U.S. Department of Education
Office of Inspector General

Federal Student Aid Controls Over the School Verification Process

May 20, 2021
ED-OIG/I06S0001

INSPECTION REPORT

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

May 20, 2021

TO: Richard Cordray
               Chief Operating Officer
               Federal Student Aid

FROM: Bryon S. Gordon /s/
               Assistant Inspector General for Audit
               Office of Inspector General

SUBJECT: Final Inspection Report, "Federal Student Aid Controls Over the School Verification Process," Control Number ED-OIG/I06S0001

Attached is the subject final inspection report that consolidates the results of our review of "Federal Student Aid Controls Over the School Verification Process." We have provided an electronic copy to your audit liaison officer[s]. We received your comments agreeing with the findings and two of the three recommendations in our draft 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 Myra Hamilton, Acting Regional Inspector General for Audit, at (214) 661-9545 or myra.hamilton@ed.gov.

Attachment

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Results in Brief

What We Did

The objective of our inspection was to describe Federal Student Aid's (FSA) control activities over institutional processes for completing verification and reporting verification results in accordance with Federal requirements. Our inspection covered award years 2016–2017 and 2017–2018 (July 1, 2016, through June 30, 2018).

What We Found

We found that FSA implemented control activities over institutional processes for completing verification procedures and reporting verification results. Specifically, we identified five significant control activities over these processes: (1) annual compliance audits, (2) program reviews, (3) W code reports,[1] (4) management information system (MIS) reports, and (5) verification guidance.

We found that FSA performed ongoing monitoring of the verification guidance control activity; but FSA did not monitor the other control activities on a regular basis. However, in September 2018, FSA's Enterprise Risk Management (ERM) group issued a document titled "Verification Internal Review Report" (ERM Report) that described its separate evaluation of the processes FSA had in place to ensure institutions[2] performed verification. We found that FSA did not address all of the control issues identified in the ERM Report and did not always determine the appropriate corrective actions or complete or document the corrective actions taken.

What We Recommend

We recommend that FSA's Acting Chief Operating Officer (1) establish and operate monitoring activities, including ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of FSA's verification control activities, (2) establish processes to ensure that FSA management evaluates and documents corrective actions, or if corrective actions are not warranted, for verification control weaknesses identified by monitoring activities, and (3) for issues identified with its verification control activities in the 2018 ERM Report and other monitoring activities, ensure that FSA management evaluates and documents corrective actions, or if corrective actions are not warranted.

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[1] FSA also referred to the W code report as a funding reduction report.

[2] In this OIG report, the terms "school" and "institution" are used interchangeably.

FSA Comments and Our Response

We provided a draft of this report to FSA for comment. FSA agreed with the findings and all but one recommendation. FSA stated that there are significant changes anticipated to the verification processes and reporting because of relief measures implemented in response to the COVID-19 Pandemic, as well as legislative changes mandated in the FUTURE Act and the FAFSA [Free Application for Federal Student Aid] Simplification Act. As these changes are implemented, FSA will review and revise procedures to ensure appropriate controls and monitoring. We did not make any changes to the findings or the recommendations based on FSA's comments. We summarize FSA's comments at the end of each finding and provide the full text of the comments at the end of the report.

Introduction

Background

Title IV of the Higher Education Act of 1965, as amended (Title IV), authorizes Federal financial aid for higher education students through grants and loans. A student applies for aid by completing the Free Application for Federal Student Aid (FAFSA). An algorithm is then used to determine the student's expected family contribution, impacting the student's eligibility for aid. After a student applies for aid, that student may be selected for a verification process to confirm the accuracy and completeness of the information on the FAFSA, and to confirm that the student is eligible to receive Federal financial aid based on the expected family contribution calculation. This verification is completed to ensure that students receive the appropriate amount of Federal financial aid as required under Title 34 of the Code of Federal Regulations, Part 668, Subpart E.

The U.S. Department of Education (Department) annually publishes in the Federal Register the FAFSA data elements that an institution must verify. Verification is considered complete when an institution determines that either the FAFSA data elements are correct, or the corrected data has been submitted. Institutions are required to retain verification records. For award years 2016–2017 and 2017–2018, Federal financial aid subject to verification included annually over $26 billion in the Federal Pell Grant (Pell) Program and over $20 billion in Federal Direct Loans.

Verification is an important control to help prevent improper payments of Federal financial aid. According to the Department's Agency Financial Reports for fiscal years (FY) 2017 through 2019 (encompassing our 2-year inspection period plus the subsequent year), failure to verify financial data on the FAFSA was one of the underlying root causes of improper payments for the Pell and Federal Direct Loan programs. The Department estimated improper Pell payments of over $5 billion; of that amount, over $1.4 billion was attributed to the failure to verify FAFSA data. The Department estimated improper Federal Direct Loan payments of over $8 billion; of that amount, over $715 million was attributed to the failure to verify FAFSA data. See the following table for additional information.

Table. Estimated Improper Payments for Pell and Federal Direct Loan Programs

Pell Program	FY 2017	FY 2018	FY 2019 [a]	Totals for FYs (2017–2019)
Total Amount of Improper Payments	$2,209,700,000	$2,302,360,000	$646,140,000	$5,158,200,000
Improper Payments Due to Failure to Verify Financial Data	$790,100,000	$124,500,000	$502,850,000	$1,417,450,000
Percentage of Payments Due to Failure to Verify Financial Data (As Percentage of Total Improper Payments)	35.8%	5.4%	77.8%	-
Federal Direct Loan Program	FY 2017	FY 2018	FY 2019	Total for FYs (2017–2019)
Total Amount of Improper Payments	$3,863,270,000	$3,752,890,000	$483,140,000	$8,097,270,000
Improper Payments Due to Failure to Verify Financial Data	$628,100,000	$82,540,000	$4,880,000	$715,520,000
Percentage of Payments Due to Failure to Verify Financial Data (As Percentage of Total Improper Payments)	16.3%	2.2%	1.0%	-

[a] The table includes data for FY 2019 because the Department implemented a new sampling methodology for that year, resulting in significantly lower improper payment estimates for both the Pell and Federal Direct Loan programs. However, for the Pell program, the percentage of estimated improper payments attributed to the failure to verify financial data increased significantly.

During the performance of our work, we learned that Federal Student Aid (FSA) conducted an internal verification review that was similar in focus to our inspection. On September 28, 2018, FSA's Enterprise Risk Management (ERM) group issued the "Verification Internal Review Report" (ERM Report). The objective of the ERM Report

was to determine whether FSA's internal control activities ensured that institutions perform verification. The ERM Report identified most of the control activities that we identified during our inspection. The ERM Report was a separate evaluation that FSA used to monitor the design and operating effectiveness of its control activities over institutional processes for completing verification procedures and reporting verification results.

Finding 1. Description of FSA's Control Activities Over Completing Verification and Reporting Verification Results

FSA implemented control activities over institutional processes for completing verification procedures and reporting verification results. The significant control activities over these processes were: (1) annual compliance audits, (2) program reviews, (3) W code reports, (4) management information system (MIS) reports, and (5) verification guidance.

Annual Compliance Audits

FSA used annual compliance audits to help ensure that institutions performed verification procedures and reported verification results in accordance with Federal requirements. It also used the results of these audits in training provided to financial aid professionals. Institutions that participate in Federal financial aid programs are required to have external audits performed by independent auditors who are typically certified public accountants. The purpose of the audits was to provide some level of assurance that the institutions are administering the Federal financial aid programs in accordance with Federal requirements. As part of these audits, the independent auditors reviewed an institution's verification policies and procedures and tested a sample of students to determine if the institution complied with Federal verification requirements.

FSA's School Participation Division was responsible for resolving compliance audits with findings pertaining to its programs. An audit resolution specialist reviewed an institution's audit findings and related corrective action plan to determine if additional documentation was needed. If applicable, the specialist requested the additional information either verbally or through a preliminary audit determination letter. When an institution had a major audit finding with an error rate greater than or equal to 10 percent, FSA generally required the institution to perform a 100-percent file review to determine if the issue also applied to students that were not part of the selected audit sample. If an institution had a large population of financial aid recipients, FSA used a statistically valid sampling methodology instead of the 100-percent file review process. When using the statistical sampling methodology, FSA selected a sample of student files that an institution was required to review.

After reviewing and analyzing the audit in detail, including the results of the additional file reviews, the audit resolution specialist resolved and closed the finding(s) by issuing a final audit determination letter to the institution. The letter included, when applicable, information about questioned costs and repeat audit findings.

FSA also produced an annual list of the Top 10 audit findings based on the frequency of the finding category. FSA assisted institutions by using the Top 10 list as a tool for both training activities and compliance assistance. The Top 10 list provided high-level information but did not go into detail on specific audit findings. FSA used the list to inform schools about the most common types of issues disclosed in audit findings. For FY 2018, the number of verification violations ranked fifth on the list of Top 10 findings.

Program Reviews

FSA used program reviews to help ensure that institutions had adequate written verification policies and procedures and accurately completed verification procedures and reported verification results. The overall purpose of a program review is to evaluate compliance with the Title IV, HEA statute and regulations, identify liabilities owed to the Department for errors in compliance, and improve future institutional capabilities. As part of a program review, reviewers examine financial aid, academic, and fiscal records, interview institution staff and students, and review relevant consumer information. FSA has annually conducted program reviews of approximately 100 to 300 institutions out of about 6,000 eligible institutions. Review specialists performed 240 program reviews for award year 2016–2017 and 203 program reviews for award year 2017–2018.

As part of a program review, a review specialist from FSA's Program Compliance office generally selects a sample of 15 student files to review critical elements. Verification was identified as a program review critical student element for award years 2016–2017 and 2017–2018. Of the 15 sampled students, at least 2 were required to have been selected for verification. If the sample did not include a minimum of two students selected for verification, the reviewer was required to select additional students to satisfy the minimum requirement.

According to FSA's "Program Review Procedures," in situations of verification error rates greater than 10 percent, the School Eligibility and Oversight Services office generally requires the institution to perform a file review of all students selected for verification if there is a liability associated with the error. However, if the error does not contain a liability, the reviewer has discretion to determine what actions to take, which could include expanding the sample to determine if a full file review is warranted. For cases where over 100 files need to be reviewed, the review specialist will offer the institution the option of projecting error rates and potential liabilities based on the full statistical sample selected by FSA for the program review. If the institution chooses the projection option, then the institution performs a file review for only the remainder of the statistical sample not tested by FSA during the program review. The results from this additional file review using the statistical sample will be used to project liabilities for the entire population. This option is intended to reduce the burden on the institution of conducting a full file review.

When a program review identified findings, FSA reviewed and documented the corrective actions taken by the institution. After reviewing the supporting documentation sent by the institution for the corrective action, FSA would determine whether the corrective action provided by the institution would fix the underlying issue. At the conclusion of a program review, a final program review determination letter was provided to the institution, which served to inform the institution of the final determination for each of the findings in the program review report. Also, the OIG Proprietary School Audit Guide[3] requires an auditor to review all final program review determination letters issued because of program reviews performed by FSA. The purpose of this audit procedure is to ascertain if the program review findings had been resolved.

W Code Reports

The Funds Management Division within the Business Operations office used W code reports to help ensure that institutions reported verification completion for students that received Pell awards. The W code reports identified verification W status codes reported by institutions. A verification W status code identifies instances where students were selected for verification, but the institution chose to make an initial disbursement of Pell funds without first obtaining verification documentation from the student. According to FSA's W Code Report Procedures for Verification, the institution must submit the student's disbursement record to the Common Origination and Disbursement (COD) System with a W code, indicating "without documentation." COD would accept only one disbursement, with a disbursement amount of up to 50 percent of the student's scheduled Pell award, until the institution updated the code to show completion of verification. Before a second disbursement could be made, the institution was required to change the student's verification status code from W to either V (verified) or S (satisfied exclusion),[4] indicating that the institution completed verification for the student, or the student met one of the criteria to be excluded from verification.

FSA used the W code reports as part of a three-phase W code process: (1) preview, (2) warning, and (3) reduction. FSA previewed and validated student disbursement data

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[3] The full name of this document is "Guide for Audits of Proprietary Schools and for Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs," issued September 2016.

[4] Verification exclusions include (1) the student died before verification was completed; (2) the student was not an aid recipient; (3) the student was eligible to receive only unsubsidized student financial assistance, (4) the student was verified by another school; and (5) the student was selected for verification after ceasing to be enrolled at the school.

provided by institutions, and then warned institutions to complete verification for the W code students within 2 weeks. If an institution did not change the student's status code to either V or S within the prescribed time, then COD would reduce the student's first disbursement to zero. FSA performed these W code procedures three times during each award year.

MIS Reports

The Partner Participation and Oversight Directorate and the School Participation Division used MIS reports for Pell recipients to identify the frequency of S (satisfied exclusion) and blank verification status codes reported by individual institutions. The MIS reports were used to identify institutions not performing verification and to determine whether an institution should be referred to the Partner Participation and Oversight office for a program review or to an Institution Improvement Specialist for compliance assistance, training, or support. FSA used the MIS Reports in conjunction with other available information, such as audit history, to determine whether a program review was required. If FSA decided to conduct a program review, the School Eligibility Service and Oversight office could use its discretion to determine whether there would be an on-site program review or desk review.

The award year 2017 MIS Reports included a list of eight institutions that had numerous S or blank verification status codes. Two of those institutions were referred for program reviews. The other six institutions were referred to an institution improvement specialist to obtain assistance concerning verification status code requirements.

Verification Guidance

FSA used verification guidance as a control activity over its administration of the verification process. Verification guidance was a tool used to inform institutions of their responsibilities and ensured that the most recent verification procedures and requirements were available. Verification guidance was disseminated through Federal Register notices, the Application and Verification Guide (part of the FSA Handbook), Dear Colleague Letters, and electronic announcements. FSA's Student Experience and Aid Delivery office and the Policy Implementation and Liaison office collaborated with the Office of Postsecondary Education, which was responsible for overall guidance for the Title IV programs within the Department. The FSA offices also considered feedback from other relevant sources when updating verification guidance; those sources included other Federal agencies, stakeholders, and the public.

FSA Comments

FSA agreed with the finding and stated that it has implemented multiple control activities over institutional processes for completing verification procedures and reporting verification results.

Finding 2. FSA Could Improve Its Monitoring of Verification Control Activities

FSA performed ongoing monitoring of the verification guidance control activity; however, FSA did not monitor the other control activities on a regular basis. In August 2018, FSA's ERM internal review group conducted a separate evaluation of the processes FSA had in place to ensure institutions performed the required verification of FAFSA information. In September 2018, the ERM group issued its report, which covered five control activities over the verification processes, primarily for FYs 2014–2016. The ERM Report identified weaknesses in each of the five control activities. We found that FSA did not always address the control issues identified in the ERM Report and did not always determine the appropriate corrective actions or complete or document the corrective actions taken.

The five control activities covered in the ERM Report are annual compliance audits, program reviews, W code reports, MIS reports, and FSA's A-123 assessments[5] of its controls over school eligibility requirements.

The ERM Report included 12 recommendations to improve the 5 verification control activities. FSA provided feedback or took actions to address several of the recommendations. However, for most of the 12 recommendations, FSA did not document whether it took corrective actions or determined that corrective actions were not warranted. Following is a discussion of specific weaknesses in verification control activities the ERM report identified, selected recommendations, and FSA's responses to the recommendations.

Annual Compliance Audits

The ERM Report concluded that the small sample sizes resulting from audit procedures for public, not-for-profit, and proprietary institutions fail to identify institutions not performing verification and that this sampling methodology fails to provide an "assurance of compliance with the verification requirements."

To address the weakness, the ERM Report recommended that FSA work with OIG and the Office of Management and Budget (OMB) to increase the required sample size for verification testing. Program Compliance agreed with that recommendation. OMB is

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[5] In accordance with the Office of Management and Budget Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," FSA management annually assesses and concludes on the effectiveness of its internal controls. Verification controls are assessed every three years, in the A-123 process, as part of FSA's "student eligibility" testing.

responsible for issuing guidance for audits of public and not-for-profit institutions; and OIG is responsible for issuing guidance for audits of proprietary institutions. Program Compliance communicated with OMB to revise the guidance on sampling for audits of public and not-for-profit institutions. According to the Program Compliance official, OMB did not increase the required sample size for such audits but did include a statement in its guidance reinforcing the overall importance of sampling. However, Program Compliance did not communicate with OIG about changing verification sampling requirements in the OIG's guidance on sampling for audits of proprietary institutions.

Program Reviews

The ERM Report identified potential weaknesses of the program review control activity such as noting that institutions were not selected for program reviews based on verification related risk factors, program reviews might not always provide adequate coverage to determine whether institutions were properly conducting verification activities, and the deterrent impact of program reviews might be limited by Program Compliance allowing institutions to retroactively perform verification if issues were found. The ERM Report recommended that FSA (1) determine whether it should include a risk factor related to verification in selecting institutions for program review; (2) consider selecting a separate sample of students selected for verification to test institutions' compliance with the verification criteria; and (3) consider imposing a penalty on institutions that failed to perform verification to encourage institutions to perform verification, such as imposing a penalty on repeat offenders.

In response to the ERM Report recommendations, Program Compliance stated that it would consider including a verification risk factor in the FY 2020 annual risk assessment. Ultimately, FSA complied with this recommendation and included verification in its FY 2020 annual risk assessment. However, Program Compliance did not provide a response to either of the other two recommendations in the ERM Report because the recommendations were presented for its consideration.

W Code Reports

The ERM Report stated that the W code report funding reduction process was, for the most part, an effective control for ensuring that Pell disbursements were recovered when appropriate verification activities have not been performed by institutions. The ERM Report also stated that there is no similar control for subsidized loans to prevent or recover improperly disbursed amounts. The ERM Report presented four recommendations for this key control, and Business Operations provided comments on the recommendations. In its comments, Business Operations questioned the feasibility of two of the recommendations. FSA did not document whether it took corrective

actions in response to the recommendations, or if corrective actions were not warranted.

MIS Reports

ERM concluded that the MIS Reports were no longer an adequate control for determining which institutions were performing verification, and presented three recommendations:

- Reconsider the usefulness of the MIS Reports.

- Determine whether there were other data elements available to FSA that could predict when an institution was not performing verification.

- Perform trend analysis to determine systemic issues and develop a process for correcting those issues.

ERM received no comments in response to the control issues identified with the MIS Reports. An FSA Senior Advisor explained that FSA made no changes to the MIS Reports because the MIS Reports were developed as part of FSA's corrective action to the 2007 OIG audit report (ED-OIG/A09G0012).

Standards for Internal Controls in the Federal Government

The General Accounting Office's *Standards for Internal Control in the Federal Government,* The Green Book, established internal controls for Federal entities. Internal controls should provide a reasonable assurance that an entity's objectives will be achieved. Those internal controls state that management should—

1. design control activities to achieve objectives and respond to risks (10.01);

2. establish and operate monitoring activities to monitor the internal control system and evaluate the results (16.01);

3. evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues, using the evaluation to determine the effectiveness of the internal control system (16.09);

4. remediate identified internal control deficiencies on a timely basis (17.01);

5. evaluate and document internal control issues and determine from the type of internal control deficiency the appropriate corrective actions to remediate the internal control deficiency on a timely basis (17.05); and

6. complete and document corrective actions; resolution is complete only after action has been taken that (a) corrects the identified deficiencies, (b) produces improvements, or (c) demonstrates that findings and recommendations do not warrant management action (17.06).

Improvements in Monitoring Verification Internal Controls Needed

FSA offices responsible for the identified control activities performed ongoing monitoring of the verification guidance control activity; but FSA did not monitor the other control activities on a regular basis. However, in September 2018, FSA's internal review group issued its ERM Report that described its separate evaluation of the processes FSA had in place to ensure institutions performed verification. We found that FSA did not address all of the control issues identified in the ERM Report and did not always determine the appropriate corrective actions or complete or document the corrective actions taken.

The ERM group could not provide documentation of how each recommendation in the ERM Report was resolved or responded to because, in 2018, implementation of the recommendations was optional, and documentation of actions taken was not required. The ERM group stated that where the ERM Report indicates no comment was received, it was understood that offices involved agreed with the recommendations but did not provide written responses. In addition, it was not required for the ERM group to conduct follow-up actions on their recommendations. According to the ERM Internal Review Director, the ERM group's process did not require FSA offices to respond to findings or implement corrective actions because the reporting process was considered internal. In addition, where the ERM Report recommendations stated to "consider," it was understood that the appropriate offices would consider the recommendations and conduct their own analysis before deciding on an exact approach.

The ERM Report acknowledged verification as one of the primary control activities used by FSA to ensure the accuracy of Title IV program payments to students. According to the Department's Agency Financial Reports for FYs 2017 and 2018, the Pell and Federal Direct Loan programs were susceptible to significant improper payments. It is important for FSA to monitor its verification control activities and address control issues identified because one cause of improper payments was the failure to verify financial data on the FAFSA application. For that 2-year period, the Department estimated improper Pell payments of over $4.5 billion, with over $914 million of that due to the failure to verify financial data. For the same period, the Department estimated improper Federal Direct Loan payments of over $7.6 billion, with over $710 million of that due to the failure to verify financial data.

The OIG issued a series of reports from 2018 through 2020 to determine whether selected institutions completed verification of applicant data in accordance with Federal requirements and accurately reported verification results to FSA. We found some institutions had issues with completing verification and reporting verification results.

We performed related audits at six institutions.[6] For all six of the selected institutions, we found that the institutions generally performed verification procedures and reported verification results. However, for five of the six institutions, we found that the completion and reporting were not always conducted accurately. The estimated completion error rates ranged from a 1.7 percent to 15 percent, and the estimated reporting error rates ranged from 1.7 percent to 16.7 percent.

Because FSA did not address all ERM Report recommendations, FSA has missed an opportunity to improve its verification control activities.

Recommendations

We recommend that FSA's Acting Chief Operating Officer—

2.1 Establish and operate monitoring activities, including ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of FSA's verification control activities.

2.2 Establish processes to ensure that FSA management evaluates and documents corrective actions, including when corrective actions are not taken, for verification control weaknesses identified by monitoring activities.

2.3 For issues identified with its verification control activities in the 2018 ERM Report and other monitoring activities, ensure that FSA management evaluates and documents corrective actions, or if corrective actions are not warranted.

FSA Comments

FSA agreed with the finding that it could improve its monitoring of verification control activities. FSA stated that the September 2018 report issued by FSA's ERM group described the separate evaluation of the processes FSA had in place to ensure institutions performed verification, but FSA could improve its monitoring and documentation.

FSA agreed with two of the three recommendations and noted that it anticipates significant changes to verification processes and reporting. FSA stated that those anticipated changes will come from relief measures implemented in response to the COVID-19 pandemic, as well as legislative changes mandated in the FUTURE Act and the FAFSA Simplification Act enacted as part of the Consolidated Appropriations Act, 2021.

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[6] See Appendix A for a list of the six audits. Three of the audits covered award year 2016–2017 (July 1, 2016, through June 30, 2017) and three of the audits covered award year 2017–2018 (July 1, 2017, through June 30, 2018).

FSA also stated that, as these changes are implemented, it will review and revise its procedures as appropriate to ensure appropriate controls and monitoring.

Regarding Recommendation 2.1, FSA stated that it disagrees with this recommendation because, as documented, FSA has implemented multiple control activities over institutional processes for completing verification procedures and has conducted a separate evaluation documented through the ERM report.

FSA agreed with Recommendations 2.2 and 2.3. Specifically, for Recommendation 2.2, FSA stated that it agrees with this recommendation but reserves the right to not develop corrective action plans when management demonstrates that findings and recommendations do not warrant management action or that such action will be rendered ineffective due to anticipated changes to verification processes and reporting. Regarding Recommendation 2.3, FSA stated it agrees with this recommendation and has also reviewed the ERM report. FSA further stated that, as significant changes to verification processes and reporting are implemented because of COVID-19 relief provisions and implementation of the FUTURE and FAFSA Simplification Acts, FSA will continue to monitor these activities and evaluate and document corrective actions as appropriate.

OIG Response

Regarding Recommendation 2.1, we acknowledge that FSA has implemented the verification control activities that we described in this report, and we acknowledge that FSA performed its own separate evaluation of verification control activities. However, as noted by FSA in its comments to this finding, FSA could improve its regular monitoring of verification control activities. We are also aware that the ERM report was a one-time report which was not issued on an annual or otherwise cyclical basis and does not address management's responsibilities to monitor verification control activities. We still maintain that FSA could improve its monitoring of verification control activities to establish and operate monitoring activities going forward. Therefore, we did not make any changes to the finding or the recommendation.

FSA agreed with Recommendation 2.2, while reserving the right to not develop corrective action plans when FSA demonstrates that management action will be unwarranted or ineffective. We agree that FSA management has the right to implement corrective actions, or not, in response to its monitoring efforts. However, FSA should clearly document those decisions, as we recommend. FSA noted actions for Recommendation 2.3 that, if implemented, are responsive to our recommendation.

Appendix A. Scope and Methodology

Our original audit objective was to determine whether FSA's control activities ensured that institutions performed verification. After conducting the first three of our six related institutional audits, we decided to revise the objective and perform the remaining work as an inspection. Our objective for the inspection was to describe FSA's control activities over institutional processes for completing verification and reporting verification results in accordance with Federal requirements. On August 23, 2019, we notified FSA of the revised objective and that our review would be completed as an inspection. We performed follow-up fieldwork at FSA in September 2019. We also conducted additional interviews and obtained additional documentation during the period September 2019 through September 2020.

To achieve our objective, we performed the following procedures:

- We gained an understanding of relevant verification criteria, including:

  - 34 Code of Federal Regulations, Part 668 Subpart E, Verification and Updating of Student Aid Application Information;

  - FSA's Dear Colleague Letter GEN-15-11, "2016–2017 Award Year: FAFSA Information to be Verified and Acceptable Documentation";

  - Notice of FAFSA Information To Be Verified for the 2016–2017 Award Year, 80 Federal Register 36783 (June 26, 2015);

  - Dear Colleague Letter GEN-17-04: "Changes to 2016–2017 and 2017–2018 Verification Requirements";

  - OMB Circular No. A-123;

  - FSA Strategic Plan; and

  - FSA's 2016–2017, "Application and Verification Guide."

- We assessed the results of prior audits pertaining to the verification process:

  - Two audits of FSA:

    - *Department of Education's Oversight of the Free Application for Federal Student Aid Verification Process (A09G0012)*—Issued August 2007

    - *Federal Student Aid's Oversight of Schools Participating in the Title IV Programs (A03L0001)*—Issued September 2015

- We assessed the results of audits we performed at six institutions:

  - MiraCosta College (ED-OIG/A02S0007)—Issued November 2018

  - College of Southern Nevada (ED-OIG/A05S0012)—Issued November 2018

- o University of Houston (ED-OIG/A06S0007)—Issued November 2018

- o DeVry University (ED-OIG/A05T0009)—Issued August 2019

- o South Florida Institute of Technology (ED-OIG/A06T0004)—Issued September 2019

- o University of Southern California (ED-OIG/A05T0008)—Issued February 2020

- We gained an understanding of FSA's monitoring activities over FSA's verification controls by interviewing staff from the FSA offices involved in administering and assessing the verification process, including the monitoring of verification completion and reporting by institutions.

- We reviewed FSA's September 28, 2018, ERM document "Verification Internal Review Report."

- We gained an understanding of FSA's control activities by reviewing FSA's control activity documentation (policies, procedures, and processes) related to institutions completing verification and reporting verification results, including:

  - o Program review procedures covering verification, including annual risk assessments;

  - o Program review instructions for Program Compliance including annual risk assessments;

  - o Compliance audit resolution analysis procedures;

  - o MIS Reports;

  - o COD 2017-2018 technical reference;

  - o Instructions for the verification process specific to the Central Processing System and COD system;

  - o Guidance provided by FSA to institutions (such as FSA handbook and application and verification guide); and

  - o FSA's resolution of verification findings reported in program reviews and audits.

- We gained an understanding of FSA's annual A-123 assessment of the effectiveness of its internal controls. We did not consider the A-123 assessment to be a monitoring activity over FSA's verification controls because it did not test all of FSA's verification control activities. In addition, the A-123 assessment reviewed verification processes only once every 3 years as a small part of student eligibility testing by performing tests of the verification flags for student identity and high school completion status.

We held an entrance meeting with FSA officials on April 10, 2018. We placed this project on hold in June 2018 to perform the audits at the six selected institutions. Three of the institutions (College of Southern Nevada, MiraCosta College, and University of Houston) were audited for award year 2016–2017, and the remaining three (DeVry University, South Florida Institute of Technology, and University of Southern California) were audited for award year 2017–2018. We took the project off hold in August 2019.

In June 2020, FSA provided the ERM Verification Internal Review Report. We followed up on issues identified in that report. Our follow-up work included additional interviews of FSA officials. We held an exit meeting on November 19, 2020.

Compliance with Standards

We conducted our work in accordance with the Council of Inspectors General on Integrity and Efficiency "Quality Standards for Inspection and Evaluation." Those standards require that we plan the work to obtain sufficient data and other information to provide a reasonable basis for our conclusions.

Appendix B. Acronyms and Abbreviations

COD	Common Origination and Disbursement
Department	U.S. Department of Education
ERM	Enterprise Risk Management
ERM Report	Verification Internal Review Report
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
FY	fiscal year
MIS	Management Information System
OMB	Office of Management and Budget
Pell	Federal Pell Grant Program
Title IV	Title IV of the Higher Education Act of 1965, as amended

April 16, 2021

TO: Ms. Myra Hamilton,
       Acting Regional Inspector General for Audit
       U.S. Department of Education
       Office of Inspector General

       Mr. Jeffrey Nekrasz, Director Student Financial Assistance Advisory and
       Assistance
       Office of Inspector General
       U.S. Department of Education

FROM: Robin Minor *Robin S. Minor*
       Acting Chief Operating Officer
       Federal Student Aid

SUBJECT: Draft Report "Federal Student Aid Controls Over the School Verification Process"
Control Number ED-OIG/I06S0001

Dear Ms. Hamilton:

Thank you for the opportunity to review and comment on the statements and recommendations made in the Office of Inspector General ("OIG") Draft Report, *Federal Student Aid Controls Over the School Verification Process* (I06S0001), dated April 2, 2021 ("Draft Report").

OIG presented two findings in the Draft Report, with three recommendations. Federal Student Aid's (FSA's) response to the findings and recommendations are below.

The Draft Report documents multiple processes already in place related to control over verification and reporting and detailed by FSA's internal Enterprise Risk Management (ERM) report. The ERM report was a separate, internal evaluation that FSA used to monitor the design and operating effectiveness of its control activities.

Finding 1: Description of FSA's Control Activities Over Completing Verification and Reporting Verification Results

FSA's Response: FSA agrees with the OIG's finding that FSA has implemented multiple control activities over institutional processes for completing verification procedures and reporting verification results.

Federal Student Aid
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Finding 2: FSA Could Improve Its Monitoring of Verification Control Activities

FSA's Response: FSA agrees with the OIG's finding that FSA could improve its regular monitoring of control activities. The September 2018 report by FSA's ERM group, cited by the OIG, described the separate evaluation of the processes FSA had in place to ensure institutions performed verification, but FSA can improve monitoring and documentation.

It is important to note that there are significant changes anticipated to verification processes and reporting as a result of relief measures implemented in response to the Covid-19 pandemic, as well as legislative changes mandated in the FUTURE Act and the FAFSA Simplification Act as part of the Consolidated Appropriations Act, 2020. As these changes are implemented, FSA will review and revise our procedures as appropriate to ensure appropriate controls and monitoring.

Recommendation 2.1: OIG recommended that FSA's Acting Chief Operating Officer establish and operate monitoring activities, including ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of FSA's verification control activities.

FSA's Response: FSA disagrees with the OIG's recommendation because, as documented, FSA has implemented multiple control activities over institutional processes for completing verification procedures and has conducted a separate evaluation documented through the ERM report.

Again, as changes to verification processes and reporting are implemented as a result of relief measures in response to the Covid-19 pandemic and recent legislative changes, FSA will review and revise our procedures as appropriate to ensure appropriate controls and monitoring.

Recommendation 2.2: OIG recommended that FSA's Acting Chief Operating Officer establish processes to ensure that FSA management evaluates and documents corrective actions, or if corrective actions are not warranted, for verification control weaknesses identified by monitoring activities.

FSA's Response 2.2: FSA agrees with the OIG's recommendation, but reserves the right not to develop corrective action plans when management demonstrates that findings and recommendations do not warrant management action, or such action will be rendered ineffective due to anticipated changes to verification processes and reporting.

Recommendation 2.3: OIG recommended that FSA's Acting Chief Operating Officer, for issues identified with its verification control activities in the 2018 ERM Report and other monitoring activities, ensure that FSA management evaluates and documents corrective actions, or if corrective actions are not warranted.

FSA's Response: FSA agrees with this recommendation and has also reviewed the ERM report. As significant changes to verification processes and reporting are implemented as a result of Covid-19

relief provisions and implementation of the FUTURE and FAFSA Simplification Act, FSA will continue to monitor these activities and evaluate and document corrective actions, as appropriate.

Thank you for the opportunity to respond to the recommendations outlined in this OIG draft report. We appreciate the time and the effort auditing this issue, as well as the opportunity to comment.