

Archived Information



# Appendix D

Improper Payments Act of 2002

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# Improper Payments Improvement Act Reporting Details

### Student Financial Assistance Programs

Federal Student Aid (FSA) operates and administers the majority of Higher Education Act (HEA) Title IV student aid programs for the Department of Education. In fiscal year (FY) 2003, \$62 billion in aid was provided to students and families.

To ensure the integrity of the Title IV HEA programs, FSA has implemented an integrated control process, including system upgrades. FSA's oversight and monitoring of payments to students, schools, lenders, and Guaranty Agencies is effective and appropriately balances data integrity and accuracy with timeliness of payments.

Overall, FSA's program integrity controls, audit findings, and program review liability data suggest that the overall risk of improper payments in the Title IV HEA programs is relatively low. For example, in FY 2003, \$131 million in audit and program review liabilities were assessed. This is one-fifth of one percent of the funds provided to postsecondary students.

### Eligibility and Payment Oversight

To receive Title IV HEA funds, applicants must first establish their eligibility by submitting a Free Application for Federal Student Aid (FAFSA) to the Department. The FAFSA information is processed by the Department's Central Processing System (CPS), which performs a number of data matches to establish an applicant's eligibility. In addition, a subset of applicants is selected for verification. The verification process criteria are reviewed annually.

CPS provides the results of its processing to the postsecondary institutions (schools) designated by the applicant. Schools use this information to determine the type and amount of aid an applicant is eligible to receive. In addition, schools are required to collect additional documentation from those applicants selected for verification to substantiate the information provided on the FAFSA.

In the Direct Loan Program, schools draw funds via the Grants Administration and Payments System (GAPS) and either disburse those funds directly to students or credit their

accounts. In the Federal Family Education Loan (FFEL) Program, funds are provided by private lenders to the schools. Institutions are held liable for the cost to government for subsidies and default reinsurance on loans made improperly on account of school error or malfeasance. In certain cases, schools are not allowed to directly draw funds. This allows FSA to provide additional controls over fund disbursement.

In the FFEL Program, guarantors request payment by using Forms 2000 and lenders use the Lender Reporting System. The information is processed by FSA's Financial Management System (FMS), which creates a payment file that goes to Treasury and an accounting file to post the entry into the Department's general ledger.

To assist in tracking funds, FSA maintains the National Student Loan Data System (NSLDS), a central database for student aid that includes data provided by schools, Guaranty Agencies, the Direct Loan program, the Pell Grant Program, and other student aid programs. NSLDS produces a centralized, integrated view of the Title IV HEA loans and Pell grants and tracks student aid from approval through closure.

### Initiatives and Oversight Activities

One of FSA's key initiatives for preventing improper payments is obtaining an effective data match with the Internal Revenue Service (IRS) to verify the income tax information reported by the applicant. A data match with the IRS was authorized as part of the reauthorization of the HEA in 1998. However, the match could not be implemented because tax return information cannot be disclosed unless authorized by the Internal Revenue Code itself. To enable the match, the Office of Management and Budget (OMB), Treasury, and the Department drafted legislation to amend Section 6103 of the Internal Revenue Code.

Such a match is important because the current process for determining the type and amount of aid an applicant can receive generally depends on the information provided by the applicant. While FSA performs several data matches to verify some of this information, it cannot, under current legislation, perform a match with the IRS to verify reported income.

FSA has incorporated additional processes to prevent improper payments, including stricter controls for death and disability discharges of federal student loans, FAFSA-on-the-web edits to reduce data entry errors, restricting the ability of some schools to draw funds, Common Origination and Disbursement (COD) system edits to detect errors in new loan originations, and improved controls in the Guaranty Agency and lender payment processes such as enhancements to front-end reasonability edits and separation of duties.

In addition, to detect improper payments and to ensure compliance with program requirements, FSA requires all schools, lenders, and Guaranty Agencies to submit annual independent compliance audit reports. Additionally, the Department's Office of Inspector General also audits a number of these entities each year. FSA staff review these audits and take appropriate follow-up actions. FSA staff also perform a certain number of program reviews at schools, lenders, and Guaranty Agencies each year. The liability information obtained from these activities plays an important part in FSA's assessment of improper payment risk to the Title IV HEA programs.

FSA's oversight efforts have resulted in improved compliance with Title IV HEA disbursement requirements. In 1994, there were approximately 8,500 postsecondary schools participating in the Title IV HEA programs; today only 6,160 postsecondary schools participate in the programs. Many schools lost their ability to participate in the Title IV HEA programs because of high loan default rates. However, other oversight tools also contributed to removing poorly performing schools from the programs. For example, all schools are required to submit independent audited annual financial statements. Those that fail certain regulatory standards are required to post letters of credit or are placed on reimbursement or heightened cash monitoring. All schools are also required to undergo a recertification process periodically. In addition, all new schools are placed on a one-year provisional certification, and schools that change ownership are placed on a three-year provisional certification.

FSA also takes an active role in helping schools comply with regulations by conducting technical assistance visits and providing self-assessment tools. In addition, in an effort to further the continued decline of the national Cohort Default Rate (CDR), FSA provides a one-stop, on-line forum for

schools, lenders, and Guaranty Agencies to share new ideas and information. Best practices and creative ideas in default prevention are posted.

The chart on p. 250 presents the improper payments estimates for FSA programs.

## Title I

The Department also performed a risk assessment of the Title I Program during FY 2004. The assessment documented that the risk of improper payments under the current statutory requirements is very low. However, one area that the Department is closely monitoring, in conjunction with the U.S. Department of Agriculture (USDA), is the wide use by local educational agencies of the number of children who qualify for free and reduced-price meals to determine an individual school's Title I eligibility and allocation. The Title I statute authorizes a local educational agency to use these data, provided under USDA's National School Lunch Program, for this purpose. In many districts, these data are the only indicator of poverty available at the individual school level.

USDA has raised concerns about the reliability of these data. USDA is working with states and localities to improve program integrity, within the existing statutory and regulatory framework, through enhanced monitoring and auditing. USDA is also working with the Department and other federal agencies that have programs that make use of these data to explore longer-term policy options.

## Remaining Grant Programs

The Department continues to refine its methods for assessing the potential risk of improper payments in its remaining grant programs. The Department routinely uses two reports that extract information from the Grant Administration and Payment System (GAPS). The *Excessive Drawdown Report* alerts Department staff to situations where grantees have drawn down cash, in any fiscal quarter, above established percentages of the total grant amount. Reviewing the pattern of such drawdowns enables program managers to quickly identify cases where, for example, grantees might be abusing federal funds through improper use or holding large amounts unnecessarily in private accounts.

## Improper Payment (IP) Reduction Outlook FY 2003-FY 2007

(Dollars in Millions)

	Disbursement Amount	FY 2003		Improper Payment %				
		IP\$ Overawards	IP\$ Underawards	Estimated	Projected Estimate			
				FY 03	FY 04	FY 05	FY 06	FY 07
<b>Group I-Payments to Students/Borrowers</b>								
Pell Grants	\$12,680	\$393	\$228	4.90%	4.90%	4.90%	4.90%	4.90%
Campus-Based Programs								
Work Study	1,203							
SEOG	962							
Perkins Loans	1,201							
LEAP	170							
Guaranteed Student Loans								
Stafford Loans	15,618							
Unsubsidized Stafford Loans	14,186							
PLUS	3,987							
Direct Loans								
Stafford Loans	5,790							
Unsubsidized Stafford Loans	4,519							
PLUS	1,660							
Consolidation								
FFEL	34,935							
Direct Loans	6,657							
Non-Program Specific Liabilities/Errors		145						
Subtotal	\$103,568	\$538	\$228	0.74%	0.66%	0.68%	0.66%	0.63%
<b>Group II-Payments to Partners</b>								
Administrative Payments to Schools								
Pell Grants	\$26							
Work Study	75							
SEOG	39							
Perkins Loans	48							
Payments to Guarantors and Lenders								
FFEL Interest Benefits	1,224							
FFEL Special Allowance	452							
FFEL Default Claims	2,874							
FFEL Death, Disability, Bankruptcy	634							
Non-Program Specific Liabilities/Errors		31						
Subtotal	\$5,372							
<b>Total</b>	<b>\$108,940</b>	<b>\$569</b>	<b>\$228</b>	<b>0.73%</b>	<b>0.62%</b>	<b>0.63%</b>	<b>0.59%</b>	<b>0.55%</b>

**Note:** To be consistent with prior year the **Payments to Partners** section does not include FFEL Interest, Account Maintenance Fee, Loan Issuance and Processing Fee, new State Scholars Pilot, and Loan Forgiveness for Childcare.

Projections based on the budget and moving averages.

The *Large Available Balance Report*, available in FY 2005, will identify projects where grantees have drawn little or no federal funds during the life of an award. This is a potential indicator of nonactivity and the risk of failing to perform under a grant. Department program managers have a variety of methods available for the management of grantees or projects that are determined to be at risk. For example, grantees can be required to get prior permission for certain types of expenditures that otherwise would not require Department approval. Another alternative is to require detailed quarterly financial reports to support close monitoring and oversight of a particular project or grant recipient.

Department program managers can also remove the grantees' ability in GAPS to draw down cash in advance of expenditure and place the grantee on a reimbursement-only method of payment. This permits program managers to review the expenditure prior to the disbursement of federal funds. Program managers also have the option to place a "stop payment" on awards temporarily until stated deficiencies are corrected. Another option available to program managers is the authority to deny grantees further funding by withholding award continuation under multi-year grants, or a grant can be suspended or terminated where warranted.

As another data source in this initial risk assessment, we reviewed the last two Office of Inspector General (OIG) Semiannual Reports (periods ending September 30, 2003, and March 31, 2004) to obtain data on the cost reported in OIG audits categorized as questioned or unsupported. These questioned or unsupported costs, if upheld during the audit resolution process, would represent improper payments.

The final data source used in this initial assessment was a listing of payments processed through the GAPS system that were for the same amount and made within one week of each other. The thought behind this listing is that investigating payments made to the same recipient in the same amount in the same week could lead to uncovering duplicate payments. A detailed review of the listing revealed that all of the payments were proper.

The following chart is a summary of the data gathered and the initial assignment of a relative risk rating.

Program	Percent on Stop Pay	Number of "Excessive" Drawdowns	Questioned or Unsupported Costs From Last Two OIG Semiannual Reports*	Estimated FY 2004 Outlays*	Percent of Estimated Outlays	Relative Risk
Impact Aid	0%	-	-	1,347	-	Low
School Improvement Programs	.09%	4	3.2	8,957	.04%	Low
English Language Acquisition	0%	1	-	819	-	Low
Special Education	0%	-	0.1	9,107	.00%	Low
Rehabilitation Services & Disability Research	.15%	-	0.1	3,207	.01%	Low
Vocational & Adult Education	0%	-	0.3	1,932	.01%	Low
Higher Education	.12%	2	4.8	2,173	.22%	Low
Education Research, Statistics & Assessment	0%	1	-	598	-	Low

\*In millions of dollars

### Verification Plan

The Department realizes that the implementation of this initial risk assessment process draws on a limited data set and the assessment of the level of risk will need to be updated as the assessment process matures. In order to expand and strengthen the control process, the Department put in place a vehicle to complete a much more detailed risk assessment for these grants. We have established a memorandum of understanding with the Department of Energy's Oak Ridge National Laboratory. They will perform data-mining on information available in the Federal Audit Clearinghouse's Single Audit Database, the Department's GAPS database, the Department's Audit Accountability and Resolution Tracking System and, potentially, other sources of data. The relevant data from these sources will be run through an algorithm to assign a relative level of risk to the Department's

non-FSA grant programs and recipients. This effort is to be completed by the end of the current calendar year. Any programs that this effort indicates to have an unacceptable level of risk will be targeted for additional sampling and verification efforts.

## Recovery Auditing Progress

To effectively address the risk of improper administrative payments, the Department executed a formal agreement for recovery auditing work on contract payments.

All vendor payment transactions made since 1998 were reviewed. Information from the Recovery Audit Contractor's September 30, 2004, report for FY 2002 and FY 2003 is provided in the chart below. It is anticipated that the final amount to be collected will be less.

Fiscal Year	Number of Payments Reviewed	Total Payment Dollars Reviewed	Percent Potential Improper Payment Dollars
2002	14,642	1,141,146,000	0.0230%
2003	14,111	1,171,345,000	0.0264%

FY 2004 payments will be reviewed during FY 2005.

Our purchase and travel card programs continue to be subject to monthly data-mining to identify potential misuse or abuse.

## Manager Accountability

As part of the Department's agreement with Oak Ridge National Laboratory to assess and measure the risk of improper payments in the Department's grant programs, a two-day improper payment workshop was held for Department managers. The goal was to increase the overall awareness of the requirements of the Improper Payments Information Act and gather manager feedback regarding the available methods and data available to effectively and efficiently measure the risk and amount of improper payments.

The Department also plans to develop manager's internal control training that will focus on controls to eliminate improper payments. Managers will be required to attend a one-

day seminar that will provide a framework for managing the Department's improper payment controls program utilizing applicable regulations, guidelines, and best practices. Part of this one-day training will focus on the utilization of the risk assessment criteria to properly assess the risk of improper payments in the Department's programs.

## Planned Corrective Actions

In addition, to the actions previously outlined under the Federal Student Aid Programs and Title I sections, the Department will configure our corrective action plans based on the results of the initiatives outlined above. The Department will record and maintain corrective action plans as required. These will include due dates, process owners, and task completion dates.

## Information Systems and Infrastructure

The Department has requested \$350,000 for FY 2005 and \$450,000 for FY 2006 in our budget submission. The funds will be used to continue the installation of a software-based risk model that provides the Department with lists of items and entities to statistically sample for errors. It is also anticipated that the Department will incur costs related to migration activities.

In summary, the Department of Education is continuing its efforts to comply with the Improper Payments Information Act of 2002. The Department is focused on identifying and managing the risks of improper payments problems and mitigating risk in this area with adequate control activities. With the implementation of our current and anticipated actions, we will maintain an effective program for reducing improper payments Department-wide.