



OTHER INFORMATION

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ABOUT THE OTHER INFORMATION SECTION

The Other Information section includes:

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES

The OIG's Management and Performance Challenges Report provides a summary of what the OIG believes are the Department's biggest challenges for FY 2019. The OIG identified the following four challenges: (1) Improper Payments, (2) Information Technology Security, (3) Oversight and Monitoring, and (4) Data Quality and Reporting. The full report is available at the **OIG website**.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the agency or through the audit process. The Department reported no material weaknesses in FY 2018.

PAYMENT INTEGRITY

This section summarizes the Department's efforts to maintain payment integrity and to develop effective controls designed to prevent, detect, and recover improper payments. It also includes information regarding the Department's high-risk programs.

FRAUD REDUCTION REPORT

This section summarizes the Department's efforts to comply with the *Fraud Reduction and Data Analytics Act of 2015* (FRDAA) and details fraud reduction initiatives undertaken in FY 2018.

REDUCE THE FOOTPRINT

This section summarizes the Department's efforts to comply with Office of Management and Budget (OMB) Management Procedures Memorandum-12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the Reduce the Footprint policy implementing guidance. That guidance directs agencies to reduce the total square footage of their domestic office and warehouse inventory compared to an FY 2015 baseline.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

This section reports on the Department's annual inflation adjustments to civil monetary penalties as required under the *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*.

GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT OF 2016

The GONE Act summarizes the Department's efforts to track the number and status of grant closeouts and extensions.

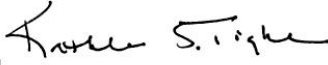


**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

THE INSPECTOR GENERAL

October 26, 2018

TO: The Honorable Betsy DeVos
Secretary of Education

FROM: Kathleen S. Tighe 
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2019

The Reports Consolidation Act of 2000 requires the U.S. Department of Education (Department) Office of Inspector General to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges. To identify management challenges, we routinely examine past audit, inspection, and investigative work, as well as issued reports where corrective actions have yet to be taken; assess ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyze new programs and activities that could post significant challenges because of their breadth and complexity.

Last year, we presented four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. Although the Department made some progress in addressing these areas, each remains a management challenge for fiscal year (FY) 2019.

The FY 2019 management challenges are:

- (1) Improper Payments,
- (2) Information Technology Security,
- (3) Oversight and Monitoring, and
- (4) Data Quality and Reporting.

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2019 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

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Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2019 EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The OIG works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (the Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires the OIG to identify and report annually on the most serious management challenges the Department faces. The *Government Performance and Results Modernization Act of 2010* requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges.

Last year, we presented four management challenges:

- (1) improper payments,
- (2) information technology security,
- (3) oversight and monitoring, and
- (4) data quality and reporting.

Although the Department made some progress in addressing these areas, each remains a management challenge for fiscal year (FY) 2019.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. This FY 2019 Management Challenges Report is available at <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>.

MANAGEMENT CHALLENGE 1— IMPROPER PAYMENTS

Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal

Pell Grant (Pell) and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments. In addition, the Office of Management and Budget (OMB) has designated these programs as high-priority programs, which are subject to greater levels of oversight.

Our recent work has demonstrated that the Department remains challenged to meet required improper payment reduction targets and needs to intensify its efforts to successfully prevent and identify improper payments. In May 2018, we issued an audit report on the Department's compliance with improper payment requirements for FY 2017. We found that the Department did not comply with the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) because it did not meet its reduction target for the Pell program. The Department reported a FY 2017 improper payment rate of 8.21 percent for the Pell program, which exceeded its reduction target of 7.85 percent. We found that the Department met the FY 2017 reduction target for the Direct Loan program. We reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete. We also found that the Department adequately described the oversight and financial controls it has designed and implemented to identify and prevent improper payments.

This was the Department's second consecutive year of not meeting its reduction target for the Pell program. Under IPERA and OMB guidance, if an agency is not in compliance with IPERA for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine whether additional funding would help the agency come into compliance. In addition, OMB may require agencies that are not compliant with IPERA (for one, two, or three years in a row) to complete additional requirements beyond the measures listed in the guidance. For example, if a program is not compliant with IPERA, OMB may determine that the agency must reevaluate or reprioritize its corrective actions, intensify and expand existing corrective action plans, or implement or pilot new tools and methods to prevent improper payments. OMB will notify agencies of additional required actions as needed.

Overall, our semiannual reports to Congress from April 1, 2015, through March 31, 2018, included more than \$715 million in questioned or unsupported costs from audit reports, which may be determined to be improper payments, and more than \$45 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

The Department stated that it is committed to maintaining the integrity of payments to ensure that the billions entrusted to it reach intended recipients in the right amount and for the right purpose. The Department stated that it sustains payment integrity by establishing policies, business processes, and controls over key payment activities, to include those pertaining to payment data quality, cash management, banking information, and financial reports. Payment integrity includes robust controls designed to prevent, detect, and recover improper payments. The Department added that in designing such controls, it strives to strike the right balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome. The Department noted that it must rely in part on controls established by the recipients of Federal funds, including State, local, and private organizations that further distribute those funds on behalf of the Department. The Department stated that because these third-party controls are outside of the Department's operational authority, they present a higher risk than the payments made directly by the Department, as evidenced by the OIG work and the Department's root cause analyses.

The Department stated that its current nonstatistical estimation methodology for improper payments in student aid programs limits the ability to establish accurate out-year reduction targets. The Department noted that it coordinated with OMB and other stakeholders in 2018 to develop a statistically valid methodology that will be implemented in 2019 to estimate improper payments for the Pell Grant and Direct Loan programs. The Department believed that this new methodology will improve the accuracy of the estimates and the Department's ability to meet reduction targets.

In addition, the Department stated that it is pursuing legislation that would authorize the Internal Revenue Service to disclose tax return information directly to the Department for the purpose of administering programs

authorized by Title IV of the *Higher Education Act of 1965*, through which the Department awarded more than \$120 billion in FY 2017. The Department expects the exemption would allow for significant simplification of and improvement to the administration of Title IV programs, including reduction in improper payments.

The Department stated that it is also developing an updated portfolio of risks through its Enterprise Risk Management program that is intended to help ensure that the risk of improper payments across the Department is managed strategically. The Department further stated that it is working to integrate its Enterprise Risk Management framework with its internal control program to help prevent and detect improper payments. The Department's internal control framework over payment integrity includes over 500 controls designed to help prevent, detect, and recover improper payments. These controls are included in the universe of internal controls the Department tests annually to assess their design and operating effectiveness. When the Department detects control deficiencies, it identifies the root causes, develops corrective action plans, and tracks the completion of the corrective action through resolution.

What Needs to Be Done

The Department needs to continue to take action to improve its payment integrity. The Department should continue its work to develop a methodology to accurately estimate improper payments, identify root causes, meet reduction targets, develop corrective action plans, and complete these plans to ensure programs comply with IPERA. The Department should also review and improve its business processes and controls over key payment activities to explore additional opportunities for preventing improper payments.

The Department needs to develop and implement processes to more effectively and efficiently monitor institutions participating in the student financial assistance programs, State education agencies, and local educational agencies to ensure they properly spend and account for Federal education funds. This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients.

MANAGEMENT CHALLENGE 2— INFORMATION TECHNOLOGY SECURITY

Why This Is a Challenge

Department systems contain or protect an enormous amount of sensitive information, such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability.

The OIG's work related to information technology continues to identify control weaknesses and ineffective security management programs that the Department needs to address to adequately protect its systems and data. For example, our most recent report on the Department's compliance with the *Federal Information Security Modernization Act of 2014* (FISMA) noted that the Department and Federal Student Aid (FSA) made progress in strengthening their information security programs; however, we found weaknesses in the Department's and FSA's information systems and those systems continued to be vulnerable to security threats.

As guided by the maturity model used in the FY 2017 Inspector General FISMA Metrics, we found that the Department and FSA were not effective in all five security functions—Identify, Protect, Detect, Respond, and Recover. We also identified findings in all seven metric domains: (1) Risk Management, (2) Configuration Management, (3) Identity and Access Management, (4) Security Training, (5) Information Security Continuous Monitoring, (6) Incident Response, and (7) Contingency Planning. We made recommendations to assist the Department and FSA with increasing the effectiveness of their information security program so that they fully comply with all applicable requirements.

Progress in Meeting the Challenge

The Department stated that it has made significant progress managing risk associated with information technology security. In particular, the Department noted that it has focused on addressing information technology control issues that were identified in prior-year OIG FISMA audits. The Department stated that it has continued to implement a comprehensive set of solutions that strengthen the overall cybersecurity of its networks, systems, and data.

The Department stated that it had taken actions to improve cybersecurity across the five security functions. Examples of actions identified by the Department within each area include the following.

- **Identify.** The Department stated that it implemented the use of a risk scorecard as a risk management tool and established a quantitative methodology for identifying, analyzing, and managing system-level cybersecurity risks. The Department stated that the risk scorecards are used to perform regular framework-based risk assessments to identify security gaps and opportunities to enhance the Department's cybersecurity capabilities and better protect its network assets and data.
- **Protect.** The Department stated that it had provided three cybersecurity training courses and had also executed six simulated phishing exercises in FY 2018. The Department believed that these exercises strengthened its ability to reduce risks to systems and information through modified user behavior and improved resilience to spear phishing, malware, and drive-by attacks.
- **Detect.** The Department stated that it completed acquisitions that included a database scanning tool and a Security Information Event Management solution. The Department also stated that it adjusted the network access control solution to further limit opportunities for potential malicious activity to occur and continued its work with the Department of Homeland Security to implement Continuous Diagnostics and Mitigation tools within its primary network infrastructure.
- **Respond.** The Department stated that it had increased forensics and vulnerability management capabilities and had reduced the turnaround time for security analysis through the acquisition and implementation of additional tools and hardware. The Department stated that multiple improvements in security reporting were also implemented to provide a quick view of activity statuses and security posture, including an improved Chief Information Officer weekly report.
- **Recover.** The Department stated that it implemented a new enterprise cybersecurity offering to system stakeholders that focused on testing system contingency plans and the incident response processes.

What Needs to Be Done

The Department reported significant progress towards addressing longstanding information technology security weaknesses. However, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations.

While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of information technology security controls, particularly in the areas of configuration management, identity and access management, and information security continuous monitoring.

Our FISMA audits will continue to assess the Department's efforts, and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes. To that end, the Department needs to effectively address information technology security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

**MANAGEMENT CHALLENGE 3—
OVERSIGHT AND MONITORING**

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended and programs are achieving goals and objectives. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Two subareas are included in this management challenge: student financial assistance program participants and grantees.

**OVERSIGHT AND MONITORING—
STUDENT FINANCIAL ASSISTANCE
PROGRAM PARTICIPANTS****Why This Is a Challenge**

The Department must provide effective oversight and monitoring of participants in the student financial assistance programs under Title IV of the *Higher Education Act of 1965*, as amended, to ensure that the programs are not subject to fraud, waste, and abuse.

In FY 2019, FSA expects to provide \$129.5 billion in new Federal student aid grants and loans (excluding Direct Consolidation Loans) to almost 11.4 million postsecondary students and their families.

The growth of distance education has added to the complexity of the Department's oversight of student financial assistance program participants. The management of distance education programs presents challenges to the Department and school officials because little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the Federal student aid laws and regulations and creates new opportunities for fraud, abuse, and waste in the student financial assistance programs. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to obtain Federal student aid.

Our audits and work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of student financial assistance program participants.

Progress in Meeting the Challenge

The Department stated that it has implemented robust oversight and monitoring processes for schools, lenders, servicers, guaranty agencies, and accrediting agencies. The Department further stated that FSA's process for oversight and monitoring includes performing program reviews, reviewing and resolving annual compliance audits and financial statements submitted by program participants to ensure that these participants are administratively capable and financially responsible, and conducting certification activities to ensure that program participants continue to be eligible to participate in the student aid programs.

The Department stated that the Next Generation Federal Student Aid transformation will bring significant improvements to FSA's capabilities to monitor the performance of servicing and collections vendors in addition to monitoring servicing and collections performance generally. As part of this initiative, FSA will implement a business intelligence platform designed to capture and report on performance metrics, which will include vendor contract performance metrics and data.

What Needs to Be Done

While the Department stated that it has implemented robust oversight and monitoring processes, our audits and investigations involving student financial assistance programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to further improve its processes. The Department should enhance its oversight of student financial assistance programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

Overall, the Department needs to ensure that its efforts to better coordinate oversight result in effective processes to monitor student financial assistance program participants and reduce risk. It should work to ensure that its program review and compliance audit processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers.

Our audits and investigations of student financial assistance program participants and audits of the Department's related oversight and monitoring processes will continue to assess a wide variety of effectiveness and compliance elements. This area remains a management challenge given our continued findings in this area.

OVERSIGHT AND MONITORING—GRANTEES

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve more than 18,300 public school districts and 55 million students attending more than 98,000 public schools and 34,000 private schools. Key programs administered by the Department include the Title I program, which under the Department's FY 2019 budget appropriation would deliver more than \$15.8 billion for local programs that provide extra academic support to help nearly 25 million students in high-poverty schools meet challenging State academic standards. Another key program is the *Individuals with Disabilities Education Act*, Part B Grants to States, which

would provide more than \$12.3 billion to help States and school districts meet the special educational needs of 6.9 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve local educational agency and State educational agency control issues, fraud relating to education programs, fraud perpetrated by State and local education agency and charter school officials, and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

The Department stated that it is working to maximize the value of grant funding by applying a risk-based, data-driven framework that balances compliance requirements with demonstrating successful results for the American taxpayer. The Department noted that there is significant inherent risk that State educational agencies, local educational agencies, and grant recipients may not always comply with financial or programmatic requirements, thereby negatively impacting program outcomes. The Department stated that it continues to take a number of actions to manage this risk and support State and local efforts, as well as postsecondary agencies and institutions, to improve outcomes. The Department's new *Strategic Plan* includes key objectives and strategies focused on providing greater support to grantees through a number of ways, including flexibility, technical assistance, partnership, and dissemination of evidence.

The Department also stated that it continues to develop improved strategies to oversee and monitor grant recipients. According to the Department, one of these strategies is increasing the expertise of program staff to provide effective monitoring and oversight. The Department stated that its Risk Management Service developed and offered multiple courses covering basic to advanced strategies and resources to monitor formula and discretionary grantees. The Department has also focused on improving its technical support processes.

The Department reported accomplishments in grantee oversight and monitoring across multiple offices. As examples, the Department reported the following.

- The Office of State Support implemented a performance review system designed to provide effective performance management and support to State educational agencies in administering and leveraging grant programs that include Title I, Part A; Title II, Part A; and Title III.

- The Office of Elementary and Secondary Education increased the number of engagements in its fiscal monitoring pilot, which is in its second year, and successfully increased focus on improving grantee financial management.
- The Office of Special Education and Rehabilitative Services and the Office of Elementary and Secondary Education collaboratively planned and hosted two major public events to provide States with technical assistance on assessment topics and implementing the *Every Student Succeeds Act*.
- Multiple offices also routinely collaborate in monitoring activities, focusing on areas such as assessments, accountability, and data reporting.

What Needs to Be Done

The Department continued to report progress in enhancing its grantee oversight processes, citing numerous actions it had taken to address risks and improve outcomes across multiple program offices. The Department should periodically assess the results of these efforts, identify the most promising approaches, and determine whether these best practices can be effectively applied in other program offices.

The Department should also continue its efforts to offer common training, encourage effective collaboration and communication across program offices, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs. Given the flexibilities offered by the *Every Student Succeeds Act*, the Department needs to ensure that its monitoring approaches support State and local efforts while providing effective oversight of financial stewardship and ensuring progress towards positive program outcomes.

Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight.

The Department's oversight and monitoring of grantees remains a management challenge given our continued findings in this area.

MANAGEMENT CHALLENGE 4—DATA QUALITY AND REPORTING

Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department relies on program data to evaluate program performance and inform management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the Department and at State and local educational agencies. This included weaknesses in controls over the accuracy and reliability of program performance and graduation rate information provided to the Department.

Progress in Meeting the Challenge

The Department acknowledged that there is significant inherent risk associated with the quality of data reported to the Department by grant recipients. However, the Department reported that it is committed to a number of actions to strengthen the quality, accessibility, and use of education data. The Department believes that its efforts to strengthen its data life cycle management, governance, and quality framework will help ensure that data the Department uses for decision-making are accurate and reliable.

The Department stated that it developed a tool to track data quality concerns and State responses to data-related questions that contributed to the School Year 2015–16 Assessment, Adjusted Cohort Graduation Rate, and Consolidated State Performance Report data quality follow-up efforts. The Department tracks data quality findings through multiple review cycles with input from States and data stewards. The Department further reported that the Office of Elementary and Secondary Education implemented a process to track Consolidated State Performance Report data quality follow-up and streamlined the process to load Consolidated State Performance Report data quality findings into a main repository.

The Department reported that it continues to work in other areas to improve the data management and verification process and better mitigate the risk that the Department might unknowingly accept or use inaccurate data. Notably, the Department plans to leverage single

audits to help assess grant recipient data quality. The Department is working with OMB on language for the compliance supplement that would add focus to the review of grant recipients' internal controls that support the quality of performance data submitted to the Department. The Department believed that this would better ensure that data reported by States are accurate and reliable.

What Needs to Be Done

The Department's efforts to improve the overall quality of data that it collects and reports remain important to its program management and reporting. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge. Our recent audits continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's effort to promote common strong practices across its program offices is an important step to improving data quality. In addition, efforts to strengthen data certification statements and to perform outreach to States and other entities that report data to the Department are important steps to reinforce the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should follow through on its plans to leverage single audits to help assess grant recipient data quality.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables provide a summarized report on the Department’s financial statement audit and its management assurances. For more details, the auditors’ report can be found beginning on page 76 and the Department’s management assurances on page 16.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	1	0	0	1

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting—*Federal Managers’ Financial Integrity Act (FMFIA) 2*

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

The Department had no material weaknesses in the design or operation of the internal control over financial reporting.

Effectiveness of Internal Control over Operations—*FMFIA 2*

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Conformance with Financial Management System Requirements—*FMFIA 4*

Statement of Assurance: The Department systems conform to financial management system requirements.

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Nonconformances	0	0	0	0	0	0

Compliance with *Federal Financial Management Improvement Act (FFMIA)*

	Agency	Auditor
1. System Requirements	No lack of compliance noted	No lack of compliance noted
2. Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. United States Standard General Ledger at Transaction Level	No lack of compliance noted	No lack of compliance noted

PAYMENT INTEGRITY

I. PAYMENT REPORTING

Office of Management and Budget (OMB) Memorandum M-18-20 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.

The Department places a high value on maintaining the integrity of all types of payments made to ensure that the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. The Department ensures payment integrity by establishing effective policies, business processes, systems, and controls over key payment activities, including those pertaining to: payment data quality, cash management, banking information, third-party oversight, assessments of audit reports, and financial reporting. The number and dollar value of improper payments are key indicators of payment integrity. Accordingly, the Department maintains a robust internal control framework that includes over 500 controls designed to help prevent, detect, and recover improper payments. In designing controls, the Department attempts to strike the right balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department

must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. Because these "third-party" controls are outside of the Department's operational control, they present a higher risk to the Department, as evidenced by the work of the Department's Office of Inspector General (OIG) and our root cause analysis. When control deficiencies are detected, either within the Department or at external entities, the Department seeks to identify their root causes, develop corrective action plans, and track corrective actions through to completion.

Readers can obtain more detailed information on improper payments at <https://paymentaccuracy.gov>.

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2018, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. The Department continues to place additional emphasis to ensure payment integrity and minimize improper payments in these two important programs as required by OMB guidance. Please refer to the **Internal Controls** Section of this agency financial report (AFR) for more information. Details on improper payment estimates and root causes for both programs are included within the Improper Payment Estimates, **Payment Reporting Root Cause Categories**, and Improper Payment Corrective Actions sub-sections that follow and in **Section VII**.

PELL GRANT

The Pell Grant program, authorized under Title IV of the *Higher Education Act of 1965* (HEA), provides need based grants to low-income undergraduate and certain post baccalaureate students to promote access to postsecondary education.

DIRECT LOAN

The Direct Loan program, added to HEA in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents.

IMPROPER PAYMENT ESTIMATES

The Department used a nonstatistical sampling and estimation methodology to estimate the improper payment rate for the Pell Grant and Direct Loan programs in FY 2018. Please refer to Section VII, Sampling and Estimation Methodology, for additional details about the methodology and its statistical limitations.

The Department’s nonstatistical methodology was revised in FY 2017 to address volatility issues, as described further below in Section VII, Sampling and Estimation Methodology, but imprecision and volatility in the improper payments estimates continue that limit the ability to establish accurate out-year reduction targets. Accordingly, reduction targets were set to the current year improper payment percentages. The Department is implementing a statistically valid methodology in FY 2019 to improve the accuracy of the improper payment estimates.

Readers can obtain more detailed information on improper payments and all of the information reported in the past AFR at <https://paymentaccuracy.gov>.

Figure 15. FY 2018 Pell Grant Estimates

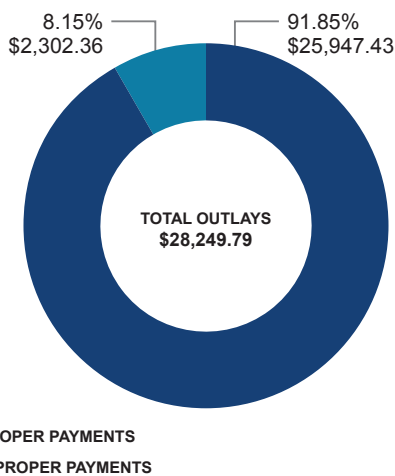
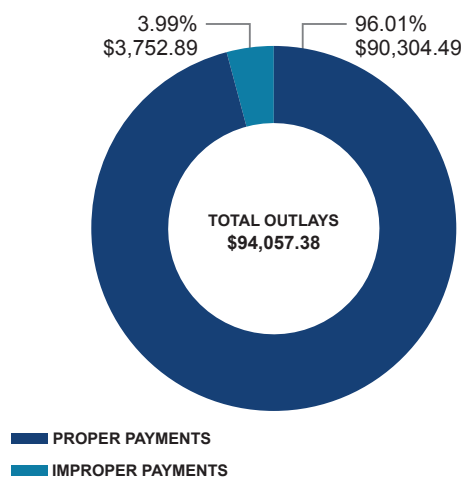


Figure 16. FY 2018 Direct Loan Estimates



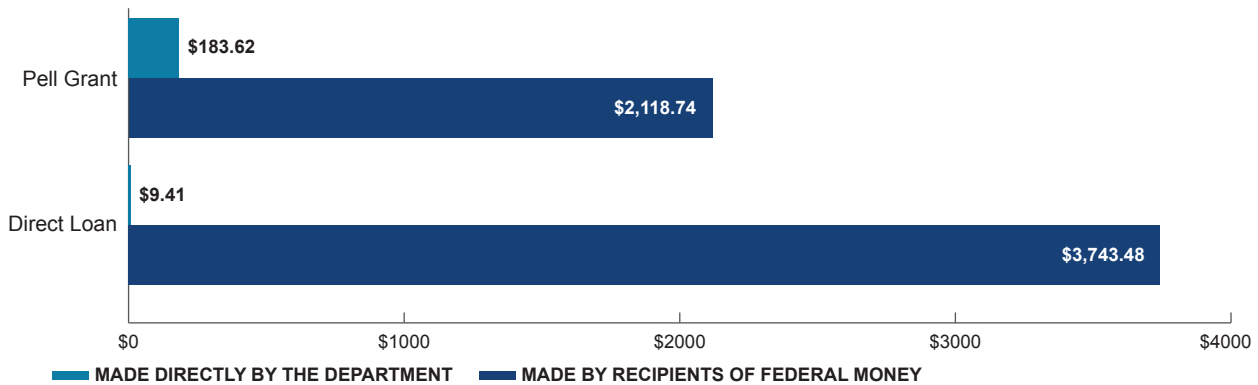
The source of the FY 2018 Pell Grant and Direct Loan outlay amounts is Federal Student Aid (FSA)'s Financial Management System (FMS).

Table 3. FY 2018 Improper Payments for Risk-Susceptible Programs

Program	Overpayments (Dollars in Millions)	Overpayments (%)	Underpayments (Dollars in Millions)	Underpayments (%)
Pell Grants	\$ 2,223.52	96.58%	\$ 78.84	3.42%
Direct Loans	\$ 3,537.97	94.27%	\$ 214.92	5.73%
Total	\$ 5,761.49	95.15%	\$ 293.76	4.85%

Figure 17, FY 2018 Source of Improper Payments, summarizes the estimated amount of improper payments made directly by the Department and the amount of improper payments made by recipients of federal money in FY 2018 for the Pell Grant and Direct Loan programs. Improper payments attributed to the Department include, for Pell, estimates of misreported income for students not selected for verification and who did not use the Internal Revenue Service (IRS) Data Retrieval Tool (DRT) and, for Direct Loan, Consolidation and Refund improper payments related to the Department’s loan servicing operations. Improper payments attributed to recipients of federal money include improper disbursements of Title IV funds by schools.

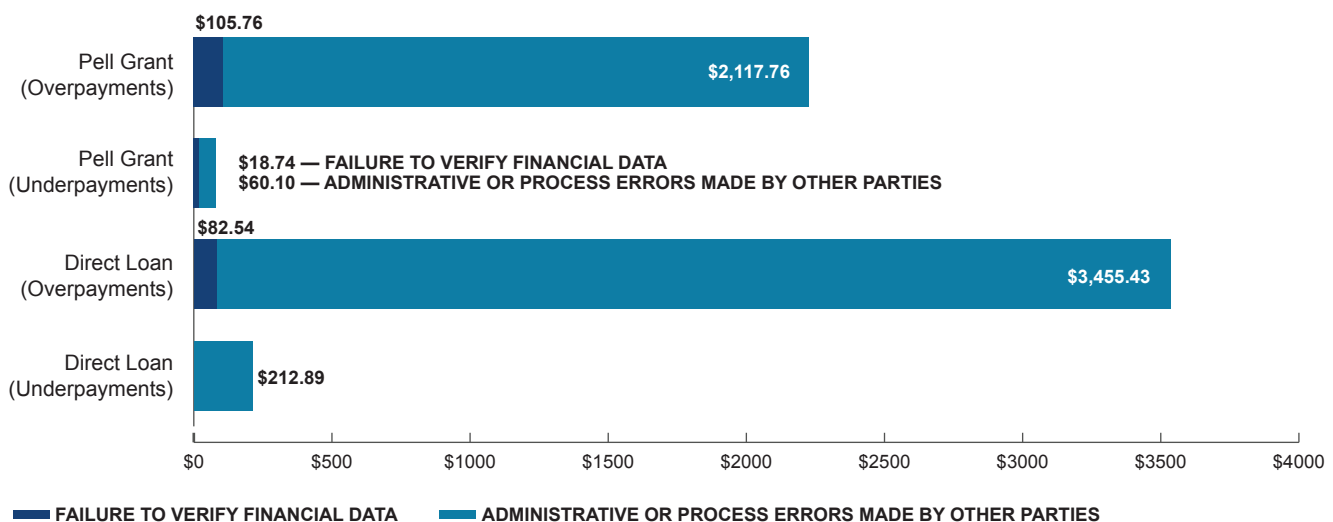
Figure 17. FY 2018 Source of Improper Payments
(Dollars in Millions)



PAYMENT REPORTING ROOT CAUSE CATEGORIES

Our analysis indicated that the underlying root causes of improper payments for the Pell Grant and Direct Loan programs in FY 2018 were “Failure to Verify—Financial Data” and “Administrative or Process Errors Made by—Other Party.” The root causes were identified through improper payment fieldwork and categorized using categories of error as defined in the June 2018 update to OMB Circular A-123, Appendix C (OMB Memorandum M-18-20). Specific root causes associated with the “Failure to Verify—Financial Data” category include, but are not limited to, ineligibility for a Pell Grant or Direct Loan and incorrect self-reporting of an applicant’s information that leads to incorrect awards based on Expected Family Contribution. Specific root causes associated with the “Administrative or Process Errors Made by—Other Party” category include, but are not limited to, incorrect processing of student data by institutions during normal operations; student account data changes not applied or processed correctly; satisfactory academic progress not achieved; incorrectly calculated return records by institutions returning Title IV student aid funds; and processing errors at the servicer level.

Figure 18. FY 2018 Root Causes of Improper Payments
(Dollars in Millions)



IMPROPER PAYMENT CORRECTIVE ACTIONS

This section presents the corrective actions for the Pell Grant and Direct Loan programs.

The Department has established an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. These oversight functions include FSA’s Enforcement Unit and Program Compliance, among others. FSA’s Enforcement Unit is focused on identifying, investigating and adjudicating statutory and regulatory violations of the federal student aid programs and on resolving borrower defense claims. The Unit plays a central role in coordinating efforts to prevent third-party companies associated with student aid programs from harming students, parents and borrowers. Program Compliance likewise plays a central role in monitoring and oversight of the institutions (i.e., schools, guaranty agencies, lenders, and servicers) participating in the Department’s FSA programs. The office establishes and maintains systems and procedures to support the eligibility, certification, and oversight of program participants. Program Compliance annually conducts approximately 100–300 Program Reviews of the approximately 6,000 eligible schools to assess institutions’ compliance with Title IV regulations. Program Compliance evaluates a school’s compliance with federal requirements, assesses liabilities for errors in performance, and identifies actions the school must take to make the Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. A school with serious violations may be placed on heightened cash monitoring (HCM) for disbursements, lose funding for specific programs, or be terminated from participation in all Title IV programs for noncompliance.

The corrective actions listed below are specific to the root causes of improper payments identified from FY 2018 improper payment fieldwork.

Table 4. Corrective Actions—Root Cause Category

IPIA ERROR CAUSE	ROOT CAUSE CATEGORY	CORRECTIVE ACTIONS ¹	COMPLETION TIMELINE
Failure to Verify Financial Data (Identified from Program Reviews)	Incorrect awards based on Expected Family Contribution (EFC)	<p>EFC is a number that determines students' eligibility for federal student aid. The EFC formulas use the financial information students provide on their Free Application for Federal Student Aid (FAFSA) to calculate the EFC. Financial aid administrators (FAAs) subtract the EFC from students' cost of attendance (COA) to determine their need for federal student financial assistance offered by the Department.</p> <p>On August 20, 2018, FSA published the 2019–2020 EFC Formula Guide. The Guide includes EFC worksheets and tables for the 2019–2020 processing cycle, which can help calculate an estimated EFC for students. The Guide provides information about the EFC formula worksheets, and direction about when to use the respective worksheets. FSA will publish the 2020–2021 Guide with updates to address any changes to the formulas and to clarify existing guidance.</p> <p>In FY 2018, the FSA Training Conference for Financial Aid Professionals was held from November 28 to December 1, 2017. The FSA Training Conference is a series of training and technical assistance programs provided by the Department for financial aid professionals charged with administering the Title IV student financial assistance programs on their campuses. In FY 2018, FSA addressed topics related to incorrect awards based on EFC. Over 2,000 unique schools registered for the FY 2018 conference. All 50 states were represented as well as the U.S. territories. More than 160 Foreign School officials attended from countries all over the world. Also, 26 percent of attendees were first-time attendees. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide guidance about preventing incorrect awards based on EFC.</p> <p>FSA annually publishes the FSA Handbook. This publication is intended to provide guidance to college financial aid administrators and counselors about the administration of Title IV aid. The 2018–2019 Handbook includes a volume about Student Eligibility, including eligibility for program funds based on EFC. The Handbook provides examples and guidance about using EFC to determine and calculate eligibility. FSA will publish an updated volume for 2019–2020, including content which addresses incorrect awards based on EFC.</p> <p>FSA has also designed, in collaboration with financial aid professionals, the FSA Assessments to help schools with compliance and improvement activities. The Assessments contain links to applicable laws and regulations related to administering Title IV funds. The Assessments address topics related to incorrect awards based on EFC, such as student eligibility and financial need and packaging. FSA updated the Assessments in the spring of 2018. In FY 2019, FSA will again update the FSA Assessments to help address incorrect awards based on EFC.</p> <p>FSA also offers a variety of free training, including Fundamentals of Federal Student Aid Administration training workshops, required when schools apply for initial participation in the Federal Student Aid programs and for a variety of other reasons. These workshops are also open to anyone who wishes to attend. In FY 2019, FSA will hold 4.5 day in-person training workshops at the Department's 11 regional training facilities. FSA also offers FSA Coach, online self-paced training on the concepts, processes and systems to properly administer Federal Student Aid programs, along with a suite of other e-training available via https://fsatraining.info/. Training is focused on specific topics of interest such as those related to correctly awarding funds based on EFC. In FY 2018, FSA published updated training content. In FY 2019, FSA will continue to update training content to help financial aid professionals with the mastery of the knowledge and skills needed to correctly award based on EFC.</p> <p>The Department maintains a blog to provide insights on the activities of schools, programs, grantees, and other education stakeholders to promote continuing discussion of educational innovation and reform. For example, on September 28, 2018, the Department published an article about how to fill out the FAFSA form when there is more than one child in college, which may impact EFC. The Department will continue to update the blog to address topics such as incorrect awards based on EFC.</p>	<p>In FY 2019, FSA will publish an updated EFC Formula Guide for award year 2020–2021.</p> <p>FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018.</p> <p>In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses incorrect awards based on EFC.</p> <p>In FY 2019, FSA will update the FSA Assessments to help address incorrect awards based on EFC.</p> <p>In FY 2019, FSA will publish updated free training content.</p> <p>In FY 2019, the Department will maintain its blog, publishing additional articles which address topics such as incorrect awards based on EFC.</p>

<p>Failure to Verify Financial Data (Identified from Program Reviews)</p>	<p>Verification deficiencies</p>	<p>Verification is the process where schools, in partnership with FSA, confirm the accuracy of select data reported by students on their FAFSA. FSA's Central Processing System selects which applications are to be verified. Schools also have the authority to verify additional students. Students selected for verification are placed in one of several verification tracking groups to determine which FAFSA information must be verified. Items verified include Adjusted Gross Income (AGI), taxes paid, and other tax data. Income verification helps detect and prevent misreported income.</p> <p>In FY 2018, FSA completed an analysis of the verification data to inform the upcoming award year cycle before launch (to allow for system changes) using the most recently available data at that time. In FY 2019, FSA will continue to refine the verification selection process. As with prior years' verification selection, data-based statistical analysis will continue to be used by the Department to select for verification of the 2019–2020 FAFSA applicants with the highest statistical probability of error and the impact of such error on award amounts.</p> <p>In FY 2018, FSA published an updated listing of FAFSA information schools and applicants may be required to verify for the 2019–2020 award year. This notice was published in the Federal Register on March 28, 2018. In FY 2019, FSA will continue to enhance verification procedures, requiring selected schools to verify specific information reported on the FAFSA by student aid applicants. FSA will publish an updated notice in the Federal Register announcing the FAFSA information schools and financial aid applicants may be required to verify, as well as the acceptable documentation for verifying FAFSA information.</p> <p>From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. FSA addressed topics related to verification, including a session on professional judgement and verification, and a session on institutional resolution of conflicting information between the 2017–2018 and 2018–2019 FAFSAs. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance to help prevent verification deficiencies.</p> <p>FSA annually publishes the FSA Handbook. This publication is intended for college financial aid administrators and counselors. In FY 2018, FSA published a 2018–2019 Verification Guide as part of the 2018–2019 FSA Handbook. The Guide was updated as of December 2017. The updates for 2018–2019 include updates to address changing requirements, and clarify existing requirements. For FY 2019, FSA will publish an updated Verification Guide to address any new requirements and to provide additional clarification about existing requirements.</p> <p>FSA also publishes questions and answers about verification on its website. Questions and answers were updated in FY 2018 to help clarify verification requirements. FSA will continue to update the frequently asked questions and answers, if updates are identified.</p> <p>FSA designed, in collaboration with financial aid professionals, a Verification Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Verification Assessment, updated in May 2018, contains a consolidated set of links to applicable laws and regulations to assist schools with understanding the verification requirements, and guidance and examples of verification issues, such as conflicting information.</p> <p>FSA also offers free verification related training via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to properly perform verification.</p>	<p>In FY 2019, FSA will complete an analysis of the verification data to inform the upcoming award year cycle approximately nine months before launch (to allow for system changes) using the most recently available data at that time.</p> <p>In FY 2019, FSA will publish an updated listing of FAFSA information schools and applicants may be required to verify for the 2019–2020 award year.</p> <p>FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018.</p> <p>In FY 2019, FSA will publish the 2019–2020 Verification Guide, including updated content that addresses verification deficiencies.</p> <p>In FY 2019, FSA will publish updates to questions and answers about verification requirements to its website, if identified.</p> <p>In FY 2019, FSA will update the Verification Assessment to help address verification deficiencies.</p> <p>In FY 2019, FSA will publish updated free training content related to verification.</p>
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<p>Failure to Verify Financial Data (Identified from Program Reviews)</p>	<p>Verification deficiencies</p>	<p>FSA continues to utilize and promote the IRS DRT, which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online FAFSA. The IRS DRT remains the fastest, most accurate way to input tax return information into the FAFSA form.</p> <p>To increase IRS DRT usage, and thereby reduce improper payments associated with misreported income, FSA has taken action to vigorously increase access to and promote the tool. For the 2018–2019 application cycle, FSA expanded the population available to use the tool to include amended tax returns. Additionally, the data transferred from the IRS was masked to improve the privacy of applicant and parent tax information. As part of the ongoing effort to expand usage of the IRS DRT by applicants and parents, FSA publishes information about the benefits and use of the IRS DRT, including on its blog, and sends electronic announcements via Information for Financial Aid Professionals (IFAP) urging institutions to promote the use of the IRS DRT. FSA actively monitors the impact of its promotion of the IRS DRT. For example, FSA reports IRS DRT usage figures, disaggregated by dependency status and tax filing status on a quarterly basis. The impact of efforts to promote use of the IRS DRT is also assessed through reporting of IRS DRT usage via paymentaccuracy.gov. FSA also conducts an annual FAFSA/IRS Data Statistical Study (Study). This Study includes an analysis of Pell applicants based on IRS DRT usage. Additionally, FSA monitors anecdotal reports from schools and IRS DRT users via annual surveys, usability studies, and the FSA Feedback System, among other mechanisms.</p> <p>The Department is also coordinating with the Treasury Department and OMB to pursue legislation that would provide an exemption to the IRS Tax Code Section 6103 that would further streamline FSA's ability to receive and verify applicants' and borrowers' income data. The Department expects this to have a meaningful impact on improper payments, reduce burden on applicants and schools, and reduce burden on borrowers, helping them avoid delinquency and default.</p>	<p>Given the importance of IRS DRT usage in preventing misreported income, IRS DRT usage is reported on paymentaccuracy.gov for the Pell Grant and Direct Loan programs. The usage results will be posted by the end of November, 2018.</p> <p>Exemption to the IRS Tax Code Section 6103 is pending legislative changes.</p>
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<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Incorrect processing of funds during normal operations</p>	<p>Incorrect processing of funds during normal operations include failure to properly pay credit balances, ineligible use of Title IV funds, incorrect disbursement periods, inaccurate application of credit balance to charges for program overages, incorrect calculation of lifetime eligibility used (LEU) and Direct Loan annual loan limits, and incorrect calculation of COA.</p> <p>From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included several sessions related to processing of funds during normal operations. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance related to process of funds during normal operations.</p> <p>FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes volumes about Calculating Awards & Packaging, and Processing Aid and Managing FSA Funds. These volumes provide examples and guidance about processing of funds during normal operations. FSA will publish updated volumes for 2019–2020.</p> <p>FSA designed, in collaboration with financial aid professionals, a Fiscal Management and Student Eligibility Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Fiscal Management Assessment and Student Eligibility Assessment, updated in February 2018 and June 2018, respectively, contain a consolidated set of links to applicable laws and regulations related to processing of funds during normal operations, and related guidance, worksheets, and checklists to help schools comply with these requirements.</p> <p>FSA also offers free training related to processing of funds during normal operations via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to process funds during normal operations.</p>	<p>FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018.</p> <p>In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses processing of funds during normal operations.</p> <p>In FY 2019, FSA will update the Fiscal Management and Student Eligibility Assessments.</p> <p>In FY 2019, FSA will publish updated free training content related to processing of funds during normal operations.</p>
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Administrative or Process Errors by Other Party (Identified from Program Reviews)

Incorrect processing of student data during normal operations

Incorrect processing of student data during normal operations includes inaccurate or inadequate tracking of clock hours, credit hours, and other documentation of attendance.

From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included several related sessions: Administering Adds, Drops, and Withdrawals; Basics of Determining Academic Calendars (Standard, NonStandard, and NonTerm); and Administering Title IV Aid for Transfer Students. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance about processing of student data during normal operations.

FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes a Student Eligibility volume, updated in May 2018, which includes a section devoted to enrollment status. This volume provides examples and guidance about processing of student data during normal operations. FSA will publish an updated volume for 2019–2020.

FSA designed, in collaboration with financial aid professionals, a Fiscal Management and Student Eligibility Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Fiscal Management Assessment and Student Eligibility Assessment, updated in February 2018 and June 2018, respectively, contain links to applicable laws and regulations about disbursing funds to regular students enrolled in eligible programs and enrollment record retention. The Assessments also include related guidance, worksheets, and checklists to help schools comply with these requirements.

FSA also offers free training related to processing of student data during normal operations via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to process student data during normal operations.

FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018.

In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses processing of student data during normal operations.

In FY 2019, FSA will update the Fiscal Management and Student Eligibility Assessments.

In FY 2019, FSA will publish updated free training content related to processing of funds during normal operations.

<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Incorrect awards based on eligibility</p>	<p>Schools that disburse Title IV funds must demonstrate that they are eligible to participate in these programs before they can be certified for participation and must maintain eligibility. Further, student and parent borrowers must satisfy eligibility requirements for the Title IV funds.</p> <p>From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included several sessions related to student and institutional eligibility: Student Eligibility Requirements; Maintaining Your Institutional Eligibility; and Pell LEU & Subsidized Usage Limit Applies (SULA) Adjustments for Transfer Students Coming from Closed Schools. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance about confirming student and institutional eligibility.</p> <p>FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes volumes for Student Eligibility and School Eligibility and Operations. These volumes provide examples and guidance about student and school eligibility. FSA will publish updated volume for 2019–2020.</p> <p>FSA designed, in collaboration with financial aid professionals, Student Eligibility and Institutional Eligibility Assessments, part of the FSA Assessments that help schools with compliance and improvement activities. The Student Eligibility Assessment and Institutional Eligibility Assessment, both updated in June 2018, contain a consolidated set of links to applicable laws and regulations related to eligibility, and corresponding guidance, worksheets, and checklists.</p> <p>FSA also offers free training related to maintaining and confirming student and institutional eligibility via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to award funds to eligible students attending eligible programs and institutions.</p>	<p>FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018.</p> <p>In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including the Student Eligibility and School Eligibility and Operations volumes.</p> <p>In FY 2019, FSA will update the Student Eligibility and Institutional Eligibility Assessments.</p> <p>In FY 2019, FSA will publish updated free training content related to awarding funds to eligible students attending eligible programs and institutions.</p>
<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Satisfactory Academic Progress (SAP) deficiencies</p>	<p>According to federal regulations, all schools participating in Title IV programs must establish SAP standards. SAP is a student-eligibility requirement and schools are responsible for making sure that students who are not making SAP do not receive student financial aid funds.</p> <p>From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included sessions related to SAP. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated SAP guidance.</p> <p>FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes a Student Eligibility volume, updated in May 2018, which includes a section devoted to SAP. This volume provides examples and guidance about SAP-related issues. FSA will publish an updated volume for 2019–2020.</p> <p>FSA designed, in collaboration with financial aid professionals, a Satisfactory Academic Progress Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Satisfactory Academic Progress Assessment, updated in February 2018, contains a consolidated set of links to applicable SAP laws and regulations, and related guidance and worksheets.</p> <p>FSA also offers free training related to SAP via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to monitor SAP.</p>	<p>FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018.</p> <p>In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated SAP-related guidance.</p> <p>In FY 2019, FSA will update the Satisfactory Academic Progress Assessment.</p> <p>In FY 2019, FSA will publish updated free training content related to SAP via FSA Coach.</p>

<p>Administrative or Process Errors by Other Party (Identified from Program Reviews)</p>	<p>Incorrectly calculated return records</p>	<p>When a recipient of Title IV funds ceases to be enrolled prior to the end of a payment period or period of enrollment, schools are required to determine the earned and unearned Title IV aid a student has as of the date the student ceased attendance based on the amount of time the student spent in attendance or, in the case of a clock-hour program, was scheduled to be in attendance.</p> <p>From November 28 to December 1, 2017, FSA held its annual FSA Training Conference for Financial Aid Professionals to provide training and technical assistance to financial aid professionals charged with administering the Title IV student financial assistance programs. The FY 2018 Training Conference included sessions devoted to incorrectly calculated return records: Return to Title IV Funds (R2T4): Basic Principles; R2T4 Funds: Advanced Concepts; R2T4 and Credit-Hour Programs; and SAP and Return to Title IV Funds (R2T4) Funds. The session recordings are publicly available. In FY 2019, FSA will again hold the FSA Training Conference. FSA will promote the training to financial aid professionals. The Training Conference will provide updated guidance for correctly calculating return records.</p> <p>FSA annually publishes the FSA Handbook for college financial aid administrators and counselors. The 2018–2019 Handbook includes a volume dedicated to Withdrawals and the Return of Title IV Funds. This volume provides examples and guidance about the actions a school is required to take when a student withdraws. FSA will publish an updated volume for 2019–2020.</p> <p>FSA designed, in collaboration with financial aid professionals, a Return of Title IV Funds Assessment, part of the FSA Assessments that help schools with compliance and improvement activities. The Return of Title IV Funds Assessment, updated in May 2018, contains a consolidated set of links to applicable laws and regulations for the treatment of Title IV funds when a student withdraws, and related guidance, worksheets, and checklists to help schools comply with these requirements.</p> <p>FSA also offers free training related to correctly calculating return records via FSA Coach, a suite of interactive courses for new and experienced financial aid administrators in the essential knowledge and skills needed to successfully administer the federal student aid programs, and other e-training. For FY 2019, FSA will publish updated training content that addresses annual updates for the new award year, and interactive exercises and self-assessments to help financial aid professionals with the mastery of the knowledge and skills needed to correctly calculate return records.</p>	<p>FSA will hold the FY 2019 FSA Training Conference for Financial Aid Professionals from November 27 to November 30, 2018.</p> <p>In FY 2019, FSA will publish the 2019–2020 FSA Handbook, including updated content that addresses withdrawals and the return of Title IV funds.</p> <p>In FY 2019, FSA will update the Return of Title IV Funds Assessment.</p> <p>In FY 2019, FSA will publish updated free training content related to return of Title IV funds via FSA Coach.</p>
<p>Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)</p>	<p>Incorrect processing of Loan Verification Certificate (LVC)</p>	<p>In FY 2018, of the 120 Direct Loan Consolidation payments sampled, 16 improper payments were identified due to incorrect processing of LVCs, a reduction from 17 in the prior year. These improper payments represent 0.01% of the Direct Loan improper payment estimate. FSA will initiate an assessment of the feasibility and effectiveness of the servicers implementing additional levels of quality assurance over processing of LVCs.</p>	<p>FSA will meet with the Title IV Additional Servicers (TIVAS) in FY 2019.</p> <p>In FY 2019, FSA will initiate an assessment of the feasibility and effectiveness of servicers implementing additional levels of quality assurance over processing of LVCs.</p>
<p>Administrative or Process Errors by Other Party (Identified from FFEL to Direct Loan Consolidations)</p>	<p>Documentation provided by servicer Not applicable; no Direct Loan Consolidation improper payments were identified in FY 2018 due to insufficient documentation.</p>	<p>In FY 2018, FSA shared with the TIVAS a Direct Loan Consolidation improper payment fieldwork checklist. This checklist provides the TIVAS guidance on the documentation that should be maintained to demonstrate that FFEL to Direct Loan Consolidations were made to eligible borrowers, for eligible purposes, and for the correct amount. In FY 2018, FSA also sent a communication to the TIVAS reiterating the need to maintain sufficient documentation to support FFEL to Direct Loan Consolidations were made properly. In FY 2018, of the 120 Direct Loan Consolidation payments sampled, no improper payments were identified due to lack of sufficient supporting documentation, a reduction from two in the prior year.</p> <p>No additional corrective actions are identified for FY 2019 as no Direct Loan Consolidation improper payments due to insufficient documentation were identified in FY 2018.</p>	<p>In FY 2019, FSA will provide the Direct Loan Consolidation improper payment fieldwork checklist regarding documentation that must be maintained by the TIVAS.</p>

<p>Administrative or Process Errors by Other Party (Identified from Direct Loan Refunds)</p>	<p>Not applicable; no Direct Loan Refund improper payments were identified in FY 2018.</p>	<p>In FY 2018, FSA shared with the TIVAS a Direct Loan Refund improper payment fieldwork checklist. This checklist provides the TIVAS guidance on the documentation that should be maintained to demonstrate that refunds were made to eligible lenders and borrowers, for eligible purposes, and for the correct amount. In FY 2017 and FY 2018, no improper payments were identified from review of a sample of Direct Loan Refund payments. The Direct Loan Refund improper payment fieldwork checklist supported the collection of documentation from the servicers evidencing that all sampled Direct Loan Refunds were proper.</p> <p>No additional corrective actions are identified for FY 2019 as no Direct Loan Refund improper payments were identified in FY 2018.</p>	<p>In FY 2019, FSA will provide the Direct Loan Refund improper payment fieldwork checklist regarding documentation that must be maintained by the TIVAS.</p>
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¹ FSA does not attempt to quantify the reduction of the improper payment estimates in terms of percentage or amount due to these corrective actions. The quantification of results is not feasible due to the use of a nonstatistical alternative estimation methodology.

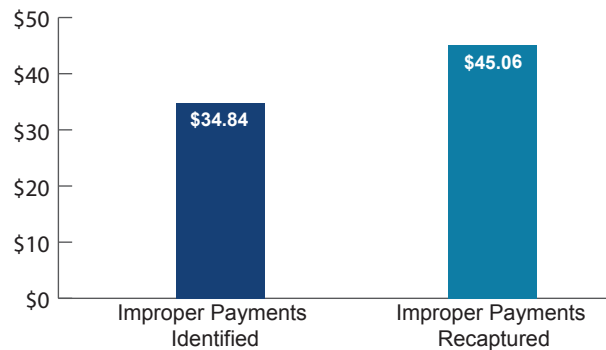
II. RECAPTURE OF IMPROPER PAYMENTS REPORTING

Agencies are required to conduct recovery audits for contract payments and programs that expend \$1 million or more annually if conducting such audits would be cost effective. The Department determined that payment recapture audits would not be cost effective for any of its loan and grant programs or for contracts. A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

The Department identifies and recovers improper payments through sources other than payment recapture audits. The Department works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in compliance audits, OIG audits, and Department-conducted program reviews. The Department also analyzes the return of grant funds from recipients to determine if they are due to improper payments. When an improper payment is detected and deemed collectable, the Department establishes an account receivable and pursues collections. Recoveries are also made through grant program, payroll, and other offsets. Recipients of Department funds can appeal management's decisions regarding funds to be returned to the Department or they may go bankrupt before the Department can collect, thereby delaying or decreasing the amounts the Department is able to collect. Additionally, the Department has wide discretion to make a determination to not collect improper payments from grantees in cases where it determines that pursuing collections would cause more harm to the federal interest. For these and other reasons, not all identified improper payments will ultimately be collected and collections will not necessarily be made in the same year as when the improper payments were identified.

In FY 2018, the Department identified \$34.84 million in improper payments and recovered \$45.06 million in improper payments (or 129 percent¹), as depicted in the graph below. For detailed information on identified and recovered improper payments, readers can visit <https://paymentaccuracy.gov>. The Department continues to work to improve its methods to identify, collect, and report on improper payment collections.

Figure 19. Improper Payments Identified and Recaptured in FY 2018
(Dollars in Millions)



III. AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY (DNP) INITIATIVE

The Department continues its efforts to prevent and detect improper payments via the DNP Business Center Portal as required by the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), as amended by the *Bipartisan Budget Act of 2013* and the *Federal Improper Payments Coordination Act of 2015* (FIPCA). During FY 2018, 1,382,275 payments, totaling \$161.3 billion, were reviewed for possible improper payments through the DNP Portal screening, which includes the Death Master File and the System for Award Management File. The Department continues to validate that potential improper payments identified through this screening process were properly adjudicated and reported to Treasury timely.

IV. BARRIERS

The Department must rely on controls established by fund recipients who make payments on behalf of the Department. These controls are outside of the Department's operational authority. In designing controls, the Department strives to strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time ensuring that the controls are not too costly and burdensome to fund recipients. Additionally, there are limitations to the availability of data necessary to verify FAFSA® information without increasing the burden on

¹ Improper payments identified and recaptured in FY 2018 include payments that were made prior to FY 2018, which leads to a percentage greater than 100 percent.

schools and students. For example, the Internal Revenue Code does not currently permit a database match with the IRS. Such a match would eliminate the need to rely on tax transcripts submitted by the applicant (and the applicant's parent, if the applicant is a dependent) to verify income data in cases where the IRS DRT is not used to transfer tax information directly into the FAFSA® form.

A detailed discussion of program-specific barriers can be found in the **FY 2012 Report on the Department of Education's Payment Recapture Audits**.

V. ACCOUNTABILITY

The Department offices, managers, and staff are held accountable for promoting payment integrity by being held accountable for maintaining effective controls in their day-to-day jobs and key management officials have specific expectations related to payment integrity included in their annual performance plans. Additionally, Accountable Officials are identified for the Department and FSA.

VI. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

Audit Follow-up

The Department gathers and manages thousands of audits of grantees related to our loan and grant programs. Audit records are managed, maintained, and analyzed in the Department's automated audit tracking systems. Audits are a key source of identifying risks and in identifying potential improper payments made by outside entities. The Department has demonstrated tremendous success in working with grant recipients to resolve audit findings timely. The Department is continuously looking for options to gain further insight from audit reports and is partnering with OMB and others to do so.

VII. SAMPLING AND ESTIMATION METHODOLOGY

For FY 2018 AFR reporting, the Department obtained approval from OMB to use a nonstatistical estimation methodology, formerly referred to as an alternative methodology, for estimating improper payments for the Pell Grant and Direct Loan programs. The methodology

is a nonstatistical estimation methodology as it has statistical limitations, including reliance on nonrandom sampling and limited sample size. The methodology leverages data collected through FSA Program Reviews, which include procedures such as determining whether schools properly performed verification of students' self-reported income, identifying conflicting applicant data, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. The Department determined that it would be too costly and inefficient, and potentially increase the burden on schools and students to an unacceptable level, to increase the reviews that make up its nonstatistical methodology to a level that would meet the precision rate prescribed by OMB. The Department is implementing a statistically valid methodology in FY 2019.

On June 29, 2018, the Department submitted to OMB for approval updates to the nonstatistical sampling plan and estimation methodology. These updates to the methodology incorporate self-identified enhancements. OMB approved the Department's updates to the nonstatistical sampling plan and estimation methodology on August 15, 2018. The methodology is described in detail on the Department's **improper payments website**.

The Department recognizes that its nonstatistical estimation methodology can lead to volatile improper payment estimates. This is largely due to fewer program reviews conducted at lower-risk schools even though the lower-risk schools often account for a much larger portion of the dollars disbursed and likely have lower rates of improper payment. As a result, the potential exists for student-level improper payment fieldwork results of a single observation (such as a single student or school) at lower-risk schools to significantly influence the improper payment estimates, resulting in volatility of the model.

Risk Assessments

As required by OMB Circular A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program and activity that is not reporting an improper payments estimate. In FY 2018, the Department did not conduct any risk assessments, as all programs and activities were previously assessed for risk in either FY 2017 or FY 2016.

ADDITIONAL COMMENTS

Enhancing Payment Integrity

In support of the Department's payment integrity initiative, the Department continues to develop the Continuous Controls Monitoring System (CCMS), which detects anomalies in grants payment data. Case management files for the anomalies are established within the application for follow-up investigation by the Department's grants program offices to validate improper payments and determine root causes. Additionally, the Data Integrity and Financial Controls Group within the Office of the Chief Financial Officer continues working with other internal control teams within the Department to implement recommendations from its Payment Integrity Workgroup (PIWG), whose objective was to address identified gaps and strengthen the internal control process. Both efforts reflect the Department's recognition of the critical importance that payment integrity plays in demonstrating financial stewardship to the American taxpayer.

Risk Management

The Department took measures to prevent improper payments through the use of the Decision Support System

to run Entity Risk Review reports for non-FSA grant awards. Using data drawn from the Department's grants business system, the Federal Audit Clearinghouse, the Institutes of Higher Education accreditation reporting, and Dun & Bradstreet, this report identifies financial, programmatic, and controls risks posed by award to the prospective grantee. Grant officers and awarding officials use the Entity Risk Review reports in the pre-award stage of the grant process to assess grantees' risk and assist in the determination of special conditions for grant awards. They also apply these reports in devising monitoring plans for the life of the grant, strengthening them as the Department's first line of defense against improper payments by grantees.

In FY 2018, the Department's discretionary grant awards were assessed for risk prior to award in the areas of: financial stability; adequacy of management systems to meet applicable standards; performance history; and compliance with applicable laws and regulations, including those related to Suspension and Debarment. This work successfully demonstrated the Department's early compliance with 2 C.F.R. Section 205, *Federal Awarding Agency Review of Risk Posed by Applicants*.

FRAUD REDUCTION REPORT

The Department continues to participate actively with OMB and other agencies in the government-wide workgroup that is collaborating on an implementation plan for the *Fraud Reduction and Data Analytics Act (FRDAA) of 2015*. The Department will continue to work with OMB to implement the FRDAA.

The Department recognizes the challenges that often surround fraud risk management and is taking action to address each challenge. These challenges include limited resources to conduct fraud risk management activities and difficulties in definitively separating fraud from other negative outcomes.

The Department is exploring ways to refine or enhance its business processes to be in a better position to define, deter, detect, and take action on fraud. For Title IV programs, Federal Student Aid (FSA) has established a Fraud Risk Group (FRG) within its Enterprise Risk Management Office to build capacity and expertise for and to dedicate resources to fraud risk identification and mitigation. In 2018, responsibility for receiving, processing, and taking action on fraud referrals from the Department's Office of the Inspector General (OIG) was transferred from the Finance Office to FRG.

FRG launched a new initiative to implement workflow and case management capabilities to perform analysis of all OIG fraud referrals within the existing Customer Engagement Management Systems (CEMS) infrastructure. This will enable more comprehensive analysis across all OIG fraud referrals and provide better tracking of referrals and possible recoveries of resultant improper payments. This common and interactive case processing tool will also reduce fraud review/case processing time and provide analytics to allow better fraud detection and prevention. FSA is also exploring ways to leverage data analytics better to detect and combat fraud in operations. Additionally, the Department has catalogued internal controls related to fraud prevention and detection, to include 45 detective and 103 preventive controls related to its grant programs and administrative payments.

To combat improper use of federal funding under the *Every Student Succeeds Act*, the Department requires that each recipient and sub-recipient publically display the contact information of the Department's OIG hotline to facilitate the reporting of suspected improper use of ESSA funding and that each recipient and sub-recipient provides assurance of truthfulness and accuracy of the information they provide in applications and in response to monitoring and compliance reviews.

REDUCE THE FOOTPRINT

This effort strives to bring a new approach to the workplace at the Department, by building greater employee performance and productivity through innovative space designs and technology enhancements, while reducing the agency’s space footprint and associated out-year costs. The project will also allow the agency to meet the federal space guidelines (150–180 usable square footage/person vs. the current usable square footage of 338).

THE DEPARTMENT CHALLENGES ARE:

- Limited IT tools to support new mobile workforce,
- IT infrastructure is outdated,
- In some cases, telework expansion has outpaced space designs, and
- Agency employee recruitment efforts restricted to a limited number of states, limiting the size of the mobile workforce.

THE DEPARTMENT STRATEGY IS TO:

- Upgrade the IT infrastructure,
- Provide mobile workers with 21st century tools,
- Strengthen the Performance Management Program,
- Promote cultural acceptance of a mobile workforce,
- Design innovative work spaces,
- Implement an Electronic Records Management System, and
- Reduce the space footprint.

The square footage totals are for the office and warehouse domestic assets, which are assets located in the 50 states, Washington, D.C., and United States territories. The square footage total includes owned and leased assets. Updated square footage information is posted on the performance.gov website.

Table 5. Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	FY 2018	Change (FY 2015 Baseline—FY 2018)
Square Footage	1,548,425	1,382,553	(165,872)

² The only building change for FY17 and FY18 was the OIG satellite office in Puerto Rico. In August, 2017, it was relocated from Plaza Scotia Bank Building to Degetau FB & Ruiz-Nazario Courthouse. Therefore, the total usable of 1,382,553 applies for both FY17 and FY18.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act* of 2015, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the act, and in response to multiple audits and recommendations, agencies should report annually in the Other Information section the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

Location for Penalty Update Details:

<https://www.federalregister.gov/documents/2018/01/16/2018-00614/adjustment-of-civil-monetary-penalties-for-inflation>

Table 6.

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	20-Apr-17	15-Jan-18	\$37,601
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	20-Apr-17	15-Jan-18	\$31,320
Violation of Title IV of the HEA	20 USC 1082(g)	20-Apr-17	15-Jan-18	\$55,907
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	20-Apr-17	15-Jan-18	\$55,907
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	20-Apr-17	15-Jan-18	\$1,650
Improper lobbying for government grants and contracts	31 USC 1352(c)(1)	20-Apr-17	15-Jan-18	\$19,639 to \$196,387
False claims and statements	31 USC 3802(a)(1)	20-Apr-17	15-Jan-18	\$11,181

THE GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT OF 2016

The goal of the *Grants Oversight and New Efficiency (GONE) Act of 2016* (Pub. L. No. 114-117) is to close out grants and cooperative agreements that are in manual closeout with zero dollars and undisbursed balances and whose period of performance has exceeded two years.

Starting with an October 3, 2016, baseline of 8,948 grants and cooperative agreements totaling approximately \$2 billion in various statuses of the closeout process, the

Department succeeded in closing out 100 percent of the required grants and cooperative agreements during FY 2018, as reflected below.

The Department continues to use the GONE Act's methodology and is integrating a financial monitoring curriculum into the Department's grants training, updating our grants management system and updating the policy Handbooks for discretionary and formula grants.

Table 7.

Category	2-3 Years	>3-5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	-	-	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	-	-	-
Total Amount of Undisbursed Balances	-	-	-

Source: G5, grants management system linked to the Department's general ledger system.