U.S. Department of Education
Office of Inspector General

U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2020

May 14, 2021
ED-OIG/A21GA0014

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Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. The appropriate Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

May 14, 2021

TO: Denise Carter
Acting Assistant Secretary
Office of Finance and Operations

Richard Lucas
Chief Financial Officer
Federal Student Aid

FROM: Bryon Gordon /s/
Assistant Inspector General for Audit

SUBJECT: Final Audit Report, "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for FY 2020," Control Number ED-OIG/A21GA0014

Attached is the subject final audit report that consolidates the results of our review of the U.S. Department of Education's compliance with improper payment reporting requirements for FY 2020. We have provided an electronic copy to your audit liaison officers. We received your comments in response to each of the findings and recommendations included in our discussion draft audit report.

U.S. Department of Education policy requires that you develop a final corrective action plan within 30 days of the issuance of this report. The corrective action plan should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this final audit report. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact me at (202) 245-6051 or Bryon.Gordon@ed.gov or Selina Boyd, Regional Inspector General for Audit, Atlanta Region, at (404) 974-9424 or Selina.Boyd@ed.gov.

Attachment

Table of Contents

Results in Brief 1

Introduction 6

The Department Did Not Comply with Two of the Six PIIA Requirements 9

Review of the Department's Payment Integrity Activities 12

Finding 1. The Department Did Not Comply with the PIIA for the FY 2020 Reporting Period 15

Finding 2. The Department's Improper Payment Risk Assessment Process Needs Strengthening 20

Finding 3. The Department's Improper Payment Sampling and Estimation Plans and Estimates were Not Reliable 24

Other Matter. The Department's Improper Payment Risk Assessments Need Strengthening 49

Appendix A. Scope and Methodology 51

Appendix B. Acronyms and Abbreviations 63

Department Comments 65

Results in Brief

What We Did

The objectives of our audit were to:

1. Review the payment integrity section of the fiscal year (FY) 2020 Agency Financial Report (AFR) to determine whether the U.S. Department of Education (Department) is in compliance with the Payment Integrity Information Act of 2019 (PIIA).
2. Evaluate the Department's (a) risk assessment methodology, (b) improper payment rate estimates, (c) sampling and estimation plans, (d) corrective action plans, and (e) efforts to prevent and reduce improper payments.

Our audit covered the Department's payment integrity information reporting requirements for FY 2020 (October 1, 2019, through September 30, 2020). We reviewed the Department's risk assessment methodologies and risk-susceptible programs (programs that required an improper payment estimate because they were determined to be susceptible to significant improper payments) reported or referenced in the accompanying materials to the Department's FY 2020 AFR. We also reviewed the corrective actions the Department had taken in response to our FY 2019 audit report titled, "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2019."

What We Found

The Department did not comply with the PIIA because it did not meet two of the six compliance requirements, as described in Finding 1. Specifically, the Department did not demonstrate improvement in reducing improper payments in the William D. Ford Federal Direct Loan (Direct Loan) program. In addition, the Department reported improper payment rates that exceed 10 percent for the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) and Immediate Aid to Restart School Operations (Restart) programs. Table 1 identifies the PIIA requirements that were met, not met, or not required for each reportable program.

Table 1. FY 2020 PIIA Compliance Requirements

Program Name	Published an Agency Financial Report	Conducted Risk Assessment, if required	Published an Improper Payment Estimate, if required	Published Corrective Action Plans, if required	Published and Demonstrated Improvement in Meeting Reduction Targets, and Developed a Plan, if required	Reported an Improper Payment Rate of Less Than 10 Percent
Federal Pell Grant Program	Compliant	Not Required	Compliant	Compliant	Compliant	Compliant
William D. Ford Federal Direct Loan Program	Compliant	Not Required	Compliant	Compliant	Not Compliant	Compliant
Immediate Aid to Restart School Operations Program	Compliant	Not Required	Compliant	Compliant	Compliant	Not Compliant
Temporary Emergency Impact Aid for Displaced Students Program	Compliant	Not Required	Compliant	Compliant	Compliant	Not Compliant
Emergency Assistance to Institutions of Higher Education Program	Compliant	Not Required	Compliant	Not Required	Not Required	Compliant

The Department's program and administrative activity risk assessments were generally sufficient and supported, except for the Individuals with Disabilities Education Act Part B (IDEA) program and contracts management activity. The IDEA risk assessment conclusion as to the level of improper payment risk for the program was not supported and the risk assessment the Department conducted on its contracts management activity was incomplete because it did not include Federal Student Aid (FSA)-managed contracts, as described in Finding 2.

The Department's improper payment sampling and estimation plans and estimates for all five programs that required an estimate for FY 2020, including the Federal Pell Grant (Pell), Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to Institutions of Higher Education (IHE) programs were not reliable. Specifically, for all five programs, neither the improper payment sampling and estimation plans the Department developed nor the improper payment estimates themselves were statistically valid and rigorous. The plans and estimates were not statistically valid and rigorous because they included the use of nonrandom samples, unsuitable sample weighting, or inaccurate and incomplete population sampling frames. In addition, the improper payment estimates were not statistically valid and rigorous because some of the data used in the calculations had not been verified for accuracy, the precision level for the estimate exceeded +/- 3 percent, or not all improper payments were accurately or completely included in the calculations. These deficiencies are described in Finding 3.

The Department implemented corrective actions as well as oversight and financial controls that could prevent and reduce improper payments in its high priority programs, Pell and Direct Loan, and reported the required information in the accompanying material to its FY 2020 AFR. The Department also assessed the effectiveness of its corrective actions. The other three programs with a reported improper payment estimate for FY 2020 did not have any corrective actions that were required to be implemented in FY 2020. However, for two of those programs (Emergency Impact Aid and Restart), corrective actions for FY 2021 were required in the accompanying material to the AFR, and we reviewed and found those proposed corrective actions could be sufficient for preventing and reducing improper payments in the programs.

Other information the Department reported in the accompanying material to its AFR, such as the root causes of improper payments and the amounts of improper payments identified and recaptured in all the Department's programs and activities, was generally accurate and complete.

Since FY 2011, the Department has been reporting an improper payment estimate for its two high-priority programs: the Pell and Direct Loan programs. We evaluated the Department's assessment of the level of risk for these programs when we evaluated the quality of the high-priority programs' improper payment estimates and methodologies. We determined that the Department included Pell and Direct Loan program risks, such as risks related to student eligibility, student disbursements, and return of Title IV of the Higher Education Act of 1965 funds, in the improper payment estimates for these programs. However, we found that the reported estimates may not reflect the true level of risk because the improper payment estimates for the Pell and Direct Loan programs were unreliable.

What We Recommend

We recommend that the Department take a variety of actions to address the findings in this report. Specifically, we recommend that the Department submit a plan to the appropriate authorizing and appropriations committees of Congress to describe actions the Department will take to bring the Direct Loan, Emergency Impact Aid, and Restart programs into compliance with the PIIA. We also recommend that the Department reassess the IDEA program's risk for significant improper payments in the Department's FY 2021 annual improper payment review and ensure that it allows enough time to obtain and review necessary documentation for the risk assessment. In addition, we recommend that the Department develop and implement policies and procedures to ensure FSA-managed contracts are included in its improper payment risk assessments.

Additionally, we recommend that the Department implement a range of internal controls to improve the reliability of its improper payment estimates. Specifically, we recommend that the Department implement controls to ensure that its sampling and estimation plans for the Direct Loan and Pell programs are statistically valid and produce reliable improper payment estimates, or use an alternative method approved by the Office of Management and Budget (OMB). We also recommend that the Department use data that is accurate, complete, and based on quality information to produce its improper payment estimates for the Direct Loan and Pell programs. We also recommend that the Department implement controls to oversee the production of the improper payment estimates by its contractors. Finally, we recommend that the Department implement controls to ensure that the improper payment estimates for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs are based on accurate and complete population sampling frames that will produce statistically valid and reliable estimates, and that all improper payments are accurately and completely included in the improper payment calculations.

Department Comments

We provided a draft of this report to the Department and Federal Student Aid (FSA) for comment. We summarized the Department's and FSA's comments at the end of each finding and provided the full text of the comments at the end of this report. The Department concurred with all findings and recommendations related to the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs and the IDEA risk assessment process, and described corrective actions it had taken, or planned to take, in response to the recommendations.

FSA did not concur with any of the findings or recommendations related to the Pell and Direct Loan programs. In response to Finding 1, FSA stated that its improper payment sampling and estimation methodology met all the requirements for a statistically valid

and rigorous plan. FSA stated that the reduction target was met for the Direct Loan program because the 95-percent confidence interval of FSA's FY 2020 Direct Loan improper payment estimate (0.00 percent to 1.71 percent) included the reduction target of 0.51 percent. In response to Finding 3, FSA stated that its improper payment estimates for the Pell and Direct Loan programs were reliable. FSA disagreed with all five points supporting our finding related to the reliability of the Pell and Direct Loan improper payment estimates and explained its reasons for disagreement. FSA also provided comments related to some of the criteria supporting Finding 3.

OIG Response

The Department's proposed corrective actions for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs and the IDEA risk assessment process, if effectively implemented, are responsive to our recommendations.

FSA did not provide any additional information that would change our conclusions related to the Direct Loan program in Finding 1 or the Pell and Direct Loan programs in Finding 3. Regarding Finding 1, we found the improper payment estimation and sampling plan for the Direct Loan program to be not statistically valid; therefore, for the Direct Loan program to have met its improper payment reduction target for FY 2020, the improper payment estimate would have to be less than or equal to the reduction target. The Direct Loan program's improper payment estimate for FY 2020 was 0.84 percent, which is more than the reduction target that was set at 0.51 percent. Regarding Finding 3, it is the OIG's position that a statistically valid improper payment estimate and confidence interval are derived from a statistically valid study based on a statistical sample. A statistical sample is based on the probability (random) sample, and FSA's sample included nonrandom student level-sampling. FSA's proposed corrective actions to address our findings for the Pell and Direct Loan programs are not responsive to our recommendations. We made minor technical and clarifying edits to Finding 3 based on FSA's comments, but the revisions did not substantively change the finding or recommendations.

Introduction

Purpose

We conducted this audit to determine whether the U.S. Department of Education (Department) complied with the Payment Integrity Information Act of 2019 (PIIA) (codified at 31 United States Code (U.S.C.) section 3351-3358). The PIIA requires each agency's Inspector General to determine the agency's compliance with the statute in each fiscal year. As part of the Inspector General's review, the Inspector General should also evaluate the accuracy and completeness of the agency's reporting and its performance in preventing and reducing improper payments.

Background

Signed into law in March 2020, the PIIA was enacted to improve government-wide efforts to identify and reduce improper payments. The PIIA repealed and replaced three improper payment laws—the requirements of the Improper Payments Information Act (IPIA) of 2002, the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 were consolidated into the PIIA. The PIIA also established new requirements for agencies and Inspectors General.

The PIIA requires each agency, in accordance with guidance prescribed by the Office of Management and Budget (OMB), to periodically review all programs and activities that the agency administers and identify all programs and activities that may be susceptible to significant improper payments. Under 31 U.S.C. section 3351(4), an improper payment is any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. An improper payment also includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, or any payment for goods or services not received. Under 31 U.S.C. section 3352(c)(2)(A), if the agency cannot determine whether a payment is proper due to lacking or insufficient documentation, the payment must be treated as an improper payment. According to the PIIA and OMB Circular A-123 Appendix C, Part I(B), significant improper payments are defined as gross annual improper payments (the total amount of overpayments plus underpayments) in the program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays). For each program and activity identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate, or an estimate that is

otherwise appropriate using a methodology that OMB approved, of the improper payments made by each program and activity and include those estimates with the Agency Financial Report (AFR).

Improper Payment Requirements

Under 31 U.S.C. section 3351(2), "compliance" means that an agency has met all six of the following requirements:

1. published improper payments information with the annual financial statement of the executive agency for the most recent fiscal year and posted on the website of the executive agency that statement and any accompanying materials required under guidance of the OMB;
2. if required, has conducted a program specific risk assessment for each program or activity that conforms with the requirements under section 3352(a);
3. if required, publishes improper payments estimates for all programs and activities identified under section 3352(a) in the accompanying materials to the annual financial statement;
4. publishes programmatic corrective action plans prepared under section 3352(d) that the agency may have in the accompanying materials to the annual financial statement;
5. publishes improper payment reduction targets established under 3352(d) that the executive agency may have in the accompanying materials to the annual financial statement for each program or activity assessed to be at risk, and has demonstrated improvements and developed a plan to meet the reduction targets; and
6. has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under 3352(c).

If an agency does not meet one or more of these requirements, then it is not compliant with the PIIA.

Under 31 U.S.C. 3352(b)(1), the Director of OMB is required to identify a list of high-priority programs for greater levels of oversight and review. OMB has designated the Federal Pell Grant Program (Pell) and the William D. Ford Federal Direct Loan Program (Direct Loan) as high-priority programs. OMB issued government-wide guidance on the improper payment requirements on June 26, 2018, which is contained in OMB Circular

A-123 Appendix C.[1] OMB Circular A-123 Appendix C, Part II, B(1), provides that the threshold for high-priority program determinations is $2 billion in estimated improper payments as reported by an agency, regardless of the improper payment rate estimate. Under 31 U.S.C. 3352(b)(2), each agency with a high-priority program must report to the Inspector General and make available to the public (1) any action that the agency has taken or plans to take to recover improper payments and (2) any action the agency intends to take to prevent future improper payments. According to 31 U.S.C. section 3352(b)(2)(E)(i), the agency Inspector General must review (1) the assessment of the level of risk associated with any high-priority program, (2) the quality of the program's improper payment estimates and methodology, and (3) the oversight or financial controls to identify and prevent improper payments under the program.

The Department and FSA engaged contractors to assist with performing required risk assessments, developing sampling and estimation plans, and executing the sampling and estimation plans to produce improper payment rate estimates for its programs. As it relates to the Pell and Direct Loan programs, we will use the term "FSA" to refer to the actions of FSA and its contractors throughout this report, unless otherwise stated. Also, as it pertains to the Temporary Emergency Impact Aid for Displaced Students Program (Emergency Impact Aid), Immediate Aid to Restart School Operations Program (Restart), and Emergency Assistance to Institutions of Higher Education (IHE) programs, we will use the term "Department" to refer to the actions of the Department and its contractors throughout this report, unless otherwise stated.

[1] All citations to OMB Circular A-123 Appendix C in this report relate to the June 18, 2018, version, unless noted otherwise. OMB instructed Inspectors General to use the June 18, 2018, version for this year's compliance review because the new guidance had not been issued.

The Department Did Not Comply with Two of the Six PIIA Requirements

We found that the Department did not comply with the PIIA because it did not meet two of the six compliance requirements established under the PIIA. Specifically, the Department did not demonstrate improvement in reducing improper payments in the Direct Loan program. In addition, the Department reported improper payment rates that exceed 10 percent for both the Emergency Impact Aid and Restart programs. The six compliance requirements are—

1. **Published an Annual Financial Statement.** The Department complied with the requirement to publish and post on its website an annual financial statement and required accompanying materials. Under 31 U.S.C. section 3351(2)(A), the Department must publish on its website its annual financial statement[2] and any accompanying materials required under OMB guidance. The Department published its fiscal year (FY) 2020 AFR and accompanying materials on November 16, 2020.
2. **Conducted Program-Specific Risk Assessments.** The Department complied with the requirement to periodically conduct program-specific risk assessments. Under 31 U.S.C. section 3351(2)(B), if required, an agency must conduct a program-specific risk assessment for each program or activity that conforms with the requirements of 31 U.S.C. section 3352(a). In performing the risk assessments, an agency must periodically review all of its programs and activities, take into account the 11 risk factors listed in 31 U.S.C section 3352(a)(3)(B), and identify the programs and activities that may be susceptible to significant improper payments. The Department met this requirement because it conducted risk assessments of its administrative activities, grant activities, and applicable FSA-managed programs. However, as described in Finding 2, the Department's risk assessment process needs strengthening. Risk assessments are not required for programs with an improper payment estimate reported in the AFR. Therefore, the five programs listed in Table 1 did not require a risk assessment.
3. **Published Improper Payment Estimates.** The Department complied with the requirement to publish improper payment estimates. Under 31 U.S.C.

[2] Unless we are specifically citing language from 31 U.S.C. 3351, in this report we will use the term AFR instead of annual financial statement.

section 3351(2)(C), an agency must publish improper payment estimates for programs it identified as being susceptible to significant improper payments. As required, the Department published improper payment estimates for the Pell, Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs in the accompanying material to the FY 2020 AFR. However, as described in Finding 3, the improper payment estimates were not reliable.

4. **Published Programmatic Corrective Action Plans.** The Department complied with the requirement to report on its actions to reduce improper payments in programs susceptible to significant improper payments. Under 31 U.S.C. section 3351(2)(D) the Department is to report on its actions to reduce improper payments for programs it deemed susceptible to significant improper payments. In the accompanying material to its FY 2020 AFR, the Department published corrective action plans to address the root causes of improper payments for the Pell, Direct Loan, Emergency Impact Aid, and Restart programs. The Department was not required to publish corrective actions for the Emergency Assistance to IHE program because the program's gross annual improper payments did not exceed statutory thresholds for being susceptible to significant improper payments.

5. **Published Reduction Targets, Demonstrated Improvements, and Developed a Plan to Meet Reduction Targets.** The Department did not comply with the requirement to demonstrate improvement in reducing improper payments in the Direct Loan program, as described in Finding 1. The Direct Loan program's reported improper payment rate and amount for FY 2020 increased from FY 2019 (from 0.52 percent to 0.84 percent, and from $483.14 million to $742.94 million). In addition, in its FY 2019 AFR, the Department published a reduction target for the Direct Loan program of 0.51 percent; however, the actual improper payment rate for FY 2020 was 0.84 percent. Under 31 U.S.C. section 3351(2)(E), the Department must publish improper payment reduction targets for each program or activity assessed to be at risk and must demonstrate improvements and develop a plan to meet the reduction target. FSA published a FY 2021 reduction target for the Direct Loan program in the accompanying material to its FY 2020 AFR (0.84 percent) and it developed a plan to meet the reduction target.

   For the Pell program, FSA demonstrated improvement in reducing improper payments because it met its reduction target (the reduction target was 2.22 percent and the actual rate was 2.19 percent). FSA also published a FY 2021 reduction target for the Pell program in the accompanying material to its

FY 2020 reporting (2.19 percent) and it developed a plan to meet the reduction target.

The Department was not required to set and publish a reduction target for the Emergency Impact Aid and Restart programs in the previous reporting period (FY 2019) because a full baseline had not been established. In addition, the Emergency Assistance to IHE program did not require an estimate in the previous reporting period, therefore, there was no reduction target to be set and published that year. The Department did, however, publish FY 2021 reduction targets for the Emergency Impact Aid and Restart programs (9.99 percent for both programs) in the accompanying material to its FY 2020 AFR, and it developed a plan to meet those reduction targets. For the Emergency Assistance to IHE program, FY 2020 was the first year the program required an estimate. Therefore, the Department was not required to publish a FY 2021 reduction target for the program because a full baseline has not been established.

6. **Reported Improper Payment Rate of Less Than 10 Percent.** The Department did not comply with the requirement to report improper payment rates of less than 10 percent for all applicable programs, as required under 31 U.S.C. section 3351(2)(F). The Department reported improper payment estimates for the Emergency Impact Aid and Restart programs that were both above the 10 percent threshold, as discussed in Finding 1. The improper payment estimate was 28.49 percent for the Emergency Impact Aid program and 18.90 percent for the Restart program.

   The Department reported improper payment rate estimates that were less than the 10 percent threshold for the Pell (2.19 percent), Direct Loan (0.84 percent), and Emergency Assistance to IHE (3.03 percent) programs.

Review of the Department's Payment Integrity Activities

For our review of the Department's payment integrity activities, we evaluated the accuracy and completeness of the Department's improper payment reporting in the accompanying material to its AFR, and we evaluated the Department's risk assessment methodologies, improper payment estimates, improper payment sampling and estimation plans, and efforts to prevent and reduce improper payments. We also evaluated the Department's assessment of the level of risk associated with the high-priority programs; and reviewed the oversight and financial controls used by the Department to identify and prevent improper payments in the high-priority programs.

Improper Payment Reporting

We found that the Department's improper payment reporting was generally accurate and complete; however, as described in Finding 3, for all five programs that had an estimate reported in the Department's FY 2020 AFR, we found that the improper payment sampling and estimation plans and estimates were not reliable. We reviewed the accuracy and completeness of the data in the tables presented in the accompanying material to the Department's FY 2020 AFR, including improper payment estimates, the root cause of improper payments, and the amounts of improper payments identified and recaptured.

Risk Assessment Methodologies

We found that the Department's program and administrative activity risk assessment methodologies were generally sufficient; however, we did identify an issue with the IDEA risk assessment and contracts management activity risk assessment. Specifically, the IDEA risk assessment conclusion on the level of improper payment risk for the program was not supported and the risk assessment the Department conducted on its contracts management activity was incomplete because it did not include FSA-managed contracts, as described in Finding 2. The risk assessment methodologies are also described in Finding 2.

Improper Payment Sampling and Estimation Plans and Estimates

We found that the Department's improper payment sampling and estimation plans and estimates for all five programs that required an estimate for FY 2020, including the Pell, Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs, were not reliable. Specifically, for all five programs, neither the improper payment sampling and estimation plans the Department developed nor the improper payment

estimates themselves were statistically valid and rigorous, as described in Finding 3. The sampling and estimation plans for all five programs are also described in Finding 3.

Efforts to Prevent and Reduce Improper Payments

We found that the Department is continuing its efforts to prevent and reduce improper payments in its programs. For example, the Department employs its Payment Integrity Monitoring Application, which detects anomalies in grants payment data, to identify potential improper payments. Case management files for payment anomalies are established within the application for investigation by the Department's grants program officials to validate improper payments and determine root causes.

In evaluating the Department's performance in preventing and reducing improper payments in the Direct Loan and Pell programs, we found that there was not a reduction in the improper payments estimated for the Direct Loan program; however, there was a reduction for the Pell program. Also, according to FSA, the continued use of the Internal Revenue Service Data Retrieval Tool and FSA's enhanced Free Application for Federal Student Aid verification procedures are preventing some improper payments in the awarding of federal financial aid to students.

We did not evaluate the Department's performance in preventing and reducing improper payments in the Emergency Impact Aid and Restart programs because the FY 2019 improper payment estimates for those programs did not exceed the statutory threshold for being susceptible to significant improper payments. For the Emergency Assistance to IHE program, a FY 2019 improper payment estimate was not required.

Risks Associated with Pell and Direct Loan High-Priority Programs

We found that the Department considered Pell and Direct Loan program risks, such as risks related to student eligibility, student disbursements, and return of Title IV of the Higher Education Act of 1965 funds, in the development of the improper payment sampling and estimation plans for these high-priority programs. Since FY 2011, the Department has been reporting an improper payment estimate for its high-priority programs. Therefore, we did not evaluate the Department's assessment of the level of risk within a risk assessment; rather, we evaluated the Department's assessment of the level of risk when we evaluated the quality of the high-priority programs' improper payment estimates. We found that the high-priority programs' improper payment estimates may not reflect the true level of risk because the improper payment estimates for the Pell and Direct Loan programs were unreliable, as described in Finding 3.

Oversight and Financial Controls

Lastly, we found that in the accompanying material to its FY 2020 AFR, the Department adequately described the oversight and financial controls it designed and implemented to identify and prevent improper payments in its high-priority programs. The Department described these controls as an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. This includes routinely conducting program reviews to confirm that schools meet requirements for institutional eligibility, financial responsibility, and administrative capability; and the use of compliance audits of FSA's loan and grant programs as a key source to identify risks and potential improper payments. The accompanying material states that FSA has worked with program participants to resolve audit findings timely and is working with OMB to clarify and strengthen compliance audit requirements.

Finding 1. The Department Did Not Comply with the PIIA for the FY 2020 Reporting Period

We found that the Department did not comply with the PIIA for the FY 2020 reporting period because it did not meet two of the six compliance requirements. Specifically, the Department did not comply with the requirement to demonstrate improvement in reducing improper payments for the Direct Loan program and to report improper payment rates of less than 10 percent for the Emergency Impact Aid and Restart programs.

Improvement in Direct Loan Improper Payments Not Demonstrated

We found that the Department did not demonstrate improvement in reducing improper payments in the Direct Loan program. Specifically, the Direct Loan program's reported improper payments increased from $483.14 million reported in FY 2019 to $742.94 million reported in FY 2020. Also, in its FY 2019 AFR, the Department published a reduction target for the Direct Loan program of 0.51 percent; however, the improper payment rate for FY 2020 was 0.84 percent. Because we found the improper payment sampling and estimation plan for the Direct Loan program to not be statistically valid and rigorous (as described in Finding 3), we consider the reduction target not met because the improper payment rate (the point estimate) for the Direct Loan program was greater than the reduction target.

According to 31 U.S.C. section 3351(2)(E), an agency must publish improper payment reduction targets, have demonstrated improvements, and developed a plan to meet the reduction targets.

In addition, according to OMB Circular A-123 Appendix C, for statistically valid and rigorous improper payment sampling and estimation plans, a reduction target is met if the actual point estimate falls within the confidence interval. For plans that are nonstatistically valid and rigorous, a reduction target is met if the actual point estimate is equal to or less than the reduction target.

FSA disagrees with our finding that it did not demonstrate improvement in the Direct Loan program. FSA stated that the reported improper payment estimate for the Direct Loan program was statistically valid and rigorous, and since the Direct Loan improper payment estimate fell within the confidence interval, FSA stated the improper payment reduction target for the program was met. FSA further stated that, as reported in its previous AFRs, the majority of FSA's improper payments in the Direct Loan program are made outside of FSA. FSA further explained that it relies heavily on controls established

by external entities that receive Direct Loan payments and because the controls at external entities are outside of FSA's operational control, they present a higher risk to FSA.

FSA published a FY 2021 reduction target of 0.84 percent for the Direct Loan program in the accompanying material to its FY 2020 AFR and it developed a plan to meet the reduction target. According to information an official in FSA's Financial Management Group provided, the plan to meet the reduction target is reflected in the corrective actions it has established to reduce improper payments in the Pell and Direct Loan programs.

Improper Payment Estimates for the Emergency Impact Aid and Restart Programs Exceeded 10 Percent

We found that the Department did not report improper payment estimates of less than 10 percent for the Emergency Impact Aid and Restart programs; rather the estimates for these programs exceeded 10 percent. Specifically, the Department published improper payment estimates in the FY 2020 AFR for the Emergency Impact Aid program of 28.49 percent and the Restart program of 18.90 percent. To be in compliance under 31 U.S.C. section 3351(2)(F), an agency must report an improper payment rate of less than 10 percent for each program and activity for which an estimate was published.

The Department did not provide an explanation for the improper payment estimates exceeding 10 percent. However, the Department used different sampling and estimation methodologies to evaluate payments for FY 2020 than it used for FY 2019. According to the Department, 98 percent of the FY 2020 improper payments for the Restart program and 77 percent for the Emergency Impact Aid program were the result of the Department having insufficient documentation to determine whether the payments were proper.

Under 31 U.S.C. section 3351(2), "compliance" means an agency has satisfied all six requirements listed in the definition. If an agency has not satisfied one or more of these, then the agency has not complied with the PIIA. Because the Department is not in compliance with the PIIA, under 31 U.S.C. section 3353(b)(1)(A) the Department will have to "submit to the appropriate authorizing and appropriations committees of Congress a plan describing the actions that the executive agency will take to come into compliance." Under 31 U.S.C. section 3353(b)(1)(B),

> The plan … shall include (i) measurable milestones to be accomplished in order to achieve compliance for each program or activity; (ii) the designation of a senior executive agency official who shall be accountable for the progress of the executive agency in coming into

compliance for each program or activity; and (iii) the establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated under clause (ii) in leading the efforts of the executive agency to come into compliance for each program or activity.

Recommendations

We recommend that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA—

1.1 Submit to the appropriate authorizing and appropriations committees of Congress a plan describing actions the Department will take to bring the Direct Loan, Emergency Impact Aid, and Restart programs into compliance with the PIIA.

1.2 Develop a plan for compliance that specifies the actions the Department will take to obtain sufficient documentation to allow it to determine whether the payments reviewed for the Emergency Impact Aid and Restart programs are proper or improper.

Department Comments

The Department concurred with the part of the finding related to the Department not being in compliance with PIIA because it reported improper payment rates of more than 10 percent for the Emergency Impact Aid and Restart programs. The Department also concurred with Recommendations 1.1 and 1.2 as it relates to the Emergency Impact Aid and Restart programs only. For Recommendation 1.1, the Department stated that it will submit to Congress a plan for bringing the two programs into compliance with the PIIA, and for Recommendation 1.2, it stated that it has already taken steps to implement data validation procedures into its estimation methodologies for FY 2021 and beyond.

However, FSA did not concur with the part of the finding related to the Direct Loan program not meeting its FY 2020 improper payment reduction target. FSA stated that its improper payment sampling and estimation methodology for the program met all the requirements for a statistically valid and rigorous plan from OMB Circular A-123 Appendix C, Part I.D.1, step 2, paragraph d.1. FSA stated that the reduction target was met for the Direct Loan program because the 95-percent confidence interval of FSA's FY 2020 Direct Loan improper payment estimate (0.00 percent to 1.71 percent) included the reduction target of 0.51 percent. FSA also stated that it disagreed with the OIG's interpretation that, because compliance auditors may use nonrandom sampling, compliance audit data is not a quality data source for improper payment estimation purposes.

FSA did not concur with Recommendation 1.1 and stated that its sampling and estimation methodology for developing improper payment rates was statistically valid, and that the Pell and Direct Loan program improper payment rate estimates were calculated using accurate, complete, and reliable data that allowed FSA to make statistically reliable inferences about the rates and amounts of improper payments. As an alternative to Recommendation 1.1, FSA stated that it would take the following four steps: (1) pursue the Department's internal issue [audit] resolution process to resolve the disagreement with OIG on the requirement for random sampling at all stages in FSA's improper payment estimation; (2) request OMB approval of FSA's improper payment methodology in accordance with 31 U.S.C. section 3352(c)(1)(A); (3) continue to recommend that the OMB Compliance Supplement require independent auditors to use random sampling in compliance audits of the Pell and Direct Loan programs; and (4) if these alternatives do not result in acceptance of nonrandom sampling in compliance audits or a requirement for random sampling in compliance audits, FSA stated it would explore how random sampling of payments for the Pell and Direct Loan programs could be implemented.

The full text of the Department's and FSA's responses are included at the end of this report.

OIG Response

The Department's proposed actions for the Emergency Impact Aid and Restart programs, if effectively implemented, are responsive to part of Recommendation 1.1 and all of Recommendation 1.2.

Regarding the Direct Loan program, FSA did not provide any additional information that would change our finding related to the Direct Loan program not meeting its FY 2020 improper payment reduction target. We found the improper payment estimation and sampling plan for the Direct Loan program to be not statistically valid; therefore, for the Direct Loan program to have met its improper payment reduction target for FY 2020, the improper payment estimate would have to be less than or equal to the reduction target. The Direct Loan program's improper payment estimate for FY 2020 was 0.84 percent, which is more than the reduction target that was set at 0.51 percent.

FSA's alternative proposed actions to Recommendation 1.1 as it pertains to the Direct Loan program do not satisfy the requirement under 31 U.S.C. section 3353(b)(1) for agencies found to be out of compliance with the PIIA to submit to the appropriate authorizing and appropriations committees of Congress a plan describing actions the agency will take to bring the affected programs into compliance with the PIIA. For our response to FSA's disagreement with our finding on the statistical validity of its

improper payment estimates, see the Department Comments and OIG Responses section following Finding 3.

Finding 2. The Department's Improper Payment Risk Assessment Process Needs Strengthening

We found that the Department's improper payment risk assessment process needs strengthening. Specifically, the Individuals with Disabilities Education Act Part B (IDEA) quantitative risk assessment the Department performed did not adequately support the Department's conclusion as to the level of improper payment risk for the program, and the risk assessment the Department conducted on its contracts management activity was incomplete because it did not include FSA-managed contracts.

The Department's Determination on the Level of Risk for the IDEA Program is not Supported

The Department developed and conducted a quantitative risk assessment for the IDEA Part B program. The methodology included constructing the population sampling frame and testing samples of payments to determine whether the payments were proper. To construct the population sampling frame, the Department obtained a list of drawdowns from the Department's G5 grants management system, representing payment transactions from the Department to SEAs during FY 2019. The Department selected random samples from these SEA payments which had been stratified by different levels of risk.

The quantitative risk assessment that the Department conducted for the IDEA program estimated improper payments in the amount of $3.5 billion for the program. The estimated dollar amount of the improper payments exceeded the $100 million threshold for a program to be deemed susceptible to significant improper payments (as established by the PIIA), but the Deputy Assistant Secretary for Financial Management and Acting Deputy Chief Financial Officer for the Office of Finance and Operations concluded in a decision memorandum that

> Numerous factors, such as lack of time and difficulty for State Education Agencies (SEAs) gathering requested documentation from Local Education agencies (LEAs), schools reopening, wildfires and COVID-19 led to the large amount of estimated improper payments due to insufficient or lack of documentation obtained during the study, consequently rendering the results of this study inconclusive.

The Deputy Assistant Secretary further concluded that "Because the improper payment risk assessment of the Special Education program conducted in FY 2020 did not yield precise results, our team's recommendation deems the Special Education Grants to States program as ***not susceptible*** to significant improper payments."

According to the Department's Director of the Financial Data Integrity and Controls Division, the Department gathered IDEA payment data and related supporting documentation from SEAs between July and September 2020. The Director said that some SEAs provided documents after the Department's deadline but, due to time constraints, the Department was not able to review them. As such, the Department could not adequately support its conclusion on the level of risk for the IDEA program. As a result, the Department cannot ensure that the correct improper payment risk determination was made for the program.

The Department's Risk Assessment Related to its Contracts Management Activity is Incomplete

The improper payment risk assessment the Department conducted on its contracts management activity was incomplete. As part of its administrative activities risk assessments, the Department conducted a risk assessment on contracts managed by the Department but not those managed by FSA.

To determine whether its contracts management activity was susceptible to significant improper payments, the Department conducted a risk assessment which included the completion of a qualitative risk assessment template by the Department's Contracts and Acquisitions Management office and related follow up interviews conducted by the Department's team responsible for improper payment reporting activities (Team). The qualitative risk assessment template contained the risk factors required in OMB Circular A-123 Appendix C that agencies are to include in their improper payment risk assessments, such as

i. Whether the program or activity reviewed is new to the agency;

ii. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;

iii. The volume of payments made annually;

iv. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office;

v. Recent major changes in program funding, authorities, practices, or procedures;

vi. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and

vii. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification.

The risk assessment also included the Team's review of $662 million of contract outlays for FY 2019 and known improper payments related to non-FSA managed contracts. Based on the Team's review of non-FSA managed contracts, the Department determined the contracting function to be medium risk for significant improper payments.

The Team did not request FSA's contracting office complete a qualitative risk assessment template related to FSA-managed contracts. The Team also did not review FY 2019 outlays and known improper payments related to FSA-managed contracts. This occurred because the Department did not have procedures instructing the improper payment reporting Team to include FSA-managed contracts in its contracts risk assessment. Without complete contract risk assessment data, the Department cannot accurately determine the level of risk associated with its FSA-managed contracting activity that represents approximately $2.4 billion in outlays for FY 2019.

According to 31 U.S.C. section 3352(a)(1), agencies are to "periodically review all programs and activities that the head of the executive agency administers; and identify all programs and activities with outlays exceeding the statutory threshold dollar amount described in paragraph (3)(A)(i) that may be susceptible to significant improper payments."

In addition, GAO's Standards for Internal Control in the Federal Government (GAO Internal Control Standards) provides that management processes data into quality information. Specifically, principle 13.05 states, "Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis."

Because the Department did not use quality information when conducting its improper payment risk assessments for the IDEA program and contracts management activity, it may not have properly identified and proactively managed payment integrity risks.

Recommendations

We recommend that the Chief Financial Officer for the Department—

2.1 Reassess the IDEA program's risk for significant improper payments in the Department's FY 2021 annual improper payment review.

2.2 Ensure that Department officials assess the time needed to obtain and review the necessary documentation to conduct the IDEA program's reassessment of risk for significant improper payments given the unique challenges posed by the pandemic; and ensure adequate time is provided.

2.3 Develop and implement policies and procedures to ensure FSA's contract management activity is included in the Department's improper payment risk assessments related to administrative activities.

Department Comments

The Department concurred with this finding and our recommendations. The Department stated that it will reassess the IDEA program in its FY 2021 improper payment review, conduct the review early in FY 2021 to ensure the needed time to review all necessary documentation, and implement policies and procedures to ensure that FSA-managed contracts are included in the Department's Administrative Payments Improper Payment review. The full text of the Department's response is included at the end of this report.

OIG Response

The Department's proposed corrective actions, if effectively implemented, are responsive to our recommendations.

Finding 3. The Department's Improper Payment Sampling and Estimation Plans and Estimates were Not Reliable

The Department's improper payment sampling and estimation plans and estimates for all five programs (the Pell, Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs) that required an estimate for FY 2020 were not reliable. Specifically, for all five programs, neither the improper payment sampling and estimation plans the Department developed nor the improper payment estimates themselves were statistically valid and rigorous because they included the use of nonrandom samples, unsuitable sample weighting, or inaccurate and incomplete population sampling frames. In addition, the improper payment estimates were not statistically valid and rigorous because some of the data used in the calculations had not been verified for accuracy, the precision level for the estimates exceeded +/- 3 percent, or not all improper payments were accurately or completely included in the calculations.

Pell and Direct Loan Programs' Improper Payment Sampling and Estimation Plans and Estimates Were Not Reliable

We found the improper payment sampling and estimation plans and estimates for the Pell and Direct Loan programs to be unreliable. We reached this conclusion because, except for FSA's use of sustained questioned costs instead of questioned costs in estimating improper payments, we did not identify any changes in the FY 2020 sampling and estimation plans that would significantly alter the finding we reported in last year's report[3] regarding the statistical validity and reliability of the Pell and Direct Loan programs' improper payment plans and estimates. Our conclusion is also based on interviews with FSA officials and contractors, our review of quality control procedures, fieldwork spreadsheets related to the estimates, and a sample of compliance audits that FSA used to estimate improper payments.

In last year's compliance review of the Pell and Direct Loan program improper payment sampling and estimation plans and estimates, we found and reported that the estimates were not reliable because the FSA Finance Directorate's Financial Management Group—

[3] "The U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2019."

1. developed and executed improper payment sampling and estimation methodologies that were not statistically valid and complete because student-level sampling for some compliance audits used to calculate the estimates were based on nonrandom samples of students which would impact the ability to project a reliable statistical estimate;

2. did not accurately and completely include improper payments (overpayments and underpayments) in the improper payment calculations. Our finding this year is different from last year in that we were not able to determine the accuracy and completeness of some of the improper payments included in the calculations because we could not confirm, due to the lack of details in the supporting documentation or the inconsistencies in the supporting documentation, whether FSA performed procedures to ensure the accuracy and completeness of the supplemental questioned cost data it received from the independent auditors for some audits;

3. estimated improper payments from questioned costs instead of sustained questioned costs. This year we found that FSA did estimate improper payments from sustained questioned costs; however, some of the audit reports and Final Audit Determination Letters (FAD) did not contain a breakdown of the sustained questioned costs for the Pell and Direct Loan programs, therefore, FSA had to obtain the data directly from the independent auditors. Due to the lack of details or the inconsistencies in the supporting documentation, we could not confirm whether FSA performed procedures to ensure the accuracy and completeness of some of the supplemental questioned cost data it included in the improper payment calculations;

4. used data that was not suitable for the purpose of producing statistically valid and reliable improper payment estimates. Specifically, the audit reports did not always include required audit data needed to estimate improper payments; independent auditors did not always select unbiased randomized student samples; and FSA did not assess the accuracy of some of the audit data required to produce the estimates or whether the independent auditors performing the single audits and foreign school audits selected unbiased randomized student samples; and

5. impaired the statistical validity of the estimates through its weighting of schools included in consolidated school group single audits. Specifically, FSA weighted the results of the entire school group audit and then applied it to the sampled school, regardless of the extent to which the audit involved the sampling of students at the sampled school. In so doing, FSA used the audit results from

schools that it did not sample and applied those results to the schools that it randomly sampled.

Regarding number (1) above, we did not identify any language in the Pell and Direct Loan program improper payment sampling and estimation plans that indicated compliance audits that used nonrandom samples of students would be excluded from the FY 2020 estimates. In addition, the contractor that FSA used to perform the estimates stated that there were some compliance audits that used nonrandom samples of students included in the improper payment estimates for FY 2020. Also, according to FSA's Fieldwork Plan for the two estimates, only about 3 percent (7 compliance audits) of the student-level samples were identified as random, as shown in Table 2.

Table 2. Random and Nonrandom Samples of Pell and Direct Loan Students

Description of Student-Level Sample Selection	Pell Estimate	Direct Loan Estimate
Compliance Audits with Randomly Selected Students	7	7
Compliance Audits with Students Not Randomly [a] Selected	19	15
Compliance Audits with Method of Selection Not Specified	192	214
Compliance Audits with Method of Selection Not Applicable [b]	15	5
Total Number of Compliance Audits FSA Sampled [c]	**233**	**241**

[a] These samples were identified as samples that were selected using a haphazard, judgmental, or not-statistically valid sampling method.

[b] A "not applicable" method of selection indicates that in consolidated school group single audits (which is an audit covering multiple schools), independent auditors do not always sample students from every school in the audit. If a school from a consolidated school group audit had no students sampled by the independent auditor, but the school appears in FSA's sample for improper payment testing purposes, FSA used the term "not applicable" to describe the independent auditor's method of selection for students at that school.

[c] Some of these audits are duplicated, meaning the same audit was reviewed for both the Pell and Direct Loan estimates.

Regarding numbers (2) and (3) above, for FY 2020, we were not able to determine the accuracy of some of the recorded improper payments (overpayments and underpayments). Seven of the FADs and two of the audit reports we reviewed did not break down the sustained questioned costs specifically related to the Pell and Direct Loan programs so FSA had to reach out to the independent auditors to obtain the data. Due to the lack of details in the supporting documentation or inconsistencies in the supporting documentation, we could not confirm whether FSA performed procedures to ensure the accuracy and completeness of the supplemental questioned cost data it received from the independent auditors.

FSA updated its quality assurance procedures to ensure improper payments were recorded correctly in the fieldwork spreadsheets.[4] FSA's sampling and estimation plans for the two programs described changes to its methodology including using sustained questioned costs based on the FADs issued for deficient compliance audits. However, FSA's updated quality assurance procedures do not address the use of sustained questioned costs. As such, for FY 2020 we conducted testing to determine whether (a) the improper payments included in the improper payment fieldwork spreadsheets for deficient audits came from sustained questioned costs in FADs and (b) improper payment overpayments and underpayments were recorded accurately in the fieldwork spreadsheets. From our sample of 30 of 233 audits included in the Pell estimate and 30 of 241 audits included in the Direct Loan estimate, we found that the 38 audits[5] with no identified improper payments in FSA's fieldwork spreadsheets were correctly recorded as having $0 in improper payments.

For the 13 audits[6] we sampled with identified improper payments recorded in FSA's fieldwork spreadsheets, we determined that for 4 of them the improper payments were accurately recorded in the fieldwork spreadsheets. For the other nine audits, we could not determine the accuracy of the recorded improper payments. Specifically, for the nine audits,

- the FADs for seven of the audits contained the total amount of sustained questioned costs for all applicable programs (Pell, Direct Loan, Federal Work

[4] FSA used the fieldwork spreadsheets to record the data to be used to calculate improper payment estimates.

[5] Of the 38 audits, 1 was included in both the Pell and Direct Loan samples that we selected.

[6] Of the 13 audits, 8 were included in both the Pell and Direct Loan samples that we selected.

Study, etc.), presented as one amount only. There was not a breakdown for the amount of sustained questioned costs applicable to each program; and

- the audit reports[7] for the remaining two audits reported errors that were identified relating to the Pell and Direct Loan programs but did not specify the amount of questioned costs related to those errors.

For sustained questioned costs that were presented in the FADs as one amount for multiple programs or not presented in the audit report at all, FSA asked the independent auditors to provide a breakdown of the overpayments and underpayments of the sustained questioned costs (for the FADs) or questioned costs (for the audit reports with no FADs) for the Pell and Direct Loan programs only. Because the independent auditors provided a breakdown for the Pell and Direct Loan programs only,[8] the totals for the itemized Pell and Direct Loan amounts did not always reconcile to the total sustained questioned costs in the FADs because the totals in the FADs could have included sustained questioned costs for programs other than Pell and Direct Loan.

FSA's updated quality assurance procedures state that it reviews the auditor's supplemental responses for the sampled school to confirm they are complete and that there are no internal inconsistencies within the auditor's responses, inconsistencies between the auditor's responses and audit reports, or abnormal responses (e.g., reporting of disbursements to students that exceed annual limits) that indicate a potential error in the auditor's responses. However, for the nine audits in question, we found that the supplemental improper payment data provided by the independent auditors were not consistent with the questioned costs in the compliance audit reports.

According to an FSA official, all FADs are supposed to contain a breakdown of the sustained questioned costs by program. If such a policy exists and FSA ensures the policy is followed, individuals within FSA conducting the improper payment estimates should not have to obtain the data directly from independent auditors. Instead, they should be able to obtain the information from the FADs.

Regarding number (4) above, we did not identify any language in the Pell and Direct Loan program improper payment sampling and estimation plans that indicated FSA would (a) use a different data source to derive its estimates since compliance audits did

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[7] For these two audits, there was no FAD because the questioned costs in the audit report did not rise to the level of a deficient audit. Only deficient audits require a FAD.

[8] The breakdown of Pell and Direct Loan questioned costs that the independent auditors provided to FSA was in the form of email correspondence which typically included a spreadsheet.

not always include required data needed to estimate improper payments and did not always include student samples that were unbiased and random, and (b) assess the reliability of data it obtained directly from the independent auditors that performed the audits. FSA's contractor stated that compliance audits were used for FY 2020 and that for some audit reports that did not contain all the required audit data needed to estimate improper payments, they obtained the data directly from the independent auditors that performed the audits. In addition, we reviewed FSA's updated quality assurance procedures and the only assessment they indicated would be performed on the additional data was to check for manual errors such as transposed numbers.

Regarding number (5) above, we did not identify any language in the Pell and Direct Loan program improper payment sampling and estimation plans that indicated FSA would change the way it handled schools included in consolidated school group single audits. The language and formulas included in the FY 2020 sampling and estimation plans, which was not included in the FY 2019 plans, indicates that FSA still weighted the results of the entire school group audit and then applied it to the sampled school, regardless of the sampling methodology used at the sampled school.

This is a repeat finding from last year's audit. According to FSA's Finance Directorate's Financial Management Group, FSA's management does not agree that the potential for nonrandom student sampling by the compliance auditors or the use of compliance audit nonrandom student sampling in FSA's Pell and Direct Loan improper payment sampling and estimation methodology would result in improper payment estimates that are not statistically valid. The group further stated that FSA continues to coordinate with OMB to recommend changes to relevant guidance (i.e., OMB Circular A-123 Appendix C and the OMB Compliance Supplement[9]), in order to better align the guidance and clarify whether agencies may use compliance audit data (that uses nonrandom sampling) to develop statistically valid estimates of improper payments.

OMB Circular A-123 Appendix C does not specifically allow for nonrandom samples to be used in statistically valid and rigorous plans for improper payment estimates. OMB Circular A-123 Appendix C states, regarding Statistically Valid and Rigorous Plans, "[sampling] plans are statistically valid (i.e., are based on unbiased randomized sampling and produce valid point estimates and confidence intervals around those estimates)."

According to section 2.23 of the American Institute of Certified Public Accountants' audit sampling guide (May 1, 2017), "Statistical sampling uses the laws of probability to

[9] 2 C.F.R. Part 200, Appendix XI Compliance Supplement.

measure sampling risk. Any sampling procedure that does not permit the numerical measurement of the sampling risk is a nonstatistical sampling procedure." Further, in section 2.24 it states that "Statistical sampling explicitly measures the sampling risk associated with the sampling procedure by providing an explicit level of sampling risk (also sometimes expressed as its complement—confidence or reliability) and allowance for sampling risk (that is, precision) about the sample result."

GAO's guide, "Using Statistical Sampling," revised May 1992, includes the following statement related to sampling error and confidence intervals,

> Each estimate generated from a probability sample has a measurable precision, or sampling error, that may be expressed as a plus or minus figure. A sampling error indicates how closely we can reproduce from a sample the results that we would obtain if we were to take a complete count of the population using the same measurement methods. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. This range is called a "confidence interval."

OMB Circular A-123 Appendix C, Part IV, B(2)(c) states that "agencies should ensure that the program improper payment rate estimates are accurate...."

OMB Circular A-123 Appendix C, Part I, A(1), states that "[a] 'questioned cost' should not be considered an improper payment until the transaction has been completely reviewed and is confirmed to be improper."

According to GAO Internal Control Standards, management should use quality information. Specifically, principle 13.04 states,

> Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements .... Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability.

Further, GAO Internal Control Standards provides that management processes data into quality information. Specifically, principle 13.05 states,

> Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is

quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information.

Emergency Impact Aid, Restart, and Emergency Assistance to IHE Programs' Improper Payment Sampling and Estimation Plans and Estimates Were Not Reliable

The Department's improper payment sampling and estimation plans and estimates for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs were not reliable. Specifically, the improper payment sampling and estimation plans for the three programs were not statistically valid and rigorous because each of the plans included the use of an inaccurate and incomplete population sampling frame. When the Department executed the sampling and estimation plans for the three programs, it included the inaccurate and incomplete population sampling frames into the calculations, which resulted in estimates that were not statistically valid or rigorous. In addition, for the Emergency Impact Aid and Restart programs' improper payment estimates, the precision level exceeded +/-3 percent, which also contributed to the estimates not being rigorous. Also, for the Restart program, the Department did not accurately identify and include in the estimate all improper payments.

The Department developed and implemented what it believed to be three statistically valid and rigorous improper payment estimation plans for the programs. The plans for the three programs included constructing the population sampling frame for each program and testing random stratified samples of payments included in the population sampling frames to determine whether the payments were proper. To construct the population sampling frames for the Emergency Impact Aid and Restart programs, the Department obtained a list of drawdowns from its grants management system for each of the two programs, representing payment transactions from the Department to SEAs during FY 2019. The Department then obtained from the SEAs payment transactions that the SEAs made to their LEAs from those drawdowns. The Department used these payment transactions as the population sampling frames for each program, except for the Puerto Rico Department of Education (Puerto Rico) and the U.S. Virgin Islands

Department of Education.[10] For Puerto Rico and the U.S. Virgin Islands Department of Education, the individual expenditures that were paid from the drawdowns were used for the population sampling frames for the two programs.

To construct the population sampling frame for the Emergency Assistance to IHE program, the Department obtained a list of drawdowns from its grants management system for the program, representing payment transactions from the Department to IHEs during FY 2019. The Department then obtained from the IHEs payment transactions made from those drawdowns to use for the population sampling frame.

Improper Payment Sampling and Estimation Plans Not Statistically Valid and Rigorous

We found that the improper payment sampling and estimation plans for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs were not statistically valid and rigorous because the plans included the use of inaccurate and incomplete program population sampling frames. Specifically, we found that the plans for the Emergency Impact Aid and Emergency Assistance to IHE programs included population sampling frames that contained payments that should not have been included and excluded payments that should have been included. For the Restart program, we found that the sampling and estimation plan included a population sampling frame that excluded payments that should have been included. Tables 3, 4, and 5 contain details relating to the specific population errors, and Table 6 shows the differences in the populations that should have been included in the sampling and estimation plans for the three programs.

[10] Puerto Rico and the U.S. Virgin Islands Department of Education are considered both an SEA and LEA for the purpose of administering Department programs.

Table 3. Emergency Impact Aid Program Population Errors

SEA	Population Error (All Dollar Amounts Are Rounded)
SEA 1	**FY 2019 Drawdowns from G5:** $10.7 million **Payments in Population Sampling Frame:** $0.1 million **Difference**: $10.6 million less in population sampling frame **Explanation:** In last year's audit, we found that the Department erroneously included this $10.6 million in the population sampling frame for the FY 2019 improper payment estimate. The Department said that since it included the $10.6 million in last year's review it did not include it in the population sampling frame for this year's review. However, excluding valid payments from a population sampling frame will not result in a valid point estimate (improper payment estimate).
SEA 2	**FY 2019 Drawdowns from G5**: $0.62 million **Payments in Population Sampling Frame**: $0.64 million **Difference:** $0.02 million more in population sampling frame; $0.01 million of this should not have been included in the population sampling frame. **Explanation:** 8 payments totaling $0.01 million should not have been included in the population sampling frame because those funds were drawn down in FY 2018 not FY 2019. The Department agreed but did not provide us with any information on how the error occurred.

Table 4. Restart Program Population Errors

SEA	Population Error (All Dollar Amounts Are Rounded)
SEA 1	**FY 2019 Drawdowns from G5:** $58.5 million **Payments in Population Sampling Frame:** $56.9 million **Difference:** $1.6 million less in the population sampling frame **Explanation:** The SEA made expenditure adjustments totaling nearly $1.6 million for a reconciliation of income and expenses regarding a difference in payroll. However, the Department did not provide a reasonable explanation of this adjustment or why it did not include the $1.6 million in the population sampling frame.

Table 5. Emergency Assistance to IHE Program Population Errors

IHE	Population Error (All Dollar Amounts Are Rounded)
IHE 1	**FY 2019 Drawdowns from G5:** $0.3 million **Payments in Population Sampling Frame:** $0 **Difference:** $0.3 million less in population sampling frame **Explanation:** The Department said that due to a misunderstanding in internal discussions regarding this IHE, the IHE was mistakenly excluded from the population sampling frame.
IHE 2	**FY 2019 Drawdowns from G5:** $3.2 million **Payments in Population Sampling Frame:** $3.4 million **Difference:** $0.2 million more in the population sampling frame **Explanation:** The $0.2 million should not have been included in the population sampling frame because there were no drawdowns made during FY 2019 to support it. The Department does not know why the extra $0.2 million was included.
IHE 3	**FY 2019 Drawdowns from G5**: $0.05 million **Payments in Population Sampling Frame:** $0.07 million **Difference**: $0.02 million more in the population sampling frame **Explanation:** The Department said that it mistakenly included the $0.02 million in the population sampling frame. The IHE returned some of its drawdown and the Department did not account for it when putting together the population sampling frame.

Table 6. Inaccurate and Incomplete Population Sampling Frames *(all dollar amounts are rounded)*

Program	Population Included in the Plan (Millions)	Population that Should Have Been Included in the Plan (Millions)	Difference (Millions)
Emergency Impact Aid	$210.7	$193.1	$10.6[a]
Restart	$153.4	$151.8	$1.6[b]
Emergency Assistance to IHE	$18.1	$18.0	$0.1[c]

[a] $10.6 million + $0.01 million from Table 3

[b] $1.6 million from Table 4

[c] $0.3 million - $0.2 million -$0.02 million from Table 5

For a sampling and estimation plan to be rigorous it must first be statistically valid. For a plan to be statistically valid it must produce a valid point estimate. Plans that include an inaccurate and incomplete population sampling frame will not produce a valid point estimate (improper payment estimate). Therefore, the sampling and estimation plans for the three programs are neither statistically valid nor rigorous.

Improper Payment Estimates Not Statistically Valid and Rigorous

When the Department executed the sampling and estimation plans for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs, it included the inaccurate and incomplete population sampling frames described above in the calculations. Using inaccurate and incomplete population sampling frames in an estimation calculation does not produce a valid point estimate (improper payment estimate), and invalid point estimates are not statistically valid or rigorous. In addition, the Emergency Impact Aid and Restart program improper payment estimates had precision levels of +/- 8.14 percent and +/- 4.49 percent, respectively, which is greater than the amount required to be considered rigorous (which is +/-3 percent). The Department explained that for both plans, at the time the plans were developed,

> the assumption for the improper payment rate was conservatively high based on available historical information. The resulting improper payment rate actually found in the study far exceeded all expectations at the time the plan was developed. The result was a precision level exceeding 3 percent because the plan had not been developed for such a high improper payment rate.

Improper Payments Not Accurately Identified and Included in Restart Program Estimate

The Department did not accurately identify and include all improper payments from the payments it sampled in the estimate. The methodology for the Restart program included testing a sample of 154 payments included in the population sampling frame to determine whether the payments were proper. As part of this testing, the Department evaluated whether the sampled payments were allowable and supported with sufficient

documentation. We reviewed a judgmental sample of 20 of 154 payments[11] that were included in the Restart calculation and found that the Department did not accurately identify and include in the estimate all improper payments for 4 of the 20 payments in our sample.

- For one of the four payments, the Department determined that a payment to an LEA totaling approximately $7.6 million was proper based on the supporting documentation the SEA provided. However, based on our review of that same documentation, we determined that only approximately $2.7 million in payroll and electricity expenses was supported. The Department did not provide us with any additional information to explain its determination.
- For three of the four payments, the spreadsheets the Department used to document its evaluation of the supporting documentation for each of the payments concluded that the payments were proper. The three payments totaled approximately $7,000. However, the $7,000 in payments were included in the improper payment calculation for the Restart program as improper payments. According to the Department, the $7,000 in payments were proper payments and should not have been included in the improper payment estimation as improper payments. It was an error from moving the results from the testing sheets to the master improper payment calculation document.

[11] These were payments that SEAs made to LEAs; except for Puerto Rico and the U.S. Virgin Islands Department of Education, which are considered both an SEA and LEA for the purpose of administering Department programs.

According to 31 U.S.C. section 3352(c)(1)(A), an agency shall produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology approved by the Director of OMB. OMB Circular A-123 Appendix C, Part I, D(1), states that statistically valid and rigorous improper payment estimation plans are "statistically valid (i.e., are based on unbiased randomized sampling and produce valid point estimates and confidence intervals around those estimates) … obtain a +/-3% or better margin of error at the 95% confidence level for the improper payment percentage estimate … cover the entire population for a program for the given Fiscal Year." In addition, OMB guidance provides that, "Agencies should clearly identify the frame or source for sampling payments and document its accuracy and completeness." Further, OMB Circular A-123 Appendix C, Part IV, B(2)(c) states that, "agencies should ensure that the program improper payment rate estimates are accurate and that the sampling and estimation plan used is appropriate given program characteristics."

The errors described in the sections above occurred because the Department's Data Integrity and Financial Controls Division did not adequately oversee the contractor that prepared the estimates to ensure the improper payment sampling and estimation plans for the three programs included the use of an accurate and complete population sampling frame or that the testing results were accurate. The Department did not have procedures or assigned staff to review the contractor's work and determine whether the contractor correctly constructed the sampling frames, especially for instances where the amounts drawn down by grantees during the fiscal year did not match the payment amount included in the sampling frames. The Department also did not have procedures or assigned staff to review the contractor's test results.

We found similar issues with the Emergency Impact Aid program in our audit report on the Department's compliance with improper payment reporting requirements for FY 2019. To correct the issues, the Department developed written standard operating procedures that included processes for (1) validating data to be used to construct the sampling frames, (2) developing and implementing a sampling and estimation plan, and (3) reporting on the improper payment testing results. These procedures were not in place and approved at the time the Department developed and implemented the FY 2020 sampling and estimation plans for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs. According to the Department, its contractor developed the procedures as it developed and implemented the FY 2020 sampling and estimation plans for the three programs. The written procedures were approved in December 2020 and January 2021. We reviewed the procedures and found that they could address the issues related to population sampling frame errors; however, the Department did not address contractor oversight.

Effect of the Unreliable Improper Payment Estimates

Because the improper payment estimates for the Pell, Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs were computed with inaccurate, incomplete, or unreliable data, stakeholders such as the public, Congress, and other users of the Department's AFR, do not have a reliable depiction of the estimated improper payments for the five programs. The use of random samples and the random selection from a complete population of payments is required to perform statistical sampling in which the sample's results are used to make inferences about the entire population. Because the samples of students were not random (for the Pell and Direct Loan programs) or were from inaccurate and incomplete populations (for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs) and thus the resulting improper payment estimates were not statistically valid, the Department cannot statistically make a reliable inference about the rates and amounts of improper payments in the five programs. Further, the Department may not identify the true root causes of improper payments in the programs and take appropriate corrective action to prevent and reduce improper payments because it did not calculate reliable estimates or rates and amounts of improper payments that occurred in the programs.

Recommendations

We recommend that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA—

3.1 Develop and implement procedures to ensure that the Department's sampling and estimation plans for the Pell and Direct Loan programs are statistically valid and will produce statistically valid and reliable estimates or use a nonstatistical estimate that is otherwise appropriate using a methodology approved by the Director of OMB.

3.2 Develop and implement procedures to ensure that the Department's improper payment estimates for the Pell and Direct Loan programs are based on, and represent, quality information. Specifically, evaluate the data used to determine whether it is reliable (for example, the quality of any supplemental data, if used for the estimates, has been evaluated for accuracy and completeness); and appropriate (for example, estimates are based on randomly selected student-level samples from compliance audits).

3.3 Develop and implement procedures to adequately oversee the contractor producing the improper payment estimates for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs and to ensure all improper payments are accurately and completely included in the improper payment calculations.

3.4 Implement the Department's written procedures for ensuring that the Department's improper payment estimates for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs are based on and reflect accurate and complete population sampling frames that will produce a statistically valid and reliable estimate.

Department Comments and OIG Responses

FSA did not concur with the part of Finding 3 related to the Pell and Direct Loan programs' improper payment estimates being unreliable, nor did it concur with the related Recommendations 3.1 and 3.2 for the Pell and Direct Loan programs. FSA stated that its improper payment estimates for the two programs were reliable and disagreed with the five OIG statements supporting the finding. FSA also provided alternative corrective actions that it planned to take for the Pell and Direct Loan programs. FSA's proposed corrective actions for the Pell and Direct Loan programs are not responsive to our recommendations. We summarize FSA's comments and provide our responses in the sections below. We made minor technical and clarifying edits to Finding 3 based on FSA's comments, but the revisions did not substantively change the finding or recommendations.

The Department concurred with the part of Finding 3 related to the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs' improper payment estimates not being reliable. The Department also concurred with the related Recommendations 3.3 and 3.4. The Department's proposed corrective actions for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs, if effectively implemented, are responsive to our recommendations.

The full text of FSA and the Department's comments is included at the end of this report.

OIG Statement #1: FSA's Improper Payment Sampling and Estimation Plans were not Statistically Valid and Complete

FSA Comments

FSA stated that its improper payment sampling and estimation methodology for the Pell and Direct Loan programs met all the requirements for a statistically valid and rigorous plan in OMB Circular A-123 Appendix C, Part I.D.1, step 2, paragraph d.1, and that it is consistent with the March 2021 updates to OMB Circular A-123 Appendix C that include "reducing administrative burden to allow agencies to focus on preventing improper payments and ensuring taxpayer money is serving its intended purpose," and ensuring that "federal agencies focus on identifying, assessing, prioritizing, and responding to

payment integrity risks to prevent improper payments in the most appropriate manner." FSA noted the disagreement between FSA and OIG statisticians on the use of nonrandom sampling in some compliance audits conducted under the Single Audit Act, which FSA uses in estimating improper payments, and stated that OMB removed the specific requirement for random sampling from OMB Circular A-123 Appendix C in March 2021. FSA also stated that it received guidance from OMB stating that it is possible for sampling methodologies that use random sampling for one stage and leverage compliance audits for another to be considered statistically valid, however, that determination would need to be made by the agency statistician.

FSA also stated that the universe of compliance audits includes about 5,700 institutions, and by randomly selecting compliance audits from this universe, FSA eliminated the bias that was inherent in its previous improper payment estimation methodology, and further stated that auditors are required to follow sampling guidance and use audit techniques and sample sizes that are sufficient to reduce sampling risk to an acceptably low level. In addition, FSA stated that its position is that confidence intervals can be reported based on some nonrandom samples at the second stage, and that is supported in an article by Dr. Andrew Gelman, a professor of statistics and political science at Columbia University and an elected fellow of both the American Statistical Association and the Institute of Mathematical Statistics.

FSA stated that our statement that only about 3 percent (seven compliance audits) of the student-level samples that FSA used to prepare its improper payment estimates were known to be random is not accurate. FSA stated that it recorded whether an audit was randomly selected in its fieldwork plan only if the independent auditor had noted the sampling approach in its audit report. FSA stated that compliance audits conducted in accordance with the OIG Audit Guides[12] are required to use random sampling, and that its improper payment sample included 60 of these audits. If the associated audit reports did not specify the sampling approach employed by the auditor, FSA recorded the sampling approach as "not specified" in its fieldwork plans.

FSA also stated that the following statement from our draft report was not accurate: "FSA's updated quality assurance procedures do not address the use of sustained questioned costs." FSA stated that its quality assurance procedures include a review of audit support documentation for all sampled schools within the fieldwork plans, which

[12] OIG Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (September 2016) and OIG Guide for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools (March 2020).

included ensuring only sustained questioned costs were included in the improper payment estimates. FSA also stated that its standard operating procedures for the Pell and Direct Loan program improper payment estimates did address the use of sustained questioned costs and provided examples from its procedures.

OIG Response

It is the OIG's position that a statistically valid improper payment estimate and confidence interval are derived from a statistically valid study based on a statistical sample. A statistical sample is based on the probability (random) sample. FSA did not provide any additional information that caused us to change our position.

Although OMB Circular A-123 Appendix C was revised to remove the language specifically mentioning random sampling, this revision occurred in March 2021, after the Department had completed its improper payment reporting for FY 2020, and is therefore not applicable to the FY 2020 reporting period. Additionally, although the random sampling language was removed, OMB Circular A-123 Appendix C still requires agencies to produce statistically valid estimates. As stated before, it is the OIG's position that a statistically valid improper payment estimate and confidence interval are derived from a statistically valid study based on a statistical sample. A statistical sample is based on the probability (random) sample.

Regarding our statement that only seven compliance audits were known to use random student-level sampling, we revised the report to clarify that only seven audits used student-level samples that were identified as random in the audit reports. FSA stated that 60 of the schools in its sample had received audits that were required to be conducted in accordance with the OIG Audit Guides, which require random sampling. While it is true, audits conducted in accordance with the OIG audit guide should use random samples, the OIG routinely reviews the work of independent auditors on compliance audits and identifies findings related to their work and audit documentation. In addition, if we assume, as FSA does, that independent auditors used random sampling in the audits of all 60 of these schools and the audits were included in both the Pell and Direct Loan estimates, then only about one third of the student-level samples would be considered random. Therefore, the resulting improper payment estimates would still not be statistically valid because not all student-level samples were random.

We reviewed FSA's OMB Circular A-123 Appendix C, quality assurance and quality control standard operating procedures, and Pell Grant and Direct Loan Compliance Audits Fieldwork Plan quality assurance and quality control procedures checklists. We did not find evidence to support that any of these quality assurance procedures addressed the use of sustained questioned costs.

OIG Statements 2 and 3: FSA Did Not Accurately and Completely Include Improper Payments in the Improper Payment Calculations and FSA Estimated Improper Payments from Questioned Costs Instead of Sustained Questioned Costs

FSA Comments

FSA stated that it disagreed with the following statements included in our draft audit report: (a) FSA did not accurately and completely include improper payments (overpayments and underpayments) in the improper payment calculations; and (b) FSA estimated improper payments from questioned costs instead of sustained questioned costs. FSA stated that all improper payments were accurately and completely included in the estimates, and only sustained questioned costs were included in the estimates.

FSA commented on an issue related to two audits that we had initially identified as audits for which questioned costs that had not been sustained by FSA were recorded in the improper payment spreadsheets. FSA stated that all improper payments were appropriately recorded, and that FSA had only included sustained questioned costs.

FSA disagreed with the OIG's assessment that, for nine audits, the OIG could not determine the accuracy of the recorded improper payments and that FSA did not perform procedures to verify the accuracy and completeness of the improper payment data. FSA stated that it confirmed the accuracy and completeness of the improper payment data. It also stated that it reviewed the compliance audit reports to determine whether amounts confirmed by the auditors were consistent with the compliance audit reports and the FADs.

FSA stated that it would be redundant to ask independent auditors to provide separate attestations about the supplemental information they provide to FSA in accordance with the OMB Compliance Supplement. FSA said that the supplemental information is the same information that auditors gather to perform the compliance audits, develop findings and opinions, and issue the compliance audit reports. FSA stated that questioning the validity of the supplemental information that auditors provide to FSA would be equivalent to questioning the validity of the compliance audits as a whole.

OIG Response

We revised the draft report to state that in FY 2019, we found that FSA did not accurately and completely include improper payments in the improper payment calculations and that our finding this year is different in that we were not able to determine the accuracy and completeness of some of the improper payments included in the calculations because we could not confirm, due to the lack of details in the

supporting documentation or the inconsistencies in the supporting documentation, whether FSA performed procedures to ensure the accuracy and completeness of the supplemental questioned cost data it received from the independent auditors for some audits. We also revised the report to state that FSA estimated improper payments from sustained questioned costs although we found the issue stated above regarding accuracy and completeness.

Earlier in the audit, FSA provided information to support that the questioned costs were considered sustained for the two audits that we had initially identified as having questioned costs that were not sustained. As a result, we did not report in the draft report that the questioned costs for the two audits were not sustained.

We could not reconcile the improper payment amounts for nine compliance audits to the supplemental information FSA received from the independent auditors and could not confirm whether FSA performed procedures to ensure the accuracy and completeness of the supplemental questioned cost data FSA received, due to the lack of details in the supporting documentation or the inconsistencies in the supporting documentation.

We acknowledge that FSA updated its quality assurance and quality control procedures. However, we did not find that the updated procedures addressed the use of sustained questioned costs. The updated procedures also included steps that would help FSA confirm the reliability of information provided by independent auditors. However, we could not always verify that FSA confirmed the independent auditor data, except for seeing evidence of email requests and responses that did not always correlate to the audit report or the FAD. We revised the report to remove the statement that FSA did not include procedures to confirm the reliability of information provided by the independent auditors, and instead reported that we could not confirm whether FSA performed the procedures for all audits because of the lack of details in the supporting documentation or the inconsistencies in the supporting documentation.

Regarding supplemental information independent auditors provided to FSA (for example, spreadsheets of Pell and Direct Loan overpayment and underpayments, and clarifying information through email correspondence), independent auditors are required to obtain sufficient appropriate audit evidence to form an opinion and report about whether an entity complied in all material respects with the applicable compliance requirements. However, independent auditors are not required to attest to the accuracy of each individual work paper in their audit documentation. The OIG routinely reviews the work of independent auditors on compliance audits and identifies findings related to their work and audit documentation. There is, therefore, a risk that

FSA may not be receiving accurate supplemental information that it uses in the calculation of improper payment estimates.

OIG Statement 4: FSA Used Data that was not Suitable for the Purpose of Producing Statistically Valid and Reliable Improper Payment Estimates

FSA Comments

FSA stated that compliance audits are based on, and represent, quality information. FSA said that audits of proprietary schools were prepared in accordance with the Higher Education Act and the OIG Audit Guides. Audits of nonproprietary schools were prepared in accordance with the Uniform Guidance (2 C.F.R. Part 200), the OMB Compliance Supplement, American Institute of Certified Public Accountants Standards, and government auditing standards. FSA further stated that, in July 2020, OMB notified FSA that the use of compliance audits may be a sufficient sampling method to achieve a statistically valid methodology; however, that determination would need to be made by the agency statistician. Also, OMB subsequently modified OMB Circular A-123 Appendix C to remove the specific requirement that statistically valid methodologies use unbiased, randomized sampling.

FSA also noted that it updated its procedures, including quality assurance procedures, in FY 2020 to include additional steps to evaluate data obtained directly from the independent auditors. These procedures included numerous checks for the fieldwork on the Pell and Direct Loan program improper payment estimates.

OIG Response

FSA did not provide additional information that caused us to change our finding relating to the quality of data used in the improper payment estimates. OMB's July 2020 response to FSA stated that the use of compliance audits may be a sufficient sampling method to achieve a statistically valid methodology. However, OMB did not state definitively that such an approach, which includes nonrandomly selected samples, is sufficient to achieve a statistically valid methodology. Also, OMB did not provide a conclusive statement that using samples selected through biased selection methods, such as haphazard and judgmental samples, can be considered a statistically valid plan to compute a statistically valid improper payment estimate.

We reviewed FSA's updated quality assurance procedures that included steps that would help FSA confirm the reliability of information provided by independent auditors. However, we could not confirm whether FSA performed the procedures for all audits

because of the lack of details in the supporting documentation or the inconsistencies in the supporting documentation for the nine audits in question.

OIG Statement 5: FSA Impaired the Statistical Validity of the Estimates Through its Weighting of Schools Included in Consolidated School Group Single Audits

FSA Comments

FSA disagreed with our conclusion that it impaired the statistical validity of the estimates through its weighting of schools included in consolidated school group single audits. FSA stated that its approach for using the results of system audits to produce improper payment estimates required the development and application of "system-school" weighting. FSA stated that the validity of this approach is supported by the OMB Compliance Supplement and the OIG Audit Guides, which provide auditors discretion in sample selection when performing an audit for multiple schools or campuses (i.e., a school group). FSA said that it is reasonable to rely on the auditor's judgment for reviewing multiple schools or campuses as part of one audit when a system-wide audit is performed, and consequently, the results of the system-wide audit should be used for the corresponding sampled school or campus.

FSA stated that our draft report cited the GAO's guide, "Using Statistical Sampling," revised May 1992, as support for the finding. FSA said that "Using Statistical Sampling" provides nonauthoritative guidance to GAO evaluators, and its preface makes the following points: (a) the purpose of the guide is to provide readers with a background on sampling concepts, to help them know when to seek assistance from a statistical sampling specialist, and how to work with the specialist to design and execute a sampling plan; (b) the guide is one in a series of papers to provide GAO evaluators with guides to various aspects of audit and evaluation methodology, to illustrate applications, and to indicate where more detailed information is available. FSA stated that it agreed with GAO's guidance about seeking assistance from a statistical sampling specialist, which is what FSA did in designing its current improper payment sampling and estimation plan.

OIG Responses

The sampling needed to support a statistical estimate is not the same as sampling to test compliance for a school group audit. While the GAO guide is nonauthoritative and FSA hired a statistical sampling specialist, we still found that FSA did not develop a valid statistical estimate. In addition, FSA's sampling and estimation plans for the Pell and Direct Loan programs did not contain any explanations or procedures detailing how results of consolidated school group audits were to be used by FSA in a manner that

would result in statistically valid improper payment estimates. We did not change our opinion on the impact that the weighting of schools in consolidated school group single audits have on the statistically validity of the estimates based on FSA's comments.

FSA Comments on Selected Criteria

FSA stated that we cited an abbreviated portion of OMB Circular A-123 Appendix C, Part IV, B(2)(c) in support of our finding that excluded a portion of the guidance. FSA noted that our report did not cite the portion of the guidance that says agencies should ensure that "the program improper payment sampling and estimation plan used is appropriate given program characteristics." FSA said that its statistically valid estimation methodology allows FSA to identify the true underlying root causes of improper payments and was identified as an appropriate statistically valid approach given program characteristics.

FSA noted that our report cites OMB Circular A-123 Appendix C, Part I, A(1), which states that, "[a] 'questioned cost' should not be considered an improper payment until the transaction has been completely reviewed and is confirmed to be improper." FSA stated that it agreed with the referenced requirement and that it adhered to this guidance when it executed its estimation methodology. FSA requested that OIG explain how this criteria pertains to the finding.

FSA noted that our report cites principles 13.04 and 13.05 of the GAO Internal Control Standards. FSA stated that it agreed with the referenced GAO principles, which is the reason FSA uses compliance audit data. FSA requested that OIG explain how this criteria pertains to the finding.

OIG Response

Our report cites an abbreviated portion of OMB Circular A-123 Appendix C, Part IV, B(2)(c) that does not include the statement related to ensuring that the program improper payment sampling and estimation plan used is appropriate given program characteristics. We omitted this portion of the criteria because it was not relevant to the finding. Our finding does not say that FSA's sampling and estimation plan did not allow FSA to identify the underlying root causes of improper payments.

Our report cites OMB Circular A-123 Appendix C, Part I, A(1), which defines when a questioned cost is considered an improper payment. We included this citation in the report so that a reader will understand the discussion of sustained questioned costs in the report, including why sustained questioned costs are important and what criteria we are using for sustained questioned costs.

We cited the GAO internal control principles because the finding was related to the need for quality information to be used for the improper payment estimates.

Recommendation 3.1

FSA Comments

FSA did not concur with Recommendation 3.1. FSA stated that its sampling and estimation methodology for developing improper payment rates for the Pell and Direct Loan programs was statistically valid, and that the improper payment estimates were calculated using accurate, complete, and reliable data that allowed FSA to make statistically reliable inferences about the rates and amounts of improper payments. As an alternative to Recommendation 3.1, FSA stated that it would take the following four steps: (1) pursue the Department's internal issue [audit] resolution process to resolve the disagreement with OIG on the requirement for random sampling at all stages in FSA's improper payment estimation; (2) request OMB approval of FSA's improper payment methodology in accordance with 31 U.S.C. section 3352(c)(1)(A); (3) continue to recommend that the OMB Compliance Supplement require independent auditors to use random sampling in compliance audits of the Pell and Direct Loan programs; and (4) if these alternatives do not result in acceptance of nonrandom sampling in compliance audits or a requirement for random sampling in compliance audits, FSA stated it would explore how random sampling of payments for the Pell and Direct Loan programs could be implemented.

OIG Response

We acknowledge FSA's decision to pursue the Department's internal audit resolution process to resolve its disagreement with OIG regarding the use of random samples in its Pell and Direct Loan programs improper payment estimates. Based on the Department's internal audit resolution process, this disagreement will be formally resolved by the Department's Audit Follow-up Official. We also acknowledge that OMB and the Department are responsible for the content of the OMB Compliance Supplement. As such, we acknowledge FSA's decision to continue recommending to OMB that the OMB Compliance Supplement require independent auditors to use random sampling in compliance audits of the Pell and Direct Loan programs. We agree that improper payment sampling and estimation plans must produce a statistically valid estimate or an estimate that is otherwise appropriate using a methodology approved by OMB in accordance with 31 U.S.C. section 3352(c)(1)(A). Also, we agree that if FSA chooses to, it can explore how random sampling of payments for the Pell and Direct Loan programs could be implemented. We will review any changes in FSA's approach in our subsequent reviews of FSA's improper payment reporting.

Recommendation 3.2

FSA Comments

FSA did not concur with Recommendation 3.2. FSA stated that compliance audits are based on, and represent, quality information. FSA also stated that it did evaluate the accuracy and completeness of the data used and confirmed the appropriateness of using the data for improper payment estimation. FSA further stated that the OIG suggested in the finding that FSA should exclude data in compliance audits that did not use random sampling. FSA referenced the following language from the draft report, "we did not identify any language in the FY 2020 Pell and Direct Loan program improper payment sampling and estimation plans that indicated compliance audits that used nonrandom samples of students would be excluded from the FY 2020 estimates." FSA requested that OIG clarify whether it is recommending that FSA only use compliance audits that were performed using random sampling.

OIG Response

FSA's comments are not responsive to our recommendation because they do not address developing and implementing procedures to ensure that its improper payment estimates for the Pell and Direct Loan programs are based on, and represent, quality information. As described above, we did not find evidence that FSA took sufficient steps to evaluate the accuracy and completeness of supplemental information provided by independent auditors. FSA did not take sufficient steps to evaluate whether the compliance audit data, which included both random and nonrandom student-level samples, was appropriate for developing statistically valid improper payment estimates. Lastly, our recommendation focuses on FSA developing and implementing procedures pertaining to the use and development of quality information. The examples of reliable and appropriate data that we provide in the recommendation are not meant to be exhaustive or prescriptive.

Other Matter. The Department's Improper Payment Risk Assessments Need Strengthening

The Department's accompanying material[13] to its FY 2020 AFR stated that FSA determined seven of its programs to likely be below the statutory threshold for being susceptible to significant improper payments. We obtained and reviewed documentation that identified the amounts of improper payments attributed to each of the seven programs and concluded that FSA's determination was appropriate. However, from our review of these risk assessments we found that FSA did not include improper payment totals by program which is necessary for it to determine whether these programs exceeded the statutory threshold for being susceptible to significant improper payments. FSA provided risk factor criteria to program owners which included instructions for the program owners to consider any history of audit issues and prior improper payment reporting results. However, these instructions did not require the program owners to include the amount of improper payments identified in the prior audits and improper payment reporting. As such, the amounts of the improper payments were not included in the risk assessments for the FSA programs and FSA did not perform the calculation necessary to confirm that its programs were below the statutory threshold.

FSA officials stated that they conducted qualitative risk assessments and that actual estimates of improper payments were not required. Therefore, FSA did not require program owners to provide improper payment data in the execution of its risk assessments. FSA is correct in that it is not required to "estimate" improper payments; however, tallying identified improper payments for each program without performing an estimation could help FSA to ensure that improper payments for its programs do not exceed the statutory threshold for being susceptible to significant improper payments.

OMB Circular A-123 Appendix C, Part I, C(2)(d) states that qualitative risk assessments must be "designed to accurately determine whether the program is or is not susceptible to significant improper payments." According to 31 U.S.C. section 3352(a)(3)(A), the term 'significant' means that, "in the preceding fiscal year, the sum of a program or activity's improper payments and payments whose propriety cannot be determined by the executive agency due to lacking or insufficient documentation may have exceeded

[13] The improper payment reporting information the Department included in the Office of Management and Budget supplemental data call is posted on https://paymentaccuracy.gov.

(i) $10,000,000 of all reported program or activity payments of the executive agency made during that fiscal year and 1.5 percent of program outlays; or (ii) $100,000,000."

We suggest that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA, include in FSA's risk assessments, a tally of identified improper payments for each program.

Department Comments

The Department did not provide comments on the Other Matter. FSA stated that it did not agree with our suggestion. FSA stated that a tally of identified improper payments for each program is already captured within the OMB data call, which is annually circulated to FSA stakeholders. FSA stated that the total amounts of improper payments identified and recaptured in the OMB data call functions as an independent check on the program owners' and subject matter experts' assessment of the risk factors for the programs.

OIG Response

The suggestion above is intended to help the Department and FSA strengthen their risk assessments processes. Including the tallies of improper payments in the risk assessment documentation or including a reference to the tallies provides stronger support for risk assessment conclusions.

Appendix A. Scope and Methodology

Our audit covered the Department's improper payment reporting for FY 2020 (October 1, 2019, through September 30, 2020). We reviewed the Department's risk susceptible programs reported or referenced in the accompanying material to the Department's FY 2020 AFR. Our review also included following up on corrective actions the Department had taken in response to our FY 2019 improper payment audit report.

We performed the following procedures to answer the audit objectives.

1. To gain an understanding of FY 2020 improper payment reporting requirements and the Department's processes and controls for complying with the reporting requirements, we performed the following steps.

    a. Reviewed the Council of the Inspectors General on Integrity and Efficiency "Guidance for Payment Integrity Information Act Compliance Reviews," August 20, 2020, which provided guidance to the Office of Inspector General (OIG) on conducting an audit of an agency's compliance with the PIIA.

    b. Reviewed relevant laws, regulations, and guidance, including –

        - Payment Integrity Information Act of 2019 (codified at 31 U.S.C. sections 3351-3358);
        - OMB Circular A-123 Appendix C, "Requirements for Payment Integrity Improvement," June 26, 2018;
        - OMB Circular A-136, section II.4.5. "Payment Integrity Information Act Reporting," August 27, 2020;
        - Payment Integrity Question and Answer Collection on the OMB MAX website; and
        - OMB payment integrity data call instructions.

    c. Reviewed background information about the Department and its programs that were susceptible to significant improper payments in FY 2020 (Pell, Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs).

    d. Reviewed prior OIG audit reports on the Department's compliance with improper payment reporting requirements for FYs 2015–2019.

2. To obtain information about the Department's policies, procedures, processes, and controls for complying with the improper payment reporting requirements, we interviewed officials from the following FSA and Department groups—

    a. *Department*. Our audit team interviewed officials from the Office of Finance and Operation's Data Integrity and Financial Controls Division, Institute of Education Sciences' National Center for Education Statistics, and the Office of Postsecondary Education's Hispanic-Serving Institutions Division. We also interviewed personnel from the Department's contractor, which was responsible for developing and implementing the improper payment sampling and estimation plans for the Emergency Impact Aid, Restart, and Emergency Assistance programs and calculating the improper payment estimates for the three programs.

    b. *FSA.* Our audit team interviewed officials from Strategic Communications, Financial Management Group, Internal Controls Division, Enterprise Data and Analytics Directorate, Office of Student Experience and Aid Delivery, Program Delivery Service Group from the Partner Management and Support Services Directorate, School Eligibility and Oversight Service Group, Performance Management Group, and Audit Advisory Group's Enterprise Risk Management Office. We also interviewed personnel from FSA's contractor, which was responsible for performing risk assessments and providing improper payment deliverables.

3. To determine whether the Department complied with the PIIA, we completed the following procedures.

    a. Reviewed the Department's AFR and accompanying materials.

    b. Evaluated the Department's and FSA's risk assessments and determined whether they complied with applicable requirements and were reasonably supported.

    c. Identified the Department programs that required an improper payment estimate for FY 2020 and determined whether the Department reported an improper payment estimate for each of the programs in the accompanying materials to the AFR.

    d. Determined whether the Department published programmatic corrective action plans for those programs that required an improper payment estimate in FY 2020 and determined whether the corrective action plans met applicable requirements.

e. Determined whether the Department (1) published improper payment reduction targets, (2) demonstrated improvements, and (3) developed a plan to meet the annual improper payment reduction targets for programs that required an improper payment estimate for FY 2020.

f. Determined whether the Department reported an improper payment rate of less than 10 percent for each program and activity that required an improper payment estimate for FY 2020.

4. To evaluate the Department's (a) risk assessment methodology, (b) improper payment rate estimates, (c) sampling and estimation plans, (d) corrective action plans, and (e) efforts to prevent and reduce improper payments, we performed the following procedures.

   a. *Risk assessment methodology*. Developed and executed a sampling plan to evaluate the accuracy and completeness of the Department's program risk assessments. In addition, we evaluated all six of the Department's risk assessments related to its administrative activities and all seven of its FSA-managed program risk assessments. To evaluate the Department's assessment of the level of risk associated with the high-priority programs (Pell and Direct Loan) we reviewed the risk factors reflected in the Pell and Direct Loan improper payment estimates; we also reviewed the quality of the improper payment sampling and estimation plans and estimates, as described in sections b and c below.

   b. *Improper payment rate estimates*.

      - Developed and executed a sampling plan for each of the five programs for which the Department reported an improper payment estimate in the accompanying materials for its FY 2020 AFR. For the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs, we performed tests to evaluate the accuracy and completeness of the improper payment rate estimates and determine whether the Department followed its prescribed testing procedures for each program. For the Pell and Direct Loan programs, we reviewed the FY 2020 methodology for any significant changes from the prior year, and we performed tests to determine whether the Department had implemented corrective actions to address the findings from our FY 2019 improper payment audit report. See "Sampling Methodology" for more details.

      - Reviewed the completeness of the payment populations the Department used to estimate improper payments for the Emergency

Impact Aid, Restart, and Emergency Assistance to IHE programs. We reconciled the payment populations to FY 2019 program drawdowns from the Department's grants management system.

- Reviewed the formulas in the statistical analysis code program used to produce an improper payment rate for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs and determined whether the formulas used in the statistical analysis code program are those that were presented in the sampling and estimation plans.

c. *Sampling and estimation plans*.

- Obtained and reviewed the improper payment sampling and estimation plans that the Department submitted to OMB for calculating improper payment estimates for the Pell, Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs for FY 2020.
- Evaluated the improper payment sampling and estimation plans to determine whether they were appropriate given program characteristics and statistically valid and rigorous. For the Pell and Direct Loan plans, we only evaluated the sampling and estimation plans to determine whether the Department had changed the plans to address the findings from our FY 2019 improper payment audit report and identify any other significant changes.

d. *Corrective action plans.* Evaluated the Department's corrective action plans for the programs with a reported improper payment estimate to determine whether the Department implemented the corrective actions and assessed the effectiveness of the corrective actions.

e. *Efforts to prevent and reduce improper payments*.

- Obtained and reviewed documentation to support the Department's improper payment prevention activities, implementation of corrective actions, and how the Department determined that the corrective actions were reducing improper payments.
- Reviewed the oversight and financial controls that the Department used to identify and prevent improper payments in the Pell and Direct Loan programs.

5. We also obtained and reviewed documentation to verify the accuracy of the data reported in the accompanying materials to the FY 2020 AFR, including the improper payment tables for the Pell, Direct Loan, Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs; the root causes of

improper payments; and the amounts of improper payments identified and recaptured.

6. As part of our procedures related to items 2 through 5 above, we gained an understanding of the Department's internal controls that were significant to the audit objectives and assessed the design, implementation, and operating effectiveness of those controls.

Sampling Methodology

We selected samples of documentation to answer our audit objectives. We used auditor judgment to identify the appropriate sampling methodology for each program or procedure as described below. For our samples related to the five programs for which the Department reported improper payment estimates, we selected our sample items from the samples that the Department tested to derive its estimates. As a result, we placed sample items into groups of either having or not having improper payments based on the results of the Department's sample testing (as described below). The results from our sample testing apply only to the sample items we reviewed and cannot be projected to the entire population.

Direct Loan and Pell Program Samples

The purpose of our Direct Loan and Pell program sample testing was to confirm that the Department had implemented corrective actions in response to our FY 2019 improper payment audit findings; specifically ensuring improper payments were accurately and completely included in the calculations and sustained questioned costs were used in the estimates instead of questioned costs. We did not perform any other testing of the Department's improper payment estimates for the Pell and Direct Loan programs because the Department's sampling and estimation plans did not change substantially from last year and therefore did not change our findings from last year regarding the methodology and estimates.

We selected a total of 30 of the 241 compliance audit reports that the Department included in its improper payment estimate for the Direct Loan program. To best represent the entire population, we separated the 241 audit reports into 2 groups based on the Department's testing results: audit reports without identified improper payments (177 reports) and audit reports with identified improper payments (64 reports). We selected a nonstatistical random sample of 19 of the 177 audit reports without identified improper payments. We selected a judgmental sample of 11 of the 64 audit reports with improper payments, selecting all audit reports from the population that had improper payments above $100,000 because we wanted to review the audits that had the greatest impact on the improper payment rate estimate. See Table 7 for details.

Table 7. Sample of Compliance Audit Reports included in the Direct Loan Improper Payment Calculations

Groups	FSA Sample Count	Amount of Improper Payments in FSA Sample	OIG Sample Count	Amount of Improper Payments in OIG Sample	Sample Selection Method
Compliance audits with no identified improper payments	177	0	19	0	Nonstatistical Random
Compliance audits with identified improper payments	64	$5,008,465	11	$4,440,404	Judgmental
Total	**241**	**$5,008,465**	**30**	**$4,440,404**	**-**

We selected a total of 30 of the 233 compliance audit reports that the Department included in its improper payment estimate for the Pell program. To best represent the entire population, we separated the 233 audit reports into 2 groups based on the Department's testing results: audit reports without identified improper payments (169 reports) and audit reports with identified improper payments (64 reports). We selected a nonstatistical random sample of 20 of the 169 audit reports with no identified improper payments. We selected a judgmental sample of 10 of the 64 audit reports with improper payments, selecting the 10 audit reports with the highest improper payment amounts because we wanted to review the audits that had the greatest impact on the improper payment rate estimate. See Table 8 for details.

Table 8. Sample of Compliance Audit Reports Included in the Pell Improper Payment Calculations

Groups	FSA Sample Count	Amount of Improper Payments in FSA Sample	OIG Sample Count	Amount of Improper Payments in OIG Sample	Sample Selection Method
Compliance audits with no identified improper payments	169	$0	20	$0	Nonstatistical Random
Compliance audits with identified improper payments	64	$2,426,597	10	$2,248,414	Judgmental
Total	**233**	**$2,426,597**	**30**	**$2,248,414**	**-**

Samples of Payments Used to Derive the Improper Payment Estimates for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE Programs

The purpose of our sample testing for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs was to evaluate the accuracy and completeness of the Department's improper payment rate estimates and determine whether the Department followed its prescribed testing procedures for each program. We reviewed the Department's testing templates and supporting documentation for a sample of payments included in the improper payment calculations for the three programs and determined whether the sampled payments were allowable and supported with sufficient documentation based on the Department's testing methodology.

Emergency Impact Aid Program Sample

We selected a judgmental sample of 20 of the 252 SEA payments included in the Department's improper payment calculation for the Emergency Impact Aid program. We separated the SEA payments into six groups based on the Department's testing results: (1) Payments match drawdown amounts by Puerto Rico SEA with resulting improper payments, (2) Payments match drawdown amounts by Puerto Rico SEA with no resulting improper payments, (3) Payments did not match drawdown amounts by Puerto Rico SEA with resulting improper payments, (4) Payments did not match drawdown amounts by Puerto Rico SEA with no resulting improper payments, (5) SEA other than Puerto Rico with resulting improper payments, and (6) SEA other than Puerto Rico with no resulting improper payments. We judgmentally selected the largest dollar amount payments from each of the six groups, as shown in Table 9. Puerto Rico

"matched" are payments with a total amount that matched with a corresponding drawdown amount from the Department's grants management system because they were funded using only Emergency Impact Aid program funds. Puerto Rico "not matched" are payments with a total amount that did not match with a corresponding drawdown amount from the Department's grants management system because the Department could not determine whether they were funded using Emergency Impact Aid program funds or State funds.

Table 9. Sample of SEA Payments Included in the Emergency Impact Aid Payment Calculations

Groups	Department Sample Count	Department Sample Amount	OIG Sample Count	OIG Sample Amount	OIG Judgmental Selection Criteria
1. Puerto Rico- Matched with Improper Payments	20	$2,771,518	3	$1,435,656	3 Largest Payments
2. Puerto Rico- Matched without Improper Payments	29	$357,926	3	$87,212	3 Largest Payments
3. Puerto Rico- Not Matched with Improper Payments	40	$1,048,084	3	$654,783	3 Largest Payments
4. Puerto Rico- Not Matched without Improper Payments	66	$331,036	3	$39,338	3 Largest Payments
5. Not Puerto Rico with Improper Payments	26	$ 18,617,309	4	$8,184,060	4 Largest Payments
6. Not Puerto Rico without Improper Payments	71	$66,793,560	4	$16,439,574	4 Largest Payments
Total	**252**	**$89,919,433**	**20**	**$26,840,623**	**-**

Restart Program Sample

We selected a judgmental sample of 20 of the 154 SEA payments included in the improper payment calculation for the Restart program. We separated the SEA payments into four groups based on the Department's testing results: (1) Payments to Puerto Rico

SEA with resulting improper payments, (2) Payments to Puerto Rico SEA with no resulting improper payments, (3) Payments to SEAs other than Puerto Rico SEA with resulting improper payments, and (4) Payments to SEAs other than Puerto Rico SEA with no resulting improper payments. We judgmentally selected the five largest dollar amount payments from each of the four categories, as shown in Table 10.

Table 10. SEA Payments and Sample for Review included in the Restart Payment Calculations

Groups	Department Sample Count	Department Sample Value	OIG Sample Count	OIG Sample Value	OIG Judgmental Selection Criteria
Puerto Rico - without Improper Payments	47	$33,034,838	5	$31,781,832	5 Largest Payments
Puerto Rico - with Improper Payments	14	$24,832	5	$12,707	5 Largest Payments
Not Puerto Rico - without Improper Payments	69	$51,218,505	5	$22,874,213	5 Largest Payments
Not Puerto Rico - with Improper Payments	24	$15,260,277	5	$10,963,662	5 Largest Payments
Total	**154**	**$99,538,452**	**20**	**$65,632,414**	-

Emergency Assistance to IHE Program Sample

We selected a judgmental sample of 20 out of the 185 payments[14] to institutions included in the Department's improper payment calculation for the Emergency Assistance to IHE program. We separated the payments to schools based on the

[14] The sampling unit is a payment. However, there were two drawdowns that could not be validated because their school could not produce payment-level detail. The sampling unit for those two schools is a drawdown.

Department's updated sample design used to calculate their improper payment estimate. Then, we further separated the Department's categories into those with improper payments and those without improper payments and noted that in the category column. Some categories included no improper payments, and some included all improper payments. We judgmentally chose our samples with the intention of capturing 100 percent of the improper payments the Department identified and the largest dollar amounts from each of the categories where the Department did not identify improper payments, as shown in Table 11.

Table 11. Payments to Institutions and Sample for Review included in the Emergency Assistance to IHE Payment Calculations

Groups	Department Sample Count	Department Sample Amount	OIG Sample Count	OIG Sample Amount	OIG Judgmental Selection Criteria
1. Payments for Delinquent[a] IHEs that Eventually Provided Payment Detail - without Improper Payments	105	$3,323,848	6	$2,362,014	6 Largest Payments
2a. Payments for Nondelinquent[b] IHEs in Puerto Rico without Improper Payments	68	$3,902,040	8	$1,897,824	8 Largest Payments
2b. Payments for Nondelinquent IHEs in Puerto Rico with Improper Payments	1	$300,000	1	$300,000	100 percent of Improper Payments
3a. Payments for Nondelinquent IHEs Outside Puerto Rico without Improper Payments	7	$519,111	1	$381,250	1 Largest Payment
3b. Payments for Nondelinquent IHEs Outside Puerto Rico with Improper Payments	2	$464,402	2	$464,402	100 Percent of Improper Payments
4. Drawdowns of Two Remaining Delinquent IHEs with Improper Payments	2	$75,824	2	$75,824	100 Percent of Improper Payments
Total	**185**	**$8,585,225**	**20**	**$5,481,314**	**-**

[a] Delinquent IHEs are those IHEs that did not submit their payment-level detail to the Department on time or at all.

[b] Nondelinquent IHEs are those that submitted their payment-level detail to the Department on time.

Sample of Risk Assessments

We reviewed all 6 of the Department's risk assessments related to its administrative activities, all 7 of its FSA-managed program risk assessments, and randomly selected 10 of 25 of the Department's non-FSA program risk assessments to determine whether they complied with applicable requirements and were reasonably supported.

Sample of Improper Payment Corrective Actions

The Department identified seven corrective actions in the accompanying materials to its FY 2020 AFR to address the root causes of improper payments for the Pell, Direct Loan, Emergency Impact Aid, and Restart programs. The Department provided documentation to support that it implemented all the reported corrective actions in FY 2020. We selected all seven corrective actions for review to determine whether the Department had implemented the corrective actions.

Use of Computer-Processed Data

Our use of computer-processed data for the audit included (1) the spreadsheet the Department used to determine the programs that experienced significant funding increases and thereby required a risk assessment, (2) the spreadsheet containing known improper payments for programs included in the Department's program risk assessment, (3) a document containing known improper payments for administrative activities included in the Department's risk assessment, and (4) improper payment estimate spreadsheet data for three programs with reported improper payment estimates for FY 2020. We used the risk assessment spreadsheets and document to determine the accuracy and completeness of the Department's risk assessments and we used the improper payment estimate spreadsheet data for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs to determine the accuracy and completeness of the three estimates. We assessed the reliability of the data by doing the following:

a. For the spreadsheet the Department used to determine the programs that experienced significant funding increases and thereby required a risk assessment, we obtained (a) a program obligation and drawdown report from the Department's grants management team that listed all the Department's programs that had obligations in FY 2019 and (b) a list of the programs the Department reviewed last year for its improper payment risk assessments, and compared it to the list of programs in the Department's spreadsheet, in order to ensure all programs that had a change in obligations were included. To

determine whether the threshold the Department applied to the programs in the spreadsheet that would identify the program as having a significant funding increase was accurate, we checked the formulas and the determinations.

b. For the spreadsheet containing known improper payments for programs included in the Department's risk assessment, using the same sample of 10 programs that we used for risk assessment testing described in the Scope and Methodology section of this report, we obtained documentation to support the improper payment amounts listed in the spreadsheet.

c. For the document containing known improper payments for administrative activities included in the Department's risk assessment, we obtained and reviewed documentation to support the known improper payments listed in the document.

d. For the improper payment estimate spreadsheet data for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs, we performed the procedures described in the Scope and Methodology section of this report.

For the risk assessment related spreadsheets and documents, we did not identify any material discrepancies between the various data sources and found them to be complete. We concluded that the spreadsheets the Department used for its risk assessments were sufficiently reliable for the objectives of our audit. For the improper payment estimate spreadsheet data for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs, we determined the estimates to be unreliable, as described in Finding 3.

We held an entrance conference and interviews with Department officials by videoconference during the week of December 7, 2020. We performed additional interviews with Department officials during January, February, and March 2021. We conducted fieldwork at our offices from December 2020 through April 2021 and held an exit conference to discuss the results of our audit with Department officials on April 7, 2021.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix B. Acronyms and Abbreviations

AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
Emergency Impact Aid	Temporary Emergency Impact Aid for Displaced Students Program
FAD	Final Audit Determination letters
FSA	Federal Student Aid
FY	fiscal year
GAO	Government Accountability Office
IDEA	Individuals with Disabilities Education Act Part B
IPERA	The Improper Payments Elimination and Recovery Act
IPERIA	The Improper Payments Elimination and Recovery Improvement Act
IPIA	The Improper Payments Information Act
IHE	institutions of higher education
Internal Control Standards	Standards for Internal Control in the Federal Government
LEA	local educational agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant Program

PIIA	Payment Integrity Information Act of 2019
Restart	Immediate Aid to Restart School Operations Program
SEA	State educational agency
Team	The Department's team responsible for improper payment reporting activities
U.S.C.	United States Code

Department Comments

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF FINANCE AND OPERATIONS

MEMORANDUM

DATE: May 4, 2021

TO: Bryon Gordon
Assistant Inspector General for Audit
Office of Inspector General

Selina Boyd
Regional Inspector General
Office of Inspector General

FROM: Denise Carter *Denise L. Carter*
Acting Assistant Secretary
Office of Finance and Operations
Department of Education

Richard Lucas Richard Lucas Digitally signed by Richard Lucas Date: 2021.05.04 12:06:23 -04'00'
Chief Financial Office
Federal Student Aid
Department of Education

SUBJECT: Response to Discussion Draft Audit Report, "The U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2020" Control Number ED-OIG/A21GA0014

We appreciate the opportunity to respond to the subject Discussion Draft Audit Report. The Department is committed to maintaining effective internal controls to demonstrate payment integrity and prevent, detect, and recover improper payments.

Following are the Department and Federal Student Aid's responses to each finding and recommendation.

cc: Jeffrey Nekrasz
Director of Student Financial Assistance Advisory and Assistance
Office of Inspector General

Madelyn Johnson
Auditor in Charge
Office of Inspector General

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The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

Overall Comments

The Department *agrees* with Finding 2 and *partially agrees* with Findings 1 and 3. Additionally, Federal Student Aid (FSA) offers a response to the Office of the Inspector General's (OIG) suggestions under the section titled 'Other Matter.'

We concur with the findings and recommendations pertaining to non-FSA managed programs. The OIG concluded that the Department did not comply with the Payment Integrity and Information Act of 2019 (PIIA) for the FY 2020 reporting period due to reported improper payment rates exceeding the 10 percent threshold for the Emergency Impact Aid for Displaced Students (Emergency Impact Aid) and Immediate Aid to Restart School Operations (Restart) programs, that its improper payment risk assessments need strengthening, and that its sampling and estimation plans and estimates for the Emergency Impact Aid, Restart and Emergency Assistance to Institutions of Higher Education (Emergency Assistance to IHEs) programs were not reliable. The Department has already made significant strides in remediating these conditions in FY 2021, including the implementation of documented procedures to increase and strengthen quality assurance and contractor oversight controls, and more frequent technical assistance meetings with entities who receive and distribute funds under these disaster relief programs.

FSA does not concur with the conditions and findings pertaining to FSA-managed programs. FSA maintains that its sampling and estimation methodology for developing improper payment (IP) rates and confidence intervals is statistically valid, and the Pell Grant and Direct Loan IP estimates were calculated using accurate, complete, and reliable data that allows FSA to make statistically reliable inferences about the rates and amounts of IPs. FSA also believes its IP sampling and estimation methodology is consistent with the March 2021 updates to OMB Circular A-123 Appendix C that include "reducing administrative burden to allow agencies to focus on preventing improper payments and ensuring taxpayer money is serving its intended purpose," and ensuring that "federal agencies focus on identifying, assessing, prioritizing, and responding to payment integrity risks to prevent improper payments in the most appropriate manner."

FSA would like to highlight the key matter in the OIG's findings is the disagreement between FSA and OIG statisticians on the use of nonrandom sampling in some compliance audits conducted under the Single Audit Act, which FSA uses in estimating IPs. Although in March 2021, OMB removed the specific requirement for random sampling from OMB Circular A-123 Appendix C, the OIG has continued to maintain that random sampling is required for the calculation of IP estimates and confidence intervals.

FSA believes compliance audits conducted under the Single Audit Act, which do not always require random sampling, provide quality data necessary to calculate statistically valid IP estimates and confidence intervals. The universe of compliance audits includes approximately 5,700 institutions, and by randomly selecting compliance audits from this universe, FSA eliminated the bias that was inherent in its previous IP estimation methodology and, as a result, saw significant reductions in estimated IP rates. In addition, compliance audits are conducted by professional independent public accountants (IPAs) who perform student transaction level

sampling in accordance with audit standards set by 2 C.F.R. 200 ("Uniform Guidance"), OMB Compliance Supplement for single audits, AICPA Standards, and/or GAGAS (GAO Yellow Book), which require auditors to follow sampling guidance and use audit techniques and sample sizes that are sufficient to reduce sampling risk to an acceptably low level. Since some compliance audits may not use random sampling, FSA's IP estimation methodology assumes instances of nonrandom sampling in compliance audits may select higher-risk students and do not under-represent the overall risk of IPs and, therefore, IP estimates and confidence intervals do not systematically under-represent IP risks. Based on this assumption, FSA found it appropriate to interpret results and draw conclusions about confidence intervals for its IP estimation methodology. FSA statisticians agreed with this when considering FSA's program characteristics and available resources to estimate IPs.

On July 22, 2020, OMB provided FSA with the following specific guidance in using nonrandom sampling when developing statistically valid estimates:

> *"The use of compliance audits may be a sufficient sampling method to achieve a statistically valid methodology. If agencies are performing multi-stage sampling, agencies may consider working toward the goal of performing random sampling at every stage if the agency statistician determines that random sampling is needed in every stage to achieve a statistically valid methodology. It is possible for agency sampling methodologies that use random sampling for one stage and leverage compliance audits for another may be considered statistically valid, however, that determination would need to be made by the agency statistician."*

FSA's position that confidence intervals can be reported based on some non-random samples at the second stage is supported by Dr. Andrew Gelman, professor of statistics and political science at Columbia University and an elected fellow of both the American Statistical Association and the Institute of Mathematical Statistics. In an article posted on the Columbia University website, Dr. Gelman addressed the specific issues of reporting confidence intervals and making inferences based on sample data collected through nonrandom sampling. FSA concluded that the information provided by compliance audits, whether from OIG audits or Single Audits, is based on the execution of critical and independent audit procedures.

FSA's responses to the findings and recommendations in the OIG's discussion draft report are provided in the following sections.

Finding 1. The Department Did Not Comply with the PIIA for the FY 2020 Reporting Period.

OIG Statement: Improper Payment Estimates for the Emergency Impact Aid and Restart Programs Exceeded 10 Percent.

Department's Response: The Department concurs with this finding for the Emergency Impact Aid and Restart programs.

OIG Statement: Improvement in Direct Loan Improper Payments Not Demonstrated

FSA Response: FSA does not concur with this finding.

FSA's IP sampling and estimation methodology meets all the requirements for "Statistically Valid and Rigorous Plans" in M-18-20, Part I.D.1, step 2, paragraph d.1. Per M-18-20, Statistically Valid and Rigorous Plans "should count reduction targets as being met if the 95% confidence interval includes the reduction target." The 95% confidence interval of FSA's FY 2020 Direct Loan IP estimate (i.e., 0.00% to 1.71%) included the reduction target of 0.51%. Therefore, the reduction target was met for the Direct Loan program.

As discussed in the April 2020 IP audit exit conference with representatives from OMB, and as noted in FSA's response to the draft FY19 IPERA Compliance Audit report, FSA disagrees with the OIG's interpretation that, because compliance auditors may use non-random sampling, compliance audit data is not a quality data source for IP estimation purposes.

OIG Recommendation

We recommend that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA —

Recommendation 1.1: Submit to the appropriate authorizing and appropriations committees of Congress a plan describing actions the Department will take to bring the Direct Loan, Emergency Impact Aid, and Restart programs into compliance with the PIIA.

Department Response: The Department concurs with this recommendation for the Emergency Impact Aid and Restart programs and will submit to the appropriate authorizing and appropriations committees of Congress a plan describing actions it will take to bring these programs into compliance with the PIIA.

FSA Response: FSA does not concur with this recommendation and maintains that its sampling and estimation methodology for developing improper payment (IP) rates is statistically valid, and the Pell Grant and Direct Loan IP estimates were calculated using accurate, complete, and reliable data that allows FSA to make statistically reliable inferences about the rates and amounts of IPs.

As an alternative to the OIG's recommendation, FSA plans to take the following steps:

- Pursue the Department's internal issue resolution process to resolve the disagreement with the OIG on the requirement for random sampling at all stages in FSA's IP estimation.
- While continuing to maintain that FSA's IP sampling and estimation methodology is statistically valid, request OMB approval of FSA's IP estimation methodology in accordance with PIIA §3352(c)(1)(A).
- In accordance with OMB's suggestion that FSA consider working toward the goal of performing random sampling at every stage, and in consideration of the OIG's findings based on nonrandom sampling, FSA will continue to recommend that the OMB

Compliance Supplement require IPAs to use random sampling in compliance audits of the Pell and Direct Loan programs.

- If these alternatives do not result in acceptance of nonrandom sampling in compliance audits or a requirement for random sampling in compliance audits, FSA will explore how random sampling of payments for the Pell and Direct Loan programs could be implemented and the resources that would be required to implement random sampling for those programs.

OIG Recommendation 1.2: Develop a plan for compliance that specifies the actions the Department will take to obtain sufficient documentation to allow it to determine whether the payments reviewed for the Emergency Impact Aid and Restart programs are proper or improper.

Department's Response: The Department concurs with the OIG's recommendation to develop a plan for compliance to ensure that sufficient documentations are obtained to determine whether payments reviewed for the Emergency Impact Aid and RESTART programs are proper or improper based on and accurate and complete information. The Director of the Financial Data Integrity and Controls Division has already taken steps to implement data validation procedures within its estimation methodologies for FY 2021 and beyond.

Finding 2. The Department's Improper Payment Risk Assessment Process Needs Strengthening

OIG Statement: The Department's Determination on the Level of Risk for the IDEA Program is not Supported.

OIG Statement: The Department's Risk Assessment Related to its Contracts Management Activity is Incomplete

Department's Response: The Department concurs with this finding and both statements.

OIG Recommendation 2.1 Reassess the IDEA program's risk for significant improper payments in the Department's FY 2021 annual improper payment review.

Department's Response to Recommendation 2.1: The Department concurs with this recommendation and will reassess the IDEA program in its FY2021 improper payment review.

OIG Recommendation 2.2 Ensure that Department officials assess the time needed to obtain and review the necessary documentation to conduct the IDEA program's reassessment of risk for significant improper payments given the unique challenges posed by the pandemic; and ensure adequate time is provided.

Department's Response to Recommendation 2.2: The Department concurs with this recommendation and will conduct the review of the IDEA program early in FY 2021 to ensure the needed time to review all necessary documentation and ensure appropriate time to accurately review this program.

OIG Recommendation 2.3 Develop and implement policies and procedures to ensure FSA's contract management activity is included in the Department's improper payment risk assessments related to administrative activities.

Department's Response: The Department concurs with this recommendation and will implement policies and procedures to ensure FSA-managed contracts are included in the Department's Administrative Payments Improper Payment review.

Finding 3. The Department's Improper Payment Risk Sampling and Estimation Plans and Estimates were Not Reliable.

OIG Statement: Pell and Direct Loan Program Improper Payment Sampling and Estimation Plans and Estimates Were Not Reliable

FSA Response: FSA does not concur with this statement.

FSA's IP estimates for the Pell and Direct Loan programs are reliable. FSA disagrees with the five points that the OIG repeated from its audit of the Department's Compliance with Improper Payment Reporting Requirements for FY 2019 (ED-OIG/A04U0001):

(1) IG's Supporting Statement #1: FSA Finance Directorate's Financial Management Group— developed and executed improper payment sampling and estimation plans that were not statistically valid and complete because student-level sampling for some compliance audits used to calculate the estimates were based on nonrandom samples of students which would impact the ability to project a reliable statistical estimate.

FSA disagrees with this statement. The IP estimation methodology used by FSA meets all the requirements for "Statistically Valid and Rigorous Plans" in M-18-20, Part I.D.1, step 2, paragraph d.1. Please refer to FSA's previous statements in this response for additional details.

Additionally, the OIG's statement that "only about 3 percent (7 compliance audits) of the student-level samples were known to be random" is inaccurate. Table 2 in the discussion draft audit report, shown below, is also inaccurate.

Table 2. Random and Nonrandom Samples of Pell and Direct Loan Students

Description of Student-Level Sample Selection	Pell Estimate	Direct Loan Estimate
Compliance Audits with Randomly Selected Students	7	7
Compliance Audits with Students Not Randomly[a] Selected	19	15
Compliance Audits with Method of Selection Not Specified	192	214
Compliance Audits with Method of Selection Not Applicable[b]	15	5
Total Number of Compliance Audits FSA Sampled[c]	**233**	**241**

[a] These samples were identified as samples that were selected using a haphazard, judgmental, or not-statistically valid sampling method.

For example, all audits conducted in accordance with the OIG Guide for Audits of Proprietary Schools and for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools covered by the Higher Education Act of 1965 (HEA) are required to perform random sampling. Of the population of Pell Grant and Direct Loan disbursing schools sampled by FSA, sixty (60) were conducted in accordance with the OIG Guides for Audits of Proprietary Schools and for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools and therefore required random sampling of students. These audits alone accounted for approximately 25% of all sampled compliance audits. The OIG's statement that "only about 3 percent (7 compliance audits) of the student-level samples were known to be random" was erroneously calculated by the OIG based on information that FSA accurately recorded in the Pell Grant and Direct Loan fieldwork plans that was intended to capture only explicit references to the sampling approach included in the compliance audit reports. If sampled compliance audit reports were conducted in accordance with the OIG Guides for Audits of Proprietary Schools and for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools, which require random sampling, and did not explicitly specify the sampling approach employed by the auditor, FSA recorded the sampling approach as "Not Specified" in the fieldwork plans.

Also, the following statement in the audit discussion draft report is inaccurate: "FSA's updated quality assurance procedures do not address the use of sustained questioned costs." First, FSA's Pell Grant and Direct Loan IP standard operating procedures did address the use of sustained questioned costs. These procedures stated, "For all sampled schools with a Deficient audit, obtain the latest audit to have a Final Audit Determination (FAD) letter issued. The FAD letter should be obtained for Deficient audits." FSA adhered to this procedure, which aligned with FSA's estimation methodology and which

stated that FSA will only use sustained questioned costs in its IP estimation: "For Deficient audits, review the FAD to confirm whether questioned costs identified in the compliance audit report that met the definition of an improper payment were sustained. Exclude any questioned costs that were not sustained from the estimates." Further, as part of FSA's Pell Grant and Direct Loan compliance audit IP fieldwork QA/QC procedures, FSA reviewed audit support documentation for all OPEIDs within the fieldwork plans, which included ensuring only sustained questioned costs were included in the IP estimates.

(2&3) IG's Supporting Statements #2 & 3: FSA Finance Directorate's Financial Management Group—

> ***(2) did not accurately and completely include improper payments (overpayments and underpayments) in the improper payment calculations;***
> ***(3) estimated improper payments from questioned costs instead of sustained questioned costs;***

FSA disagrees with these statements. All IPs were accurately and completely included in the estimates, and only sustained questioned costs were included in the estimates.

Further, FSA disagrees with the OIG's assessment that for nine audits the OIG could not determine the accuracy of the recorded IPs and FSA did not perform any procedures to verify the accuracy and completeness of the IP data. FSA confirmed the accuracy and completeness of the IP data, and FSA reviewed the compliance audit reports to determine whether amounts confirmed by the auditors were consistent with the compliance audit reports. FSA appropriately included Pell Grant and Direct Loan sustained questioned costs in the Pell Grant and Direct Loan IP estimates, respectively. FSA referenced the breakdown of IPs by program include in the compliance audit reports, if included. For example, for one of the 9 compliance audits referenced by the OIG, the following breakdown was provided in the compliance audit report. In the fieldwork plans, Direct Loan IPs of $1,532,197 ($9183 + $1,523,014) and Pell Grant IPs of $206,200 ($10,940+$14,388+$98,504+ $82,368) were appropriately recorded.

SFA Program	Days Where Instances of Noncompliance Identified	Excess Cash*
FY2017 Direct Loan Program	July 11 and July 13	$9,183
	September 20-23	$1,523,014
FY2017 Pell Grant Program	July 12-14 and July 18-19	$10,940
	December 6-9 and December 12-13	$14,388
	January 3-4, January 6, January 9	$98,504
FY2016 Pell Grant Program	May 17-19, May 24-26, and May 31	$82,368

In cases in which a FAD was issued and only reported the total amount of sustained questioned costs for all applicable programs rather than a breakdown for the amount of sustained questioned costs applicable to each program, FSA referenced the corresponding compliance audit report to corroborate the auditors' response. For example, for one of 9 referenced compliance audits, the FAD sustained a finding identified in the compliance

audit report, and while the FAD did not provide a detailed breakdown by program, the sustained finding in the compliance audit report provided the detailed breakdown, which aligns with the auditors' response.

Excerpt from FAD (Finding 2017-034):

> The auditor noted two students failed to meet Satisfactory Academic Progress (SAP). The student system showed the financial aid appeal was approved but the support showed the appeals were denied, and one student exceeded their aggregate Unsubsidized Direct Loan limit. (Questioned Costs: $28,667)
>
> The auditor recommended that the Institution improve its efforts to follow SAP policies and procedures, monitor loan limits to comply with SFA Federal regulations, and report the overpayment to the National Student Loan Data System.
>
> **FINAL AUDIT DETERMINATION:**
>
> 34 C.F.R. § 668.32(f) of the Student Assistance General Provisions regulations states that a student must be maintaining satisfactory academic progress according to the school's policy to be eligible to receive Title IV assistance.
>
> In its Corrective Action Plan, the Institution concurred with the auditor's finding. The Institution revised its SAP appeal procedures to ensure corrective action and the students identified remain eligible for the funds. Additionally, the Institution stated that the student who reached his aggregate loan limit initiated the reaffirmation process for eligibility. Therefore, no further action is required for this finding.

Excerpt from corresponding compliance audit report (Finding 2017-034):

> **2017-034 - Inadequate Control over Eligibility Requirements**
>
> **Award Year: 2017**
> **Award Numbers: REDACTED**
> **Compliance Requirement: Eligibility**
> **Repeat Finding: No**

	Questioned Costs
Student Financial Assistance Cluster:	
84.063 Federal Pell Grant Program (Award No. REDACTD)	**$8,723**
84.268 Federal Direct Student Loans (Award No. REDACTED)	**19,944**
	$28,667

The OIG indicates that for 2 of the 9 audits, questioned costs should not have been included in the IP estimates because they are not considered sustained question costs. This statement is not accurate. All IPs were appropriately recorded, and FSA only included sustained questioned costs. FADs were not applicable to the two referenced audits as the findings identified within the reports were not considered deficiencies. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. FADs are only issued by auditors for audits with findings that are classified as deficient. The two referenced compliance audits were not deficient. Therefore, a FAD was not issued. The findings identified within the compliance audit

reports were sustained by FSA's review of the audit reports rather than by separate issuance of a FAD. The sustained IP amounts identified in the compliance audit reports were accurately and completely recorded in FSA's fieldwork plan workbooks.

FSA performed procedures to confirm the accuracy and completeness of all IP data provided by auditors, including confirming sustained questioned costs applicable to the Pell Grant and Direct Loan programs. FSA maintains a rigorous QA/QC process to promote a high degree of consistency, completeness, accuracy, clarity, and usability of IP estimation documentation and results. This process is documented in FSA's "OMB Circular A-123, Appendix C: Quality Assurance / Quality Control Standard Operating Procedures," which was previously shared with the OIG on 12/8/20. As part of this process, FSA reconciled compliance audit reports, Final Audit Determination (FAD) Letters, and auditor-provided responses to confirm IP amounts, and recorded these amounts correctly within the fieldwork plans. In FY 2020, FSA included additional QA/QC procedures for review of supplemental data that it receives from independent auditors, details of which were provided in our 3/2/21 response to the OIG. In accordance with these procedures, FSA followed-up with auditors and schools, as necessary, to resolve potential discrepancies between the three data sources.

Further, it is redundant to ask auditors to provide separate attestations about the supplemental information they provide to FSA in accordance with the OMB Compliance Supplement. The supplemental information is the same information the auditors gather to perform the compliance audits, record in their work papers, develop findings and opinions, and issue the compliance audit reports. Questioning the validity of the supplemental information provided to FSA by the auditor and the underlying workpapers is equivalent to questioning the validity of the compliance audits as a whole. FSA requests the IG clarify whether it believes IPAs should provide separate attestations for the supplemental information. FSA also asks the IG to clarify the type(s) of additional procedures it would have FSA perform on the supplemental data, and how FSA would, in essence, audit the auditors.

We appreciate the OIG's acknowledgement that, for the audits with no identified IPs, these were correctly recorded in FSA's fieldwork spreadsheets as having $0 in IPs.

(4) IG's Supporting Statement #4: FSA Finance Directorate's Financial Management Group— used data that was not suitable for the purpose of producing statistically valid and reliable improper payment estimates. Specifically, the audit reports did not always include required audit data needed to estimate improper payments; independent auditors did not always select unbiased randomized student samples; and FSA did not assess the accuracy of some of the audit data required to produce the estimates or whether the independent auditors performing the single audits and foreign school audits selected unbiased randomized student samples.

FSA disagrees with this statement. Compliance audits are based on, and represent, quality information. Audits of proprietary schools were prepared in accordance with the Higher Education Act (HEA) and The Guide for Audits of Proprietary Schools and For

Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (OIG Audit Guide), and audits of non-proprietary schools were prepared in accordance with the Uniform Guidance, the Compliance Supplement, AICPA Standards, and GAGAS (GAO Yellow Book Standards). Further, as described earlier in this response, in July 2020 OMB specifically confirmed to FSA that the use of compliance audits is sufficient to achieve a statistically valid methodology, and OMB subsequently modified A-123C to remove the requirement that statistically valid methodologies use unbiased, randomized sampling.

FSA would also like to note that the following statement in the audit report is misleading, as it suggests FSA did not perform review procedures on auditors' responses that it should have: "We [OIG] reviewed FSA's updated quality assurance procedures and the only assessment they [FSA] indicated would be performed on the additional data was to check for manual errors such as transposed numbers." Although it is accurate that FSA thoroughly checked for any potential manual errors made by the IPAs in their responses to FSA (e.g., FSA performed detailed reconciliations between the auditors' responses and compliance audit reports as evidenced in the documentation provided to the OIG), as mentioned in our response above, and as detailed in the documentation provided to the OIG on 12/8/20 and 3/2/21, FSA updated its procedures, including quality assurance procedures, in FY 2020 to include additional steps to evaluate data obtained directly from the independent auditors. These procedures included the following checks for Pell Grant fieldwork (similar procedures were also added for Direct Loan fieldwork):

- **Pell Fieldwork QA/QC Checklist: Part A – Fieldwork Plan: #24:** The Student Disbursement amount does not exceed the Pell Annual disbursement limit for the given year.
- **Pell Fieldwork QA/QC Checklist: Part A – Fieldwork Plan: #32:** The # of Pell Students included within a finding is less than the # of Pell Students Selected by Auditor (i.e., sample size)
- **Pell Fieldwork QA/QC Checklist: Part A – Fieldwork Plan: #33:** The auditor information provided for the Pell and DL programs is not duplicative. The sample #, population #, student disbursement amount(s) and finding information, if applicable, are unique to the Pell program.
- **Pell Fieldwork QA/QC Checklist: Part A – Fieldwork Plan: #34:** Column AB page titled "Relevant Page Number(s)" contains the pdf page number for each associated finding. If no findings are listed within the audit report, the column contains the pdf page number for the schedule of findings or questioned costs section that indicates no findings.
- **Pell Fieldwork QA/QC Checklist: Additional Check: #1:** Perform the following steps:
    1. Review audit support documentation for <u>all OPEIDs</u> within the Pell Fieldwork Plan
    2. Review auditor responses for potential manual errors (e.g., transposition errors in sample, population, and finding values reported)

3. Reconcile the sampled OPEID documentation to the data in the Fieldwork Plan

(5) IG's Supporting Statement #5: FSA Finance Directorate's Financial Management Group— impaired the statistical validity of the estimates through its weighting of schools included in consolidated school group single audits. Specifically, FSA weighted the results of the entire school group audit and then applied it to the sampled school, regardless of the extent to which the audit involved the sampling of students at the sampled school. In so doing, FSA used the audit results from schools that it did not sample and applied those results to the schools that it randomly sampled.

FSA disagrees with this statement. FSA's weighting of schools included in consolidated school group single audits did not impair the statistical validity of the estimates. FSA used the results of system audits (when applicable) to project to each of the corresponding sampled schools, whether explicitly reported on in the audit or not. This approach required the development and application of the "system-school" weighting. The weighting approach and the validity of this approach are documented in the 2/7/19 memorandum entitled "FY19 Improper Payment Sampling Approach Decision Points Summary," which was provided to the OIG as part of last year's IP audit on 3/10/20. As it relates to the validity of this approach, the OMB Compliance Supplement (§200.514 Scope of Audit) and the OIG Guide for Audits of Proprietary Schools provide auditors discretion in sample selection when performing a single audit for multiple schools/campuses (i.e., school group), and it is reasonable to rely on the auditor's judgment for reviewing multiple schools/campuses as part of one audit, when a system-wide audit is performed, the results of the system-wide audit should be used for the corresponding sampled school/campus. The approach researched and decided on by FSA also avoids the subjectivity that would be involved with judgmentally determining what portion of the system-wide audit results to include in the estimation, which could create the perception of manipulating the IP estimates.

In FY 2020, FSA updated its IP estimation methodology to incorporate the details of this approach directly in the methodology. The updates were introduced and summarized in "Section 3.0 Explanation of Changes to the Methodology" and further detailed in "Section 4.1.2 Second-Stage Sampling" of the estimation methodology.

In support of its finding, the OIG cites the GAO's guide, "Using Statistical Sampling," revised May 1992. "Using Statistical Sampling" provided nonauthoritative guidance to GAO evaluators, and its preface makes the following points:

- The purpose of this methodology transfer paper on statistical sampling is to provide its readers with a background on sampling concepts and methods that will enable them to identify jobs that can benefit from statistical sampling, to know when to seek assistance from a statistical sampling specialist, and to work with the specialist to design and execute a sampling plan.
- Using Statistical Sampling is one of a series of papers issued by the Program Evaluation and Methodology Division (PEMD). The purpose of the series is to

provide GAO evaluators with guides to various aspects of audit and evaluation methodology, to illustrate applications, and to indicate where more detailed information is available.

FSA agrees with GAO's guidance about seeking assistance from a statistical sampling specialist, which FSA did in designing its current IP sampling and estimation plan. In accordance with OMB requirements, an FSA statistician certified that the FSA plan was statistically valid, and FSA submitted the statistician's certification to OMB with the plan. OMB reviewed the plan and did not express any concerns.

The OIG also cites OMB Circular A-123C, Part IV, B(2)(c) in support of its finding. The OIG cited an abbreviated excerpt of that guidance that excluded the following portion of the guidance in bold type: "… agencies should ensure that the program improper payment rate estimates are accurate **and that the sampling and estimation plan used is appropriate given program characteristics**." FSA's statistically valid estimation methodology allows FSA to identify the true underlying root causes of IP (i.e., is accurate) and is used as it was identified as an appropriate statistically valid approach given program characteristics, as explained in further detail throughout this response.

The OIG also cites OMB Circular A-123C, Part I, A(1), which states that, "[a] 'questioned cost' should not be considered an improper payment until the transaction has been completely reviewedand is confirmed to be improper." FSA agrees with the referenced OMB Circular Appendix C requirement, which is the reason FSA's IP estimation methodology only considers sustained questioned costs in estimating IP. Further, FSA adhered to this guidance when executing its estimation methodology. Since the OIG cited this requirement in support of its finding, FSA requests the OIG clarify how it pertains to the finding.

The OIG also cites GAO Internal Control Standards, principle 13.04 and principle 13.05. FSA agrees with the referenced GAO principles, which is the reason FSA uses compliance audit data. Since the OIG cited these principles in support of its finding, FSA requests the OIG clarify how it pertains to the finding. Specifically, does the OIG mean that compliance audits and data in their underlying workpapers do not provide relevant data from a reliable external source in a timely manner that are reasonably free from error and bias and faithfully represent what they purport to represent? Does the OIG mean that compliance audits are not quality information and do not support the internal control system, or that compliance audits are not appropriate, current, complete, accurate, accessible, and provided on a timely basis?

OIG Recommendations:

We recommend that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA —

OIG Recommendation 3.1: Develop and implement procedures to ensure that the Department's sampling and estimation plans for the Pell and Direct Loan programs are statistically valid and will produce statistically valid and reliable estimates or use a non-statistical estimate that is otherwise appropriate using a methodology approved by the Director of OMB.

FSA Response: FSA does not concur with this recommendation and maintains that its sampling and estimation methodology for developing improper payment (IP) rates is statistically valid, and the Pell Grant and Direct Loan IP estimates were calculated using accurate, complete, and reliable data that allows FSA to make statistically reliable inferences about the rates and amounts of IPs. As an alternative to the OIG's recommendation, FSA plans to take the following steps:

- Pursue the Department's internal issue resolution process to resolve the disagreement with the OIG on the requirement for random sampling at all stages in FSA's IP estimation.
- While continuing to maintain that FSA's IP sampling and estimation methodology is statistically valid, request OMB approval of FSA's IP estimation methodology in accordance with PIIA §3352(c)(1)(A).
- In accordance with OMB's suggestion that FSA consider working toward the goal of performing random sampling at every stage, and in consideration of the OIG's year findings based on nonrandom sampling, FSA will continue to recommend that the OMB Compliance Supplement require IPAs to use random sampling in compliance audits of the Pell and Direct Loan programs.
- If these alternatives do not result in acceptance of nonrandom sampling in compliance audits or a requirement for random sampling in compliance audits, FSA will explore how random sampling of payments for the Pell and Direct Loan programs could be implemented and the resources that would be required to implement random sampling for those programs.

OIG Recommendation 3.2: Develop and implement procedures to ensure that the Department's improper payment estimates for the Pell and Direct Loan programs are based on, and represent, quality information. Specifically, evaluate the data used to determine whether it is reliable (for example, the quality of any supplemental data, if used for the estimates, has been evaluated for accuracy and completeness); and appropriate (for example, estimates are based on randomly selected student-level samples from compliance audits).

FSA Response: FSA does not concur with this recommendation. Compliance audits are based on, and represent, quality information. Further, FSA did evaluate the accuracy and completeness of the data used and confirmed the appropriateness of using the data for IP estimation.

The OIG suggests in the related finding that FSA should exclude data in compliance audits that did not use random sampling (e.g., the OIG states: "we did not identify any language in the FY 2020 Pell and Direct Loan program improper payment sampling and estimation plans that indicated compliance audits that used nonrandom samples of students would be excluded from the FY 2020 estimates"). FSA asks that OIG clarify whether it is recommending that FSA only use compliance audits that were performed using random sampling.

OIG Statement. The Department's Improper Payment Sampling and Estimation Plans and Estimates were Not Reliable: Emergency Impact Aid, Restart, and Emergency Assistance to IHE Programs

Department's Response: The Department concurs with this statement regarding the Emergency Impact Aid, Restart, and Emergency Assistance to IHE Programs.

OIG Recommendation 3.3: Develop and implement procedures to adequately oversee the contractor producing the improper payment estimates for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs and to ensure all improper payments are accurately and completely included in the improper payment calculations.

Department's Response: The Department concurs with OIG's recommendation and will strengthen oversight procedures of the Department's contractors producing improper payment estimates for the Emergency Impact Aid, Restart, and the Emergency Assistance to IHEs programs.

OIG Recommendation 3.4: Implement the Department's written procedures for ensuring that the Department's improper payment estimates for the Emergency Impact Aid, Restart, and Emergency Assistance to IHE programs are based on and reflect accurate and complete population sampling frames that will produce a statistically valid and reliable estimate.

Department's Response: The Department concurs with this recommendation and will update its current standard operating procedures to ensure these steps are incorporated into its sampling and estimation plans for Emergency Impact Aid, Restart, and Emergency Assistance to IHEs programs to ensure that they will produce a statically valid and reliable estimate.

OIG's Other Matter: Federal Student Aid's Improper Payment Risk Assessments Need Strengthening

OIG Suggestion: We suggest that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA, include in FSA's risk assessments, a tally of identified improper payments for each program.

FSA Response: FSA does not concur with this suggestion.

FSA's FY 2020 IP risk assessment results supported that the seven programs in question were not susceptible to significant IPs. FSA used a qualitative risk assessment approach, as permitted by the guidance. While A-123C defines risk-susceptible vs. non-risk-susceptible programs in quantitative terms (i.e., IPs above or below 1.5% of program outlays or $100 million), agencies are permitted to use a qualitative risk assessment approach for all programs with outlays of $5 billion or less for a 12-month period and for any program with outlays exceeding $5 billion that were previously assessed using a qualitative method. As such, FSA's qualitative risk assessment

approach does not involve performing quantitative tallying of IPs which would be associated with a quantitative risk assessment approach.

FSA's qualitative risk assessment approach is designed to accurately determine whether a program is or is not susceptible to significant IPs. FSA's qualitative risk assessment approach involved facilitating discussions with the FSA program owners to consider 14 IP risk factors, which included all 11 risk factors set forth in the Payment Integrity Information Act of 2019. Risk factors assessed included "History of Audit Issues", "Accuracy and Reliability of Previously Reported Improper Payment Estimates", and "Prior Improper Payment Incidents." Therefore, program owners were asked to consider the amount of IPs identified in the prior audits and IP reporting. These risk factors, and the results from the last risk assessments where applicable, were used to facilitate risk assessment meetings with stakeholders to identify risk-susceptible programs or activities. FSA program owners were provided thorough guidance about how to assess the level of risk associated with each program including an overview of the purpose and intended use of the risk assessment, an overview of the risk assessment methodology which included definitions of each risk factor and guidance on scoring the risk factors, and an overview of prior risk assessment results, among other information. FSA program owners were asked to provide thorough justification for each risk factor score, and this validated justification was documented in risk assessment workbooks. The justification included a description of any prior audit issues, a summary of the accuracy and reliability of previously reported IP estimates (if applicable), and confirmation of any prior IP incidents. The detailed justification documented in the risk assessment workbooks supported FSA program owners' scores for each risk factor and the overall program risk ratings.

A tally of identified IPs for each program is already captured within the Year-End OMB Data Call, which is annually circulated to FSA stakeholders. An independent check on the program owner's and subject matter expert's assessment of these risk factors is the amount of IPs identified and recaptured that are reported for these programs in the OMB Data Call. Pictured below are the results reported in the 2019 Data Set available on PaymentAccuracy.gov. Total IP identified for these non-risk-susceptible programs in aggregate reported in FY19 (i.e., the results that were available at the time the FY20 risk assessment was performed) is low at less than $1.2 million.

Payment Recaptures Reporting
($ in millions)

			Overpayments Recaptured outside	
Does this include funds recaptured from a High-Priority Program (Y/N)	Agency	Program or Activity	Amount Identified in FY 2019	Amount Recaptured in FY 2019
N	ED	Federal Family Education Loans	$ 0.13	$ 0.05
N	ED	Federal Perkins Loan Program - Federal Capital Contributions	$ 0.09	$ 0.08
N	ED	Federal Supplemental Educational Opportunity Grants	$ 0.64	$ 0.16
N	ED	Federal Work-Study Program	$ 0.16	$ 0.08
N	ED	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	$ 0.13	$ 0.10
N	ED	Debt Management Collection System (DMCS) - Federal Supplemental Educational Opportunity Grants	$ 0.008	$ 0.058

16

The Department appreciates the opportunity to review and respond to the OIG's report. If there are questions, or for additional information regarding this response, please contact Carolyn Dempster at (202) 453-6303 or Carolyn.Dempster@ed.gov.