



U.S. Department of Education  
Office of Inspector General

# U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2021

June 27, 2022  
ED-OIG/A22GA0050

## NOTICE

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

June 27, 2022

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 2021," Control Number ED-OIG/A22GA0050

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 2021. 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) 987-0162 or [Bryon.Gordon@ed.gov](mailto:Bryon.Gordon@ed.gov) or Selina Boyd, Regional Inspector General for Audit, at (404) 974-9424 or [Selina.Boyd@ed.gov](mailto:Selina.Boyd@ed.gov).

Attachment

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## Results in Brief

### What We Did

The objective of our audit was to determine whether the U.S. Department of Education (Department) complied with the Payment Integrity Information Act of 2019 (PIIA) for fiscal year (FY) 2021.<sup>1</sup>

Our audit covered the Department's improper payment reporting for FY 2021 (October 1, 2020, through September 30, 2021). 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 2021 Agency Financial Report (AFR). We also reviewed the corrective actions the Department had taken in response to our FY 2020 audit report titled, *U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2020*.

### What We Found

The Department did not comply with the PIIA because it did not meet one of the six compliance requirements, as described in Finding 1. Specifically, the Department reported an improper payment estimate for the Improving Basic Programs Operated by Local Educational Agencies (Title I, Part A) program, that exceeded 10 percent. Table 1 identifies the PIIA requirements that were met, not met, or not applicable (N/A) for the Federal Pell Grant (Pell); William D. Ford Federal Direct Loan (Direct Loan); Title I, Part A; Immediate Aid to Restart School Operations (Restart); Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid); and Emergency Assistance to Institutions of Higher Education (IHE) programs.

**Table 1. FY 2021 PIIA Compliance Reporting.**

Compliance Requirement	Pell	Direct Loan	Title I, Part A	Restart	Emergency Impact Aid	Emergency Assistance to IHEs
Published payment integrity information with the annual financial statement.	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant

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<sup>1</sup> Public Law 116-117 (March 2, 2020) (codified at 31 United States Code 3351 et seq).

Compliance Requirement	Pell	Direct Loan	Title I, Part A	Restart	Emergency Impact Aid	Emergency Assistance to IHEs
Posted the annual financial statement and accompanying materials on the agency website.	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
Conducted improper payment risk assessments for each program with annual outlays greater than \$10 million at least once in the last 3 years.	N/A	N/A	N/A	N/A	N/A	N/A
Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold.	N/A	N/A	N/A	N/A	N/A	N/A
Published improper payment and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statement.	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant

Compliance Requirement	Pell	Direct Loan	Title I, Part A	Restart	Emergency Impact Aid	Emergency Assistance to IHEs
Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Compliant	Compliant	Compliant	N/A	N/A	N/A
Published improper payment and unknown payment reduction targets for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Compliant	Compliant	N/A	N/A	N/A	N/A
Has demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	Compliant	Compliant	N/A	Compliant	Compliant	Compliant
Has developed a plan to meet the improper payment and unknown payment reduction target.	Compliant	Compliant	N/A	N/A	N/A	N/A

Compliance Requirement	Pell	Direct Loan	Title I, Part A	Restart	Emergency Impact Aid	Emergency Assistance to IHEs
Reported an improper payment and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.	Compliant	Compliant	Non-Compliant	Compliant	Compliant	Compliant

The Department's program and administrative activity risk assessments were sufficient and supported.

The Department published unreliable improper payment estimates for three programs that required an estimate for FY 2021: Title I, Part A; Pell; and Direct Loan. Specifically, the improper payment sampling and estimation plan the Department developed for the Title I, Part A program was not adequate for State educational agencies using an advance payment system that could not directly link payment transactions (expenditures) to specific drawdowns. We further found that the underlying data used to generate improper payment estimates for the program was not supported. For the Pell and Direct Loan programs, the improper payment sampling and estimation plan that the Department developed included non-random student-level sampling which affects the appropriateness and accuracy of the confidence intervals. These deficiencies are described in Finding 2. We also found that the Department has an opportunity to improve future improper payment sampling and estimation plans for the Emergency Impact Aid program by including displaced student count verification in its improper payment testing, as described in Other Matters.

The Department implemented corrective actions during FY 2021, 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 them in the accompanying material to its FY 2021 AFR. The Department also included in the accompanying material corrective actions it plans to implement in the future to continue to reduce improper payments in the Pell and Direct Loan programs. Additionally, the Department included in the accompanying material, a corrective action plan for the Title I, Part A program.



We reviewed the corrective action plans and found the Department's Title I, Part A proposed corrective actions to be inadequate and ineffective in addressing the true root cause of the reported improper payments, as described in Finding 2. The other three programs (Emergency Impact Aid, Restart, and Emergency Assistance to IHEs), with a reported improper payment estimate for FY 2021, did not require a corrective action plan because the reported estimates did not exceed the statutory threshold.

Other information the Department reported in the accompanying material to its AFR, such as total program outlays, the sources of improper payments, 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. However, we found that the Department's quarterly scorecards for its Direct Loan program contained errors, as described in Other Matters.

Since FY 2012, 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. 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 the reported estimates may not reflect the true level of risk in the population because the improper payment estimates for the Pell and Direct Loan programs were unreliable.

### **What We Recommend**

We recommend that the Department submit a plan to the appropriate authorizing and appropriations committees of Congress (via the Office of Management and Budget Annual Data Call) describing actions the Department will take to bring the Title I, Part A program into compliance with the PIIA. We also recommend that the Department design and implement an improper payment sampling and estimation plan for its Title I, Part A program that will produce a reliable estimate. The plan should be appropriate for the sampling of payments from State educational agencies that provide program funds to local educational agencies using an advance payment process that does not allow the State educational agencies to link expenditures directly to drawdowns. Additionally, we recommend that the Department develop and implement procedures to ensure that the results it records in its Title I, Part A program improper payment testing spreadsheets are accurate and supported. Further, we recommend that the Department, in conjunction with Federal Student Aid, develop and implement procedures to ensure that the sampling and estimation plans for the Pell and Direct Loan programs will

produce reliable estimates. Specifically, the plan should produce appropriate and accurate confidence intervals; or produce an estimate that is otherwise appropriate using a methodology approved by the Office of Management and Budget (OMB).

## **Department's Comments and Our Response**

We provided a draft of this report to the Department and Federal Student Aid (FSA) for comment. We summarize the Department's and FSA's comments at the end of each finding and provide the full text of the comments at the end of the report.

### **Department and FSA Comments**

The Department agreed with Finding 1 and the related recommendation and agreed partially with Finding 2. Also, the Department agreed with two of the three recommendations relating to Finding 2 (Recommendations 2.1 and 2.2), but both the Department and FSA neither agreed nor disagreed with Recommendation 2.3.

For Finding 1, the Department agreed that it did not comply with PIIA because it reported an improper payment rate of more than 10 percent for its Title I, Part A program. The Department also agreed with the recommendation related to Finding 1. To address the recommendation, the Department stated that it submitted a corrective action plan via the OMB Annual Data Call, (revised in January 2022), which included a description of its actions to bring the Title I, Part A program into compliance with the PIIA.

For Finding 2, the Department agreed with the part of the finding related to the Title I, Part A program's unreliable improper payment estimate, and with Recommendations 2.1 and 2.2. To address these two recommendations, the Department stated that it is revising its improper payment sampling and estimation methodology for the Title I, Part A program that will be implemented for the FY 2022 reporting period. The Department also stated that it has improved the quality assurance of its testing process by adding a third layer of review to be performed by Department staff (in addition to a second level of review by the tester's peer) to ensure that the completed improper payment testing spreadsheets are accurate and supported.

For the other part of Finding 2, the Department stated that FSA did not agree that the Pell and Direct Loan programs' improper payment estimates were unreliable. In the Department's response, FSA stated that its sampling and estimation methodology for developing improper payment rates and confidence intervals was statistically valid, and the improper payment estimates for the Pell and Direct Loan programs were calculated using accurate, complete, and reliable data that allowed FSA to make statistically reliable inferences about the rates and amounts of improper payments. To address

Recommendation 2.3, FSA stated that although it maintains that the improper payment estimates for the Pell and Direct Loan programs are statistically valid, it will continue efforts to obtain OMB's approval of its sampling and estimation plan. FSA stated that it will also continue to collaborate with OMB, the Office of Inspector General (OIG), Departmental components, and the independent audit community to identify ways to improve the usefulness of information obtained in Single Audit Act compliance audits.

### **OIG Response**

The Department's proposed actions for Finding 1 are not responsive to our recommendation. Specifically, the plan the Department submitted to OMB in January 2022 did not describe the actions the Department will take to bring the Title I, Part A program into compliance with the PIIA consistent with the requirements of 31 United States Code section 3353(b)(1)(B). We added language to the recommendation in the draft report to include specific components that are required in the plan.

The Department's proposed actions for the part of Finding 2 related to the Title I, Part A program, if implemented as described, are responsive to Recommendations 2.1 and 2.2.

Regarding FSA's disagreement with the part of Finding 2 related to the Pell and Direct Loan programs' improper payment estimates, we did not report that the Pell and Direct Loan programs' improper payment estimates were not statistically valid, as the term is defined in OMB guidance. As stated in the finding, we found that the confidence intervals related to the estimates were not appropriate or accurate because non-random samples were used in the sampling and estimation methodology. Although the Department and FSA neither agreed nor disagreed with the recommendation pertaining to the Pell and Direct Loan programs (Recommendation 2.3), the proposed actions, if successfully implemented, are responsive to the recommendation.

Based on our communications with FSA prior to receiving the Department's and FSA's response, we removed statements included in the draft report that related to the use of R statistical software and the relationship between sample weights and random sampling designs, which allowed us to clarify our finding and focus on the accuracy issues that relate to the Pell and Direct Loan programs' improper payment estimate confidence intervals.

# 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).<sup>2</sup> The PIIA requires each agency's Inspector General to determine the agency's compliance with the statute for each fiscal year.

## 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 four laws—the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015—and consolidated requirements from those into the PIIA. The PIIA also established new requirements for agencies and Inspectors General.

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 United States Code (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 statutory, contractual, administrative, or other legally applicable requirements. An improper payment also includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, or any payments 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 OMB Circular A-123 Appendix C, Part VIII (Appendix 1A), issued March 2021, significant improper payments are defined as annual improper payments and unknown payments 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

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<sup>2</sup> The PIIA is codified at 31 United States Code 3351-3358.

as susceptible to significant improper payments, the agency is required under 31 U.S.C. section 3352(c)(1)(A) to produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology that OMB approved, of the improper payments made under each program and activity and include those estimates in the accompanying materials to the annual financial statement of the executive agency and as required in applicable guidance of OMB.

### **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 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, published improper payments estimates for all programs and activities identified under section 3352(a) in the accompanying materials to the annual financial statement;
4. published programmatic corrective action plans prepared under section 3352(d) that the agency may have in the accompanying materials to the annual financial statement;
5. published 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. section 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 Circular A-123, Appendix C, Part VII, B(1)(b), provides that a program becomes high-priority when its annual

reported monetary loss improper payment estimate is greater than or equal to \$100 million, regardless of the improper payment and unknown payment rate.<sup>3</sup> Under 31 U.S.C. section 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 that the agency intends to take to prevent future improper payments. According to 31 U.S.C. section 3352(b)(2)(E)(i), the agency's 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 used to identify and prevent improper payments under the program.

The Department and Federal Student Aid (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 (Emergency Impact Aid), Immediate Aid to Restart School Operations (Restart), Emergency Assistance to Institutions of Higher Education (IHE), and Improving Basic Programs Operated by Local Educational Agencies (Title I, Part A) programs, we will use the term "Department" to refer to the actions of the Department and its contractors throughout this report, unless otherwise stated.

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<sup>3</sup> An unknown payment is a payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

## The Department Did Not Comply with One of the Six PIIA Requirements

We found that the Department did not comply with the PIIA because it did not meet one of the six compliance requirements established under PIIA. Specifically, the Department reported an improper payment estimate for the Title I, Part A program that exceeded 10 percent. The Department took the following actions to meet the six compliance requirements

- 1. Published an Annual Financial Statement.** The Department complied with the requirement to publish and post on its website an annual financial statement<sup>4</sup> and required accompanying materials. Under 31 U.S.C. section 3351(2)(A), the Department must publish on its website its annual financial statement and any accompanying materials required under OMB guidance. The Department published its fiscal year (FY) 2021 Agency Financial Report (AFR) on November 19, 2021, and accompanying materials on December 30, 2021.<sup>5</sup>
- 2. Conducted Program-Specific Risk Assessments.** The Department complied with the requirement regarding 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). The Department met this requirement because it conducted required program-specific risk assessments of its administrative activities and non-FSA and FSA-managed programs in the last reporting period, which is within the required 3-year time frame. For this reporting period, the Department conducted qualitative risk assessments for 11 new programs and programs that had a significant increase in funding since FY 2020. In addition, the Department conducted a qualitative risk assessment for one administrative activity (Personnel Compensation and Benefits) due to significant changes in the program, and a quantitative risk assessment for the Individuals with Disabilities Education Act Part B (IDEA) program in response to a finding in last year's PIIA audit report.

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<sup>4</sup> Unless we are specifically citing language from 31 U.S.C. 3351, in this report, we will use the term Agency Financial Report instead of annual financial statement.

<sup>5</sup> OMB published agencies' submittals of accompanying materials to their financial statements on [paymentaccuracy.gov](https://www.paymentaccuracy.gov) on December 30, 2021.

3. **Published Improper Payment Estimates.** The Department complied with the requirement to publish improper payment estimates. Under 31 U.S.C. 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; Title I, Part A; Emergency Impact Aid; Restart; and Emergency Assistance to IHEs programs in the accompanying material to the FY 2021 AFR. However, as described in Finding 2, the improper payment estimates for the Pell; Direct Loan; and Title I, Part A programs 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 actions it took or plans to take to reduce improper payments for programs it deemed susceptible to significant improper payments. In the accompanying material to its FY 2021 AFR, the Department published corrective action plans intended to address root causes of improper payments in the Pell; Direct Loan; and Title I, Part A programs.
5. **Published, Demonstrated Improvement, and Developed a Plan to Meet its Reduction Targets.** The Department published reduction targets for the Pell and Direct Loan programs, demonstrated improvement, and developed plans to meet the reduction targets, as required under 31 U.S.C. section 3351(2)(E).

For the Direct Loan program, FSA demonstrated improvement in reducing improper payments because it met its reduction target (target was 0.84 percent; actual rate was 0.56 percent, a 0.28-point decrease from the previous year). FSA published a FY 2022 reduction target for the Direct Loan program in the accompanying material to its FY 2021 AFR that was equal to the actual rate (0.56 percent) it reported for FY 2021 and 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 (target was 2.19 percent; actual rate was 1.98 percent, a 0.21-point decrease from the previous year). FSA also published a FY 2022 reduction target for the Pell program in the accompanying material to its FY 2021 AFR that was equal to the actual rate (1.98 percent) it reported for FY 2021 and developed a plan to meet the reduction target.

For the Emergency Impact Aid program, the Department demonstrated improvement in reducing improper payments because it met its reduction target (target was 9.99 percent; actual was 0.95 percent, a 27.54-point decrease from the previous year). The Department did not set a reduction target for



FY 2022 since it will not be required to produce an improper payment estimate for the program because the Emergency Impact Aid program expended less than \$10 million for FY 2021.

For the Restart program, the Department demonstrated improvement in reducing improper payments because it met its reduction target (target was 9.99 percent; actual was 0.00 percent, an 18.90-point decrease from the previous year). The Department did not set a reduction target for FY 2022 since there were no improper payments identified for the program in FY 2021.

For the Emergency Assistance to IHEs program, although there was no reduction target set for FY 2021,<sup>6</sup> the Department demonstrated improvement in reducing improper payments in the program since the improper payment and unknown payment rate for FY 2021 was 0.00 percent. The Department reported an improper payment rate of 3.03 percent in FY 2020. The Department did not set a reduction target for FY 2022 since there were no improper payments identified for the program in FY 2021.

For the Title I, Part A program, there was no reduction target to meet because FY 2021 was the first year the program required an estimate since FY 2015. Also, the Department did not set a reduction target for FY 2022 because a full baseline has not been established.<sup>7</sup>

**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 an improper payment estimate of 14.77 percent for the Title I, Part A program, which is above the 10 percent threshold, as discussed in Finding 1.

The Department reported improper payment rate estimates that were less than 10 percent for the Pell (1.98 percent), Direct Loan (0.56 percent), Restart (0.00 percent),

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<sup>6</sup> The Emergency Assistance to IHEs program was not required to set a reduction target for FY 2021 because FY2020 was the first year that the program reported an estimate and as such, a baseline had not been established.

<sup>7</sup> OMB Circular A-123, Appendix C, Part VIII, defines a baseline as “a starting point or the benchmark against which future progress can be assessed or comparisons made. If a program had a 24-month reporting cycle where no significant changes occur in the sampling and estimation plan, the program will most likely be considered to have established a baseline.”

Emergency Impact Aid (0.95 percent), and Emergency Assistance to IHEs (0.00 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

The Department's improper payment reporting was generally accurate and complete; however, as described in Finding 2, we found that the improper payment estimates for the Title I, Part A; Pell; and Direct Loan programs 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 2021 AFR, including improper payment estimates, the root causes of improper payments, and the amounts of improper payments identified and recaptured. We also reviewed documentation to determine whether the information in the Department's Payment Integrity Scorecard (scorecard) was supported, accurate, and complete; we found errors in the quarterly scorecards for the Direct Loan program (as described in Other Matters).

### Risk Assessment Methodology

The Department's program and administrative activity risk assessment methodologies were sufficient. The Department conducted qualitative risk assessments for 11 programs and 1 administrative activity that had a significant increase in funding since the last reporting period. The Department concluded that the Education Stabilization Fund (ESF) was susceptible to significant improper payments.<sup>8</sup> Additionally, in response

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<sup>8</sup>According to the Department's ESF website, "[t]he ESF is an investment of over \$263 billion into state and institutional COVID-19 recovery and rebuilding efforts, managed by the U.S. Department of Education to prevent, prepare for, and respond to the coronavirus impacts on education for our nation's students. The ESF was established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020, with subsequent allocations to the Fund codified through the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA Act), signed into law in December 2020, and the American Rescue Plan Act (ARP Act), signed into law in March 2021."

to our suggestion in last year's PIIA report, the Department tallied improper payment amounts to determine whether any programs' improper payments exceeded the statutory threshold for being susceptible to significant improper payments. Also, in response to our recommendation in last year's PIIA report, the Department conducted a quantitative risk assessment of the IDEA program that resulted in the program being identified as susceptible to significant improper payments. Although the methodologies were sufficient, during our data reliability assessment of the tally of known improper payments included in the Department's risk assessment supporting documentation, we identified errors in the amount of known improper payments used in the Department's calculations to determine whether the programs were risk susceptible for the ESF and IDEA programs. However, the errors did not change the Department's conclusion that the two programs were susceptible to significant improper payments. The Department will report estimates for both programs for FY 2022 since both were determined to be susceptible to significant improper payments (see the Use of Computer-Processed Data section of this report for more information).

### **Improper Payment Sampling and Estimation Plans and Estimates**

The improper payment sampling and estimation plans for the Restart, Emergency Impact Aid, and Emergency Assistance to IHEs programs produced reliable estimates. However, the improper payment sampling and estimation plans for the Title I, Part A; Pell; and Direct Loan programs did not produce estimates that were reliable. Specifically, the improper payment sampling and estimation plan the Department developed for the Title I, Part A program was not adequate for State educational agencies (SEA) using an advance payment system in which the SEA could trace the allowability of expenditures to the Title I, Part A program, but could not directly link expenditures to specific drawdowns. We also found that the underlying data used to generate improper payment estimates for the program were unsupported. In addition, the improper payment sampling and estimation plan the Department developed for the Pell and Direct Loan programs included non-random student-level sampling from some of the compliance audits that FSA used to calculate the estimates, which affects the appropriateness and accuracy of the confidence intervals. The details are provided in Finding 2.

### **Efforts to Prevent and Reduce Improper Payments**

The Department is continuing its efforts to prevent and reduce improper payments in its programs. The FY 2021 improper payment rate for the Direct Loan, Pell, Emergency Impact Aid, Restart, and Emergency Assistance to IHEs programs all decreased. Some of the strategies the Department employed to prevent and reduce improper payments

included updating procedures in response to identified risks in program-specific processes that caused improper payments. For example, FSA worked with loan servicers to implement an additional manual review for Direct Loan Consolidation underpayment requests when the Loan Verification Certificate amount does not match the initial payoff amount. According to supporting documentation that FSA provided, this effort effectively eliminated improper payments associated with this root cause. Also, FSA reported that it continued to enhance verification procedures and provide school administrators with training and guidance to target root causes of improper payments and other frequently identified compliance issues.

### **Risks Associated with Pell and Direct Loan High-Priority Programs**

The Department included Pell and Direct Loan program risks, such as risks related to student eligibility, student disbursements, and return of Title IV funds, in the development of the improper payment sampling and estimation plans for these high-priority programs. However, we found that the high-priority programs' improper payment estimates may not reflect the true level of risk in the population because the improper payment estimates for the Pell and Direct Loan programs were unreliable, as described in Finding 2.

### **Oversight and Financial Controls**

Lastly, in the accompanying material to its FY 2021 AFR, the Department adequately described the oversight and financial controls it designed and implemented to identify and prevent improper payments in its programs. Some of the controls include routinely conducting program reviews and reviewing compliance audits to identify improper payments due to noncompliance; utilizing over 250 controls in the Department's internal controls catalog to prevent and detect improper payments in the Department's financial and grants management processes; and employing the Payment Integrity Monitoring Application, which detects anomalies in grants payment data, to identify potential improper payments.

## Finding 1. The Department Did Not Comply with the PIIA for the FY 2021 Reporting Period

We found that the Department did not comply with the PIIA for the FY 2021 reporting period because it did not meet one of the six compliance requirements. Specifically, the Department reported an improper payment estimate for the Title I, Part A program of 14.77 percent. To comply with 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.

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.

The Department reported an improper payment rate for the Title I, Part A program that exceeded 10 percent because it determined that all of the 24 Title I, Part A program payment transactions that it sampled for one specific SEA were technically improper since this SEA was not able to submit the documentation prescribed by the Department to support the payment transactions. The 24 payments totaled approximately \$9.8 million and were payments that the SEA made to some of its local educational agencies (LEA). In addition to the 24 payments, there were 2 smaller improper payments totaling \$14,767 that the Department identified for another SEA that also contributed to the 14.77 percent improper payment estimate that the Department reported for the program.

Because the Department was not in compliance with the PIIA, under OMB Circular A-123, Appendix C, Part VI, D(1), the Department will have to submit, via the OMB Annual Data Call, a description of the actions that it will take to come into compliance. This information will be published on [paymentaccuracy.gov](https://paymentaccuracy.gov) and serve as the plan that agencies are required to submit to the appropriate authorizing and appropriations committees of Congress, under 31 U.S.C. section 3353(b)(1)(A).

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.

### **Recommendation**

- 1.1 We recommend that the Chief Financial Officer for the Department develop a plan consistent with 31 U.S.C. section 3353(b)(1)(B)(i) through (iii), that describes actions the Department will take to bring the Title I, Part A program into compliance with the PIIA and submit it (via the OMB Annual Data Call) to the appropriate authorizing and appropriations committees of Congress.

### **Department Comments**

The Department agreed with the finding and recommendation. The Department stated that it submitted a corrective action plan via the OMB Annual Data Call, (revised in January 2022), which includes a description of its actions to bring the Title I, Part A program into compliance with the PIIA.

### **Office of Inspector General (OIG) Response**

The Department's proposed actions are not responsive to our recommendation. The Department's response cites a corrective action plan for the Title I, Part A program that the Department submitted to OMB in January 2022 (as required under 31 U.S.C. section 3352(d)), describing the root causes of the improper payments, the corrective actions it developed and implemented to address the root causes, and the planned completion dates. The plan did not describe the actions the Department will take to bring the Title I, Part A program into compliance with the PIIA consistent with 31 U.S.C. section 3353(b)(1)(B)(i) through (iii). We made minor changes to the recommendation in the draft report to include the specific components that are required in the plan.

## **Finding 2. The Department's Improper Payment Estimates for the Title I, Part A; Pell; and Direct Loan Programs Were Not Reliable**

We found that the Department's improper payment estimates were not reliable for three (Title I, Part A; Pell; and Direct Loan) of its programs that required an estimate for FY 2021. Specifically, the improper payment sampling and estimation plan the Department developed for the Title I, Part A program was not adequate for SEAs that use an advance payment process that does not allow the SEA to directly link payment transactions (expenditures) to specific Grants Management (G5) system drawdowns. We also found that the improper payment testing spreadsheets for the Title I, Part A program contained unsupported results. In addition, the improper payment sampling and estimation plan the Department developed for the Pell and Direct Loan programs included non-random student-level sampling from some of the compliance audits that FSA used to calculate the estimates, which affects the appropriateness and accuracy of the confidence intervals.

### **Inadequate Title I, Part A Program Improper Payment Sampling and Estimation Plan**

The Department's improper payment sampling and estimation plan for the Title I, Part A program was not adequate because the Department designed the plan to sample payment transactions that were directly linked to specific drawdowns from the G5 system, even though not all SEA payment processes would allow for such linkage. Specifically, the sampling approach was not adequate for the selection of a particular SEA's Title I, Part A program payment transactions because the SEA's use of a certain method of advance payment to provide Title I, Part A program funds to its LEAs prevented it from being able to link payment transactions (expenditures) to specific Title I, Part A program drawdowns from the G5 system, although the SEA could trace the allowability of the expenditures to the Title I, Part A program. The Department approved the SEA's advance payment process in 2014.

### **Description of the Title I, Part A Program's Sampling and Estimation Plan**

The Department's Title I, Part A program improper payment sampling and estimation plan that the Department submitted to OMB included a two-stage sampling approach. At the first stage, the sampling unit was an SEA's drawdown of Title I, Part A program funds from the Department's G5 system, while at the second stage, the sampling unit was a payment transaction that detailed how the LEAs spent money from each drawdown. After the Department selected a sample of payments for the second stage,



the sampling and estimation plan indicated that the Department would ask the applicable SEAs for documentation supporting the sampled payment transactions that the SEAs would obtain from the LEAs. The Department would then review the supporting documentation to determine whether the payment transactions were proper or improper. After determining whether the payments were proper or improper, the Department was to use the results of its review to compute the formulas in its sampling and estimation plan to produce a statistically valid improper payment estimate.

### **The SEA's Advance Payment Process**

As mentioned above, one SEA used a certain method of advance payment process to provide Title I, Part A program funds to its LEAs, which prevented the SEA from being able to link payment transactions (expenditures) to specific Title I, Part A program drawdowns from the G5 system. On a quarterly basis, the SEA required its LEAs to use a web-based data collection system to report their current cash balance for the Title I, Part A program to receive their Title I, Part A program apportionment payment for the next quarter. The SEA used the LEAs' reported cash balance to determine the amount of the Title I, Part A program apportionment payment to release to each LEA. The apportionment payment was equal to 25 percent of an LEA's annual program entitlement minus the cash balance it reported for that period. Therefore, LEAs received quarterly apportionment payments even when they still had funds remaining in their account from previous apportionment payments. Because of this, an LEA may not have been able to determine which specific quarterly apportionment payment covered a particular expenditure made by the LEA. To cover the quarterly apportionment payments made to its LEAs, the SEA drew down the Title I, Part A program funds from the Department's G5 system.

### **The SEA's Submission of Payment Data to the Department**

In selecting payment transactions to review for improper payment testing, the Department first selected a random sample of 62 SEA drawdowns of Title I, Part A program funds from the G5 system, and after receiving payment transactions supporting the drawdowns, the Department sampled 4 payment transactions from each of the 62 drawdowns. Included in the sample of 62 SEA drawdowns were 6 drawdowns from the aforementioned SEA, totaling approximately \$1.86 billion. The SEA provided over 5,700 payment transactions (in Excel spreadsheets) to support the 6 selected drawdowns. However, the payment transactions the SEA provided to the Department did not represent payments detailing how its LEAs spent the funds. Instead, the

payment transactions were quarterly apportionment payments for individual LEAs and schools.<sup>9</sup>

The 4 payment transactions that the Department selected from each of the aforementioned SEA's 6 drawdowns resulted in 24 payment transactions totaling approximately \$9.8 million. The Department asked the SEA to provide documentation supporting how its LEAs spent the 24 selected payment transactions; however, the SEA was not able to provide the requested documentation. According to the Department's Director of the Financial Data Integrity and Controls Division, the SEA was not able to provide the documentation because the SEA uses an advance payment process that did not allow it to link LEAs' expenditures to specific SEA drawdowns from the G5 system.<sup>10</sup> The SEA offered an alternative to the Department by providing a general ledger from one of its LEAs so that the Department could select a sample of Title I, Part A program expenditures from the general ledger to review. The Department told the SEA that the alternative was not aligned with the Department's established improper payment sampling and estimation plan. According to the Department's Director of the Financial Data Integrity and Controls Division, the Department presented an alternative to the SEA, but the alternative still required the SEA to tie expenditures to specific G5 system drawdowns, which the SEA could not do. Therefore, the Department concluded that all of the SEA's 24 sampled payments (totaling \$9.8 million) were technically improper. The Department did not develop a sampling and estimation plan that considered all SEA payment processes; specifically, processes that would not allow an SEA to directly link LEA payment transactions (expenditures) to specific G5 system drawdowns.

According to OMB Circular A-123 Appendix C, Part II, B, "[t]he main purpose of an [improper payment] estimate is to reflect the annual estimated known [improper payments] made by the program." It also states that

[e]ach agency has the responsibility of designing and documenting a program's [sampling and estimation plan] with the mindfulness that during their annual compliance review, their [Office of Inspector General] will take into account the accuracy of the [improper

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<sup>9</sup> The SEA sent over 5,700 apportionment payments to county treasurers, in batches. For example, one of the county treasurers that received funds from one of the six selected drawdowns, received a total of \$6.2 million under a specific voucher number. The \$6.2 million represented a batch of 39 fourth-quarter apportionment payments for LEAs and schools in the county.

<sup>10</sup> The Department approved this SEA's advance payment process in 2014.

payment] and [unknown payment] estimates.

In addition, OMB Circular A-123 Appendix C, Part VI, A states that the OIG should evaluate and consider the adequacy of the sampling and estimation plan when determining program compliance.

In response to this condition, the Financial Data Integrity and Controls Division stated that

[t]he Title I program is not defined by any one grantee's payment process, and [the SEA's] payment process is somewhat of an anomaly among Title I grantees. The Title I [sampling and estimation plan] allowed for the direct linkage of payment transactions to specific drawdowns from the Department's G5 system, and there was reasonable expectation that all the SEAs selected for sampling, including [the aforementioned SEA], would be able to do so.

The Financial Data Integrity and Controls Division further explained in its response that agencies are required to submit their sampling and estimation plan to OMB by June 30 each year and that the SEA had notified the Department's improper payments team in late July that it was having difficulty providing the prescribed documentation. The Financial Data Integrity and Controls Division also explained that in late August, the SEA had requested an alternative approach by suggesting the Department draw a new sample from its LEAs' general ledger account listings.<sup>11</sup> The Financial Data Integrity and Controls Division stated that "this approach would have taken a good deal of resources to implement" and "considering the project was already in its final stages and the unlikelihood that a new approach would be successful, the suggested solution was not vetted any further."

### **The Effects of the Title I, Part A Program Inadequate Sampling and Estimation Plan**

The Department's use of a sampling and estimation plan that was not adequate for SEAs that use an advance payment process, which does not allow the SEA to directly link payment transactions to specific G5 system drawdowns, resulted in a 14.77 percent<sup>12</sup> improper payment rate for the Title I, Part A program. The improper payment rate is not

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<sup>11</sup> The AFR was due to OMB by November 15, 2021.

<sup>12</sup> There were two other smaller improper payments totaling \$14,767 that the Department identified for another SEA that also contributed to the 14.77 percent improper payment estimate.

an accurate reflection of the improper payments and unknown payments in the Title I, Part A program because the sampling and estimation plan used to calculate the improper payment rate could not accommodate payment data from all SEAs. As a result, the 14.77 percent improper payment rate, is not a reliable estimate of the program's annual improper payments and unknown payments.

Also, the Department reported on [paymentaccuracy.gov](https://paymentaccuracy.gov) in its accompanying materials published on December 30, 2021, that the root cause of the technically improper payments was “[f]ailure to follow statute or regulation.” When we asked the Department what statute or regulation the SEA’s payment process violated, the Department responded:

Per the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) [section] 200.302 *Financial Management*, grantees’ financial management systems “must be sufficient to trace funds to the level of expenditure adequate to establish that such funds have been used according to Federal statutes, regulations, and the terms/conditions of the Federal award” Although the [SEA] used an advance payment (apportionment) system and provided apportionment documents, they did not provide any supporting documentation from LEAs for sampled transactions/expenditures. Furthermore, [section] 200.302(b)(4) states that grantees must have “effective control over, and accountability for, all funds, property, and other assets.” Accordingly, we believe that the SEA’s Title I, Part A program did not apply the above requirements of Uniform Guidance to their payment process, including traceability and effective internal controls.

However, the information included in the Department’s Title I, Part A program revised<sup>13</sup> corrective action plan does not support the Department’s assertion that the SEA’s payment process violated the requirements in 2 Code of Federal Regulations (C.F.R.) section 200.302. In fact, the Department’s revised corrective action plan for the Title I, Part A program states that “[the SEA] can trace the allowability of expenditures to the Title I, Part A program but cannot trace expenditures to [specific] drawdowns from G5

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<sup>13</sup> In November 2021, the Department submitted a corrective action plan as part of the improper payment OMB data call, for posting to [paymentaccuracy.gov](https://paymentaccuracy.gov). However, the Department revised its corrective plan in January 2022. Since the revised plan is the most current plan, we evaluated the Department’s revised plan.

because it uses an ‘advanced payment system,’ which the Department approved in 2014.”

While the Department labeled these payments “technically improper,” which means the payments failed to follow applicable statutes or regulations, information in the revised corrective action plan indicated the Department was then still determining whether the SEA’s payment process violated the regulations stated above. Because the Department had not yet determined whether the payments were proper or improper, the Department should have classified the SEA’s 24 payments as unknown payments instead of technically improper payments.

The Department noted in the revised corrective action plan that the root cause of the Title I, Part A program improper payments was that the Department’s sampling and estimation plan did not allow for it to sample the SEA’s payments. However, the corrective actions listed in the plan focused primarily on determining whether the SEA’s payment process violated statute or regulations, instead of devising actions the Department could take to ensure its sampling and estimation plan was adequate to sample and test payments from all SEAs regardless of whether they use an advance payment process or reimbursement process. As a result, we found the corrective actions to be inadequate and ineffective in addressing the true root cause of the reported improper payments. OMB Circular A-123 Appendix C, Part III discusses the importance of properly identifying the true root causes of improper payments in an agency’s program, to formulate effective corrective actions.

### **Unsupported Results in the Title I, Part A Testing Spreadsheet**

We also found that the Department could not support the testing results it included in some of the testing spreadsheets that it used to derive its Title I, Part A program improper payment estimate. For each payment the Department sampled, it performed testing using attributes that would help it determine whether the payment was proper. Each attribute included specific instructions in the testing spreadsheet for reviewing supporting documentation and recording the results. Some of the attributes pertain to the review of award letters which would confirm that the LEAs did not expend more funds than they were awarded. Some other attributes pertained to documentation supporting the amount and allowability of the sampled payment. For the 21 payments we sampled, of the 234 payments that the Department included in its Title I, Part A program improper payment testing, we identified testing results related to 9 (43 percent) of our sampled payments for which the Department could not provide adequate documentation to support the results it recorded in the testing spreadsheets.

- In the SEA section of the testing spreadsheet, for 9 sampled payments, totaling \$77,563, the Department could not provide documentation to support its conclusion that the 8 SEAs that drew down the funds (related to the sampled payments) provided award letters with award amounts to the 9 LEAs that received the sampled payments. When we inquired as to why the Department could not provide the documentation, the Financial Data Integrity and Controls Division responded that it did not use the LEAs' award letters as evidence; instead, it used the consolidated State plans as support that the SEAs awarded the correct amount of Title I, Part A program funds to the applicable LEAs. However, the consolidated State plans that the Department reviewed and provided to us did not include LEA allocation information. Therefore, the Department could not support that the payments were funded with the correct LEA Title I, Part A program award amounts despite the results it recorded.
- In the Sampled Transaction section of the testing spreadsheet, for 8 of the same 9 sampled payments in the bullet above, totaling \$77,551, the Department could not provide adequate documentation to support its conclusion that the 8 LEAs that received the 8 sampled payments were awarded Title I, Part A program allocations that were correctly calculated. The Financial Data Integrity and Controls Division provided us with its Title I Calculation Notes spreadsheet for each of the 8 LEAs that received the sampled payments and stated that it "reviewed documentation and recalculated the amount." The Financial Data Integrity and Controls Division further stated that when the LEAs' applications were available, it compared the allocation amounts from the applications to the LEA expenditures. We found that the Title I Calculation Notes spreadsheets included the total amount of expenditures by the 8 LEAs and the LEAs' allocation amounts but did not demonstrate a recalculation of the allocations. Despite the results it recorded, the Department has not provided documentation to support that it recalculated the LEAs' allocation amounts to ensure that the LEAs' allocation amounts were correct. Incorrect allocations would result in improper payments.

The Government Accountability Office's Standards for Internal Control in the Federal Government, section 13.05 states that

[m]anagement 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.

The Financial Data Integrity and Controls Division stated in response to the condition that “[t]he majority of grantees did not provide the LEA applications and due to a lack of support from the [Department’s] Title I Program Office, the Contractor did not actively pursue the LEA award applications for the LEAs that did not submit them.” The Financial Data Integrity and Controls Division also stated that it appeared that some quality control steps may not have been performed possibly due to a number of factors, including delays in obtaining supporting documentation from the SEAs, and a rush to meet the annual OMB Data Call deadlines. The Financial Data Integrity and Controls Division further stated that its contractor acknowledged that it did not have sufficient time to conduct a comprehensive peer review and quality review of the work performed.

Because the Department did not always follow the testing instructions and testing criteria listed in the Title I, Part A program testing spreadsheets and ensure that the recorded test results were accurate and supported, the Department does not have reasonable assurance that the Title I, Part A program improper payment testing results that populate the improper payment estimate are accurate and supported.

### **Pell and Direct Loan Programs’ Improper Payment Estimates are Not Reliable**

We found the improper payment sampling and estimation plan and estimates for the Pell and Direct Loan programs to be unreliable. Specifically, the improper payment sampling and estimation plan for both programs included non-random student-level sampling from some of the compliance audits that FSA used to calculate the estimates, which affects the appropriateness and accuracy of the confidence intervals.

### **Description of Sampling and Estimation Plans and Estimates for the Pell Program**

For FY 2021, FSA reported a 1.98 percent improper and unknown payment rate for the Pell program and was 95 percent confident that the improper and unknown payment rate was between 1.53 percent and 2.43 percent. FSA derived the estimate using two components.

The first component was based on a two-stage sampling methodology: at the first stage, the sampling unit was a school, and at the second stage, the sampling unit was a student disbursement.

- At the first stage, FSA randomly selected a sample of schools. For selected schools, FSA reviewed the school's most recently completed compliance audit to identify improper payments that had been reported by the independent auditor. In performing a compliance audit, the independent auditor selects a sample of students and reviews their disbursements (the sample could be selected using a random or non-random method) in order to assess the school's compliance with Title IV program requirements.
- FSA's second stage sample consisted of samples of student disbursements that the independent auditors reviewed in compliance audits (specifically, the compliance audits for the schools randomly selected at the first stage of the sampling methodology). FSA included in the Pell program improper payment estimate, questioned costs that it sustained from the Pell program questioned costs that the independent auditors identified in the compliance audits that FSA included in its improper payment review.

The second component incorporated improper payment rates reported in the Free Application for Federal Student Aid (FAFSA)/Internal Revenue Service Data Statistical Study to account for improper payments associated with misreported income on the FAFSA. The improper payment overpayment rate and underpayment rate (both due to misreported income on the FAFSA) published in the FAFSA/Internal Revenue Service Data Statistical Study were applied to certain Pell disbursements included in the Pell program improper payment calculations.

FSA combined the estimated improper payments from both components to estimate the overall Pell program improper payment rate regardless of the sample selection methodology (random or non-random) used by the independent auditor in the first component.

### **Description of Sampling and Estimation Plans and Estimates for the Direct Loan Program**

For the Direct Loan program, FSA reported a 0.56 percent improper and unknown payment rate and was 95 percent confident that the improper and unknown payment rate was between 0.05 percent and 1.07 percent. FSA derived the estimate using three components.

- The first component was based on a two-stage sampling methodology and consisted of results from compliance audits, similar to the methodology



described for the first component of the Pell program estimate. Then, FSA included in the Direct Loan program improper payment estimate any Direct Loan program sustained questioned costs that the independent auditors identified in the compliance audits that FSA included in its improper payment review.

- The second component consisted of a sample of Direct Loan consolidation overpayments and underpayments made between July 2020 and June 2021 that FSA tested to determine which of the sampled transactions were improper payments.
- The third component consisted of a sample of Direct Loan refund payments made between July 2020 and June 2021 that FSA tested to determine which of the sampled refunds were improper payments.

FSA combined the estimated improper payments from all three components to estimate the overall Direct Loan program improper payment rate regardless of the sample selection methodology (random or non-random) used by the independent auditor in the first component.

### **Unreliable Improper Payment Estimates for the Pell and Direct Loan Programs**

FSA provided us with a summary document identifying the various methods in which the independent auditors selected samples of students for school compliance audits; specifically for the audits that FSA included in its improper payment estimate as depicted in Table 2, the samples of students from schools were selected randomly, non-randomly, a combination of both randomly and non-randomly, or the method was not specified.

**Table 2. Selection Methods Used by Independent Auditors**

Method in Which Students were Selected from Schools	Number of Schools
Schools with Method of Selection Not Specified	208
Schools with Randomly Selected Students <sup>14</sup>	53
Schools with Method of Selection Not Applicable <sup>15</sup>	48
Schools with Non-Randomly Selected Students	30
Schools in which Random and Non-Random Sampling was Used	1
<b>Total Number of Schools FSA Reviewed for the Pell and Direct Loan Estimates</b>	<b>340</b>

FSA's use of non-random samples in its second stage sampling affected the quality of the confidence intervals that FSA calculated for the two estimates. To compute confidence intervals, a margin of error is required. However, non-random samples do not permit the measurement of margin of error because there is no "random chance" to compute.<sup>16</sup> This indicates that because it is not appropriate to calculate a margin of error when non-random samples are used, any such calculated margin of error that is then used to compute confidence intervals will render the estimation calculations for

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<sup>14</sup> Not all the audit reports for these schools specify that the students were randomly selected. For these schools, independent auditors are required to follow the *Guide for Audits of Proprietary Schools and for Compliance Attestation Engagement of Third-Party Servicers Administering Title IV Programs*, which requires random sampling of students. Therefore, FSA assumed that the students sampled at these schools were randomly selected.

<sup>15</sup> 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.

<sup>16</sup> Because some of the samples were not selected at random, the selection process for these samples were not based on the law of probability.

the confidence intervals inappropriate and inaccurate. Because FSA used non-random samples to derive both the Pell and Direct Loan program improper payment estimates, any margin of error that FSA calculated to then use to compute the confidence intervals around those estimates rendered the confidence intervals inappropriate and inaccurate.

OMB Circular A-123 Appendix C, Part II, B, states that “[t]he main purpose of an [improper payment] estimate is to reflect the annual estimated known [improper payments] made by the program.” It also states that “[e]ach agency has the responsibility of designing and documenting a program’s [sampling and estimation plan] with the mindfulness that during their annual compliance review, their OIG will take into account the accuracy of the [improper payment] and [unknown payment] estimates ....” Additionally, it states that “[f]or purposes of this guidance, [sampling and estimation plans] will be considered statistically valid if they produce point estimates and confidence intervals around those estimates. Agencies must work with their statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. If a program is unable to develop a sampling and estimation plan that produces a point estimate and confidence interval around the estimate, then it must include in their sampling and estimation plan a detailed explanation as to why it is not possible.”

OMB Circular A-123 Appendix C, Part VIII, Appendix IA, defines reliable improper payment and unknown payment estimate as “estimates produced from accurate sampling populations, testing procedures, and estimation calculations.”

FSA stated that “[OMB Circular A-123, Appendix C] does not mention random sampling and, therefore, does not require random sampling at all stages of estimation.” FSA also cited the OMB Circular A-123, Appendix C, statement that “[sampling and estimation plans] will be considered statistically valid if they produce point estimates and confidence intervals around those estimates.” FSA stated that its sampling and estimation plan achieves this.

FSA further stated that it believes “compliance audits conducted under the Single Audit Act, which do not require random sampling, provide quality data necessary to calculate statistically valid [improper payment] estimates and confidence intervals.” FSA also believes that the use of non-random student sampling in its estimates does not under-represent the overall risk of improper payments and that the resulting estimates and confidence intervals do not under-represent improper payment risks.

### **Effect of the Unreliable Improper Payment Estimates**

Because the improper payment estimates for the Title I, Part A; Pell; and Direct Loan programs were unreliable, stakeholders such as the OMB, Congress, the public, and

other users of the Department's FY 2021 AFR and [paymentaccuracy.gov](https://paymentaccuracy.gov) improper payment data, do not have a reliable depiction of the estimated improper payments for the three 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 of improper payments that occurred in the programs.

## **Recommendations**

We recommend that the Chief Financial Officer for the Department—

- 2.1. Design and implement an improper payment sampling and estimation plan for its Title I, Part A program that will produce a reliable estimate. Specifically, the plan should be appropriate for the sampling of payments from SEAs that provide program funds to LEAs using an advance payment process that does not allow the SEA to directly link expenditures to SEA drawdowns from the G5 system.
- 2.2. Develop and implement procedures to ensure that the results the Department records in its Title I, Part A program improper payment testing spreadsheets are accurate and supported.
- 2.3. In conjunction with the Chief Financial Officer for FSA and Department statisticians, develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates. Specifically, the plan should produce appropriate and accurate confidence intervals; or produce an estimate that is otherwise appropriate using a methodology approved by the Director of OMB.

## **Department Comments**

The Department partially agreed with Finding 2 and with two of the three related recommendations (Recommendations 2.1 and 2.2). However, both the Department and FSA neither agreed nor disagreed with Recommendation 2.3.

The Department agreed with the part of Finding 2 related to the Title I, Part A program's unreliable improper payment estimate. To address the related Recommendations 2.1. and 2.2, the Department stated that it is revising its improper payment sampling and estimation methodology that will be implemented for the FY 2022 reporting period. The Department also stated that it has improved the quality assurance of its testing process by adding a third layer of review to be performed by Department staff (in addition to a second level of review by the tester's peer) to ensure that the completed improper payment testing spreadsheets are accurate and supported.

For the other part of Finding 2, the Department stated that FSA did not agree that the Pell and Direct Loan programs' improper payment estimates were unreliable. In the

Department's response, FSA stated that its sampling and estimation methodology for developing improper payment rates and confidence intervals was statistically valid, and the improper payment estimates for the Pell and Direct Loan programs were calculated using accurate, complete, and reliable data that allows FSA to make statistically reliable inferences about the rates and amounts of improper payments. Additionally, FSA noted the differences in the professional opinions between FSA and OIG statisticians on the use of non-random 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 compliance audits conducted under the Single Audit Act, which do not always require random sampling, provide quality data necessary to calculate statistically valid improper payment estimates and confidence intervals. According to FSA, 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. FSA stated that since some compliance audits may not use random sampling, FSA's estimation methodology assumes instances of non-random sampling in compliance audits may select higher-risk students and do not under-represent the overall risk of improper payments and, therefore, the improper payment estimates and confidence intervals do not systematically under-represent improper payment risks. Based on this assumption, FSA found it appropriate to interpret results and draw conclusions about confidence intervals for its improper payment estimation methodology.

Although the Department and FSA neither agreed nor disagreed with the recommendation pertaining to the Pell and Direct Loan programs (Recommendation 2.3), FSA stated that although it maintains that the improper payment estimates for the two programs are statistically valid, it will continue efforts to obtain OMB's approval that its sampling and estimation plan is acceptable considering program resources and characteristics. FSA stated that it will also continue to collaborate with OMB, the OIG, Departmental components, and the independent audit community to identify ways to improve the usefulness of information obtained in Single Audit Act compliance audits.

### **OIG Response**

The Department's proposed actions related to the Title I, Part A program, if implemented as described, are responsive to Recommendations 2.1 and 2.2. However,

regarding FSA's disagreement with the part of Finding 2 related to the Pell and Direct Loan programs' improper payment estimates, we did not report that the Pell and Direct Loan programs' improper payment estimates were not statistically valid, as the term is defined in OMB A-123, Appendix C. As stated in the finding, the Department included non-random student-level sampling from some compliance audits in its calculation of improper payment estimates for the Pell and Direct Loan programs. The information from these audits do not provide quality data necessary to calculate improper payment estimates that are representative of the population. The use of non-random student-level sampling also renders the confidence intervals inappropriate and inaccurate. FSA assumes instances of nonrandom sampling for the student-level sample may include the selection of higher-risk students. Selecting higher-risk students in the sample selection introduces bias and produces a sample that is not representative of the population and introduces sampling risk into the sampling design.

In addition, in its response, FSA provided no explanation as to how its sampling and estimation plan for the Pell and Direct Loan programs, which is based in part on non-random student-level sampling, provides for the measurement of margin of error and calculation of confidence intervals that are appropriate and accurate and resulting estimates that are a reliable depiction of the estimated improper payments for the programs.

Although neither the Department nor FSA agreed or disagreed with the recommendation pertaining to the Pell and Direct Loan programs (Recommendation 2.3), the proposed actions (such as requesting and obtaining OMB's approval of its sampling and estimation plan or requiring random student-level samples to be used in Single Audit compliance audits), if successfully implemented, are responsive to the recommendation.

## Other Matters

### **Review of Displaced Student Counts for the Emergency Impact Aid Improper Payment Testing Could be Improved**

In our review of the Department's Emergency Impact Aid program improper payment sampling and estimation plan and related testing procedures, we did not identify any steps that the Department took to determine whether the displaced student counts in applications that SEAs submitted to the Department were accurate, complete, or supported. A key characteristic of the Emergency Impact Aid program is that the amount of funds SEAs are awarded is tied directly to the displaced student counts SEAs report to the Department in their SEA applications. If SEAs report inaccurate or unsupported displaced student counts in their applications, they could receive Emergency Impact Aid program funds to which they are not entitled or fail to receive funds to which they are entitled, thereby resulting in improper payments. The OIG has conducted a series of audits on SEAs' administration of their Emergency Impact Aid program grants, which found that SEAs reported inaccurate and unsupported displaced student counts to the Department.<sup>17</sup> This indicates that there is a high risk that other SEAs reported inaccurate and unsupported displaced student counts in their applications, which could have resulted in improper payments in the Emergency Impact Aid program. Although the Department won't be reporting an improper payment estimate for the Emergency Impact Aid program for FY 2022 because the program expended less than \$10 million for FY 2021, it is likely that the program will be funded in the future for other disasters.

According to OMB Circular A-123 Appendix C, Part II, B, "[t]he main purpose of an [improper payment] estimate is to reflect the annual estimated known [improper payments] made by the program." It also states that "[t]he program will be responsible for producing an [improper payment] and [unknown payment] estimate that is accurate and appropriate given program characteristics ...."

We suggest that, if the Emergency Impact Aid program is required to produce an improper payment estimate in the future, the Chief Financial Officer for the Department improve the improper payment sampling and estimation plan and testing procedures for the program by including steps to determine whether the displaced student counts reported in SEA applications are accurate, complete, and supported.

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<sup>17</sup> The audits were conducted at SEAs in Texas ([Control Number ED-OIG/A02T0001](#)), Florida ([Control Number ED-OIG/A02T006](#)), and Massachusetts ([Control Number ED-OIG/A19NY0012](#)).

## **The Department's Quarterly Payment Integrity Scorecards for the Direct Loan Program Contained Errors**

In our review of the Department's FY 2021 scorecards for the FSA-managed Direct Loan and Pell programs, we identified errors in all four of the quarterly scorecards for the Direct Loan program. On a quarterly basis, agencies are required to report to the OMB's website, scorecards for their high-priority programs. The scorecards highlight the actions an agency is planning to take or has already taken to mitigate root causes of improper payments in its high-priority programs. The Department's FY 2021 scorecard included FY 2020 monetary loss<sup>18</sup> amounts, the status and expected completion dates for key milestones and goals, descriptions of plans and actions taken to recover overpayments, accomplishments in reducing monetary loss, root causes of monetary loss, mitigation strategies for root causes of improper payments, and anticipated impacts of the mitigation strategies. We found that the Department's FY 2021 quarterly scorecards for the Direct Loan program included data pertaining to its mitigation strategies, root causes, and anticipated impacts that were not consistent with the improper payment supplemental data the Department submitted to OMB (OMB Data Call) for FY 2020, FSA's Corrective Action Tracker for FY 2020, FSA's Improper Payment Root Cause spreadsheet for FY 2020, and FSA's FY 2020 scorecards.

The Government Accountability Office's Standards for Internal Control in the Federal Government, section 13.05 states that

[m]anagement 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.

We informed FSA of the errors we identified, and according to FSA, it has contacted OMB to have the errors corrected on the [paymentaccuracy.gov](https://paymentaccuracy.gov) website.

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<sup>18</sup> Monetary loss is an amount that should not have been paid and that could be recovered by the Federal government. Improper payments with monetary losses are derived from overpayments.



We suggest that the Chief Financial Officer for the Department, in conjunction with the Chief Financial Officer for FSA, strengthen controls to ensure that quarterly scorecard data is accurately reported.

### **Department Comments**

The Department and FSA were not asked to respond to and did not provide comments on the Other Matters and our related suggestions.

## Appendix A. Scope and Methodology

Our audit covered the Department's improper payment reporting for FY 2021 (October 1, 2020, through September 30, 2021). We reviewed the Department's risk susceptible programs reported or referenced in the payment integrity section of the Department's FY 2021 AFR and accompanying materials. Our review also included following up on corrective actions the Department had taken in response to our FY 2020 improper payment audit report. We found that the Department implemented corrective actions that were responsive to eight of the nine recommendations from the FY 2020 report. For the remaining recommendation, as of March 22, 2022, the Department had not completed the implementation of its corrective actions.

We performed the following procedures to answer our audit objective.

1. To obtain background and general information about the FY 2021 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 Inspectors General on Integrity and Efficiency "Guidance for Payment Integrity Information Act Compliance Reviews," October 26, 2021, which provided guidance to the OIGs on conducting audits of an agency's compliance with PIIA.
  - b. Reviewed relevant laws, regulations, and guidance, including
    - Payment Integrity Information Act of 2019;
    - OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement," March 5, 2021;
    - OMB Circular A-136, "Financial Reporting Requirements," Section II.4.5 *Payment Integrity Information Act Reporting*, August 10, 2021;
    - 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 2021 (Pell; Direct Loan; Title I, Part A; Emergency Impact Aid; Restart; and Emergency Assistance to IHEs programs).
  - d. Reviewed prior OIG audit reports on the Department's compliance with improper payment reporting requirements for FYs 2017–2020.

2. To obtain information about the Department's policies, procedures, processes, and controls for complying with the improper payment reporting requirements, including information relevant to each of our audit objectives and procedures, we interviewed officials from the following FSA and Department groups.
  - a. *FSA.* Financial Management Group, Internal Control Division, Audit Advisory Group, Institute of Education Sciences' Statistical Modeling and Research Division. We also interviewed personnel from FSA's contractor, which was responsible for performing risk assessments and providing improper payment deliverables.
  - b. *Department.* Office of Finance and Operation's Financial Data Integrity and Controls Division, Accounts Receivable and Bank Management Group, Office of Acquisition and Grants Administration, Risk Management Services Division, and Accountability and Financial Reporting Division; Office of Elementary and Secondary Education's Office of School Support and Accountability; and Office of General Counsel. 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 Title I, Part A; Emergency Impact Aid; Restart; and Emergency Assistance to IHEs programs and calculating the improper payment estimates for the three programs.
3. To determine whether the Department complied with PIIA, we completed the following procedures.
  - a. Reviewed the Department's AFR and accompanying materials.
  - b. Evaluated the Department's risk assessments to determine whether they complied with applicable requirements and the conclusions were reasonably supported.
  - c. Identified the Department programs that required an improper payment estimate for FY 2021 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 one for the FY 2021 reporting period and determined whether the corrective action plans met applicable requirements.
  - e. Determined whether the Department, for applicable programs, (1) published improper payment reduction targets, (2) demonstrated

improvements, and (3) developed a plan to meet the annual improper payment reduction targets.

- f. Determined whether the Department reported an improper payment and unknown payment rate of less than 10 percent for each program and activity that required an improper payment estimate for FY 2021.
4. To evaluate the Department's (a) risk assessment methodology, (b) improper payment rate estimates, (c) sampling and estimation plans, (d) corrective action plans, (e) efforts to prevent and reduce improper payments, and (f) oversight and financial controls, we performed the following procedures.
    - a. *Risk assessment methodology.* To evaluate the qualitative risk assessments the Department performed on 11 programs and 1 administrative activity, and the quantitative risk assessments it performed on 1 program, we determined whether the risk assessments met requirements under 31 U.S.C. section 3352(a) and were reasonably supported. This included reviewing the Department's evaluation of its programs for significant funding increases and the Department's threshold analysis to identify programs susceptible to significant improper payments that exceeded the statutory threshold.<sup>19</sup>

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 programs 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 six programs for which the Department reported an improper payment estimate in the accompanying materials to its FY 2021 AFR. For the Pell; Direct Loan;

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<sup>19</sup> Programs are considered to be above the statutory threshold if their annual improper and unknown payments are either above \$10 million and 1.5 percent of the program's total annual outlays or above \$100 million regardless of the associated percentage of the program's total annual outlays.

Title I, Part A; Emergency Impact Aid; and Restart programs,<sup>20</sup> we used the samples to perform tests to determine whether the Department followed its prescribed testing procedures in accurately and completely identifying and including in its estimates improper and unknown payments. In addition, for the Title I, Part A; Emergency Impact Aid; Restart; and Emergency Assistance to IHEs programs, we used the samples to determine the accuracy and completeness of the population sampling frames the Department used to sample and estimate improper payments for the four programs. See “Sampling Methodology” for more details.

- Reviewed the formulas in the SAS code program used to produce an improper payment rate for the Title I, Part A and Emergency Impact Aid programs, and determined whether the formulas matched those in the sampling and estimation plans.<sup>21</sup>
- Reviewed R code program inputs and outputs for the Pell and Direct Loan programs to determine whether the Department followed its sampling and estimation plan.<sup>22</sup>

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<sup>20</sup> We did not perform this step for the Emergency Assistance to IHEs program because we did not identify any significant issues with the Department’s identification of improper payments in the previous year’s estimate and there were no changes to the current year’s sampling and estimation plan from the previous year.

<sup>21</sup> The Emergency Assistance for IHEs and Restart programs did not contain improper payments in the improper payment estimates and therefore, the Department did not provide SAS code.

<sup>22</sup> R code is a language and environment for statistical computing and graphics.

- 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; Title I, Part A; Emergency Impact Aid; Restart; and Emergency Assistance to IHEs programs for FY 2021.
    - Evaluated the improper payment sampling and estimation plans to determine whether they were appropriate given program characteristics and produced a point estimate with confidence intervals.
  - 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 and implementation of corrective actions, and for information on how the Department determined that the corrective actions were reducing improper payments.
  - f. *Oversight and financial controls.*
    - Reviewed documentation such as servicer oversight, student eligibility, and program compliance audit controls that the Department used to identify and prevent improper payments in the high-priority 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; Title I, Part A; and Emergency Assistance to IHEs programs; the root causes of improper payments; the amounts of improper payments identified and recaptured; and the Department's scorecard information for the Pell and Direct Loan programs.
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. The results from our sample testing apply only to the sample items we reviewed and cannot be projected to the entire population.

### Pell and Direct Loan Program Samples

The purpose of our Pell and Direct Loan program sample testing was to evaluate the accuracy and completeness of the improper payment rate estimates and determine whether the Department followed its prescribed testing procedures. There was a total of 1,511 student disbursements included in FSA's Pell fieldwork workbook that FSA tested for improper payment reporting purposes; and a total of 1,592 student disbursements in the Direct Loan fieldwork workbook. We selected a random nonstatistical sample of 15 student disbursements from each workbook. Using the samples of student disbursements, we determined whether the disbursements were correctly included in the Department's testing spreadsheets as improper, not improper, or technically improper. We used the same samples to determine whether FSA performed procedures to assess the reliability of supplemental data (relating to the samples) that it received from independent auditors to use in FSA's improper payment estimate for the Pell and Direct Loan programs. See Table 3.

**Table 3: Sample of Student Disbursements included in the Direct Loan and Pell Programs Improper Payment Calculations**

Program	Number of Student Disbursements FSA Included in its Improper Payment Testing	OIG Sample Size	OIG Sample Selection Method
Direct Loan	1,592	15	Random
Pell	1,511	15	Random
<b>Total</b>	<b>3,103</b>	<b>30</b>	-

Of the 340 compliance audit reports for schools included in the Department's improper payment estimates for the Direct Loan and Pell programs, 17 compliance audit reports and their final audit determination letters did not include a breakdown of the sustained questioned costs by program. To test whether the Department's improper payment estimates for the Direct Loan and Pell programs included the correct improper payment

amounts from these audit reports, we selected a random nonstatistical sample of 9 of the 17 audit reports.

### **Samples of Payments Used to Derive the Improper Payment Estimates for the Title I, Part A, Emergency Impact Aid, and Restart Programs**

The purpose of our sample testing for the Title I, Part A; Emergency Impact Aid; and Restart 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 spreadsheets 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.

#### ***Title I, Part A Program Sample***

We used a judgmental and non-statistical random sample methodology to select 21 out of 234 payments that the Department included in its improper payment testing. We judgmentally selected the two SEA payments that the Department identified as technically improper. From the remaining payments that the Department reviewed, we removed the 24 payments belonging to the aforementioned SEA from Finding 2 that could not directly link its LEAs' payment transactions to G5 drawdowns (since we already had an audit finding relating to these payments), and then selected a random sample of 19 payments. See Table 4.



**Table 4. Sample of Payments for Title I, Part A Program Payment Calculations**

Department Sample Size	Department Sample Value	OIG Sample Size	OIG Sample Value	OIG Sample Selection Method
234	\$192,333,153	21	\$742,205	Judgmentally selected the 2 payments for an SEA that the Department identified as technically improper; randomly selected 19 payments after removing 2 SEA payments above and the 24 payments related to the SEA discussed in Finding 2.

***Emergency Impact Aid Program Sample***

We used a judgmental and a non-statistical random sample methodology to select 10 of the 42 payments included in the Department's improper payment calculation for the Emergency Impact Aid program. From the population of 42, we judgmentally selected 4 payments, which included the only 2 payments that the Department reviewed from 1 SEA and the only 2 payments that it reviewed from another SEA. The remaining payments that the Department reviewed came from the SEA discussed in Finding 2 and a fourth SEA that was not discussed; we selected a random sample of three payments from the SEA discussed in Finding 2 and three payments from an SEA that was not discussed. See Table 5.

**Table 5. Sample of Payments Included in the Emergency Impact Aid Payment Calculations**

Department Sample Size	Department Sample Value	OIG Sample Size	OIG Sample Value	OIG Sample Selection Method
42	\$18,689,827	10	\$11,036,763	Judgmentally selected the only two payments that the Department reviewed for one SEA and the only two payments that it reviewed for another SEA; randomly selected three payments from each of the other two SEAs that the Department reviewed.

#### ***Restart Program Sample***

We used a judgmental and a non-statistical random sample methodology to select 22 of the 210 payments included in the Department’s improper payment calculation for the Restart program. The population consisted of 210 payments stratified into 3 major strata: Puerto Rico, Not Puerto Rico, and Adjustments.<sup>23</sup> We selected the only payment in the “adjustments” strata, a random sample of 12 payments from the from the “Puerto Rico” strata, and a random sample of 9 payments from the “Not Puerto Rico” strata. See Table 6.

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<sup>23</sup> According to the Department, “[p]ayments made to Puerto Rico account for roughly 60 percent of the total payment amounts and roughly 80 percent of the records in the population. A random sample from a mixture of transactions from all jurisdictions could primarily yield Puerto Rico records. Therefore, Puerto Rico transactions were isolated into their own major stratum to allow a reasonable representation of other jurisdictions to be selected in the sample.”

**Table 6. SEA Sample for Review included in the Restart Payment Calculations**

Category	Department Sample Size	Department Sample Value	OIG Sample Size	OIG Sample Value	OIG Sample Selection Method
Puerto Rico	117	\$79,212,209	12	\$32,282,862	Random
Not Puerto	92	\$64,718,566	9	\$1,771,106	Random
Adjustment	1	\$1,079,675	1	\$1,079,675	Judgmental
<b>Total:</b>	<b>210</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>-</b>

### **Sample of Improper Payment Corrective Actions**

The Department identified eight corrective actions in the accompanying materials to its FY 2021 AFR to address the root causes of improper payments for the Pell and Direct Loan programs. The Department provided documentation to support that it implemented seven of the eight reported corrective actions in FY 2021; the remaining one had an implementation date of FY 2025. We selected all eight 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 and report table containing known improper payments for programs included in the Department's risk assessments, and (3) improper payment estimate spreadsheet data for the four Department programs with reported improper payment estimates for FY 2021. We used the risk assessment spreadsheets, report table, and supporting documents to determine the accuracy and completeness of the Department's qualitative risk assessments for 11 programs and 1 activity and for the quantitative risk assessment that it conducted for the IDEA program. We used the improper payment estimate spreadsheet data for the Emergency Impact Aid; Restart; Emergency Assistance to IHEs; and Title I, Part A programs to determine the accuracy and completeness of the improper payment 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 program obligation and drawdown report from the Department's G5 system that listed all the Department's programs that had obligations in FY 2020 and the list of the programs the Department reviewed for

its improper payment risk assessments and compared the lists of programs to ensure that the Department included all its programs that had FY 2020 obligations in its analysis. To determine whether the threshold that 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 qualitative risk assessments, we obtained documentation to support the improper payment amounts listed in the spreadsheet. For the report table containing known improper payments in the IDEA program quantitative risk assessment report, we obtained documentation to support the improper payment amount listed in the report table.
- c. For the improper payment estimate spreadsheet data for the Emergency Impact Aid; Restart; Emergency Assistance to IHEs; and Title I, Part A programs, we performed the procedures described in the Scope and Methodology section of this report.

For the risk assessment related spreadsheets and documents, we identified errors in the amount of known improper payments in the ESF and IDEA programs. However, the errors did not change the Department's risk assessment conclusions that the two programs were susceptible to significant improper payments. With the exception of the errors in known improper payments, we did not find any other 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 used in the estimates for the Emergency Impact Aid, Emergency Assistance to IHEs, and Restart programs, we determined the estimates to be reliable. However, for the Title I, Part A program, we determined the estimate to be unreliable, as described in Finding 2.

We held an entrance conference with Department officials on November 16, 2021 and conducted interviews with the Department officials during the week of November 29, 2021. We held an entrance conference with FSA officials on November 8, 2021 and conducted interviews with FSA officials during the week of November 15, 2021. We performed additional interviews with Department officials during January, February, and March 2022. We conducted fieldwork from November 2021 through April 2022 and held an exit conference to discuss the results of our audit with Department and FSA officials on April 13, 2022.

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
C.F.R.	U.S. Code of Federal Regulations
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
ESF	Education Stabilization Fund
FSA	Federal Student Aid
FY	fiscal year
IDEA	Individuals with Disabilities Education Act Part B
IHE	Institutions of Higher Education
LEA	local educational agency
N/A	not applicable
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
scorecard	Payment Integrity Scorecard
SEA	State educational agency

Title I, Part A	Improving Basic Programs Operated by Local Educational Agencies
Uniform Guidance	Title 2 of C.F.R., Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
U.S.C.	United States Code

# Department Comments



## UNITED STATES DEPARTMENT OF EDUCATION

### OFFICE OF FINANCE AND OPERATIONS

#### MEMORANDUM

**DATE:** May 25, 2022

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

Selina Boyd  
Regional Inspector General  
Office of Inspector General

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

Denise Carter  
Digitally signed by Denise Carter  
Date: 2022.05.26  
12:45:26 -04'00'

Richard Lucas  
Chief Financial Officer  
Federal Student Aid  
Department of Education

Richard Lucas  
Digitally signed by Richard Lucas  
Date: 2022.05.25 15:08:45  
-04'00'

**SUBJECT:** Discussion Draft Report, "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for FY 2021," Control Number ED-OIG/A22GA0050

We appreciate the opportunity to respond to the subject Discussion Draft 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 (FSA's) responses to each finding and recommendation.

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

Micheline Matthews  
Auditor in Charge  
Office of Inspector General

400 MARYLAND AVE. S.W., WASHINGTON, DC 20202-4500  
[www.ed.gov](http://www.ed.gov)

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## Overall Comments

The Department and FSA appreciate the OIG's review of the six programs reflected in the report, and the six compliance requirements applicable to each of those programs. As reflected in the OIG's report, except for one compliance requirement for one program, the Department and FSA met all compliance requirements of the Payment Integrity Information Act of 2019 (PIIA). In addition, the Department and FSA appreciate the OIG's recognition and acknowledgement of the accomplishments made by our organizations in implementing corrective actions during FY 2021, implementing oversight and financial controls to prevent and reduce improper payments (IPs) in high priority programs (Federal Pell Grant and Direct Loan), and plans to continue implementing controls to further reduce IPs.

The Department agrees with Finding 1 and partially agrees with Finding 2. We concur with the findings and recommendations pertaining to the Title I, Part A program.

FSA does not concur with the conditions and findings pertaining to FSA-managed programs. FSA maintains that its sampling and estimation methodology plan (S&EMP) for developing 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 S&EMP 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 differences in the professional opinions of OIG and FSA statisticians in interpreting and applying statistical guidance regarding random sampling in estimating IPs. Although in March 2021 OMB removed specific requirements 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. The OIG's view that random sampling, the generic textbook benchmark for statistical inference, is required at all stages of a S&EMP provides the basis for its opinions and finding regarding FSA's S&EMP. By contrast, FSA's approach, which includes using some non-random sample data from compliance audits conducted under the Single Audit Act to estimate IPs, reflects the contemporary guidance of esteemed individuals in the field of statistics.

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.

The Department's and 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 2021 Reporting Period.**

We recommend that the Chief Financial Officer for the Department —

**Recommendation 1.1:** Develop a plan describing actions the Department will take to bring the Title I, Part A program into compliance with the PIIA and submit it (via the OMB Annual Data Call) to the appropriate authorizing and appropriations committees of Congress.

**Department's Response to Recommendation 1.1:** The Department agrees with Recommendation 1.1 for the Title I, Part A program. The Department submitted a Corrective Action Plan (CAP) via the OMB Annual Data Call, (revised in January 2022), which includes a description of its actions to bring the Title I, Part A program into compliance with the PIIA. As such, the Department is currently in the process of revising its improper payment sampling and estimation methodology plan for this program. The revised process will be implemented in the FY 2022 reporting period.

**Finding 2. The Department's Improper Payment Estimates for the Title I, Part A; Pell; and Direct Loan Programs Were Not Reliable**

We recommend that the Chief Financial Officer for the Department —

**Recommendation 2.1:** Design and implement an improper payment sampling and estimation plan for its Title I, Part A program that will produce a reliable estimate. Specifically, the plan should be appropriate for the sampling of payments from SEAs that provide program funds to LEAs using an advance payment process that does not allow the SEA to directly link expenditures to SEA drawdowns from the G5 system.

**Recommendation 2.2:** Develop and implement procedures to ensure that the results the Department records in its Title I, Part A program improper payment testing spreadsheets are accurate and supported.

**Department's Response to Recommendations 2.1 and 2.2:** The Department agrees with OIG's Recommendations 2.1 and 2.2 related to the Title I, Part A program. The Department has improved the quality assurance of its testing process by adding a third layer of review to be performed by Department staff (in addition to a second level of review by the tester's peer) to ensure that the completed improper payment testing spreadsheets are accurate and supported. The Department is also revising its improper payment sampling and estimation methodology plan for this program to be implemented for the FY 2022 reporting period.

**OIG Recommendation 2.3:** In conjunction with the Chief Financial Officer for FSA and Department statisticians, develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates. Specifically, the plan should ensure that sampling weights (if used) are accurate, and that the plan will produce appropriate and accurate confidence intervals; or produce an estimate that is otherwise appropriate using a methodology approved by the Director of OMB.

**Department's Response to Recommendation 2.3:** For the reasons stated above in the General Comments section, FSA does not agree that the improper payment estimates for the Federal Pell Grant and Direct Loan programs were not reliable. However, in accordance with the OIG's recommendation and the provisions provided in PIIA §3352(c)(1)(A), and while maintaining that FSA's IP S&EMP is statistically valid, FSA will continue its efforts to request OMB approval of FSA's IP S&EMP as an acceptable plan considering program resources and characteristics. FSA will also continue to collaborate with OMB, the OIG, Departmental components, and the independent audit community to identify ways to improve the usefulness of information obtained in Single Audit Act compliance audits.

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](mailto:Carolyn.Dempster@ed.gov).