



U.S. Department of Education
Office of Inspector General

Federal Student Aid's Processes for Waiving Return of Title IV Requirements, Cancelling Borrowers' Obligation to Repay Direct Loans and Excluding Pell Grants from Federal Pell Lifetime Usage

May 5, 2023
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ED OIG Oversight of Coronavirus Response Funds



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**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

Audit Services

May 5, 2023

TO: Richard Cordray
Chief Operating Officer
Federal Student Aid

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

SUBJECT: Final Audit Report, "Federal Student Aid's Processes for Waiving Return of Title IV Requirements, Cancelling Borrowers' Obligation to Repay Direct Loans, and Excluding Pell Grants from Federal Pell Lifetime Usage," Control Number ED-OIG/A21CA0077

Attached is the subject final audit report that consolidates the results of our review of Federal Student Aid's processes for waiving the requirement that Title IV of the Higher Education Act of 1965 funds be returned, cancelling borrowers' obligation to repay Direct Loans, and excluding Federal Pell grant disbursements from Pell lifetime usage calculations for students who withdrew because of the coronavirus pandemic. We have provided an electronic copy to your audit liaison officers. We received your comments in response to the findings in our draft report.

We appreciate your cooperation during this review. If you have any questions, please contact me at (202) 245-6051 or Bryon.Gordon@ed.gov or Ben Sanders, Regional Inspector General for Audit, at (916) 213-7630 or Ben.Sanders@ed.gov.

Attachment

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Results in Brief

What We Did

The objective of our audit was to determine whether Federal Student Aid (FSA) had adequate processes for (1) waiving the requirement that Title IV of the Higher Education Act of 1965 (Title IV) funds be returned, cancelling borrowers' obligation to repay Direct Loans, and excluding Federal Pell grant (Pell) disbursements from Pell lifetime usage calculations for students who withdrew because of the coronavirus pandemic (impacted students);¹ and (2) postsecondary institutions (schools) to report the number and amounts of return of Title IV (R2T4) waivers applied. Our audit covered FSA's processes and related activities in these areas from March 27, 2020, when the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted, through June 27, 2022. Because R2T4 reporting was not due until September 30, 2022 (towards the end of our fieldwork), we limited the scope of our review in that area to the design of FSA's processes.

To achieve our audit objective, we interviewed FSA personnel and reviewed FSA's guidance documents and technical assistance provided to schools, its processes for waiving R2T4 requirements, and the mechanisms it set up for schools to identify Direct Loan and Pell disbursements made to impacted students and report the number and amounts of R2T4 waivers applied. We also reviewed the oversight activities that FSA performed to ensure that schools were applying the CARES Act flexibilities² and reporting required information. Lastly, we performed testing to determine whether

¹ FSA cancels borrowers' obligation to repay the entire portion of Direct Loans associated with the payment period for impacted students by discharging the Direct Loan disbursements made during the payment period. Only Direct Loan and Pell disbursements received during the payment period associated with the impacted students' withdrawal would be subject to discharge or exclusion.

² Throughout the report, we will use "CARES Act flexibilities" as a short form for the following flexibilities: waiving R2T4 requirements, cancelling borrowers' obligation to repay Direct Loans, and excluding Pell disbursements from Pell lifetime usage for impacted students.

Direct Loan disbursements were discharged³ and Pell disbursements were excluded from Pell lifetime usage for impacted students.

What We Found

FSA had adequate processes for waiving R2T4 requirements, cancelling borrowers' obligation to repay Direct Loans, and excluding Pell disbursements from Pell lifetime usage for impacted students. FSA also designed adequate processes for schools to report the number and amounts of R2T4 waivers applied.

What We Recommend

We are not providing any recommendations for corrective actions.

FSA Comments

We provided a draft of this report to FSA officials for comment. FSA stated that the CARES Act provisions addressed in the report provided significant benefits to impacted students. FSA also stated that the OIG's findings were a testament to the dedication of FSA staff to the students they serve and FSA's responsibility to ensure accountability. We include the full text of FSA's comments at the end of the report (see [FSA Comments](#)).

³ The terms "cancel" and "discharge" generally have the same meaning. When a student loan is discharged, the borrower no longer needs to make payments on that loan (34 Code of Federal Regulations 685.212). Throughout the report, we will use "cancel" when discussing the borrowers' obligation to repay Direct Loans and "discharge" when discussing the treatment of Direct Loan disbursements made to impacted students.

Introduction

Background

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136), enacted on March 27, 2020, authorized more than \$2 trillion to battle the coronavirus pandemic and its economic effects. It also authorized the use of certain flexibilities for students who withdrew from postsecondary institutions (schools) because of the coronavirus pandemic (impacted students). These flexibilities include waiving the amounts of Title IV of the Higher Education Act of 1965 (Title IV) funds that schools and impacted students are required to return under section 484B of the Higher Education Act of 1965 (sections 3508(a)(1) and (b)), cancelling borrowers' obligation to repay the entire amount of Direct Loans impacted students received during the payment period of their withdrawal (section 3508(c)), and excluding from impacted students' Federal Pell grant (Pell) lifetime usage limit⁴ any semester (or the equivalent) that the students did not complete because of the coronavirus pandemic (section 3507). Throughout the report, we will refer to these as "CARES Act flexibilities." Section 3508(a)(2) of the CARES Act requires schools using return of Title IV (R2T4) waivers for impacted students to report the number of recipients, the amount of grant or loan assistance (other than Federal Work Study) associated with each recipient, and the total amount of grant or loan assistance (other than Federal Work Study) they have not returned to the U.S. Department of Education (Department). Federal Student Aid (FSA) is responsible for administering or overseeing the administration of these CARES Act flexibilities and related R2T4 reporting.

Usage of the CARES Act Flexibilities

As of June 22, 2022, schools had identified and reported to FSA a total of 266,508 impacted students.⁵ For these impacted students, Direct Loan disbursements totaling \$626.3 million and Pell disbursements totaling \$404.1 million were subject to discharge or exclusion from Pell lifetime usage. As of January 9, 2023, the total amount of Title IV funds not returned for all impacted students was \$244 million, of which \$174 million (71 percent) represented Direct Loan funds not returned and \$70 million (29 percent)

⁴ Per the Consolidated Appropriations Act of 2012, a student's maximum duration of Pell eligibility is six scheduled awards, as measured by the percentage of "Lifetime Eligibility Used" for a maximum of 600 percent. The use of 1 full year funding is equal to 100 percent, so a student may receive the equivalent of 6 years of Pell funding in their lifetime.

⁵ The number of impacted students is an unduplicated count. Students who had multiple Direct Loan disbursements discharged or multiple Pell disbursements excluded were counted only once.

represented Pell funds not returned.⁶ The number of impacted students was the highest during Federal award year 2019–2020 with about 174,000 students, representing about 1.6 percent of the 10.9 million Title IV students during that award year.⁷ The number of schools using R2T4 waivers was also the highest during award year 2019–2020 at more than 2,400 schools, representing about 41 percent of the approximately 6,000 postsecondary schools participating in the Title IV programs.

⁶ Source: OIG analysis of Direct Loan and Pell disbursements marked with the coronavirus indicator in the Department’s Common Origination and Disbursement system (COD) as of January 9, 2023; R2T4 Usage on COD Report by Award Year, generated on January 9, 2023; and COD R2T4 Lump Sum Report by Award Year, generated on January 9, 2023.

⁷ Source: OIG analysis of Direct Loan and Pell disbursements marked with the coronavirus indicator in COD as of June 22, 2022; COD Coronavirus Summary Reports by Award Year, generated on January 9, 2023; and FSA’s Data Center (<https://studentaid.gov/data-center>).

Finding 1. FSA had Adequate Processes for Waiving R2T4 Requirements, Cancelling Borrowers' Obligation to Repay Direct Loans, and Excluding Pell Disbursements from Pell Lifetime Usage for Impacted Students

FSA had adequate processes to evaluate whether the R2T4 requirements were being waived for impacted students in accordance with the CARES Act. FSA cancelled borrowers' obligation to repay the entire portion of Direct Loans associated with the payment period for impacted students by discharging the Direct Loan disbursements made during the payment period. For impacted students, Direct Loan disbursements were appropriately discharged. In addition, Pell disbursements were appropriately excluded from impacted students' Pell lifetime usage, exclusive of a small number of exceptions.

Section 10.01 of the Government Accountability Office's *Standards for Internal Control in the Federal Government* (September 2014), states that management should design control activities to achieve objectives and respond to risks.

FSA's Monitoring of Schools' Compliance with R2T4 Waiver Requirements

Under sections 3508(a)(1) and (b) of the CARES Act, for impacted students, the Secretary shall waive the amounts of Title IV funds that schools and impacted students are required to return under section 484B of the Higher Education Act of 1965.

FSA monitored schools' compliance with the R2T4 waiver requirements by conducting program reviews and reviewing the annual compliance audits that independent auditors performed for schools. FSA's *Federal Student Aid Program Review Guide* (September 2021) (program review guide) and the Office of Management and Budget, 2 CFR, Part 200, Appendix, XI, Compliance Supplement (Compliance Supplement) were updated to provide coverage of the CARES Act flexibilities.⁸ New steps included, for any impacted students included in a program review or annual compliance audit's sample, verifying that students provided written attestation to the schools explaining why the withdrawal was a result of coronavirus pandemic, schools selected the coronavirus indicators in the Department's Common Origination and Disbursement system (COD) for Direct Loan and Pell disbursements made to impacted students, and schools did not

⁸ Updates to the Compliance Supplement first appeared in the December 2020 addendum to the Compliance Supplement.

return unearned Title IV funds for impacted students. The *Guide for Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs* (March 2023) (proprietary schools audit guide), issued by the OIG, provides coverage of the CARES Act flexibilities similar to the coverage provided in FSA's updated program review guide and the Compliance Supplement. The proprietary schools audit guide is effective for fiscal years beginning on or after January 1, 2023, with early implementation allowed and encouraged. We reviewed the new procedure steps in the updated program review guide, the Compliance Supplement, and proprietary schools audit guide and concluded that they were sufficient and appropriate for purposes of evaluating whether the R2T4 requirements were being waived for impacted students in accordance with the CARES Act.

FSA created deficiency codes, including ones specific to the CARES Act, to categorize deficiencies identified during program reviews and annual compliance audits. FSA used CARES Act deficiency codes, tracked within its Postsecondary Education Participants System, in part, to identify and follow up on any R2T4 waiver-related deficiencies identified during program reviews and annual compliance audits.

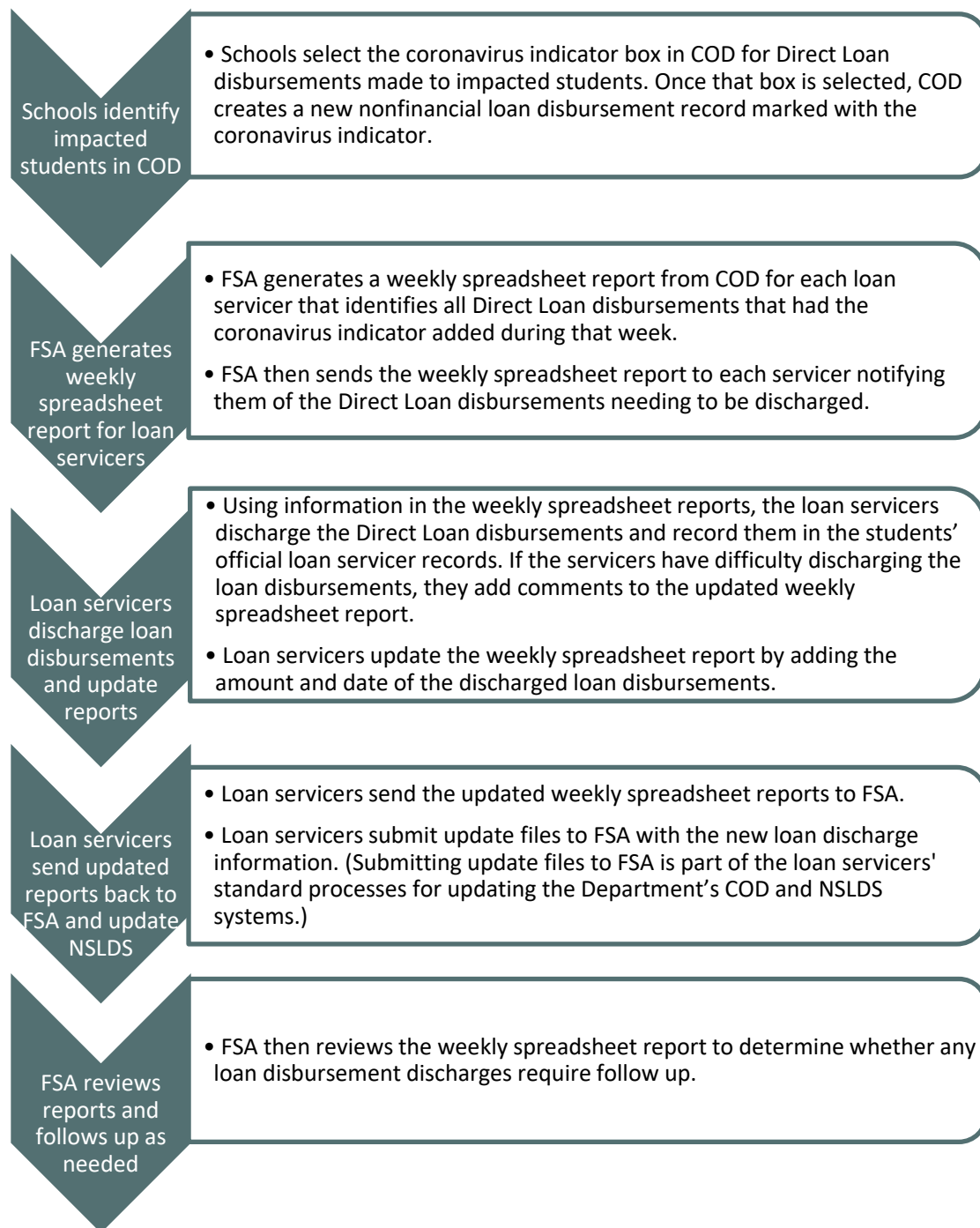
FSA's Processes for Cancelling Borrowers' Obligation to Repay Direct Loans

Section 3508(c) of the CARES Act requires the Secretary to cancel the borrower's obligation to repay the entire portion of a Direct Loan associated with a payment period for a student who withdraws from the school during the payment period because of a qualifying emergency (Direct Loan cancellations). As noted above, FSA cancels the borrowers' obligation to repay Direct Loans for impacted students by discharging the applicable Direct Loan disbursement.

FSA made technical updates to COD and generated reports from COD that it could use to ensure that Direct Loan disbursements were discharged for impacted students. To establish a new code for coronavirus disaster relief, FSA added "coronavirus" to the list of disasters that were already included in COD. FSA then added a coronavirus indicator box in COD for schools to select to identify Direct Loan and Pell disbursements made to impacted students. When schools selected the coronavirus indicator box, COD created a new nonfinancial disbursement record marked with the coronavirus indicator. This new record enabled FSA to identify disbursements made to impacted students and generate reports identifying information related to the coronavirus national emergency. FSA generated a weekly report from COD that identified all Direct Loan disbursements that had the coronavirus indicator added during that week for each loan servicer (weekly spreadsheet report). FSA used the weekly spreadsheet report to inform loan servicers of the specific loan disbursements that needed to be discharged and to confirm that the

loan servicers discharged those loan disbursements. The following figure provides an overview of FSA's processes for cancelling borrowers' obligation to repay Direct Loans.

Figure. Overview of FSA's Processes for Cancelling Borrowers' Obligation to Repay Direct Loans



Testing of Direct Loan Disbursement Discharges

We concluded that Direct Loan disbursements for impacted students were appropriately discharged by FSA's loan servicers. As of June 22, 2022, 269,997 Direct Loan disbursements, totaling \$626.3 million, were marked with the coronavirus indicator in COD. Based on our analysis that matched data in COD and the Department's National Student Loan Data System (NSLDS), we determined that FSA's loan servicers discharged 260,854 of the 269,997 loan disbursements. For the 9,143 loan disbursements that we were unable to match, we sampled 79 disbursements⁹ and determined that FSA's loan servicers discharged all 79 loan disbursements.

FSA's Processes for Excluding Pell Disbursements from Impacted Students' Pell Lifetime Usage

Section 3507 of the CARES Act requires the Secretary to exclude from a student's Pell lifetime limit any semester (or the equivalent) that the student does not complete due to a qualifying emergency (Pell exclusions).

As discussed above, in COD, FSA added "coronavirus" to the list of disasters and a coronavirus indicator box for schools to select to identify Pell disbursements made to impacted students. When schools selected the coronavirus indicator box, COD created a new nonfinancial Pell disbursement record marked with the coronavirus indicator and the student's Pell lifetime usage automatically adjusted (was reduced) in COD by the Pell eligibility percentage associated with that Pell disbursement. This automatic adjustment process was designed to restore the student's Pell lifetime usage as if the Pell disbursements, during the payment period when the students withdrew because of the coronavirus pandemic, had not occurred. Updates in COD, including updated Pell lifetime usage information, were sent to NSLDS on a nightly basis.

Testing of Pell Exclusions

We concluded that FSA had adequate processes for excluding Pell disbursements from impacted students' Pell lifetime usage and that FSA's automated Pell adjustment processes in COD were working as intended. As of June 22, 2022, 255,492 Pell disbursements, totaling \$404.1 million for 202,039 impacted students, were marked with the coronavirus indicator in COD. Based on our analysis that recalculated Pell lifetime usage adjustments using NSLDS data and compared our calculations to data in COD, we determined that FSA appropriately processed the exclusions for

⁹ This comprises the judgmental sample of 25 loan disbursements and risk-based statistical sample of 54 loan disbursements that we selected for review. The results of our judgmental sample testing apply only to the items (disbursements) we reviewed and cannot be projected to the entire population. See [Appendix A](#) for additional information regarding our sampling methodology and testing in this area.

200,731 (99.4 percent) of the 202,039 impacted students. From the remaining 1,308 impacted students (0.6 percent) who did not appear to have their Pell disbursements excluded correctly, we judgmentally selected a sample of 30 students for additional review and analysis. We determined that the adjusted Pell lifetime usage percentages were correct for 24 (80 percent) of 30 students when rounding was considered. However, the adjusted Pell lifetime usage percentages for the other six students in our sample were higher than they should have been.

We asked FSA to review the records for the six students to ensure that they had their Pell disbursements excluded correctly. In response, FSA told us that it identified a processing error that occurred in November 2020, when some impacted students' Pell lifetime usage percentages were not recalculated correctly. Before a fix was implemented in COD in September 2021, a COD contractor was responsible for manually reviewing and correcting the percentages as a workaround. FSA told us that these six students were missed during the manual review but have now been corrected. We reviewed information in COD for these six students and verified that FSA corrected the Pell lifetime usage for these students. FSA further scanned the entire COD system and identified 61 additional students who did not have their Pell lifetime usage adjusted correctly. In January 2023, FSA provided documentation to support that it had made the necessary corrections for 60 of the 61 students. FSA told us that it still needs to correct the Pell lifetime usage for the one remaining student.

FSA Guidance and Technical Assistance

We concluded that FSA communicated clear and accurate guidance to schools regarding the CARES Act flexibilities. FSA provided guidance and technical assistance to schools regarding CARES Act flexibilities through electronic announcements, online training conferences, question and answer documents, and the FSA training website.¹⁰ Less than 2 months after the CARES Act was enacted, FSA began issuing periodic electronic announcements (starting on May 15, 2020) that provided guidance to schools regarding the CARES Act waivers, including how schools were to apply the R2T4 waivers for impacted students. FSA used electronic announcements, in part, to notify schools of the updates it made to COD and provide instruction on how to use the new coronavirus indicator in COD when identifying Direct Loan disbursements needing to be discharged and Pell disbursements needing to be excluded from Pell lifetime usage for impacted students. FSA also used the electronic announcements to communicate best practices for using the coronavirus indicator and the deadlines for selecting the indicators.

¹⁰ In addition to schools, loan servicers, students, taxpayers, and other members of the public can also view FSA's guidance, including its electronic announcements and question and answer documents.

FSA provided CARES Act flexibility-related training and guidance to schools via training sessions presented by its subject matter experts during the 2020 and 2021 FSA training conferences, which were held online and made available to schools in December 2020 and December 2021, respectively. FSA also provided periodic live webinars where its staff presented information about the CARES Act flexibilities and responded to questions from schools. Recordings of the webinars and FSA conferences, including questions from schools and FSA responses, were made available on the FSA training website after the live presentations.

Finding 2. FSA Designed Adequate Processes for Schools to Report the Number and Amounts of R2T4 Waivers Applied

FSA designed adequate processes for schools to report the number and amounts of R2T4 waivers applied. FSA added reporting mechanisms in COD for schools to report the number of R2T4 waivers for impacted students, the amounts of Direct Loan and Pell disbursements associated with the impacted students, and the amounts of Direct Loan and Pell not returned to the Department.¹¹ It also communicated clear and accurate guidance to schools on the R2T4 reporting requirements and how to satisfy those requirements. Collectively, these actions should help ensure that schools understand the R2T4 reporting requirements and how to report R2T4 information. To monitor reporting by schools, FSA incorporated new procedure steps into its updated program review guide that sufficiently covered the R2T4 reporting requirements and created a CARES Act deficiency code, tracked within its Postsecondary Education Participants System, to identify and follow up on any R2T4 reporting deficiencies identified during program reviews and compliance audits.

Section 3508(a)(2) of the CARES Act requires a school using R2T4 waivers to report the number of recipients, amount of grant or loan assistance (other than Federal Work Study) associated with each recipient, and the total amount of grant or loan assistance (other than Federal Work Study) that it had not returned to the Department. The CARES Act did not specify how the Department or FSA should use the information reported by schools.

Schools report information on R2T4 waivers for impacted students to the Department using COD. FSA added a coronavirus indicator box in COD for schools to select to identify Direct Loan and Pell disbursements made to impacted students. When schools selected this box, they were reporting to FSA the number of waivers applied and the associated disbursement amounts for impacted students. FSA established two options in COD for schools to report Title IV funds not returned for impacted students. Schools can report

¹¹ Schools were required to report R2T4 information by September 30, 2022, but they had the ability to start reporting the number and amounts of R2T4 waivers applied in September 2020 when FSA added the coronavirus indicator box in COD. Schools were able to start reporting the amount of Title IV funds not returned at the student and institution levels in September 2020 (when FSA implemented coronavirus-specific functionality to the R2T4 calculator tool in COD) and April 2021 (when FSA added the lump sum reporting tool in COD), respectively. FSA told us that it extended the deadlines for schools to report R2T4 information multiple times because the national emergency was ongoing.

their information using either option but should not use both options to avoid duplicative reporting.

The first option is for schools to report information at the student level. Under this option, schools enter withdrawal information for impacted students in the R2T4 calculator in COD.¹² Once the school enters withdrawal information for all impacted students, it has satisfied the Title IV funds not returned reporting requirement. The second option is for schools to report information at the institution level. Under this option, schools use their own financial systems to calculate the total amount of Title IV funds not returned for impacted students and then use the lump sum reporting tool in COD to report the total amount of Title IV funds not returned.

To verify that schools correctly reported the number of R2T4 waivers applied and Title IV funds not returned, FSA relied on the program reviews it performs and annual compliance audits that independent auditors perform for schools. In September 2021, FSA updated its program review guide to include steps for FSA program reviewers to verify that schools accurately reported the number of R2T4 waivers applied and amount of Title IV funds not returned for impacted students. In addition, two new testing procedures were included in the 2021 and subsequent Compliance Supplements. The two procedures required the independent auditor to determine, for any impacted students included in the sample, (1) whether the impacted students were eligible for the CARES Act flexibilities and (2) that the school reported the correct number of R2T4 waivers applied and correct amount of Title IV funds not returned. The proprietary schools audit guide provides coverage of the R2T4 reporting requirements similar to the coverage provided in the updated program review guide and Compliance Supplement. We reviewed the new procedure steps in the updated program review guide, Compliance Supplement, and proprietary schools audit guide and concluded that they were sufficient and appropriate for purposes of evaluating whether schools were reporting the correct number and amounts of R2T4 waivers applied for impacted students in accordance with the CARES Act. In addition, FSA created and used a CARES Act deficiency code, tracked within its Postsecondary Education Participants System, in part, to identify and follow up on any R2T4 reporting deficiencies identified during program reviews and annual compliance audits.

We concluded that FSA communicated clear and accurate guidance to schools regarding the R2T4 reporting requirements and how and when to report R2T4 information. FSA provided guidance and technical assistance to schools regarding R2T4 reporting through

¹² The R2T4 calculator was available to schools before the coronavirus pandemic, but FSA implemented additional functionality (for example, coronavirus indicator box) to the tool in September 2020.

electronic announcements, online training conferences, question and answer documents, and the FSA training website. FSA's guidance included details about what R2T4 waiver information needed to be reported, the deadlines for reporting the information, and training on how to report the information in COD.

Appendix A. Scope and Methodology

Our audit covered FSA's processes and related activities (including oversight) for waiving the R2T4 requirements, cancelling borrowers' obligation to repay Direct Loans, and excluding Pell disbursements from Pell lifetime usage for impacted students.¹³ It also covered the design of FSA's processes for schools to report R2T4 waiver information. We reviewed FSA's processes and activities in these areas from March 27, 2020, when the CARES Act was enacted, through June 27, 2022, when FSA issued its last electronic announcement related to the audit subject matter before we concluded our fieldwork.¹⁴

To achieve our audit objective, we gained an understanding of relevant laws, regulations, and guidance, including:

- sections 3507 ("Exclusion from Federal Pell Grant Duration Limit") and 3508 ("Institutional Refunds and Federal Student Loan Flexibilities") of the CARES Act;
- sections 401 ("Federal Pell Grants") and 484B ("Institutional Refunds") of the Higher Education Act of 1965;
- 34 Code of Federal Regulations, volume dated July 1, 2022, Parts 668, "Student Assistance General Provisions" (particularly provisions related to record keeping and treatment of Title IV funds when a student withdraws); 685, "William D. Ford Federal Direct Loan Program"; and 690 "Federal Pell Grant Program";
- Government Accountability Office, *Standards for Internal Control in the Federal Government* (September 2014), particularly the principles related to control activities (principles 10, 11, and 12);
- program review guide, which included updates that FSA made in response to the CARES Act flexibilities;
- Compliance Supplement and addendums for 2020, 2021, and 2022;
- proprietary schools audit guide (March 2023); and
- 2021–2022 FSA Handbook, Volume 1, Chapter 6 ("Eligibility for Specific FSA Programs"); Volume 3, Chapters 3 ("Calculating Pell and Iraq and Afghanistan

¹³ Our audit did not assess whether schools accurately identified impacted students.

¹⁴ On June 27, 2022, FSA issued an electronic announcement that provided the reporting deadlines for schools to add the coronavirus indicator for disbursements of Title IV funds and for reporting funds not returned under R2T4 requirements due to CARES Act relief.

Service Grant Awards”) and 5 (“Direct Loan Periods and Amounts”); and Volume 5 (“Withdrawals and the Return of Title IV Funds”).

We gained an understanding of FSA’s processes related to the CARES Act waiver flexibilities and R2T4 reporting through interviews and reviews of relevant documents and records. We interviewed employees and officials from FSA who had knowledge about or were responsible for administering or overseeing the administration of the CARES Act waiver flexibilities, and for providing guidance to schools on when, how, and what R2T4 information to report for impacted students. To assess the reliability of the testimonial evidence, we compared information obtained through interviews with records related to FSA’s processes in these areas when provided by the interviewees. We concluded that the testimonial evidence we obtained was sufficiently reliable within the context of our audit objective.

We reviewed FSA electronic announcements, question and answer documents, training materials, and other guidance and technical assistance documents covering the CARES Act waiver flexibilities and R2T4 reporting. We also reviewed the weekly spreadsheet report that FSA used to notify loan servicers of the Direct Loan disbursements subject to discharge and verify that the loan servicers discharged those disbursements. We viewed and gained an understanding of the changes that FSA made in COD to implement the CARES Act Flexibilities. We also reviewed documents and records covering the program reviews that FSA performed and compliance audits that independent auditors performed for schools with impacted students. These included selected audit reports for schools with CARES Act deficiencies and summaries of the program reviews that FSA completed from October 2021 through August 2022.

We performed testing to determine whether impacted students had their Direct Loan disbursements discharged and Pell disbursements excluded from their Pell lifetime usage. See the [Sampling Methodology](#) section below for additional information regarding our testing in these areas.

Sampling Methodology

Direct Loan Disbursements

To determine whether loan servicers discharged impacted students’ Direct Loan disbursements, we primarily used loan disbursement data from COD and loan discharge data from NSLDS. We considered impacted students’ loan disbursements to be discharged if the total amount of coronavirus type discharges on a loan in NSLDS equaled the total amount of loan disbursements marked with the coronavirus indicator on a loan in COD. As of June 22, 2022, we identified in COD 269,997 Direct Loan disbursements that were marked with the coronavirus indicator.

For 260,854 (97 percent) of the 269,997 loan disbursements, NSLDS had complete information for us to rely on to determine if the loan disbursements were discharged.¹⁵ For the remaining 9,143 Direct Loan disbursements, we concluded that NSLDS lacked complete information to determine if the loan disbursements were discharged. Thus, we judgmentally selected a sample of 25 Direct Loan disbursements¹⁶ and reviewed loan data in COD, FSA’s weekly spreadsheet reports, and NSLDS to determine whether loan disbursements were discharged. The results from this sample testing apply only to the items (disbursements) that we reviewed and cannot be projected to the entire population. Using a risk-based statistical sampling approach, we also selected an additional 54 Direct Loan disbursements and reviewed loan servicer records to determine whether the loan disbursements were discharged.

Table. Selection of Direct Loan Disbursements for Testing

Description	Loan Disbursements with Coronavirus Indicator in COD, as of June 22, 2022	Loan Disbursements Selected for Review	Percent of Loan Disbursements Selected for Review
Loan discharge data in NSLDS could be relied on	260,854	260,854	100 percent
Loan discharge data in NSLDS could not be relied on	9,143	79 ¹⁷	0.9 percent
Total	269,997	260,933	97 percent

¹⁵ We also reviewed the loan servicer records for 39 Direct Loan disbursements that were part of this subset of 260,854 disbursements and determined that the information in COD and NSLDS reflected the correct loan balances in the impacted students’ official loan servicer records.

¹⁶ For the 9,143 Direct Loan disbursements, we identified 3 characteristics: (1) for 7,959 disbursements, a coronavirus discharge code was not recorded in NSLDS; (2) for 952 disbursements, a coronavirus discharge amount was recorded in NSLDS that was different than the disbursement amount marked with a coronavirus indicator in COD; and (3) for 232 disbursements, another type of loan discharge (such as death or permanent disability) was used to discharge the loan disbursement. Our judgmental sample of 25 included loan disbursements from these 3 groups.

¹⁷ This comprises the judgmental sample of 25 loan disbursements and the risk-based statistical sample of 54 loan disbursements that we selected for review.

The results of our testing in this area are covered in [Finding 1](#).

Pell Disbursements

To determine whether impacted students' Pell disbursements were excluded from their Pell lifetime usage calculation, we used Pell disbursement data from COD and Pell lifetime eligibility usage data from NSLDS.¹⁸ We considered impacted students' Pell disbursements to be excluded from their Pell lifetime eligibility usage in COD if the lifetime eligibility usage adjustments in NSLDS equaled our recalculation of the disbursements' eligibility usage. As of June 22, 2022, we identified in COD 255,492 Pell disbursements that were marked with the coronavirus indicator, involving 202,039 impacted students.

Using Pell lifetime eligibility usage adjustments in NSLDS, we determined that FSA excluded Pell disbursements for 200,731 (99.4 percent) of the 202,039 impacted students. For the remaining 1,308 impacted students (0.6 percent), we selected a judgmental sample of 30 students¹⁹ for additional review and analysis using information directly from COD to determine whether the Pell disbursements were excluded from the impacted students' Pell lifetime eligibility usage calculation. The results from our sample testing apply only to the items (Pell calculations) that we reviewed and cannot be projected to the entire population. The results of our testing in this area are covered in [Finding 1](#).

Reporting of R2T4 Waiver Information

Schools were not required to report R2T4 waiver information to FSA until September 30, 2022, which was towards the end of our fieldwork. Therefore, we limited the scope of our review in this area to the design of FSA's processes for schools to report the number and amounts of R2T4 waivers applied.

Internal Control

We obtained an understanding of all five areas of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) relevant to FSA's processes for waiving the R2T4 requirements, cancelling borrowers' obligation to repay Direct Loans, and excluding Pell disbursements from Pell lifetime usage for impacted students; and for schools to report the number and amounts of R2T4 waivers applied. We concluded that control activities were significant to our audit objective. As discussed in the findings, we concluded that FSA had adequate processes

¹⁸ NSLDS receives Pell lifetime eligibility usage information from COD.

¹⁹ Our judgmental sample included students from different schools.

(control activities) for administering the CARES Act flexibilities and had designed adequate processes for schools to report R2T4 waiver information.

Use of Computer-Processed Data

Data for Direct Loan Disbursements Testing

To assess the reliability of the 269,997 Direct Loan disbursements that were marked with the coronavirus indicator in COD as of June 22, 2022, we gained an understanding of (1) aspects of the design and implementation of COD specific to processing the CARES Act waivers, (2) FSA's process for discharging impacted students' Direct Loan disbursements, (3) the subsequent reporting of this data from loan servicers to NSLDS, and (4) how FSA instructed schools to report impacted students' Direct Loan disbursements.

For the 260,854 Direct Loan disbursements that we determined FSA had discharged using loan discharge data in NSLDS alone, the total amount of discharges on a loan in NSLDS equaled the total amount of loan disbursements marked with the coronavirus indicator on a loan in COD. From this subset of 260,854 disbursements, we selected (using risk-based stratified statistical sampling) and reviewed the loan servicer records for 39 disbursements. We confirmed that the information in the loan servicer records matched information in NSLDS for all 39 disbursements. For the remaining 9,143 loan disbursements, NSLDS lacked complete information to determine whether these loan disbursements had been discharged. Thus, we used data from other sources (for example, FSA weekly spreadsheet reports, loan servicer records) to determine if loan disbursements had been discharged. We concluded that the COD and NSLDS data extracts (data that we used for Direct Loan disbursements testing) were sufficiently reliable for their intended uses and could be relied on to answer the audit objective.

Data for Pell Disbursements Testing

To assess the reliability of the 255,492 Pell disbursements for 202,039 impacted students that were marked with the coronavirus indicator in COD as of June 22, 2022, we gained an understanding of (1) aspects of the design and implementation of COD specific to processing the CARES Act waivers and (2) how FSA instructed schools to report impacted students' Pell disbursements.

To assess the reliability of Pell lifetime eligibility usage adjustments in NSLDS for the 202,039 impacted students, we gained an understanding of how the Pell lifetime eligibility usage calculation is performed within COD and the subsequent reporting of this data from COD to NSLDS. For 200,731 students, the lifetime eligibility usage adjustments in NSLDS equaled our recalculation of the disbursements' eligibility usage and matched Pell lifetime eligibility adjustment data in COD. For the remaining

1,308 impacted students, we used COD records and therefore did not assess the reliability of the NSLDS data for these students. We concluded that the COD and NSLDS data extracts (data that we used for Pell disbursement testing) were sufficiently reliable for their intended uses and could be relied on to answer the audit objective.

Compliance with Standards

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.

We remotely conducted our audit from April 2022 through January 2023. We discussed the results of our audit with FSA and other Department officials on December 20, 2022, and provided them with a draft of this report on March 17, 2023.

Appendix B. Acronyms and Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
COD	Common Origination and Disbursement system
Compliance Supplement	Office of Management and Budget, 2 CFR, Part 200, Appendix, XI, Compliance Supplement
Department	U.S. Department of Education
FSA	Federal Student Aid
impacted students	students who withdrew from postsecondary institutions due to the coronavirus pandemic
NSLDS	National Student Loan Data System
OIG	Office of Inspector General
Pell	Federal Pell grant
program review guide	<i>Federal Student Aid Program Review Guide</i> (September 2021)
proprietary schools audit guide	<i>Guide for Financial Statement Audits of Proprietary Schools and For Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs</i> (March 2023)
R2T4	return of Title IV
schools	postsecondary institutions
Title IV	Title IV of the Higher Education Act of 1965
weekly spreadsheet report	weekly report from COD that identified all Direct Loan disbursements that had the coronavirus indicator added during that week for each loan servicer

FSA Comments



April 12, 2023

TO: Ben Sanders
Regional Inspector General for Audit
Office of Inspector General
Jeffrey Nekrasz
Director, Student Financial Assistance Advisory and Assistance
Office of Inspector General

FROM: Richard Cordray [REDACTED]
Chief Operating Officer
Federal Student Aid

SUBJECT: **Draft Audit Report, "Federal Student Aid's Processes for Waiving Return of Title IV Requirements, Cancelling Borrowers' Obligation to Repay Direct Loans, and Excluding Pell Grants from Federal Pell Lifetime Usage," Control Number ED-OIG/A21CA0077**

Dear Mr. Sanders:

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) draft Audit Report, "Federal Student Aid's Processes for Waiving Return of Title IV Requirements, Cancelling Borrowers' Obligation to Repay Direct Loans, and Excluding Pell Grants from Federal Pell Lifetime Usage," dated March 17, 2023.

The audit objectives were to determine whether Federal Student Aid (FSA) had adequate processes for (1) waiving the requirement that Title IV of the Higher Education Act of 1965 (Title IV) funds be returned, cancelling borrowers' obligation to repay Direct Loans, and excluding Federal Pell Grant (Pell) disbursements from Pell lifetime usage calculations for students who withdrew because of the coronavirus pandemic (impacted students); and (2) postsecondary institutions (schools) to report the number and amounts of return of Title IV (R2T4) waivers applied. This memo provides FSA's response to OIG's draft report and reflects comments from the Office of the General Counsel.

OIG found that FSA had adequate processes for waiving R2T4 requirements, cancelling borrowers' obligation to repay Direct Loans, and excluding Pell disbursements from Pell lifetime usage for impacted students. OIG also found that FSA designed adequate processes for schools to report the number and amounts of R2T4 waivers applied.

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830 First St. NE, Washington DC, 20002

OIG's findings are a testament to the dedication of FSA staff to the students we serve and our responsibility to ensure accountability. We appreciate OIG's confirming FSA's successful administration of the R2T4 waiver process.

The Title IV, Higher Education Act provisions of the Coronavirus Aid, Relief, and Economic Security Act or CARES Act (P.L. 116-136) addressed by the draft report provided significant benefits to students impacted by the coronavirus pandemic. In order for students to receive those benefits timely, offices across FSA worked as one to:

- Implement required system changes to account for the benefits being provided;
- Develop internal reports to monitor the provision of the benefits;
- Educate institutions on how to ensure students received the benefits they were entitled to and the required reporting for those benefits; and
- Modify program review and single audit compliance requirements to oversee institutions and ensure accountability.

The successful implementation of the CARES Act provisions, as reported by OIG in its draft report, was only possible because of the time and talent of our colleagues here at Federal Student Aid.

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