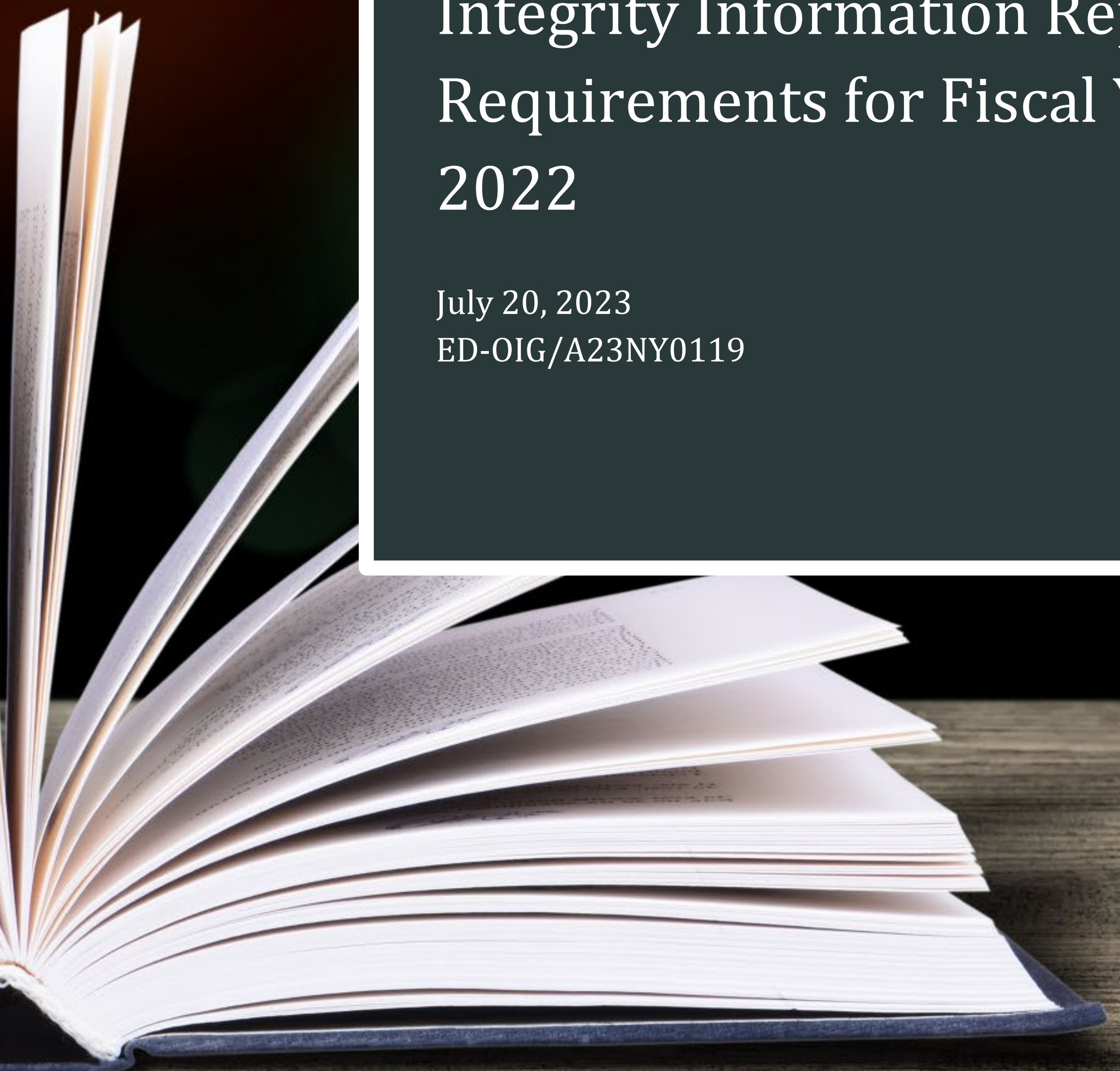
U.S. Department of Education
Office of Inspector General

U.S. Department of Education's Compliance with Payment Integrity Information Reporting Requirements for Fiscal Year 2022

July 20, 2023
ED-OIG/A23NY0119



NOTICE

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

In accordance with Freedom of Information Act (Title 5, United States Code, Section 552), reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.

July 20, 2023

TO: Denise Carter
Assistant Secretary
Office of Finance and Operations

Richard Lucas
Acting Chief Financial Officer
Federal Student Aid

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

SUBJECT: Final Audit Report, "U.S. Department of Education's Compliance with Payment Integrity Information Reporting Requirements for Fiscal Year 2022," Control Number ED-OIG/A23NY0119

Attached is the subject final audit report that consolidates the results of our review of the U.S. Department of Education's compliance with the payment integrity information reporting requirements for fiscal year 2022. We have provided an electronic copy to your audit liaison officers. We received your comments partially agreeing with the findings and 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 me at (202) 245-6051 or Myra Hamilton at (214) 661-9545 or at Myra.Hamilton@ed.gov.

Attachment

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Results in Brief

What We Did

The objective of our audit was to determine whether the U.S. Department of Education (Department) complied with the Payment Integrity Information Act of 2019 (PIIA) for fiscal year (FY) 2022.[1]

Our audit covered the Department's payment integrity activities for FY 2022 (October 1, 2021, through September 30, 2022). We reviewed the Department's risk-susceptible programs reported in the accompanying materials to the Department's FY 2022 Agency Financial Report (AFR).[2] We also reviewed the corrective actions the Department implemented in response to our FY 2021 audit report titled, *U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2021*.

What We Found

The Department did not comply with the PIIA because it did not meet one of its six compliance requirements, as described in Finding 1. Specifically, the Department reported improper payment and unknown payment estimates for the Improving Basic Programs Operated by Local Educational Agencies (Title I), Grants to States for Education of Children with Disabilities (Special Education), and Education Stabilization Fund programs that exceeded 10 percent. Table 1 identifies the PIIA requirements that were met, not met, or not applicable (NA) for the Title I, Special Education, Education Stabilization Fund, Federal Pell Grant (Pell), and William D. Ford Federal Direct Loan (Direct Loan) programs.

Table 1. FY 2022 PIIA Compliance Reporting Table

PIIA Compliance Requirements	Title I	Special Education	Education Stabilization Fund	Pell	Direct Loan
Published payment integrity information with the annual financial statement.	Compliant	Compliant	Compliant	Compliant	Compliant
Posted the annual financial statement and accompanying materials on the agency website.	Compliant	Compliant	Compliant	Compliant	Compliant

[1] Public Law 116-117 (March 2, 2020) (codified at 31 United States Code 3351 et seq).

[2] The Department's annual financial statements are included in its Agency Financial Report.

PIIA Compliance Requirements	Title I	Special Education	Education Stabilization Fund	Pell	Direct Loan
Conducted improper payment risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last 3 years.	NA	NA	NA	NA	NA
Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold.	NA	NA	NA	NA	NA
Published improper payment and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statement.	Compliant	Compliant	Compliant	Compliant	Compliant
Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Compliant	Compliant	Compliant	Compliant	Compliant
Published improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	NA	NA	NA	Compliant	Compliant
Has demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	NA	NA	NA	Compliant	Compliant
Has developed a plan to meet the improper payment and unknown payment reduction target.	NA	NA	NA	Compliant	Compliant
Reported an improper payment and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.	Non-Compliant	Non-Compliant	Non-Compliant	Compliant	Compliant

The Department's program and administrative activity risk assessments generally were sufficient and supported. The Department conducted risk assessments for programs with annual outlays greater than $10 million at least once every 3 years.

The Department published unreliable improper payment and unknown payment estimates for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct

Loan programs for FY 2022. Specifically, as described in Finding 2, for the Title I, Special Education, and Education Stabilization Fund programs, the improper payment and unknown payment estimates were produced from inaccurate sampling populations or inaccurate testing results. In addition, for the Pell and Direct Loan programs, the improper payment and unknown payment estimates were produced from nonrandom student-level sampling used in compliance audits.

The Department implemented corrective actions as well as oversight and financial controls that could prevent and reduce improper payments and unknown payments and reported them in the accompanying material to its FY 2022 AFR. The Department also included the corrective actions, taken and planned, to reduce improper payment and unknown payments in the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs.

Other information the Department reported in the accompanying material to its AFR, such as total program outlays, the sources of improper payments, the causes of improper payment and unknown payments, and the amounts of improper payments identified and recaptured in the Department's programs and activities, were generally accurate.

We evaluated the Department's assessment of the level of risk for the Pell program when we evaluated the quality of the high-priority program's improper payment and unknown payment estimate. We determined that the Department included Pell program risks, such as risks related to student eligibility, student disbursements, and the return of Title IV of the Higher Education Act of 1965 funds, in the improper payment and unknown payment estimate. However, we found the reported estimates may not reflect the true level of risk because the improper payment and unknown payment estimate for the Pell program was unreliable.

What We Recommend

We recommend that the Department submit a plan to the appropriate authorizing and appropriations committees of Congress (via the Office of Management and Budget Annual Data Call) describing actions the Department will take to bring the Title I, Special Education, and Education Stabilization Fund programs into compliance with the PIIA and additional program integrity proposals to Office of Management and Budget that describe how the proposals will help the Title I program become compliant with the PIIA. We also recommend that the Department develop sampling and estimation plans that produce reliable estimates for the Title I, Special Education, Pell, and Direct Loan programs; develop procedures to ensure that the improper payment and unknown payment estimates are produced from accurate sampling populations for the Title I and

Special Education programs; and ensure the results that the Department records for its Title I, Special Education, and Education Stabilization Fund programs improper payment and unknown payment testing spreadsheets are accurate.

The Department's Comments and Our Response

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

Department and FSA Comments

The Department agreed with Finding 1 and the related recommendations and partially agreed with Finding 2. The Department partially agreed with two of the three recommendations relating to Finding 2 (Recommendations 2.1 and 2.2), and FSA did not agree with Recommendation 2.3.

For Finding 1, the Department agreed that it did not comply with PIIA because it reported improper payment rates that exceeded 10 percent for the Title I, Special Education, and Education Stabilization Fund programs. The Department also agreed with the recommendations. In response to Recommendation 1.1, the Department stated that it will submit to the Office of Management and Budget (OMB) corrective actions with a description of its actions to bring the Title I, Special Education, and Education Stabilization Fund programs into compliance with PIIA. In response to Recommendation 1.2, the Department stated that it will develop a program integrity proposal to help bring the Title I program into compliance and will submit it to the OMB Director in its next budget submission. The Department noted that the compressed timeline in which it conducted its testing for the FY 2022 PIIA reporting period factored into the Department not obtaining needed supporting documentation prior to deadlines and the programs exceeding the compliance threshold, but that it has taken steps to mitigate the timing issues for the three programs for the FY 2023 PIIA reporting period.

For Finding 2, the Department agreed with the part of the finding and recommendations related to the unreliable improper payment and unknown payment estimates for the Title I and Special Education programs. However, the Department believes that it satisfactorily resolved 4 of the Office of Inspector General's (OIG) 6 observations related to the sampling populations and 4 of the 14 observations related to the testing procedures. The Department stated that the sampling populations for the Title I and Special Education programs will undergo an additional layer of data quality assurance for the FY 2023 PIIA testing cycle to verify accurate populations are being provided and used for the second stage sampling. Further, the Department will obtain and document sufficient evidence explaining any variance with the sampling population. The

Department also stated that it will design and implement sampling estimation plans that will produce reliable estimates and procedures to ensure testing spreadsheets are accurate for the Title I and Special Education programs.

The Department and FSA did not agree that the improper payment and unknown payment estimates for the Education Stabilization Fund, Pell, and Direct Loan programs were unreliable. The Department did not agree with our determination that the payment related to the Education Stabilization Fund program should have been deemed technically improper rather than unknown, stating that it represented an initial advance apportionment allocated by the State educational agency to a local educational agency in accordance with the State's accounting, disbursement, and cash management processes. Therefore, the State educational agency had no opportunity to implement its cash management processes as designed. Further, in response to Recommendation 2.1, the Department stated that the Education Stabilization Fund program should not be included because OIG did not report an issue with the program's sampling population. Lastly, in response to Recommendation 2.2, the Department did not agree that it should develop and implement procedures to ensure the results in the testing spreadsheets for the Education Stabilization Fund program are accurate.

For the part of Finding 2 related to the Pell and Direct Loan programs, FSA did not agree that the programs' improper payment and unknown payment estimates were unreliable. FSA stated the basis for the finding was OIG's opinion that FSA's use of some nonrandom samples affected the appropriateness of confidence intervals used in calculating the estimates. FSA stated that its sampling and estimation plans are sound and produce statistically reliable estimates and that FSA has identified the true root causes of improper payments and unknown payments to take appropriate corrective actions. Further, FSA stated that although it maintains that the improper payment estimates for the Pell and Direct Loan programs are statistically valid, it will continue efforts to obtain OMB's approval of its sampling and estimation plan. FSA stated that it will also continue to collaborate with OMB, the OIG, Departmental components, and the independent audit community to identify ways to improve the usefulness of information obtained in Single Audit Act compliance audits.

In addition, the Department did not agree with the "Inaccurate Testing Procedures" subheading in Finding 2 of the draft report because it implies that the Department's testing procedures were flawed.

OIG Response

The Department's proposed actions for Finding 1, if implemented as described, are responsive to our recommendations. Also, the Department's proposed actions for the part of Finding 2 related to the Title I and Special Education programs if properly designed and implemented are responsive to our recommendations (Recommendations 2.1 and 2.2). Further, the additional actions that the Department described to ensure sampling populations are complete and to provide sufficient evidence describing any variances would help mitigate potential issues with the sampling populations during future reviews of the Department's compliance with PIIA. However, the Department should also evaluate and document whether any variances in the sampling population impact the reliability of the improper payment and unknown payment estimate.

Regarding FSA's disagreement with the part of Finding 2 related to the Pell and Direct Loan programs' improper payment estimates, we found that the use of nonrandom student-level sampling from some compliance audits affected the appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates. FSA provided us with references of research and scholarly publications regarding the use of nonrandom samples and the ability to make inferences from them. However, FSA did not provide any support that demonstrated that the confidence intervals for the Pell and Direct Loan programs' estimates were appropriate and reliable. Although FSA disagreed with the recommendation pertaining to the Pell and Direct Loan programs (Recommendation 2.3), FSA's proposed action to request OMB's approval of the sampling and estimation plans as an appropriate methodology, if successfully implemented, is responsive to the recommendation.

Based on the Department's comments relating to a subheading in Finding 2 and the inclusion of the Education Stabilization Fund program in Recommendation 2.1 in the draft report, we modified the report. In addition, we made minor revisions to the report, where appropriate, based on other comments that the Department provided in its response to the draft report.

Introduction

Purpose

We conducted this audit to determine whether the U.S. Department of Education (Department) complied with the Payment Integrity Information Act of 2019 (PIIA).[3] The PIIA requires each agency's Inspector General to determine the agency's compliance with the statute for each fiscal year (FY).

Background

Signed into law in March 2020, the PIIA was enacted to improve government-wide efforts to identify and reduce improper payments. The PIIA repealed and replaced four improper payment laws— the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015—and consolidated requirements from those laws into the PIIA.

The PIIA requires each agency, in accordance with guidance prescribed by the Office of Management and Budget (OMB), to periodically review and identify all programs and activities that may be susceptible to significant improper payments. Under 31 United States Code (U.S.C.) section 3351(4), an improper payment is any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under statutory, contractual, administrative, or other legally applicable requirements. An improper payment also includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, or any payment for a good or service not received.

Under 31 U.S.C. section 3352(c)(2)(A), if the agency cannot determine whether a payment is proper due to lacking or insufficient documentation, the payment must be treated as an improper payment. According to OMB Circular A-123 Appendix C, Part VIII, issued in March 2021, significant improper payments are defined as annual improper payments and unknown payments in the program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays). Under 31 U.S.C. section 3352(c)(1)(A), for each program and activity identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate, or an estimate that is otherwise

[3] The PIIA is codified at 31 United States Code sections 3351–3358.

appropriate using a methodology that OMB approved, of the improper payments made under each program and activity and include those estimates in the accompanying materials to the annual financial statement[4] of the executive agency and as required in applicable OMB guidance.

Payment Integrity Information Reporting Requirements

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

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

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

[4] Unless we are citing language from 31 U.S.C sections 3351–3352, in this report we will use the term Agency Financial Report instead of annual financial statement.

Under 31 U.S.C. section 3352(b)(1), the Director of OMB is required to identify a list of high-priority programs for greater levels of oversight and review. For FY 2022, the Federal Pell Grant Program (Pell) is the Department's only high-priority program. According to OMB Circular A-123, Appendix C, Part VII, B(1)(b), a program becomes high-priority when its annual reported monetary loss improper payment estimate is greater than or equal to $100 million, regardless of the improper payment and unknown payment rate.[5] Under 31 U.S.C. section 3352(b)(2), each agency with a high-priority program must report to the Inspector General and make available to the public (1) any action that the agency has taken or plans to take to recover improper payments and (2) any action that the agency intends to take to prevent future improper payments. According to 31 U.S.C. section 3352(b)(2)(E)(i), the agency's Inspector General must review (1) the assessment of the level of risk associated with any high-priority program, (2) the quality of the program's improper payment estimates and methodologies, and (3) the oversight or financial controls used to identify and prevent improper payments under the program.

The Department and Federal Student Aid (FSA) engaged contractors to assist with developing and executing the sampling and estimation plans used to produce improper payment and unknown payment estimates for its programs. As it relates to the Pell and the William D. Ford Federal Direct Loan Program (Direct Loan) programs, we will use the term "FSA" to refer to the actions of FSA and its contractors throughout this report, unless otherwise stated. Also, as it pertains to the Improving Basic Programs Operated by Local Educational Agencies (Title I), Grants to States for Education of Children with Disabilities (Special Education), and Education Stabilization Fund[6] programs and to the reporting of payment integrity information, generally, we will use the term "Department" to refer to the actions of the U.S. Department of Education and its contractors throughout this report, unless otherwise stated.

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[5] An unknown payment is a payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

[6] The Education Stabilization Fund was established by the Coronavirus Aid, Relief, and Economic Security Act in March 2020, with subsequent allocations to the fund codified through the Coronavirus Response and Relief Supplemental Appropriations Act, signed into law in December 2020, and the American Rescue Plan Act, signed into law in March 2021. It established 4 primary emergency relief funds, Governor's Emergency Education Relief Fund, Elementary and Secondary School Emergency Relief Fund, Emergency Assistance to non-Public Schools, and Higher Education Emergency Relief Fund.

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

We found that the Department did not comply with the PIIA because it did not meet one of the six compliance requirements established under the PIIA. Specifically, the Department reported improper payment and unknown payment estimates for the Title I, Special Education, and Education Stabilization Fund programs that exceeded 10 percent. The six compliance requirements are as follows:

1. **Published Payment Integrity Information with the Annual Financial Statement.** The Department complied with the requirement to publish and post on its website an annual financial statement and required accompanying materials. Under 31 U.S.C. section 3351(2)(A), the Department must publish on its website its annual financial statement and publish any accompanying materials required under OMB guidance. The Department published its FY 2022 Agency Financial Report (AFR) on January 23, 2023. In addition, the Department submitted through the FY 2022 OMB Data Call its payment integrity information required under OMB guidance for the accompanying materials to the FY 2022 AFR, which was published on paymentaccuracy.gov on November 23, 2022.
2. **Conducted Program-Specific Risk Assessments.** The Department complied with the requirement for program-specific risk assessments. Under 31 U.S.C. section 3351(2)(B), if required, an agency must conduct a risk assessment for each program or activity that conforms with the requirements of 31 U.S.C. section 3352(a). The Department met this requirement as it conducted required program-specific risk assessments, when warranted, of its programs and administrative activities for FY 2022. The Department conducted qualitative risk assessments for 70 programs and administrative activities, including 3 programs and 1 administrative activity that had a significant increase in funding from FY 2020 to FY 2021. In addition, the Department conducted quantitative risk assessments for two programs.
3. **Published Improper Payment and Unknown Payment Estimates.** The Department complied with the requirement to publish improper payment estimates. Under 31 U.S.C. section 3351 (2)(C), an agency must publish improper payment and unknown payment estimates for programs it identified as being susceptible to significant improper payments. As required, the Department published improper payment and unknown payment estimates for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs. However, as described in, the improper payment and unknown

payment estimates for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct programs were not reliable.

4. **Published Programmatic Corrective Action Plans.** The Department complied with the requirement to report on its actions to reduce improper payments and unknown payments in programs susceptible to significant improper payments. Under 31 U.S.C. section 3351(2)(D), the Department is to report on actions it took or plans to take to reduce improper payments for programs it deemed susceptible to significant improper payments. The Department published corrective action plans to address root causes of improper payments and unknown payments in the Title I, Special Education, Education Stabilization Fund, Pell, and Direct loan programs.

5. **Published, Demonstrated Improvement, and Developed a Plan to Meet its Reduction Targets.** The Department published reduction targets for the Pell and Direct Loan programs, demonstrated improvement, and developed plans to meet the reduction targets, as required under 31 U.S.C. section 3351(2)(E).

   For the Direct Loan program, FSA did not meet its reduction target (target rate was 0.56 percent; actual rate was 0.75 percent, a 0.19-point increase from the previous year). FSA published a FY 2023 reduction target for the Direct Loan program (0.75 percent) and it developed a plan to meet the reduction target.

   For the Pell program, FSA did not meet its reduction target (target rate was 1.98 percent; actual rate was 2.24 percent, a 0.26-point increase from the previous year). FSA also published a FY 2023 reduction target for the Pell program (2.24 percent) and it developed a plan to meet the reduction target.

   For the Pell and Direct Loan programs, FSA demonstrated improvement through progress made on annual milestones to implement its corrective action plans, such as updates made to the OMB Compliance Supplement used by auditors performing annual compliance audits on schools, and through new actions to implement and operationalize changes to FSA's programs and systems as a result of the Fostering Undergraduate Talent by Unlocking Resources for Education Act for the prevention and reduction of improper payments and unknown payments.

   The Department did not publish reduction targets for the Title I, Special Education, and Education Stabilization Fund programs for FY 2023 because it has not established improper payment and unknown payment baselines for the programs upon which future progress can be assessed or comparison made against the benefits and costs of its corrective actions. For the Title I program, FY 2022 was the second year for which the Department reported improper payment and unknown payment estimates for the program. For the Special Education and Education Stabilization Fund programs, FY 2022 was the first year for which the Department reported improper payment and unknown payment estimates for the programs.

6. **Reported Improper Payment and Unknown Payment Rate of Less Than 10 Percent.** The Department did not comply with the requirement to report improper payment and unknown payment rates of less than 10 percent for each applicable program as required under 31 U.S.C. section 3351(2)(F). The Department reported an improper payment and unknown payment estimate of 35.72 percent for the Title I program, 26.71 percent for the Special Education program, and 12.09 percent for the Education Stabilization Fund program, as discussed in Finding 1. The Department reported improper payment and unknown payment rates that were less than 10 percent for the Pell program (2.24 percent) and Direct Loan program (0.75 percent).

Review of the Department's Payment Integrity Activities

For our review, we evaluated the accuracy of the Department's payment integrity information reporting in the accompanying material to its FY 2022 AFR, and we evaluated the Department's risk assessment methodologies, improper payment and unknown payment estimates, corrective action plans, and efforts to prevent and reduce improper payments. We also evaluated the Department's assessment of the level of risk associated with the high-priority program and reviewed the oversight and financial controls used by the Department to identify and prevent improper payments in the high-priority program.

Payment Integrity Information Reporting

The Department's payment integrity information reporting was generally accurate and complete, however, as described in Finding 2, we found that the improper payment estimates for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs were not reliable. We reviewed the accuracy and completeness of the data published in the accompanying material to the Department's FY 2022 AFR, including program outlays, causes of improper payments and unknown payments, and the amounts of improper payments identified and recaptured for FY 2022.

Risk Assessment Methodology

We found that the Department's program and administration activity risk assessment methodologies were sufficient. The Department conducted qualitative risk assessments for 69 programs and 1 administrative activity and conducted quantitative risk assessments for 2 programs. The Department determined that none of the assessed programs or activities were susceptible to significant improper payments.

Improper Payment and Unknown Payment Estimates

We found that the improper payment and unknown payment estimates for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs were not reliable. Specifically, for the Title I and Special Education programs, the improper payment and unknown payment estimates were based on inaccurate sampling populations. Further, for the Title I, Special Education, and Education Stabilization Fund programs, the Department's testing results were inaccurate. Finally, the improper payment sampling and estimation plan for the Pell and Direct Loan programs included nonrandom student-level sampling compliance audits which affected the appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates. The details are provided in Finding 2.

Efforts to Prevent and Reduce Improper Payments

We found that the Department is continuing its efforts to prevent and reduce improper payments in its programs. Some of the strategies that the Department employed to prevent and reduce improper payments included updating procedures in response to identified risks in program-specific processes that caused improper payments. FSA maintained an internal control framework, which included performing computer matches against external sources performed in FSA systems during the aid delivery process and conducting annual program risk assessments and reviews of program participants. Also, FSA reported that it continued to enhance verification procedures and provide school administrators with training and guidance to target causes of improper payments and other frequently identified compliance issues.

Risks Associated with the Pell High-Priority Program

We found that the high-priority program's improper payment and unknown payment estimate may not reflect the true level of risk because the improper payment estimate for the Pell program was unreliable, as described in Finding 2. The Department included Pell program risks, such as risks related to student eligibility, student disbursements, and return of Title IV of the Higher Education Act of 1965 funds, in the development of the improper payment sampling and estimation plan for the high-priority program. We also reviewed documentation to determine that the information in the payment integrity scorecard for the Pell high-priority program was supported, accurate, and complete.

Oversight and Financial Controls

Lastly, we found that the Department adequately described the oversight and financial controls it designed and implemented to identify and prevent improper payments in its programs. The Department described these controls as an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and to ensure compliance by all participating parties. This includes routinely conducting program reviews to confirm that institutions of higher education met requirements for institutional eligibility, financial responsibility, and administrative capability; and the use of compliance audits of FSA's loan and grant programs as a key source to identify risks and potential improper payments.

Finding 1. The Department Did Not Comply with the PIIA for the FY 2022 Reporting Period

We found that the Department did not comply with the PIIA for the FY 2022 reporting period because it did not meet one of the six compliance requirements. Specifically, the Department reported improper payment and unknown payment estimate rates that exceeded 10 percent. The Department reported improper payment and unknown payment estimates for the Title I program of 35.72 percent, Special Education program of 26.71 percent, and Education Stabilization Fund program of 12.09 percent. For the Title I program, the Department reported an improper payment and unknown payment estimate that exceeded 10 percent for the second consecutive year. To comply with 31 U.S.C. section 3351(2)(F), an agency must report an improper payment rate of less than 10 percent for each program and activity for which an estimate was published.

Under 31 U.S.C. section 3351(2), "compliance" means an agency has satisfied all six requirements listed in the definition. If an agency has not satisfied one or more of these, then the agency has not complied with the PIIA.

The Department reported improper payment and unknown payment rates that exceeded 10 percent for the Title I, Special Education, and Education Stabilization Fund programs primarily because it identified significant unknown payments in the improper payment and unknown payment testing procedures performed for FY 2022. The Department estimated unknown payments of approximately $5 billion for the Title I program, approximately $3 billion for the Special Education program, and approximately $6 billion for the Education Stabilization Fund program. See Table 2 for the percentage of unknown payments relative to the total improper payments and unknown payments reported for the Title I, Special Education, and Education Stabilization Fund programs for FY 2022.

Table 2. Improper Payment and Unknown Payment Estimates for the Title I, Special Education, and Education Stabilization Fund Programs for FY 2022 (in Millions)

Program	Improper Payments	Unknown Payments	Improper payment and Unknown Payments Total	Percentage of Unknown Payments to the Total
Title I	$723.55	$4,707.02	$5,430.57	86.68%
Special Education	$0.01	$3,117.07	$3,117.08	100.00%
Education Stabilization Fund	$15.04	$5,941.38	$5,956.42	99.75%

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

Under 31 U.S.C. section 3353(b)(1)(B), the plan

> shall include (i) measurable milestones to be accomplished in order to achieve compliance for each program or activity; (ii) the designation of a senior executive agency official who shall be accountable for the progress of the executive agency in coming into compliance for each program or activity; and (iii) the establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated under clause (ii) in leading the efforts of the executive agency to come into compliance for each program or activity.

In addition, because the Title I program was not in compliance with the PIIA for 2 consecutive years, under 31 U.S.C. section 3353(b)(2) and OMB Circular A-123, Appendix C, Part VI D(2), the Department will have to submit, via its next Budget submission to the Director of OMB, additional program integrity proposals that would help the Department come into compliance.

Recommendations

We recommend that the Chief Financial Officer for the Department—

1.1 Develop a plan consistent with 31 U.S.C. section 3353(b)(1)(B)(i) through (iii), that describes actions the Department will take to bring the Title I, Special Education, and Education Stabilization Fund programs into compliance with the PIIA and submit it (via the OMB Annual Data Call) to the appropriate authorizing and appropriations committees of Congress.

1.2 Develop additional program integrity proposals consistent with 31 U.S.C. section 3353(b)(2) and OMB Circular A-123, Appendix C, Part VI, D(2), that describe how the proposals will help the Title I program come into compliance with the PIIA and submit them with the Department's next budget submission to the Director of OMB.

Department Comments

The Department agreed with the finding and recommendations. The Department stated that the large number of unknown payments was the main factor for the improper payment rate exceeding 10 percent for the Title I program, and it has continuously worked with one large State educational agency to establish effective means of obtaining supporting documentation to timely test selected payments to reduce the number of unknown payments. The Department stated that the condensed timeframe for conducting the PIIA review contributed greatly to the inability to receive supporting documentation for the Special Education program. For the Education Stabilization Fund program, the Department stated that the unique characteristics and the emergency nature of the program created distinct obstacles for publishing an estimated rate below the compliance threshold. The Department experienced difficulties coordinating payment testing with hundreds of State educational agencies, local educational agencies, and institutions of higher education while operating in an environment still impacted by the pandemic. Further, the Department noted that the compressed timeline in which it conducted its testing for the FY 2022 PIIA reporting period factored into grantees' inability to provide the requested documentation by the deadline and the programs exceeding the compliance threshold, but that it has taken steps to mitigate the timing issues for the three programs for the FY 2023 PIIA reporting period.

The Department stated that it has already implemented actions to mitigate the timing issues by performing its improper payment and unknown payment estimation procedures for FY 2023 in February 2023, about 5 months earlier than they were performed for the FY 2022 reporting period. In addition, the Department stated that it will submit to OMB corrective actions with a description of actions to bring the Title I, Special Education, and Education Stabilization Fund programs into compliance with PIIA, and will develop a program integrity proposal to help bring the Title I program into compliance and submit it to the OMB Director with the Department's next budget submission.

OIG Response

The Department's proposed actions, if implemented as described, are responsive to our recommendations.

Finding 2. The Department's FY 2022 Improper Payment and Unknown Payment Estimates Were Not Reliable

We found that the Department's improper payment and unknown payment estimates for each of the five programs (Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan) were not reliable. Specifically, for the Title I and Special Education programs, the improper payment and unknown payment estimates were based on inaccurate sampling populations. Further, for the Title I, Special Education, and Education Stabilization Fund programs, the Department's testing results were inaccurate. Finally, the improper payment sampling and estimation plan for the Pell and Direct Loan programs included nonrandom student-level sampling from some of the compliance audits FSA used to calculate the estimates, which affected the appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates.

Description of Sampling and Estimation Plans and Estimates for the Title I, Special Education, and Education Stabilization Fund Programs

The FY 2022 improper payment sampling and estimation methodology plans that the Department submitted to OMB for the Title I, Special Education, and Education Stabilization Fund programs included a two-stage sampling approach. In the first stage, the Department defined the sampling population based on drawdowns made by State educational agencies[7] during FY 2021 from the Department's G5 Grants Management System. In the second stage, the Department requested payment-level details based on randomly selected drawdowns from the first stage sample. The Department selected a sample of payments from the second stage payment-level population and requested supporting documentation such as program applications, invoices, and other information for how the funds were expended. The Department reviewed the supporting documentation to determine whether the payment transactions were proper, improper, or unknown. After making its determination, the Department used the results of its reviews and the formulas included in its sampling and estimation plans to produce estimates of improper payments and unknown payments.

[7] For the Education Stabilization Fund, drawdowns were also made by institutions of higher education.

Inaccurate Sampling Populations

For the Title I and Special Education programs, the sampling populations that the Department used to select its payment-level population were inaccurate. Specifically, for three State educational agencies, the payment-level populations the Department received for the second stage sample exceeded the sampled drawdowns for the Title I program. For the Special Education program, there were three State educational agencies that had payment-level populations for the second stage sample that exceeded the sampled drawdowns. See Table 3. for the payment-level populations for the Title I program and Table 4 for the payment-level populations for the Special Education program.

Table 3. Payment-Level Population for the Title I Program

State Educational Agencies	Department's Sampled Drawdown Amounts	Payment-Level Population Provided to the Department	Amount by Which Payment-Level Population Exceeded Sampled Drawdowns
Grantee A	$19,459,606	$64,987,550	$45,527,944
Grantee B	$101,726,175	$169,692,157	$67,965,982
Grantee C	$3,234,157	$3,300,940	$66,783

Table 4. Payment-Level Population for the Special Education Program

State Educational Agencies	Department's Sampled Drawdown Amounts	Payment-Level Population Provided to the Department	Amount by Which Payment-Level Population Exceeded Sampled Drawdowns
Grantee A	$13,203,134	$13,511,679	$308,545
Grantee B	$93,232,124	$105,198,589	$11,966,465
Grantee C	$119,962,064	$120,086,000	$123,936

To allow for a reliable improper payment and unknown payment estimate of the population of drawdowns, the State educational agencies must provide an accurate population of payments that is equivalent to the sampled first stage drawdowns. For these State educational agencies, the populations of payments were not accurate populations from which to develop a reliable estimate of the corresponding sampled drawdowns selected at the first stage.

Inaccurate Testing Results

We also found that the Department could not support or had inaccurate testing results included in some of the testing spreadsheets for the Title I, Special Education, and Education Stabilization Fund programs. For each payment the Department sampled, it performed testing using attributes that would assist in its determination of whether the payment was proper, improper, or unknown. For example, each attribute included specific instructions for reviewing supporting documentation and recording the results in the testing spreadsheet. Some of the attributes pertained to the review of award letters which would confirm that the local educational agencies did not expend more funds than they were awarded. Other attributes pertained to documentation supporting the payment amount and the allowability of the sampled payment.

The Department tested 244 payments for the Title I program. Out of these payments, we randomly sampled 19 payments and identified 9 payments (approximately 47 percent) for which the Department could not provide adequate documentation to support its results or had inaccurate test results recorded in the testing spreadsheet.

- For two payments totaling $33,537, the Department's determination that the payment was proper was not correct. The Department did not obtain sufficient documentation to support its determination that the payments were proper. The grantee provided the Department its FY 2021 general ledger for the Title I program to support the two payments. The general ledger did not contain sufficient payment details for the payments to determine whether the payments were allowable under Title I program requirements. The Department did not obtain from the grantee additional payment details for the general ledger and determined the payments were proper without further review. However, based on our review of the Department's documentation, the payment should have been deemed unknown for lacking or insufficient documentation.
- For one payment of $2,799, the Department's determination that the entire payment was proper was not correct. The grantee provided the Department with a screenshot of the journal entry from the local educational agency's accounting system showing that $2,774 of the $2,799 payment was expended for training, an allowable activity. The Department did not obtain additional documentation such as an invoice or purchase order to support the expenditure for this payment and determined that the payment was proper. However, based on our review of the Department's records, the $2,799 payment should have been deemed unknown for lacking or insufficient documentation.

- For one payment of $26,527, the Department's determination that $26,491 of the payment was proper was not correct.[8] The grantee provided the Department with an expenditure report to support the payment. The Department did not request or obtain additional documentation such as invoices or purchase orders to determine whether the $26,527 payment was allowable. Based on our review of the Department's records, the entire payment should have been deemed unknown for lacking or insufficient documentation.
- For five payments totaling $290,995, the Department's determination that the improper payments were categorized as technically improper was not correct. The Department determined that the five payments were technically improper because the State educational agency did not provide the Department with the local educational agency's approved plan to establish eligibility of the subgrantee. The Department stated that the payments were technically improper because under the Elementary and Secondary Education Act, local educational agencies must have an approved plan that includes the descriptions required under 20 U.S.C. section 6312(b) on file with the State educational agency to receive Title I funds. However, because having an approved plan is a condition of eligibility for a local educational agency to receive Title I funding, we determined the payments should have been deemed improper and subject to recovery.

The Department tested 142 payments for the Special Education program. Out of these payments, we randomly and judgmentally sampled 19 payments and identified 4 payments (approximately 21 percent) for which the Department had inaccurate test results recorded in the testing spreadsheet.

- For three payments totaling $265,832, the Department's determination that the payments were improper was not correct. The Department obtained supporting documentation for the payments including invoices and receipts and determined that the payments were improper because the dates in the supporting documentation occurred before the State educational agencies drew down the funds from the Department's grants management system. The Special Education program requires funds to be obligated within the period of performance, which is generally 27 months, but allows for funds to be drawn down within 120 days after this period (unless an extension is granted) to pay for obligations incurred. There is also no requirement that Federal funds must

[8] The Department's determination of the remaining balance of $36 as unknown was correct.

be drawn down before payment can be made using State or local funds, to be reimbursed at a later date. Based on our review of the Department’s records, the expenditures occurred within the period of performance and should have been deemed proper.

- For one payment of $2,728,202, the Department’s determination that the payment was proper was not correct. The Department obtained the State’s pass-through funding details to the local educational agency and determined that the payment was proper. The State’s pass-through funding details were not sufficient as they did not support actual program expenditures, but rather the flow of funds from the State to the local educational agency. The Department did not obtain additional documentation to support that the payments were allowable under the Special Education program guidance. Based on our review of the Department’s records and OMB guidance, the payment should have been deemed unknown for lacking or insufficient documentation.

Finally, the Department tested 769 payments for the Education Stabilization Fund program. Out of these payments, we randomly and judgmentally sampled 14 payments and identified 1 payment (approximately 7 percent) for which the Department had inaccurate testing results recorded in the testing spreadsheet.

For one payment of $15,695,186, the Department’s determination that the payment was unknown was not correct. The Department was not able to obtain expenditure data for this payment because the State educational agency stated that the funds, which were drawn down and disbursed to a local educational agency in August 2021, were not expended as of September 2, 2022. According to 2 Code of Federal Regulations section 200.305(b), subgrantees must minimize the time elapsing between the transfer of funds from the State and disbursement by the subgrantee. Disbursements to a subgrantee must be limited to the minimum amounts needed and be timed to be in accordance with the immediate cash requirements of the subgrantee in carrying out the purpose of the program. A payment is technically improper when the payment was properly made to a recipient, but the payment did not meet all regulatory or statutory requirements. Based on our review of the Department’s records, the payment should have been deemed technically improper for the grantee not adhering to all applicable statutes and regulations during the payment process by minimizing the time elapsing between the transfer of funds from the State and disbursement by the subgrantee.

According to OMB Circular A-123 Appendix C, Part II, B, an improper payment estimate should reflect the program’s annual estimated known improper payments, and each agency is responsible for designing and documenting a program’s sampling and estimation plan with the understanding that the program’s Office of Inspector General

(OIG) will consider the accuracy of the improper payment and unknown payment estimates during their annual compliance review. In addition, OMB Circular A-123 Appendix C, Part VI, states that the OIG should evaluate and consider the adequacy of the sampling and estimation plan when determining program compliance.

The sampling populations were inaccurate for the Title I and Special Education programs because some State educational agencies' accounting systems were not always able to match the payment populations with the drawdown populations. The Department nevertheless decided to accept the payment populations that were provided in order to implement its sampling and estimation plans. Further, the improper payment and unknown payment estimates for the Title I, Special Education, and Education Stabilization Fund programs were unreliable because State educational agencies did not or were not always able to provide requested information and documentation when the Department was implementing its testing procedures. In July 2022, the Department requested documentation to support payment testing and allowed State educational agencies approximately 2 weeks to provide the documentation. Some State educational agencies were not able to provide the documentation to the Department in the requested time frame. The Department continued contacting the State educational agencies for payment documentation in July and August 2022 and established a deadline of September 2, 2022, to receive information for consideration in the Department's improper payment and unknown payment review. The Department decided to accept certain documentation for testing purposes, such as general ledgers, when requested expenditure documents were not provided. Depending on the program, some State educational agencies did not offer a reason why they were unable to provide documentation from local educational agencies, but a Department official stated that grantees may not have had sufficient time to gather and submit the requested information.

Improper Payment and Unknown Payment Estimates for the Pell and Direct Loan Programs Were Not Reliable

We found the Pell and Direct Loan programs' improper payment sampling and estimation plans and estimates produced were unreliable. Specifically, the improper payment sampling and estimation plan for both programs included nonrandom student-level sampling from some compliance audits which affected the appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates.

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

For FY 2022, FSA reported a 2.24 percent improper payment and unknown payment rate with a 95 percent confidence that the improper payment and unknown payment rate was between 1.08 percent and 3.41 percent for the population of student payments from the Pell program. FSA implemented a two-stage statistical sampling methodology and incorporated overpayment and underpayment rates reported in the Free Application for Federal Student Aid, Internal Revenue Service, Data Statistical Study to estimate improper payment and unknown payment rates for the Pell program.

- At the first stage, FSA's sampling unit was a compliance audit of schools and school systems. For selected compliance audits, FSA reviewed the school's most recently completed compliance audit to identify findings reported by the independent auditor.
- At the second stage, FSA's sampling unit consisted of the students who were selected by the independent auditor performing the compliance audit. FSA does not directly select the student-level sample. In performing the compliance audits, the independent auditors select a sample of students using either a random or nonrandom sampling approach to assess whether the school materially complied with the requirements of the Title IV program. FSA included an assumption that any nonrandom student sample selection was performed in a manner consistent with requirements in 2 Code of Federal Regulations section 200.514 and the OMB Compliance Supplement which would avoid intentional under-representation of improper payment and unknown payment risk factors. FSA's assumption was not supported by the requirements in 2 Code of Federal Regulations section 200.514 and the OMB Compliance Supplement for the purposes of sampling nonrandom student payments to produce statistically valid estimates of improper payments and unknown payments. FSA's second stage sampling used a mean-based estimator to project student-level results up to the associated school and compliance audit. In cases where the audit covers a subset of schools comprising the full school group, improper and unknown payments must be adjusted to be representative of the full school group. The projected student-level results were based on the independent auditor's identified student-level improper payment and unknown payment amounts.

The second component incorporated improper payment rates reported in the Free Application for Federal Student Aid, Internal Revenue Service, Data Statistical Study to account for improper payments associated with misreported income on the Free Application for Federal Student Aid. The improper payment overpayment rate and underpayment rate (both due to misreported income on the Free Application for

Federal Student Aid) published in the Free Application for Federal Student Aid, Internal Revenue Service, Data Statistical Study were applied to certain Pell disbursements included in the Pell program improper payment calculations.

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

For FY 2022, FSA reported a 0.75 percent improper payment and unknown payment rate with a 95 percent confidence that the improper payment and unknown payment rate was between 0.20 percent and 1.30 percent. FSA implemented a two-stage statistical sampling methodology and combined two estimates from the sampling of loan consolidations and refund payments to estimate improper payment and unknown payments for the Direct Loan program.

- The first component was based on a two-stage sampling methodology and consisted of results from compliance audits, similar to the methodology described for the first component of the Pell program estimate. Then, FSA included in the Direct Loan program improper payment estimate any Direct Loan program sustained questioned costs that the independent auditors identified in the compliance audits that FSA included in its improper payment review.
- The second component consisted of a sample of Direct Loan consolidation overpayments and underpayments made between July 2021 and June 2022 that FSA tested to determine which of the sampled transactions were improper payments.
- The third component consisted of a sample of Direct Loan refund payments made between July 2021 and June 2022 that FSA tested to determine which of the sampled refunds were improper payments.

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

Unreliable Improper Payment and Unknown Payment Rate for the Pell and Direct Loan Programs

FSA provided us with a summary document identifying the various methods in which the independent auditors selected samples of students for school compliance audits; specifically for the audits that FSA included in its improper payment estimate as depicted in Table 5, the student-level sample of compliance audits for both programs that were random, nonrandom, or unspecified.

Table 5. Second-Stage Student-Level Sample from Compliance Audits for Pell and Direct Loan Programs

Sample Selections	Pell	Direct Loan
Random[9]	9	46
Nonrandom	5	6
Unspecified[10]	202	169
Total	**216**	**221**

FSA's use of nonrandom samples in its second stage sampling affected the reliability of the confidence intervals that FSA calculated for the two estimates. To compute confidence intervals, a margin of error is required. However, nonrandom samples do not permit the measurement of margin of error because there is no random chance to compute. This indicates that because it is not appropriate to calculate a margin of error when nonrandom samples are used, any such calculated margin of error that is then used to compute confidence intervals will render the estimation calculations for the confidence intervals inappropriate and unreliable. Because FSA used nonrandom samples to derive both the Pell and Direct Loan program improper payment estimates, any margin of error that FSA calculated to then use to compute the confidence intervals around those estimates rendered the confidence intervals inappropriate and unreliable.

In addition to the guidance in OMB Circular A-123 Appendix C, Part II, B regarding improper payment estimates, it also states that "[e]ach agency has the responsibility of designing and documenting a program's [sampling and estimation plan] with the

[9] Random sample selections are instances where the independent auditors randomly selected samples of students to test compliance with Federal requirements. However, the auditors sampling design were not reported in the compliance audit, and we could not determine whether the auditors' sampling design used statistical or nonstatistical random selection.

[10] Unspecified sample selections are instances where the auditor did not specify the method of selection (for example, random, nonrandom) used for student-level samples.

mindfulness that during their annual compliance review, their OIG will take into account the accuracy of the [improper payment] and [unknown payment] estimates….”

Additionally, it states that

> [f]or purposes of this guidance, [sampling and estimation plans] will be considered statistically valid if they produce point estimates and confidence intervals around those estimates. Agencies must work with their statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. If a program is unable to develop a [sampling and estimation plan] that produces a point estimate and confidence interval around the estimate, then it must include in their [sampling and estimation plan] a detailed explanation as to why it is not possible.

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

FSA stated that its sampling and estimation methodology plan for developing the improper payment and unknown payment rates and confidence intervals is statistically valid. Further, the Pell and Direct Loan estimates were calculated using accurate, complete, and reliable data that allows FSA to make statistically reliable inferences about the improper payment and unknown payment rates and amounts of improper payments and unknown payments. FSA also stated that its sampling and estimation methodology plan is consistent with the March 2021 updates to OMB Circular A-123 Appendix C, which includes “reducing administrative burden to allow agencies to focus on preventing improper payments and ensuring taxpayer money is serving its intended purpose,” and ensuring that “federal agencies focus on identifying, assessing, prioritizing, and responding to payment integrity risks to prevent improper payments in the most appropriate manner.”

FSA also stated that it believes “compliance audits conducted under the Single Audit Act, which do not require random sampling, provide quality data necessary to calculate statistically valid [improper payment] estimates and confidence intervals.” FSA further stated that the standards for independent public accountants requires auditors to follow sampling guidance and techniques that are sufficient to reduce sampling risk to an acceptable low level.

Effect of an Unreliable Improper Payment and Unknown Payment Estimate

Because the improper payment estimates for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs were unreliable, stakeholders such as OMB, Congress, the public, and other users of the Department's FY 2022 AFR and paymentaccuracy.gov improper payment data do not have a reliable depiction of the estimated improper payments for the five programs. Further, the Department may not identify the true root causes of improper payments in the programs and take appropriate corrective action to prevent and reduce improper payments because it did not calculate reliable estimates of improper payments that occurred in the programs.

Recommendations

We recommend that the Chief Financial Officer for the Department—

2.1 Design and implement improper payment and unknown payment sampling and estimation plans for the Title I and Special Education programs that would produce a reliable estimate. Specifically, the plans should be appropriate for the sampling of payments based on accurate sampling populations.

2.2 Develop and implement procedures to ensure that the results the Department records for the Title I, Special Education, and Education Stabilization Fund programs' improper payment and unknown payment testing spreadsheets are accurate.

2.3 In conjunction with the Acting Chief Financial Officer for FSA, develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates. Specifically, the plan should (a) produce appropriate and accurate confidence intervals around a statistically valid point estimate; (b) consistent with 31 U.S.C. section 3352(c)(1)(A), produce an estimate that is otherwise appropriate using a methodology approved by the Director of OMB; or (c) consistent with OMB Circular A-123 Appendix C, Part II, B(2), include a detailed explanation as to why it is not possible to produce a statistically-valid point estimate and appropriate and accurate confidence intervals around the estimate.

Department Comments and OIG Response

The Department partially agreed with Finding 2 and Recommendations 2.1 and 2.2, but it did not agree with Recommendation 2.3. In the following sections, we summarize the Department's comments and provide our response.

Title I, Special Education, and Education Stabilization Fund Programs' Sampling Populations

Department Comments

The Department agreed with the part of the finding and recommendations related to the unreliable improper payment and unknown payment estimates for the Title I and Special Education programs. To address Recommendations 2.1 and 2.2, the Department stated that it will develop and implement sampling and estimation plans that will produce reliable estimates, perform an additional layer of quality assurance to verify accurate populations are being provided for the second stage samples and to ensure testing spreadsheets are accurate.

For the Title I and Special Education programs, the Department believes that it satisfactorily resolved issues related to the sampling populations for Grantees B and C in Tables 3 and 4 of the draft report. The Department stated that the sampling populations varied from the initial drawdowns because of a split draw that could not be manipulated to match the sampled drawdown, a mid-month draw that could not be separated without compromising the integrity of the data, and an adjustment made by the State educational agency to credit the Special Education program for a different grant award.

Further, in response to Recommendation 2.1, the Department stated that the Education Stabilization Fund program should not be included because OIG did not report an issue with the program's sampling population.

OIG Response

The Department's proposed actions for the part of Finding 2 related to the Title I and Special Education programs if properly designed and implemented are responsive to our recommendations (Recommendations 2.1 and 2.2). However, regarding the Department's responses on our observations related to the sampling populations for Grantees B and C in Tables 3 and 4, we were aware during the audit of the explanations the Department included in its response. Despite these explanations, the sampling populations differed from the sampled drawdowns and, therefore, we did not make any changes to our finding. The Department's proposed actions to perform additional data quality checks to verify accurate sampling populations are being provided and used for the second stage sampling may mitigate this issue. However, if the Department is still unable to obtain accurate sampling populations for the second stage samples, it should provide supporting documentation of the variance and determine whether the variance affected the reliability of its testing results and the improper payment estimates. Finally, we have removed reference to the Education Stabilization Fund program from Recommendation 2.1.

Title I, Special Education, and Education Stabilization Fund Programs' Payment Testing Results

Department Comments

Although the Department agreed, in part, with the finding and Recommendation 2.2, it did not agree with some of OIG's conclusions on the payment testing results for the Title I, Special Education, and Education Stabilization Fund programs. In response to Recommendation 2.2 pertaining to the Education Stabilization Fund program, the Department stated that it did not agree that it should develop and implement procedures to ensure results for the program's improper payment and unknown payment testing spreadsheets are accurate.

The Department stated that it provided sufficient documentation to support its testing results for the Title I and Special Education programs. Specifically, for the Title I program, for the $2,799 payment, the Department stated that the documentation provided to the OIG was sufficient to support the payment was proper, as the payment was correct and was intended to cover the grantee's cash on hand balance which was related to a $2,774 journal entry for an allowable training expense. For the $26,527 payment, the Department stated that the documentation provided to the OIG was sufficient to support the payment was proper and identified the list of allowable expenditures to support its determination. For the five payments totaling $290,995, the Department stated that its determination that the payments were technically improper was correct based on the statutory requirement under 20 USC 6312(b) for State educational agencies to have on file each local educational agency's approved plan. In addition, for the Special Education program, the Department stated that it provided the OIG with documents showing the $2,728,202 payment was for a pass-through payment and three accelerated payments the State's Comptroller's Office approved for a cash on hand deficit and correctly deemed proper.

The Department stated that the $15,695,186 payment related to the Education Stabilization Fund program was correctly determined to be unknown because the State educational agency did not provide the Department with supporting documents for the funds that were initially advanced under the American Rescue Plan, Elementary and Secondary School Emergency Relief program. This occurred because the funds had not been expended at the time of the Department's improper payment and unknown payment review.

In addition, the Department did not agree with the "Inaccurate Testing Procedures" subheading used in the draft report because it implied that the Department's testing procedures were flawed.

OIG Response

Regarding the Title I and Special Education payments identified above, we disagree that the documentation provided to us was sufficient to support them as proper. For the Title I payment of $2,799, the screen shot of the journal entries were of two separate Federal programs with an annotation stating the payment was expended for training that was provided and funded with another program funding source. The documentation did not clearly support that the payment was expended due to a shortfall in training funding available from the other program funding source. Further, for the Title I payment of $26,527, the list of expenditures provided greatly exceeded the payment amount and did not adequately identify the specific expenditure the payment was used. Further, the Department did not obtain invoices, purchase orders, or other types of supporting documentation to demonstrate that the expenditures associated with these payments were proper, as the Department did for other payments that it reviewed. Further, for the Special Education payment, the documentation provided to support the payments made to cover cash on hand did not identify the specific expenditures the payments were made for and, therefore, was not adequate. We did not change our observations based on the Department's comments.

Regarding the payment of $15,695,186 for the Education Stabilization Fund program, we acknowledge that the State educational agency's initial advance payment representing 10 percent of the funding allocated to the local educational agency was within the State's accounting, disbursement, and cash management processes. However, we maintain that the issue in this case was that the funds had not been used in over a year since being disbursed to the local educational agency and this does not comply with Federal cash management requirements specifying that subgrantees should minimize the time between receiving and expending funds. Further, this payment did not meet OMB's definition of an "unknown payment," which is a payment that could be either proper or improper but for which the agency was unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation. The status of this specific payment was known, and there were no associated expenditures that would or should have generated additional supporting documentation for further review. According to OMB A-123, Appendix C, known improper payments include the collective estimates of overpayments, underpayments, and technically improper payments. Technically improper payments are for payments made to an otherwise qualified recipient for the right amount, but the payment process failed to meet all regulatory or statutory requirements. Because the Education Stabilization Fund payment was known and did not meet the Federal cash management requirements, the Department's determination that it was unknown was not correct. We did not change our observation or recommendation based on the Department's comments.

Based on the Department's comments relating to a sub-header in Finding 2, we removed the reference to inaccurate testing procedures from the report. In addition, we revised the report, where appropriate, based on comments received.

Pell and Direct Loan Programs Improper Payment Estimation Methodologies

Department and FSA's Comment

For the Pell and Direct Loan programs, FSA did not agree that the programs' improper payment estimates were unreliable. FSA stated the basis for the finding was OIG's opinion that FSA's use of some nonrandom samples affected the appropriateness of confidence intervals used in calculating the estimates. FSA stated that its sampling and estimation methodology for developing improper payment and unknown payment rates were statistically valid so that stakeholders would have a reliable depiction of estimated improper payments and unknown payments. Further, FSA stated that given the characteristics of the Pell and Direct Loan programs it determined the use of a random sample of compliance audits was the best source of data to estimate improper payments and unknown payments.

Although FSA disagreed with Recommendation 2.3 pertaining to the Pell and Direct Loan programs, it will continue efforts to obtain OMB's approval that its sampling and estimation plan is acceptable considering program resources and characteristics. FSA stated that it will also continue to collaborate with OMB, the OIG, Departmental components, and the independent audit community to identify ways to improve the usefulness of information obtained in Single Audit Act compliance audits.

OIG Response

Regarding FSA's disagreement with the part of Finding 2 related to the Pell and Direct Loan programs' improper payment estimates, we found that the use of nonrandom student-level sampling from some compliance audits affected the appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates. As stated in the finding, the Department included nonrandom student-level sampling from some compliance audits in its calculation of improper payment and unknown payment estimates for the Pell and Direct Loan programs. The selection approaches of the student level samples conducted in these audits do not meet the design parameters required to calculate improper payment estimates that are representative of the population. FSA assumes instances of nonrandom sampling for the student-level sample may include the selection of higher-risk students. Selecting higher-risk students in the sample selection introduces bias and produces a sample that is not representative of the population and introduces sampling risk into the sampling design.

During our audit, FSA provided us with examples of research and scholarly publications regarding the use of nonrandom samples and the ability to make inferences from them. However, FSA did not provide any support that demonstrated that the confidence intervals for the Pell and Direct Loan programs’ estimates were appropriate and reliable. As a result, we did not revise Finding 2 as it pertains to the Pell and Direct Loan programs’ estimates.

Although FSA disagreed with Recommendation 2.3 pertaining to the Pell and Direct Loan programs, the proposed action to request OMB's approval of its sampling and estimation plan as an appropriate methodology, if successfully implemented, is responsive to the recommendation.

Appendix A. Scope and Methodology

Our audit covered the Department's improper payment reporting for FY 2022 (October 1, 2021, through September 30, 2022). We reviewed the Department's risk-susceptible programs that were reported or referenced in the payment integrity section of the Department's FY 2022 AFR and accompanying materials.[11] Our review also included following up on corrective actions the Department had taken in response to our FY 2021 improper payment audit report. We found that the Department implemented corrective actions that were responsive to three of the four recommendations from the FY 2021 report.

We performed the following procedures to answer our audit objective.

1. To obtain background and general information about the FY 2022 improper payment reporting requirements and the Department's processes and controls for complying with the reporting requirements, we performed the following steps.

    a. Reviewed the Council of Inspectors General on Integrity and Efficiency "Guidance for Payment Integrity Information Act Compliance Reviews," November 8, 2022, which provided guidance to the OIGs on conducting audits of an agency's compliance with the PIIA.

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

        - the Payment Integrity Information Act of 2019;
        - OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement," March 5, 2021;
        - OMB Circular A-136, "Financial Reporting Requirements," section II.4.5, "Payment Integrity Information Act Reporting," June 3, 2022;
        - GAO's *Standards for Internal Control in the Federal Government*, September 2014;
        - the Payment Integrity Question and Answer Collection on the OMB MAX website; and

[11] The accompanying materials to the annual financial statement are the payment integrity information published on paymentaccuracy.gov. This information is provided by the Department to OMB annually through the OMB Data Call.

- OMB payment integrity data call instructions.

c. Reviewed background information about the Department and its programs that were susceptible to significant improper payments in FY 2022 (Title I, Special Education, Education Stabilization Fund, Pell, and Direct loan).

d. Reviewed prior OIG audit reports on the Department's compliance with improper payment reporting requirements for FYs 2019–2021.

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

   a. **FSA.** Financial Management Group, Internal Control Division, Statistician, and Enterprise Data Office. We also interviewed personnel from FSA's contractor, which was responsible for developing and implementing the improper payment sampling and estimation plan for the Pell and Direct Loan programs.

   b. **Department.** Office of Finance and Operation's Financial Data Integrity and Controls Division, Accounts Receivable and Bank Management Group, and Office of Acquisition, Grants, and Risk Management; Office of Career, Technical, and Adult Education; Office of Elementary and Secondary Education; and Office of Special Education Programs. We also interviewed personnel from the Department's contractor, which was responsible for developing and implementing the improper payment sampling and estimation plans for the Title I, Special Education, and Education Stabilization Fund programs and calculating the improper payment estimates for the three programs.

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

   a. Reviewed the Department's annual financial statement and accompanying materials.

   b. Evaluated the Department's risk assessments to determine whether they complied with applicable requirements and the conclusions were reasonably supported.

   c. Identified the Department programs that required an improper payment and unknow payment estimate for FY 2022 and determined whether the Department reported an improper payment estimate for each of the programs.

d. Determined whether the Department published programmatic corrective action plans for those programs that required one for the FY 2022 reporting period and determined whether the corrective action plans met applicable requirements.

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

f. Determined whether the Department reported an improper payment and unknown payment rate of less than 10 percent for each program and activity that required an improper payment estimate for FY 2022.

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

    a. **Risk assessment methodology.** To evaluate the qualitative risk assessments the Department performed for 69 programs and 1 administrative activity and the quantitative risk assessments it performed for 2 programs, we determined whether the risk assessments met requirements under 31 U.S.C. section 3352(a) and were reasonably supported. This included reviewing the Department's evaluation of its programs for significant funding increases and the Department's threshold analysis to identify programs susceptible to significant improper payments that exceeded the statutory threshold.[12]

    To evaluate the Department's assessment of the level of risk associated with the high-priority program (Pell), we reviewed the risk factors reflected in the Pell program improper payment estimate; we also reviewed the quality of the improper payment sampling and estimation plan and estimates, as described in sections b and c below.

[12] Programs are considered above the statutory threshold if their annual improper payment and unknown payments are either above $10 million and 1.5 percent of the program's total annual outlays or above $100 million regardless of the associated percentage of the program's total annual outlays.

b. Sampling and estimation plans.

- Obtained and reviewed the improper payment sampling and estimation plans that the Department submitted to OMB for calculating improper payment and unknown payment estimates for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs for FY 2022.
- Evaluated the improper payment sampling and estimation plans to determine whether they were appropriate given program characteristics and would produce a point estimate with confidence intervals.

c. Improper payment rate estimates.

- Developed and executed a sampling plan for each of the five programs for which the Department reported an improper payment and unknown payment estimate. For the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs, we selected samples of payments to test to determine whether the Department followed its prescribed testing procedures and accurately and completely identified improper payments and unknown payments and included the results in the calculation of the improper payment and unknown payment estimates. In addition, for the Title I, Special Education, and Education Stabilization Fund programs, we used the samples to determine the accuracy and completeness of the population sampling frames the Department used to sample and estimate improper payments for the three programs. See "Sampling Methodology" for more details.
- Reviewed the formulas in the statistical analysis system code[13] program used to produce an improper payment rate for the Education Stabilization Fund program and determined whether the formulas matched those in the sampling and estimation plans.
- Reviewed sampling documentation for the Title I, Special Education, and Education Stabilization Fund programs to determine whether reviewers followed the sampling and estimation plans and the formulas in the programs' sampling and estimation spreadsheets.

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[13] Statistical analysis system is a computer software program used for various purposes including data analysis, statistical analysis, and applications development.

- Reviewed the R Project for Statistical Computing program inputs and outputs for the Pell, Direct Loan, Title I, and Special Education programs to determine whether the Department followed its sampling and estimation plan.[14]

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

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

- Obtained and reviewed documentation to support the Department's improper payment prevention activities and implementation of corrective actions, and for information on how the Department determined that the corrective actions were reducing improper payments.

f. **Oversight and financial controls.**

- Reviewed documentation such as program reviews, institutional eligibility, and compliance audit controls that the Department used to identify and prevent improper payments in the Pell high-priority program.

5. We also obtained and reviewed documentation to verify the accuracy of the data reported in the accompanying materials to the FY 2022 AFR, including the improper payment tables for the Title I, Special Education, Education Stabilization Fund, Pell, and Direct Loan programs; the root causes of improper payments; the amounts of improper payments identified and recaptured; and the Department's scorecard information for the Pell program.
6. As part of our procedures related to items 2 through 5 above, we gained an understanding of the Department's internal controls that were significant to the audit objectives and assessed the design, implementation, and operating effectiveness of those controls.

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[14] R Project for Statistical Computing is a language and environment for statistical computing and graphics.

Sampling Methodology

We selected samples of documentation to answer our audit objectives. We used auditor judgment to identify the appropriate sampling methodology for each program or procedure as described below. The results from our sample testing apply only to the sample items we reviewed and cannot be projected to the entire population.

Pell and Direct Loan Program Samples

The purpose of our Pell and Direct Loan program sample testing was to evaluate the accuracy and completeness of the improper payment rate estimates and determine whether the Department followed its prescribed testing procedures. We tested a total of 10 samples for Pell and Direct Loan programs. There were 4,787 disbursements included in FSA's Pell and Direct Loan combined workbook that FSA tested for improper payment reporting purposes. We filtered the disbursements and selected only the samples assigned to stratum 1 through 5 as our sampling frame. We selected a random nonstatistical sample of 6 of 190 disbursements FSA sampled. For one sample, we judgmentally selected the consolidation underpayment identified as an improper or unknown payment by FSA out of the 60 consolidation underpayments in the field workbook. We selected one nonstatistical random sample out of the 60 total consolidation overpayments included in FSA's field workbook. For the last 2 samples, we selected 2 nonstatistical random samples from FSA's refund payments out of 120 refunds.

Using the samples, we determined whether the disbursements were correctly included in the Department's testing spreadsheets as improper, not improper, or technically improper. See Table 6 for full breakdown.

Table 6. Sample of Student Disbursements included in the Direct Loan and Pell Programs' Improper Payment Calculations

Population by Strata	Number of Disbursements FSA Included in its Improper Payment Testing	OIG Sample Size	OIG Sample Selection Method
Direct Loan and Pell Stratum 1: Disbursements of $3,545.00 to $7,351,900.00	30	1	Random
Direct Loan and Pell Stratum 2: Disbursements of $7,396,753.24 to $24,967,800.55	30	1	Random

Population by Strata	Number of Disbursements FSA Included in its Improper Payment Testing	OIG Sample Size	OIG Sample Selection Method
Direct Loan and Pell Stratum 3: Disbursements of $25,031,347.00 to $68,151,026.27	30	1	Random
Direct Loan and Pell Stratum 4: Disbursements of $69,120,346.00 to $284,213,655.68	30	1	Random
Direct Loan Stratum 5: Disbursements of $130,100,307.63 to $4,165,942,286.08	70	2	Random
Direct Loan Consolidated Underpayment	60	1	Judgmental
Direct Loan Consolidated Overpayment	60	1	Random
Direct Loan Refunded Payments	120	2	Random
Total	**430**	**10**	-

Samples of Payments for the Title I, Education Stabilization Fund, and Special Education Programs

The purpose of our sample testing for the Title I, Education Stabilization Fund, and Special Education programs was to evaluate the accuracy and completeness of the Department's improper payment and unknown payment rate estimates and to determine whether the Department followed its prescribed testing procedures for each program. We reviewed the Department's testing spreadsheets and supporting documentation for a sample of payments included in the improper payment calculations for the three programs and determined whether the sampled payments were allowable and supported with sufficient documentation based on the Department's testing methodology.

Title I Program Sample

We selected a nonstatistical random sample of payments totaling 19 out of the 244 payments that the Department included in its improper payment testing. The Department's sample methodology consisted of sampling payments from 2 strata

(1 single State educational agency stratum and the other State educational agencies stratum), which consisted of reviewing a sample of 60 payments for the single stratum State educational agency and 184 payments for the other strata of State educational agencies for the estimation of the improper payment and unknown payment estimate for the Title I program. From this population of 244, our sample was selected from payments the Department's testing results determined were proper, improper, or unknown payments greater than $1. We randomly selected five payments from each testing result (proper, improper, unknown payments greater than $1) from the other State educational agencies sample and two payments from each testing result from the single stratified State educational agency sample. The Department's results did not have an improper payment for the single stratified State educational agency. This resulted in a total of 19 randomly selected samples, as shown in Table 7.

Table 7. Sample of Payments for Title I Program Payment Calculations

Department Sample Size	Department Sample Value	OIG Sample Size	OIG Sample Value	OIG Sample Selection Method
244	$36,005,715.23	19	$1,163,767.03	Random

Education Stabilization Fund Program Sample

We used both a nonstatistical random and judgmental sample selection methodology to select 14 out of 769 payments the Department included in its improper payment testing. From this population, we selected our sample from payments the Department's testing results determined were proper, improper, or unknown payments that were greater than $1. We randomly selected five sampled payments with a testing result of proper, five sampled payments with a testing result of unknown, and three sampled payments with a testing result of improper. In addition, we judgmentally selected 1 sampled payment from the population of 34 sampled payments from a single State with an amount greater than $0 and a root cause of "Unable to Determine whether Proper or Improper." See Table 8.

Table 8. Sample of Payments Included in the Education Stabilization Fund Payment Calculations

Department Sample Size	Department Sample Value	OIG Sample Size	OIG Sample Value	OIG Sample Selection Method
769	$2,171,343,113.75	14	$42,477,895.50	Randomly selected 13 payments and judgmentally selected 1 payment from the Department sample.

Special Education Program Sample

We used both a nonstatistical random sample and judgmental sample selection methodology to select 19 payments out of the 142 payments that the Department included in its improper payment testing. From this population, we selected our sample from payments the Department's testing results determined were proper, improper, or unknown payment that were greater than $1. We randomly selected 5 sampled payments with a testing result of proper and 10 sampled payments with a testing result of unknown. In addition, 4 sampled payments were judgmentally selected from the remaining population of 127 sampled payments over $1. This resulted in a total of 19 samples selected. See Table 9.

Table 9. Sample of Payments Included in the Special Education Payment Calculations

Department Sample Size	Department Sample Value	OIG Sample Size	OIG Sample Value	OIG Sample Selection Method
142	$202,582,445.63	19	$177,285,255.85	Randomly selected 15 payments and judgmentally selected 4 payments from the Department sample.

Sample of Risk Assessments

We used both a nonstatistical random sample and judgmental sample methodology to select a total of 10 out of the 72 programs and activities for which the Department conducted risk assessments for FY 2022. A stratified sample of six programs or activities was selected using a random sampling design where two programs above $1 billion in outlays and four programs below $1 billion in outlays were selected, with four additional programs or activities judgmentally selected.

Use of Computer-Processed Data

Our use of computer-processed data for the audit included (1) the spreadsheet the Department used to determine the programs that experienced significant funding increases and thereby required a risk assessment, (2) the spreadsheet and report table containing known improper payments for programs included in the Department's risk assessments, and (3) improper payment estimate spreadsheet data for the five Department programs with reported improper payment estimates for FY 2022. We used the risk assessment spreadsheets, report table, and supporting documents to determine the accuracy and completeness of the Department's qualitative risk assessments for 69 programs and 1 activity and for the quantitative risk assessments that it conducted for the Immediate Aid to Restart School Operations and Emergency Assistance to Institutions of Higher Education programs. We used the improper payment estimate spreadsheet data for the Title I, Education Stabilization Fund, and Special Education programs to determine the accuracy and completeness of the improper payment and unknown payment estimates. We assessed the reliability of the data by doing the following:

a. For the spreadsheet the Department used to determine the programs that experienced significant funding increases and thereby required a risk assessment, we obtained a program obligation and drawdown report from the Department's grants management system that listed all the Department's programs that had obligations in FY 2022 and the list of the programs the Department reviewed for its improper payment risk assessments and compared the lists of programs to ensure that the Department included all its programs that had FY 2021 obligations in its analysis. To determine whether the threshold that the Department applied to the programs in the spreadsheet that would identify the program as having a significant funding increase was accurate, we checked the formulas and the determinations.

b. For the spreadsheet containing known improper payments for programs included in the Department's qualitative risk assessments, we obtained documentation to support the improper payment amounts listed in the spreadsheet.

c. For the improper payment estimate spreadsheet data for the Title I, Education Stabilization Fund, and Special Education programs, we performed the procedures described in the Scope and Methodology section of this report.

We concluded that the spreadsheets the Department used for its risk assessments were sufficiently reliable for the objectives of our audit.

We held an entrance conference with Department and FSA officials on December 5, 2022, and conducted interviews with Department and FSA officials during the week of December 12, 2022. We conducted fieldwork from January 2023 through April 2023 and held an exit conference to discuss the results of our audit with Department and FSA officials on May 5, 2023.

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

Appendix B. Acronyms and Abbreviations

AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
FSA	Federal Student Aid
FY	fiscal year
NA	not applicable
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant
PIIA	Payment Integrity Information Act of 2019
Special Education	Grants to States for Education of Children with Disabilities
Title I	Improving Basic Programs Operated by Local Educational Agency
U.S.C.	United States Code

Department Comments

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF FINANCE AND OPERATIONS

MEMORANDUM

DATE: June 23, 2023

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

Myra Hamilton
Regional Inspector General
Office of Inspector General

FROM: Denise Carter DENISE CARTER Digitally signed by DENISE CARTER Date: 2023.06.23 15:05:48 -04'00'
Delegated the Duties of the Assistant Secretary
Office of Finance and Operations
Department of Education

Richard Lucas RICHARD LUCAS Digitally signed by RICHARD LUCAS Date: 2023.06.23 14:24:13 -04'00'
Acting Chief Financial Officer, Federal Student Aid
Department of Education

SUBJECT: Discussion Draft Report, "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for FY 2022," Control Number ED-OIG/A23NY0119

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

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

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

Russell Jones
Auditor in Charge
Office of Inspector General

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

Overall Comments

The Department and FSA appreciate the Office of Inspector General's (OIG's) review of the five programs reflected in the report, and the six compliance requirements applicable to each of those programs. As reflected in the OIG's report, except for one compliance requirement for three programs (i.e., Title I, Special Education and Education Stabilization Fund), the Department and FSA met all compliance requirements of the Payment Integrity Information Act of 2019 (PIIA). In addition, the Department and FSA appreciate the OIG's recognition and acknowledgment of the accomplishments made by our organizations in implementing corrective actions during FY 2022, implementing oversight and financial controls to prevent and reduce improper payments (IPs) in high priority programs (Federal Pell Grant and Direct Loan) and three other risk-susceptible Department programs (Title I, Special Education and Education Stabilization Fund), and plans to continue implementing controls to further reduce IPs.

The Department would also like to acknowledge its collaboration with the Office of General Counsel (OGC) in developing responses to the OIG's finding and recommendations. OGC has reviewed the Department's and FSA's responses and is in general agreement with the key points raised.

The Department agrees with Finding 1 and partially agrees with Finding 2.

For Finding 1, the Department concurs with the finding and the recommendation pertaining to the **Title I, Special Education** and **Education Stabilization Fund** (ESF) programs in which the OIG concluded that the Department did not comply with the PIIA for the FY 2022 reporting period because of reported IP rates that exceeded the 10 percent compliance threshold.

The Department concurs with the finding because reporting a program's estimated rate under 10 percent is a PIIA compliance factor. The Office of Elementary and Secondary Education (OESE), which administers the program, noted that the limited time of the engagement may have impacted the State Education Agencies (SEAs) and Local Education Agencies (LEAs) ability to provide supporting documentation and therefore impacted the estimated IP rate.

The Department also concurs with the OIG's recommendation for the **Title I** program to develop and submit a proposal to the Director of the Office of Management and Budget (OMB) (during the next budget submission) that describes how the proposal will help bring the program into compliance with the PIIA. The Department would like to highlight the efforts undertaken to bring the **Title I** program into compliance. Despite a compressed timeline in FY 2022, the Department conducted multiple meetings with the program office and SEAs, updated the Title I sampling and estimation methodology plan (S&EMP) in consideration of the unique nature of one SEA's advanced payments (and modifying the statistical sampling method to include this SEA in its own certainty stratum), offered an alternate type of payment documentation it would review, and provided additional technical assistance to all state level participants. In addition, the Department would like to note that the issue of timing has been mitigated for all 3 programs in the current FY 2023 study. Whereas the FY 2022 studies took place between July through October 2022, this year the Department began its studies in February 2023. As of June 2023, nearly half (45%) of Title I payment samples are in testing progress or complete, with 90% of Special Education and 15% of ESF samples also in progress or completed status.

For Finding 2, the Department concurs with the portion of the finding and recommendation pertaining to the reliability of the **Title I** and **Special Education** programs' estimates. However, we have provided instances where we disagree with the OIG's observation of errors in the sampling populations and propriety determination of certain payment samples in these programs (for reasons outlined in the sections below). However, the Department acknowledges that the OIG's recommendation, when implemented, will improve the statistical reliability of the estimates produced for these programs.

The Department does not concur with Finding 2 for the **ESF** program for the reasons outlined in the sections below.

We do not concur with the portion of Finding 2 pertaining to FSA-managed programs. FSA maintains that its sampling and estimation methodology plan (S&EMP) for developing IP and Unknown Payment (UP) rates and confidence intervals is statistically valid, and the Pell Grant and Direct Loan IP and UP estimates were calculated using accurate, complete, and reliable data that allowed FSA to make statistically reliable inferences about the rates and amounts of IPs and UPs.

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

Finding 1. The Department Did Not Comply with the PIIA for the FY 2022 Reporting Period.

Department's Response to Finding 1:

For the **Title I** program**,** the Department would like to highlight that the main factor of the IP rate exceeding the 10 percent compliance threshold was the large number of UPs. The study was conducted in condensed timeframe (approximately three months, from July to October 2022) in order to report the IP plus UP estimate in OMB's annual Payment Integrity Data Call. Budget delays resulted in a delayed issuance of a support contract. Since the conclusion of this study, the Department has worked continuously with one large grantee to establish an effective means of obtaining supporting documentation for selected payments to test in a timely manner and reduce the number of UPs.

For the **Special Education** program, FY22 was the first year that an IP plus UP estimate had been produced for this program. The study was also conducted under a condensed timeline and, as a result, some grantees were unable to provide the requested documentation by the deadline.

For the **Education Stabilization Fund** program, FY22 was also the first year that an IP plus UP estimate had been produced. The unique characteristics and emergency nature of the ESF program created distinct obstacles for publishing an estimated rate below the 10% compliance threshold established by OMB guidance and the PIIA. Practical difficulties were present as the Department needed to coordinate payment testing among hundreds of SEAs, Local Education Agencies (LEAs) and Institutions of Higher Education (IHEs). The difficulties the Department faced involved educating grantees about PIIA requirements, the study timeline, and obtaining necessary documentation in order to complete the testing required to produce the estimate. Additionally, the Department and ESF grantees had to navigate a compressed timeline while operating within an environment still impacted by the pandemic.

Despite these difficulties, the ESF program published an IP plus UP rate of 12.09%, of which only .03% was attributable to IPs. While still above the compliance threshold of 10%, it is important to note that the majority (12.06%) was attributable to UPs, primarily due to a single grantee that advanced initial ESF payments, which were difficult to sufficiently test based on available documentation. Since the estimate was reported, however, the Department has learned that the SEA issued subsequent payments to its LEAs on a *reimbursement basis* (after the initial payment), which has facilitated the grantee's efforts to provide supporting documentation to the Department in a timely manner during the current year study.

OIG Recommendations

We recommend that the Chief Financial Officer for the Department —

Recommendation 1.1: Develop a plan consistent with 31 U.S.C. section 3353(b)(1)(B)(i) through (iii), that describes actions the Department will take to bring the Title I, Special Education, and Education Stabilization Fund programs into compliance with the PIIA and submit it (via the OMB Annual Data Call) to the appropriate authorizing and appropriations committees of Congress.

Department's Response to Recommendation 1.1: The Department concurs with OIG's recommendation 1.1 for the Title I, Special Education, and ESF programs. The Department will submit corrective actions (via the OMB Annual Data Call), which includes a description of its actions to bring the Title I, Special Education, and ESF programs into compliance with the PIIA.

Recommendation 1.2: Develop additional program integrity proposals consistent with 31 U.S.C. section 3353(b)(2) and OMB Circular A-123, Appendix C, Part VI, D (2), that describe how the proposals will help the Title I program come into compliance with the PIIA and submit them with the Department's next budget submission to the Director of OMB.

Department's Response to Recommendation 1.2: The Department concurs with the recommendation to develop a program integrity proposal to help bring the Title I program into compliance and will submit it to the Director of OMB in its next budget submission.

Finding 2. The Department's FY 2022 Improper Payment and Unknown Payment Estimates for the Title I, Part A; Special Education; Education Stabilization Fund; Pell; and Direct Loan Programs Were Not Reliable

Department's Response to Finding 2:

The Department partially concurs with Finding 2. Specifically, we concur with the finding for the **Title I** and **Special Education** programs and non-concur with the finding for the **ESF, Pell Grant and Direct Loan** program.

The Department believes it was able to satisfactorily resolve four of the OIG's six observations related to the sampling populations for the **Title I** and **Special Education** programs in Recommendation 2.1. The Department also believes it was able to satisfactorily resolve four of the OIG's 14 observations related to testing results for the **Title I** and **Special Education** programs for Recommendation 2.2. Finally, we non-concur with the OIG's conclusion that the **ESF, Pell Grant** and **Direct Loan** programs' estimates were unreliable for the reasons outlined in responses to Recommendations 2.1, 2.2 and 2.3 below.

Although the OIG found that FSA complied with all PIIA requirements in FY 2022, the OIG found that the IP and UP estimates for the Pell Grant and Direct Loan programs were not reliable. The basis of that finding was the OIG's opinion that FSA's use of some nonrandom samples affected the appropriateness of confidence intervals used in calculating the IP and UP estimates. The OIG stated that the effect was that stakeholders do not have a reliable depiction of the estimated improper payments and, as a result, the Department may not identify the true root causes of improper payments and take appropriate corrective action to prevent and reduce improper payments.

FSA management and statisticians do not agree with the OIG's finding. FSA's S&EMP is sound and produces statistically valid estimates of IP and UP so that stakeholders have a reliable depiction of estimated IP and UP, and FSA has identified the true root causes of IP and UP and is taking appropriate corrective action to prevent and reduce improper payments.

OMB Circular A-123 Appendix C II.B.2. states that agencies are responsible for producing IP and UP estimates that are accurate and appropriate given program characteristics, and the OIG will take into account whether the S&EMP used is adequate and appropriate given program characteristics. For the Pell Grant and Direct Loan programs, the Department provides funding to approximately 5,700 institutions that disburse the grants and loans to students, and FSA does not control the payment operations at those institutions. Given those characteristics, FSA determined that the best source of data to estimate IP and UP was a random sample of compliance audits conducted at the institutions by independent public accountants (IPAs). By using compliance audits, FSA leverages existing quality data rather than imposing additional burdens on institutions or incurring additional costs so that FSA can meet the following priorities and goals of OMB Circular A-123 Appendix C:

- "… reducing administrative burden to allow agencies to focus on preventing improper payments and ensuring taxpayer money is serving its intended purpose;"
- ensuring "federal agencies focus on identifying, assessing, prioritizing, and responding to payment integrity risks to prevent improper payments in the most appropriate manner;" and
- allowing "agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments."

Compliance audits used to calculate FSA's IP and UP estimate are conducted under the Single Audit Act, the "OIG 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" (OIG Audit Guide), and the "OIG Guide for Audits of Proprietary Schools and for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools" (Foreign Audit Guide). In addition to the random sampling performed by FSA to select a sample consisting of these three types of compliance audits, IPAs are required to perform random sampling for compliance audits conducted in accordance with the OIG Audit Guide and Foreign Audit Guide. While IPAs are not required to perform random sampling for audits conducted in accordance with the Single Audit Act, FSA considered the following factors in deciding to use Single Audit Act compliance audit data so that FSA's S&EMP would produce statistically valid estimates, and stakeholders would have a reliable depiction of estimated IP and UP:

- IPAs who conduct the compliance audits perform student transaction level sampling in accordance with audit standards set by 2 C.F.R. 200 ("Uniform Guidance"), OMB Compliance Supplement for single audits, AICPA Standards, and/or GAGAS (GAO Yellow Book), which require auditors to follow sampling guidance and use audit techniques and sample sizes that are sufficient to reduce sampling risk to an acceptably low level.
- FSA worked with OMB, the IPA community, and the OIG to align the sampling requirements in the 2022 OMB Compliance Supplement with OMB Circular A-123 Appendix C. As a result, the 2022 OMB Compliance Supplement requires auditors to use a sampling methodology that incorporates a desired level of assurance (confidence level) and expected exception rate. Therefore, samples selected by auditors adhering to the 2022 OMB Compliance Supplement should have appropriate and accurate confidence intervals regardless of how samples are selected.
- FSA's S&EMP was designed following well established and generally accepted statistical theory for probability samples. The sample design was consistent with statistical requirements in current OMB guidance (M-21-19), and the S&EMP contained references to well respected textbooks and practitioners for all formulas used in the design, selection, and estimation of the sample.
- FSA's S&EMP assumes that any instances of nonrandom sampling may include selection of higher-risk students and, therefore, the IP and UP estimates and confidence intervals

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do not systematically under-represent IP and UP risks. Based on this assumption, FSA found it appropriate to interpret results and draw conclusions about confidence intervals for its S&EMP. FSA statisticians agreed with this when considering FSA's program characteristics and available resources to estimate IPs and UPs.

- Costs and limitations may apply to random sampling. Although random selection is a tool that mitigates the presence of bias in a sample, it does not guarantee that any specific sample is appropriately representative of the broader population and may miss critical groups of particular interest. Therefore, FSA recognizes the decades of ongoing research into the utility of nonrandom samples and ability to make inferences from them, and FSA's methodology is consistent with the research in this area. FSA carefully considered and addressed the limitations and potential biases of this approach so that FSA was able to draw meaningful conclusions and inferences from the non-random sample data obtained through compliance audits. FSA provided the OIG with examples of research and scholarly publications by experts in this area.

Finally, FSA has identified the true root causes of IP and UP and is taking appropriate corrective action to prevent and reduce improper payments. As noted in the OIG's report, FSA identified student eligibility, disbursements to students, and return of Title IV funds as root causes of improper payments, and FSA is taking corrective actions to address those causes. In addition, the OIG's report noted that the information reported in the Department's AFR regarding the causes of IP and UP and the amounts of IP identified were "generally accurate."

OIG Recommendations

We recommend that the Chief Financial Officer for the Department —

Recommendation 2.1: Design and implement improper payment and unknown payment sampling and estimation plans for the Title I, Special Education, and Education Stabilization Fund programs that would produce a reliable estimate. Specifically, the plans should be appropriate for the sampling of payments based on accurate sampling populations.

Department's Response to Recommendation 2.1: The Department partially concurs with the OIG recommendation to design and implement estimation plans for its estimated programs that would produce a reliable estimate.

For the **Title I program**, the Department concurs with the OIG's recommendation. The Department will design and implement an S&EMP (appropriate for the sampling of payments based on accurate sampling populations) that will produce a reliable estimate. However, the Department provides the following responses to the OIG's specific observations in the draft report.

- The Department concurs with the OIG's observations for **Grantee A** in Table 3. Grantee A had difficulty extracting the program-specific funds from the consolidated data.
- The Department non-concurs with the OIG's observations for **Grantee B** and **Grantee C** in Table 3. For these grantees, the population varied from the initial drawdown as the

result of a "split draw," which was annotated and explained within the data that was provided to the OIG. The explanations and information on the data query tab for both samples showcased the population could not be manipulated to match the sampled drawdown 1:1. Therefore, the population used to pull the second stage data was in fact the complete and accurate population.

For the **Special Education program**, the Department concurs with the OIG's recommendation. The Department will design and implement a sampling and estimation plan (appropriate for the sampling of payments based on accurate sampling populations) that will produce a reliable estimate. However, the Department provides the following responses to the OIG's specific observations in the report:

- The Department concurs with the OIG's observations for **Grantee A** in Table 4. The $308k difference was included in the population in error. The Department plans to implement an additional layer of data quality assurance for the FY 2023 review.
- The Department non-concurs with the OIG's observations for **Grantees B** and **C** in Table 4. For **Grantee B**, the difference in their drawdown amount is the result of a mid-month draw. The supporting details provided to the OIG showcased the way the mid-month draw was separated from the overall draw without compromising the integrity of the data by parsing out data inaccurately. For **Grantee C**, the draw amounts shown in the data provided differ from the amounts in the payment review request because of a credit that was billed for a different grant award that was entered by the grantee via an adjustment. This amount was outlined on the Data Query tab for both Grantees; if the data were manipulated to showcase only the sampled amount, this would not be considered a statistically valid population.

The **Title I** and **Special Education** sample populations will undergo an additional layer of data quality assurance for the FY 2023 testing cycle to verify accurate populations are being provided and used for the 2nd stage samples. Additionally, there will be evidence from the SEA point of contact within the sample folders providing an explanation for any variance within the population provided, whether it be limitations of the Department's grants management system or SEA-specific cash management rules.

For the **Education Stabilization Fund** program, the Department non-concurs with the OIG's inclusion of this program in this recommendation, as the OIG did not identify any sampling population issues with the ESF program's S&EMP (or execution of the S&EMP). The Department requests mention of this program be removed from Finding 2, Recommendation 2.1.

OIG Recommendation 2.2: Develop and implement procedures to ensure that the results the Department records for the Title I, Special Education, and Education Stabilization Fund programs' improper payment and unknown payment testing spreadsheets are accurate.

Department's Response to Recommendation 2.2: The Department partially concurs with the OIG's recommendation to develop and implement procedures to ensure that the results the

Department records for the Title I, Special Education, and ESF programs' IP and UP testing spreadsheets are accurate.

For the **Title I** program, the Department concurs with the OIG's recommendation to develop and implement procedures to ensure that the results the Department records for the Title I program's IP and UP payment testing spreadsheets are accurate. However, the Department provides the following responses to the OIG's specific observations in the report.

- For two payments totaling $33,537, the Department concurs with the OIG's observation that the payments should have been deemed UP due to insufficient documentation.
- For one payment of $2,799, the Department non-concurs with the OIG's observation that the payment should have been deemed UP due to insufficient documentation. The $2,799 amount was intended to cover the cash balance on hand, which was based on a $2,774 journal entry that related to an allowable training expense. The Department believes that the documentation submitted was sufficient to make the determination of "proper."
- For one payment of $26,527, the Department non-concurs with the OIG's observation that the payment should have been deemed UP due to insufficient documentation. The documentation provided by the grantee showcased the list of expenditures which were verified as allowable costs and recalculated within the "Calculations" tab of the Test Plan. The Department believes that the documentation submitted was sufficient to make the determination of "proper." Additionally, the OIG misstated that there was a $37 IP determination made by the Department, but the Department annotated on the test sheet that there was a $35.96 UP determination. *[Clarification note: The Department recognizes the OIG rounded up dollar amounts in their report.]*
- For five payments totaling $290,995, the Department non-concurs with the OIG's observation that the payments should have been deemed IP. The Department determined these sampled payments to be *technically improper* based on the grantee's inability to showcase eligibility (during the testing period) as required by the following statutory requirement: "In general, to receive Part A funds, LEAs must have on file with the SEA an approved plan that includes the descriptions required under Section 1112(b) of the ESEA (20 USC 6312(b))." All of the payment samples deemed "technically improper" were from one State, in which the SEA did not provide the LEA application. Additionally, the OIG stated "However, because having an approved plan is a condition of eligibility for a local educational agency to receive Title I funding, we determined the payments should have been deemed improper and subject to recovery." The Department does not believe "that the inability of an SEA to provide an LEA's application on a short turnaround schedule is sufficient reason to deem a payment to be improper when such documentation is but one way to demonstrate that an LEA was eligible to receive Title I funds." For example, the Department's or a SEA's allocation files could make this demonstration and was the case with this particular State. Moreover, most LEAs meet the

statutory eligibility requirements to receive Title I funds. Thus, absent documentation that shows that an ineligible LEA received Title I funds is not a basis to deem these LEA payments either "improper" or "technically improper." Additionally, subsequent to the conclusion of this study, the Department was able to confirm the five payment recipients (four LEAs and one charter school) were all, in fact, eligible to receive these funds. Therefore, the recovery of Title I funds are not required.

For the **Special Education** program, the Department concurs with the OIG's recommendation to develop and implement procedures to ensure that the results the Department records for the Special Education program's IP and UP testing spreadsheets are accurate. However, the Department provides the following responses to the OIG's specific observations in the report.

- For three payments totaling $265,832, the Department concurs with the OIG's observation that the payments should have been deemed proper. While the Department agrees that there is not a requirement for the LEA to request reimbursement the same day the expenditure occurs, funds should be expended within the timeframe outlined per the program's guidelines. According to 2 CFR § 200.344 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, there is a requirement for the Special Education program as it relates to when funds should be expended: "LEAs and SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated, through September 30 of the following fiscal year. This maximum period includes a 15-month period of availability plus a 12-month period for carryover."[1]
- For one payment of $2,728,202, the Department non-concurs with the OIG's observation that the payment should have been deemed UP due to insufficient documentation. For this sample, the Department showcased that $909,400.73 were pass-through funds for a November automatic monthly payment, and that the three additional monthly payments totaling $1,818,801.46 were accelerated as a result of the quarterly report submitted to the Comptroller's Office. The quarterly report submitted to the Comptroller's Office showed a cash on hand deficit totaling $2,728,202, which served as the basis for the Comptroller's approval of the three accelerated payments to cover the reported deficit. The Department believes the documentation reviewed was sufficient to make the determination of "proper."

For the **Education Stabilization Fund** program, the Department non-concurs with the OIG's recommendation to develop and implement procedures to ensure that the results the Department records for the ESF program's IP and UP testing spreadsheets are accurate.

- For one payment of $15,695,186, the Department determined this payment to be a UP. However, the OIG observed that the payment should have been deemed *technically improper*. The Department does not concur this payment was improper. According to

[1] 2022 Compliance Supplement pdf pg. 1059 2022 Compliance Supplement (whitehouse.gov)

OESE, "the sampled payment of $15,695,186 was an initial advance payment of the LEA's American Rescue Plan (ARP) Elementary and Secondary School Emergency Relief (ESSER) funds, representing 25 percent of the LEA's award as stated within the State's accounting, disbursement, and cash management processes. Future quarterly apportionments of these funds to LEAs follow the State's apportionment and reimbursement processes and would pay 25 percent of the LEA's allocation minus its cash balance, thus fulfilling the requirement of 2 C.F.R. § 200.305(b) to minimize the time elapsing between the State's transfer of funds and the LEA's disbursement of those funds. As this sampled payment represented an initial advance apportionment, there was no opportunity to subtract a previous cash balance. The grantee's practice of disbursing future apportionments includes a quarterly collection of interest earned by subrecipients of Federal funds. The Department monitored the grantee in FY 2022 and did not identify a finding in this area." OESE further notes that OIG was aware of this State's advance payment process and did not raise concerns.

Additionally, the Department disagrees with the description in the sub-section of the draft report titled "Inaccurate Testing Procedures." This implies that the Department's testing procedures were flawed when the OIG evaluated and disagreed with the Department's determination based on the testing outcome or results. Thus, the Department suggests revising the sub-section to "Inaccurate or Unsupported Testing Results" or similar.

OIG Recommendation 2.3: In conjunction with the Acting Chief Financial Officer for FSA, develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates. Specifically, the plan should (a) produce appropriate and accurate confidence intervals around a statistically valid point estimate; (b) consistent with 31 U.S.C. section 3352(c)(1)(A), produce an estimate that is otherwise appropriate using a methodology approved by the Director of OMB; or (c) consistent with OMB Circular A-123 Appendix C, Part II, B(2), include a detailed explanation as to why it is not possible to produce a statistically-valid point estimate and appropriate and accurate confidence intervals around the estimate.

Department's Response to Recommendation 2.3: FSA does not concur with the OIG's recommendations. FSA notes that the OIG's recommendations to FSA are recommendations for improvement rather than recommendations for compliance as defined in OMB Circular A-123 Appendix C, VI.C.4. When making recommendations for improvement, the OIG is not required to provide concrete recommendations, and the OIG's recommendations are reiterations of the provisions in OMB Circular A-123 Appendix C for the suggested content of an S&EMP. As explained in FSA's response to the OIG's finding pertaining to the reliability of IP and UP estimates for the Pell Grant and Direct Loan programs, FSA's S&EMP is sound and produces statistically valid estimates of IP and UP so that stakeholders have a reliable depiction of estimated IP and UP, and FSA has identified the true root causes of IP and UP and is taking appropriate corrective action to prevent and reduce improper payments. However, while continuing to maintain that FSA's Pell Grant and Direct Loan S&EMP is statistically valid, FSA will continue its previous efforts to request OMB approval of FSA's S&EMP as an acceptable plan considering program resources and characteristics in accordance with the provisions provided in PIIA §3352(c)(1)(A). FSA will also continue to collaborate with OMB, the OIG, Departmental components, and the independent audit community to identify ways to improve the usefulness of information obtained in Single Audit Act compliance audits.

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