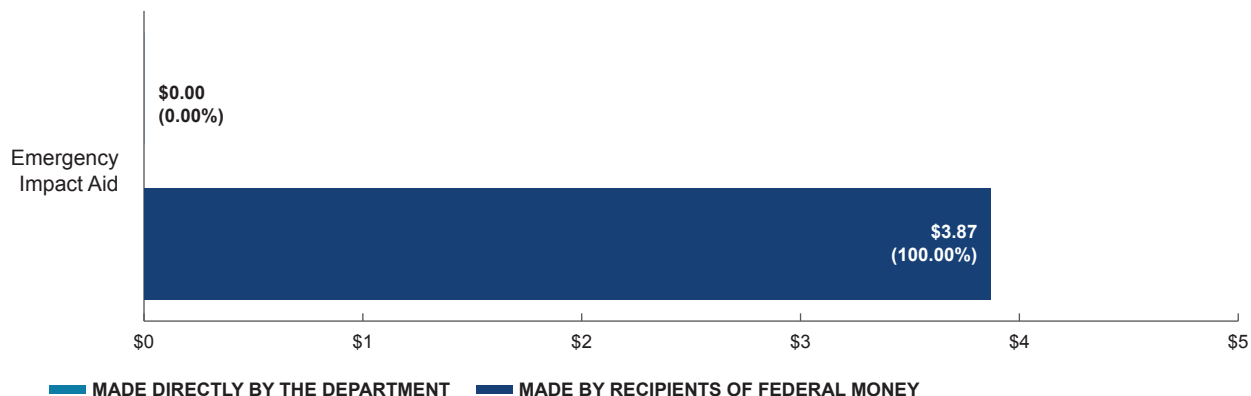


Figure 22 and Figure 23 summarize the estimated amount of improper payments made directly by the Department and the amount of improper payments made by recipients of federal money. For additional details, please refer to the **Payment Reporting – Root Cause Categories** section.

PAYMENT REPORTING - INSUFFICIENT OR LACK OF DOCUMENTATION

Of the \$646.14 million and \$483.14 million in estimated improper payments for the Pell Grant and Direct Loan programs, respectively, approximately 8.50% and 50.36%, respectively, are categorized as improper due to inability to discern whether the payment was proper as a result of insufficient or lack of documentation.

Documentation deficiencies for the Pell Grant and Direct Loan programs include but are not limited to inadequate tracking of attendance by schools, including inadequate tracking of students’ last date of attendance or withdrawal date, lack of other supporting eligibility documentation retained by schools, and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA.

PAYMENT REPORTING - MONETARY LOSS, NON-MONETARY LOSS, AND UNKNOWN

This section presents the portion of the improper payment estimates that are attributed to monetary loss, non-monetary loss, or unknown. Monetary loss, non-monetary loss, and unknown are defined by OMB.

- **Monetary loss to the Federal Government:** An amount that should not have been paid and in theory should/could be recovered.
- **Non-monetary loss to the Federal Government:** Either an underpayment or a payment to the correct recipient for the correct amount where the payment process fails to follow applicable regulation and/or statute.
- **Unknown:** The estimated amount within the improper payment estimate that could be either proper or improper but the Department is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

The monetary loss, non-monetary loss, and unknown amounts reported in Table 6 are estimates. Not all monetary loss is recoverable.

Table 6. FY 2019 Monetary and Non-Monetary Loss for Risk-Susceptible Programs

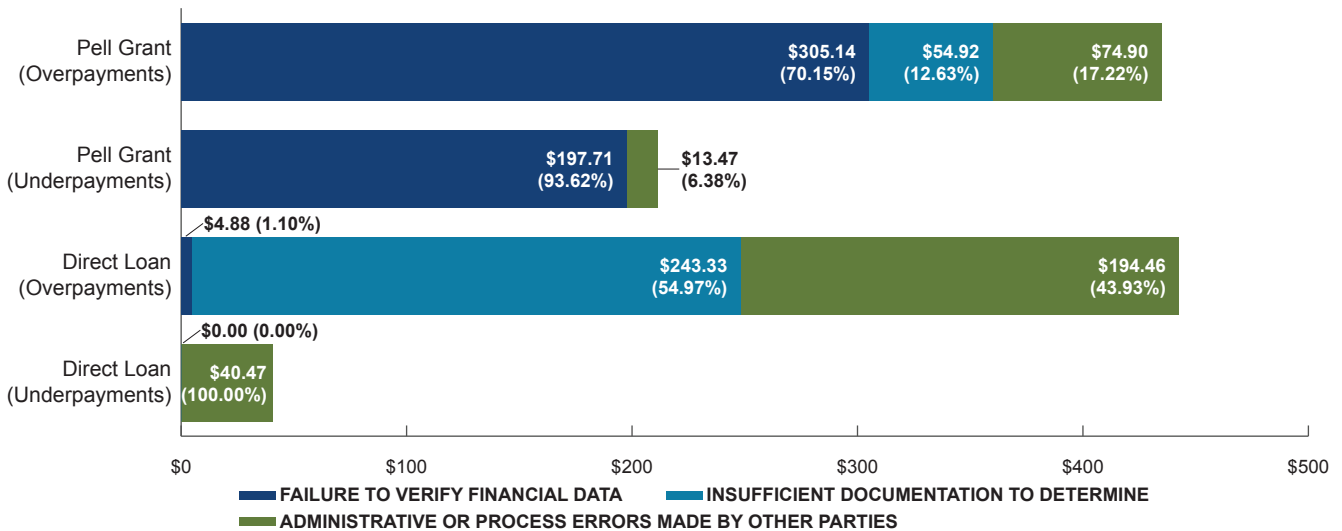
Program	Reporting Category	Reporting Sub-Category	Amount (Dollars in Millions)	Percentage of Improperly Paid Estimate (%)
Pell Grants	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	\$380.04	58.82%
		Estimated Non-Monetary loss to the Government	\$211.18	32.68%
		Estimated Unknown improper payments	\$54.92	8.50%
		Total	\$646.14	100.00%
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	\$0.00	0.00%
		Estimated Monetary loss Outside Agency Control	\$380.04	58.82%
Direct Loan	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	\$189.03	39.13%
		Estimated Non-Monetary loss to the Government	\$50.78	10.51%
		Estimated Unknown improper payments	\$243.33	50.36%
		Total	\$483.14	100.00%
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	\$4.91	1.02%
		Estimated Monetary loss Outside Agency Control	\$184.12	38.11%
Emergency Impact Aid	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	\$2.88	74.42%
		Estimated Non-Monetary loss to the Government	\$.99	25.58%
		Estimated Unknown improper payments	\$0.00	0.00%
		Total	\$3.87	100.00%
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	\$0.00	0.00%
		Estimated Monetary loss Outside Agency Control	\$2.88	74.42%
RESTART	Monetary Loss, Non-Monetary Loss and Unknown	Estimated Monetary loss to the Government	\$0.00	0.00%
		Estimated Non-Monetary loss to the Government	\$0.00	0.00%
		Estimated Unknown improper payments	\$0.00	0.00%
		Total	\$0.00	0.00%
	Monetary Loss Control	Estimated Monetary loss Within Agency Control	\$0.00	0.00%
		Estimated Monetary loss Outside Agency Control	\$0.00	0.00%

Of the estimated monetary loss for the Pell Grant and Direct Loan programs, the majority is outside of the agency’s control. As explained previously, 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. These “third-party” controls are outside of the Department’s operational control. Examples of root causes outside of the Department’s operational control are defined further in the following sections.

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 2019 were “Failure to Verify—Financial Data”, “Administrative or Process Errors Made by—Other Party” and “Insufficient Documentation to Determine” using categories of error as defined in OMB Circular A-123, Appendix C (OMB Memorandum M-18-20). Specific root causes associated with the “Failure to Verify—Financial Data” category include, but are not limited to, a school’s failure to perform or properly complete verification, the process by which schools confirm the accuracy of select data reported by students on their FAFSA, failure of schools to resolve conflicting information reported by applicants, and incorrect self-reporting of an applicant’s information that leads to incorrect awards based on Expected Family Contribution (EFC). Specific root causes associated with the “Administrative or Process Errors Made by—Other Party” category include, but are not limited to, credit balance errors; Satisfactory Academic Progress not achieved; student withdrawal deficiencies; disbursement of funds to ineligible recipients; disbursement of funds to students attending ineligible institutions, programs, or locations; incorrect disbursement amounts; disbursements in excess of students’ maximum eligibility; documentation deficiencies; improper use of funds; and processing errors at the servicer level. Specific root causes associated with the “Insufficient Documentation to Determine” category include, but are not limited to, inadequate tracking of attendance by schools, including inadequate tracking of students’ last date of attendance or withdrawal date, lack of supporting eligibility documentation retained by schools, and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA.

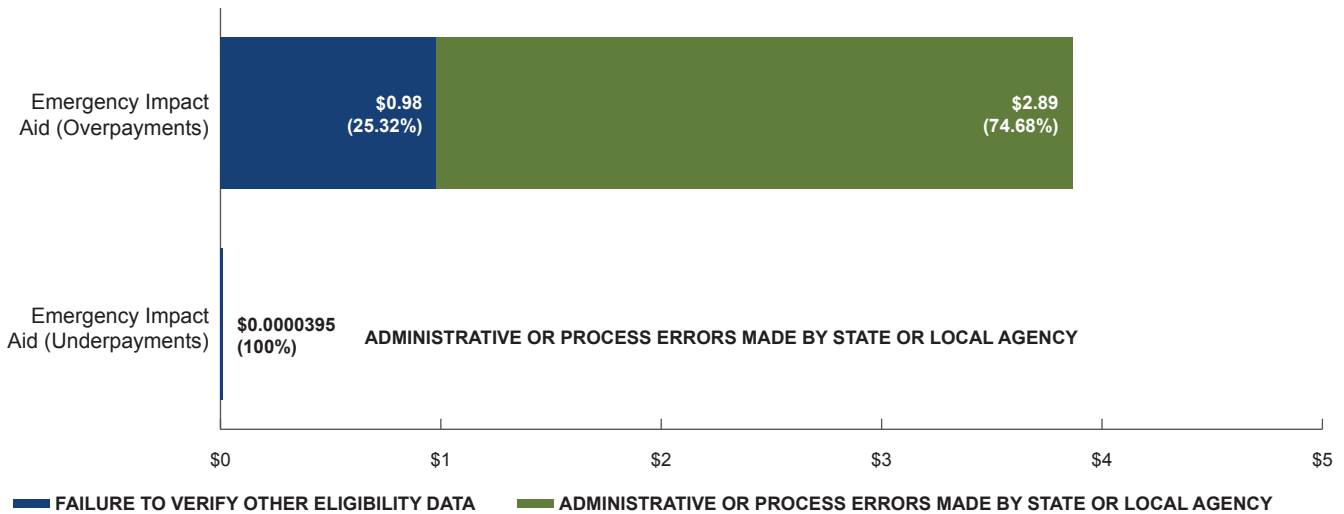
Figure 24. FY 2019 Root Causes of Improper Payments¹
(Dollars in Millions)



¹ Improper payment estimates attributed to Insufficient Documentation to Determine are reported as overpayments in accordance with OMB reporting requirements.

Figure 25 below shows Emergency Impact Aid root causes for improper payments were attributed to “Administrative or Process Error Made by – State Agency” and “Failure to Verify – Other Eligibility Data”, also done at the SEA level. Overpayments for the Emergency Impact Aid program resulted in \$0.98 million in estimated improper payments attributed to the “Failure to Verify – Other Eligibility Data” root cause and \$2.89 million to the “Administrative or Process Error Made by – State Agency”. Estimated underpayments for Emergency Impact Aid totaled \$39.50 (not in millions) and was attributed to the “Administrative or Process Error Made by – State Agency” root cause. Root Causes for improper payments include, but are not limited to, the program statutory design that specifically authorizes these types of occurrences. The timeline for dispersing the funds is short and the program statute allows for upward and downward adjustments to student counts as the data are reviewed through either monitoring or audits (even if that review period is beyond the date provided by the state for amending the application). State required audits identified issues in the data and funds were returned to the state based upon downward adjustments.

Figure 25. FY 2019 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. FSA’s Program Compliance annually conducts approximately 100–300 Program Reviews of the approximately 5,700 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 noncompliance.

FSA’s Program Compliance monitors annual compliance audits of schools. A school that participates in any Title IV program must at least annually have a compliance audit of its administration of that program unless an allowable waiver or exemption has been granted or, for Single Audit filers, the Title IV programs (major program) have been determined low-risk. Independent auditors perform the compliance audits to monitor schools’ administration of FSA programs. If any deficiencies are identified, the school must develop a corrective action plan that addresses the audit report findings. Auditors are required to evaluate whether the school has taken appropriate corrective action to address findings and recommendations from prior audits. FSA’s Program Compliance also performs audit resolution. This includes reviewing and evaluating the effectiveness of a school’s corrective action and mitigation efforts for noted exceptions in audit reports.

The corrective actions listed below are specific to the root causes of improper payments identified from FY 2019 improper payment fieldwork, and are tailored to reflect the unique processes, procedures, and risks involved with the Pell Grant and Direct Loan programs.

Table 7. Pell Grant and Direct Loan Improper Payment Corrective Actions—Root Cause Category

Corrective Action	Status (Including Planned or Actual Completion Dates) ¹	Root Cause Category
Pursue legislation that would provide an exemption to the IRS Tax Code Section 6103	<p>Long-term. The Department is coordinating with the Treasury Department and OMB to pursue legislation that would provide an exemption to the IRS Tax Code Section 6103 to further streamline FSA's ability to receive and verify applicants' and borrowers' income data. FSA expects this to have a meaningful impact on improper payments, reduce burden on applicants and schools, and reduce burden on borrowers, helping them avoid delinquency and default. Several bills have been introduced in Congress that would amend the Internal Revenue Code to allow IRS to disclose tax return information to authorized Department officials for purposes of determining eligibility for, and amount of, federal student financial aid.</p> <p>FSA does not have control over the completion date as this corrective action is dependent on the legislative process. The corrective action will be re-assessed at the end of FY 2020. Therefore, the planned completion date is tentatively set as September 30, 2020.</p>	
Continue to utilize and promote the IRS Data Retrieval Tool (DRT)	<p>On-going. The IRS DRT 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. The IRS DRT remains the fastest, most accurate way to input tax return information into the FAFSA form. 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. 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 (IFAP) urging institutions to promote the use of the IRS DRT. 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 reports from schools and IRS DRT users via annual surveys, usability studies, and the FSA Feedback System, among other mechanisms.</p> <p>The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.</p>	<p>Misreported income – Information reported by an applicant on its FAFSA is used to calculate EFC. Schools use the EFC to determine federal student aid eligibility and financial aid award in accordance with Title IV requirements.</p> <p>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.</p>
Analyze verification data to inform the upcoming award year cycle	<p>On-going. In FY 2019, FSA completed 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.</p> <p>FSA also conducts a monthly review of the verification percentages to determine what percentage of applicants were selected for verification. Through this process, FSA verifies that the selection process is working as intended.</p> <p>In FY 2020, FSA will continue to refine the verification selection process. As with prior years' verification selection, data-based statistical analysis will continue to be used by FSA to select for verification the 2020–2021 FAFSA applicants with the highest statistical probability of error and the impact of such error on award amounts.</p> <p>The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.</p>	

¹ FSA does not attempt to quantify the reduction of the improper payment estimates in terms of percentage or amount due to these corrective actions. The quantification of results is not feasible because this is FSA's first year using a statistically valid estimation methodology. Therefore, there are no prior year results to compare against. Also, FSA has multiple corrective actions for several of the root causes.

Publish an updated listing of FAFSA information schools and applicants may be required to verify

Reoccurring (annually). FSA published an updated listing of FAFSA information schools and applicants may be required to verify for the 2020–2021 award year. This notice was published in the Federal Register on May 24, 2019. Reevaluating the FAFSA information schools and applicants may be required to verify helps target higher-risk areas while reducing the documentation burden on schools and students.

In FY 2020, FSA will 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.

The planned completion date is June 30, 2020. The corrective action will be re-assessed in FY 2020 and may be renewed, intensified, or expanded for FY 2021.

Misreported income – Information reported by an applicant on its FAFSA is used to calculate EFC. Schools use the EFC to determine federal student aid eligibility and financial aid award in accordance with Title IV requirements.

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.

Publish updates to questions and answers about verification requirements, if identified

On-going. FSA published questions and answers about verification on its website. Questions and answers were updated in FY 2019 to help clarify verification requirements. These questions and answers provide clarity on verification requirements, reducing the risk of verification deficiencies.

FSA will continue to update the frequently asked questions and answers, if updates are identified.

The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.

Publish and deliver updated free training, guidance, and resources

Ongoing. The Department annually publishes and delivers updated free training, guidance, and resources. This content is annually updated, if not more frequently, to target the root causes of improper payments and other frequently identified compliance issues. These free training, guidance, and resources include the:

- FSA Training Conference for Financial Aid Professionals. From November 27 to November 30, 2018, 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. More than 2,000 unique schools registered for the conference. All 50 states were represented as well as the U.S. territories to include Guam, Puerto Rico, and U.S. Virgin Islands. More than 200 Foreign School officials also attended from countries all over the world. The FY 2019 Training Conference included sessions related to the root causes of improper payments. The session recordings are publicly available. The FSA Training Conference also provides schools direct access to federal staff, and one-on-one time with subject matter specialists. In FY 2020, FSA will again hold and promote the FSA Training Conference.
- FSA Handbook. FSA annually updates and publishes the FSA Handbook for college financial aid administrators and counselors. The FSA Handbook includes an Application and Verification Guide, and Volumes on Student Eligibility, School Eligibility and Operations, Calculating Awards and Packaging, Processing Aid and Managing FSA Funds, and Withdrawals and the Return of Title IV Funds. Each volume provides examples and guidance to help schools appropriately administer federal student aid.
- FSA Coach. FSA offers free 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. FSA annually updates training content to address annual updates for the new award year, provide interactive exercises and self-assessments, and target the root causes of improper payments and other frequently identified compliance issues. New for 2019, the Department launched the Financial Aid Administrator's Tool Kit. The new FAA Tool Kit, included within FSA Coach, offers quick access to Federal Student Aid resources, reference guides, and training material, and is designed to assist financial aid professionals in administering the federal student aid programs in compliance with federal regulations. In addition to providing links to key FSA resources, the Tool Kit also includes short videos to assist with navigating several FSA products.
- FSA Assessments. FSA designed, in collaboration with financial aid professionals, FSA Assessments that help schools with compliance and improvement activities associated with each of the root causes of improper payments. The FSA Assessments contain links to applicable laws and regulations as well as guidance, worksheets, and checklists to help schools comply with these requirements.
- HomeRoom, the Department's official blog. 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, including activities to help address the root causes of improper payments. For example, on September 10, 2019, the Department published an article about 7 Things You Need to Know Before You Fill Out the 2020-21 FAFSA Form.

FSA solicits input on the effectiveness of these training and resources, and invests in improving these critical sources of information to better serve program participants, as described above.

The planned completion date is September 30, 2020. The corrective action will be re-assessed at the end of FY 2020 and may be renewed, intensified, or expanded for FY 2021.

Multiple root causes: verification deficiencies; credit balance deficiencies; Satisfactory Academic Progress deficiencies; student withdrawal deficiencies; ineligible recipients; ineligible institutions, programs, or locations; incorrect amounts; documentation deficiencies; improper use of funds; maximum eligibility deficiencies; and misreported income.

<p>Initiate an assessment of the feasibility and effectiveness of servicers implementing additional levels of quality assurance over processing of Loan Verification Certificates (LVCs)</p>	<p>Completed. In FY 2019, FSA surveyed the Title IV Additional Servicers (TIVAS) and reviewed their Direct Loan Consolidation procedures. FSA identified a flawed automated TIVAS process which was causing improper payments. The process was revised to address the root cause of improper payments. This corrective action will eliminate improper payments associated with the flawed automated process.</p> <p>The actual completion date was May 2019.</p>	<p>Incorrect processing of Loan Verification Certificates (LVCs)</p>
<p>Meet with the TIVAS to discuss incorrect processing of LVCs</p>	<p>Completed. In FY 2019, FSA met with the TIVAS to solicit ideas on how to best address incorrect processing of LVCs. No additional or alternative corrective actions were identified.</p> <p>The actual completion date was September 12, 2019.</p>	
<p>Update TIVAS Direct Loan Consolidation procedure</p>	<p>Completed. The TIVAS updated its Direct Loan Consolidation procedures to help mitigate the risk of Direct Loan Consolidation manual errors.</p> <p>The actual completion date was September 24, 2019.</p>	<p>Incorrect Direct Loan Consolidation manual entry or oversight</p>
<p>Implement a new reconciliation process to mitigate the risk of incorrect Direct Loan Refund calculations</p>	<p>Completed. The new process was implemented at the TIVAS. As a result, issues identified from the new reconciliation process are researched, and any incorrectly processed Direct Loan Refunds are cancelled and corrected prior to resulting in improper payments.</p> <p>The actual completion date was July 23, 2019.</p>	<p>Incorrect calculation of Direct Loan Refund</p>

Corrective actions are required when a program's improper payments exceed statutory thresholds, which did not apply to the Emergency Impact Aid and RESTART programs in FY 2019.

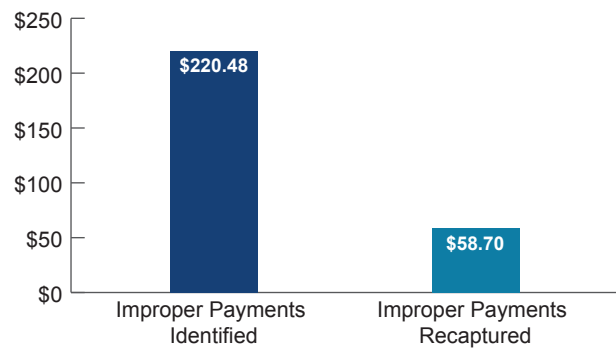
II. RECAPTURE OF IMPROPER PAYMENTS REPORTING

Agencies are required to conduct recovery audits for all programs and activities that expend more than \$1 million in a fiscal year, 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 decide not to 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.

In FY 2019, the Department identified \$220.48 million in improper payments and recovered \$58.70 million in improper payments (or 27 percent), as depicted in Figure 26. For detailed information on identified and recovered 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 26. Improper Payments Identified and Recaptured in FY 2019
(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 Department of Treasury's Do Not Pay (DNP) Business Center Portal as required by the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), as amended by the *Bipartisan Budget Act of 2013* and the *Federal Improper Payments Coordination Act of 2015* (FIPCA). During FY 2019, 1,607,013 payments, totaling \$184.3 billion, were reviewed for possible improper payments through the DNP Portal screening, which includes the Death Master File and the System for Award Management File (SAM). The Department continues to validate that potential improper payments identified through this screening process were properly adjudicated and reported to Treasury timely.

Readers can learn more about DNP at <https://fiscal.treasury.gov/DNP/>.

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. Such a match 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 form.

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, Senior Accountable Officials are identified for the Department and FSA.

VI. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

FSA Programs

FSA has the internal controls, human capital, and information systems and other infrastructure to reduce Pell Grant and Direct Loan improper payments. However, as noted in Section IV. Barriers, the Department must also rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational control. Additionally, there are limitations on FSA's ability to obtain data necessary to verify FAFSA information without increasing the burden on schools and students. In its most recent budget submission, the Department included information on pursuing legislation to aid an income data match between FSA and the Internal Revenue Service. Such a match would eliminate the need to rely on tax transcripts submitted by the applicant and allow FSA to verify income directly with the IRS.

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 FY 2019 AFR reporting, the Department used a statistically valid and rigorous estimation methodology for estimating improper payments for the Pell Grant and Direct Loan programs. The Department submitted the statistically valid and rigorous estimation methodology to OMB on June 26, 2019. This statistical methodology uses a random sample of annual compliance audits. A small population of schools may apply for and receive a waiver or exemption from the compliance audit requirements. FSA accounts for these disbursements through a statistically valid sampling process.

Additionally, on June 27, 2019, the Department submitted its statistically valid and rigorous methodologies for estimating improper payments for the Emergency Impact Aid and RESTART programs. The Department selected statistical payment samples to estimate the percentage and dollar value of improper payments for each program's disbursements associated with supplemental disaster relief funding. Sample design was developed in accordance with the *Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012*, the *Improper Payments Elimination and Recovery Act (IPERA) of 2010*, the *Improper Payments Information Act (IPIA) of 2002*, and the sampling guidance provided in OMB Circular A-123, Appendix C (as revised by OMB document M-18-20, *Requirements for Payment Integrity Improvement*). The Department obtained FY 2018 disbursement data for all disaster-related programs via the Department's grants management system (G5). These data were based on amounts distributed from

SEAs to LEAs. For each state, the sampling timeframe represents the list of prior FY payments from which the statistical samples were selected.

The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

VIII. 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 and activity

that is not reporting an improper payment estimate. In FY 2019, the Department assessed improper payment risk for 266 grant activities (formula grants and discretionary grant competitions) under approximately 120 program authorities identified with disbursements in FY 2018. This risk assessment did not identify any additional Education programs as being susceptible to significant improper payments. In FY 2019, the Department did not conduct risk assessments of FSA-managed programs, as all FSA-managed programs and activities were previously assessed for risk in FY 2017.