

Payment Integrity Information Act Reporting

All program outlays can be categorized into one of three payment type categories: proper payments, improper payments, and unknown payments. OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, defines an improper payment as a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; any payment that is not authorized by law; and any payment that does not account for credit for applicable discounts. OMB Circular A-123, Appendix C, also defines an unknown payment as a payment that could either be proper or improper, but it cannot be determined whether the payment was proper or improper because of insufficient or lack of documentation.

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 and unknown 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 and unknown 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. Due to these third-party controls being outside of the Department's operational management, they present a higher risk to the Department, as evidenced by its 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 (PIMA), 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.

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2021, the Federal Pell Grant and William D. Ford Federal Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high-high priority programs. Also, in FY 2021, the Department continued 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 three programs that met this criterion: the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid), Immediate Aid to Restart School Operations (Restart) and the Emergency Assistance to Institutions of Higher Education (EAI) program. Additionally, at the conclusion

of FY 2020's improper payment risk assessment, the Department identified the Title I, Part A (Title I) as being susceptible to significant improper payments.

The Department continues to place additional emphasis to ensure payment integrity and minimize improper and unknown payments in these important programs as required by OMB guidance. Readers can obtain a detailed breakdown of information on improper and unknown payment estimates, root causes, and corrective actions for the programs at <https://paymentaccuracy.gov>.

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 (SEA). SEAs provide subgrants to local educational agencies (LEA) to reimburse the costs of educating students enrolled in public schools (both traditional and charter) and nonpublic 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 nonpublic 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, reopening schools, and reenrolling students.

EMERGENCY ASSISTANCE TO INSTITUTIONS OF HIGHER EDUCATION

The Emergency Assistance to Institutions of Higher Education (EAI) program awards grants for emergency assistance to eligible Institutions of Higher Education (IHE) for which a major disaster or emergency has been declared. Funds awarded assist activities directly related to mitigating the effects of a covered disaster or emergency on students and institutions. To the extent possible, EAI prioritizes projects that support students who are homeless or who are at risk of becoming homeless as a result of displacement related to a covered disaster or emergency; and IHEs that have sustained extensive damage by a covered disaster or emergency.

TITLE I, PART A

Title I, Part A (Title I) of the *Elementary and Secondary Education Act*, as amended by the *Every Student Succeeds Act* (ESEA) provides financial assistance to LEAs and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards. Federal funds are currently allocated through four statutory formulas that are based primarily on census poverty estimates and the cost of education in each state.

In FY 2021, the Department used statistically valid sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, Emergency Impact Aid, Restart, EAI and Title I programs. The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

For detailed information on Pell Grant, Direct Loan, Emergency Impact Aid, Restart, EAI, and Title I improper payment estimates in FY 2021 and prior years, please visit <https://paymentaccuracy.gov>.

ACTIONS TAKEN TO ADDRESS AUDITOR RECOVERY RECOMMENDATIONS

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 and 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 collection. 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 the improper payments were identified.

The Department continues to work to improve its methods to identify, collect, and report on improper payment collections. For detailed information on identified and recovered improper payments in FY 2021, readers can visit <https://paymentaccuracy.gov>.