PAYMENT INTEGRITY INFORMATION ACT REPORTING

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 payment 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 internal 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 funds they receive from the Department to subordinate organizations and individuals. Due to these "third-party" controls being outside of the Department's operational control, they present a higher risk to the Department, as evidenced by 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.

To further promote payment integrity, the Department continues to develop its Payment Integrity Monitoring Application, which detects anomalies in grants payment data. Case management files for payment anomalies are established within the application for follow-up investigation by the Department's grants program officials to validate improper payments and determine root causes. Additionally, the Department continues to develop its internal control framework to address gaps, strengthen internal control processes, and align assessments with enterprise risk management. Both efforts reflect the Department's recognition of the critical importance that payment integrity plays in demonstrating financial stewardship to the American taxpayer.

DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2020, the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. Also, in FY 2020, the Department continued monitoring outlays of grant programs receiving funding for disaster relief. According to OMB Memorandum M-18-14, *Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations*, any disaster-related program with $10 million or more in outlays in a given fiscal year is deemed susceptible to significant improper payments. The Department identified three programs that met this criterion: the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid), Immediate Aid to Restart School Operations (RESTART) and Emergency Assistance to Institutions of Higher Education (EAI) programs.

The Department continues to place additional emphasis to ensure payment integrity and minimize improper payments in these important programs as required by OMB guidance. Readers can obtain a detailed breakdown of information on improper payment estimates, root causes, and corrective actions for the programs at **https://paymentaccuracy.gov**.

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.

TEMPORARY EMERGENCY IMPACT AID FOR DISPLACED STUDENTS

The Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program awards emergency impact aid funding to State educational agencies (SEAs). SEAs provide subgrants to local educational agencies (LEAs) to reimburse the costs of educating students enrolled in public schools (both traditional and charter) and non-public elementary and secondary schools, who were displaced by a covered disaster or emergency.

IMMEDIATE AID TO RESTART SCHOOL OPERATIONS

The Immediate Aid to Restart School Operations (RESTART) program awards grants to eligible SEAs to assist eligible LEAs and non-public schools with expenses related to the restart of elementary schools and secondary schools in areas impacted by a covered disaster or emergency. Funds may be used to assist school administrators and personnel in restarting school operations, re-opening schools, and reenrolling students.

EMERGENCY ASSISTANCE TO INSTITUTIONS OF HIGHER EDUCATION

The Emergency Assistance to Institutions of Higher Education (EAI) program awards grants for emergency assistance to eligible Institutions of Higher Education (IHEs) for which a major disaster or emergency has been declared. Funds awarded assist activities directly related to mitigating the effects of a covered disaster or emergency on students and institutions. To the extent possible, EAI prioritizes projects that support students who are homeless or who are at risk of becoming homeless as a result of displacement related to a covered disaster or emergency; and IHEs that have sustained extensive damage by a covered disaster or emergency.

In FY 2020, the Department used statistically valid and rigorous sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, and EAI programs. Statistically valid and rigorous sampling and estimation methodologies were designed and implemented for the Emergency Impact Aid and RESTART programs in FY 2020. However, these methodologies did not yield the intended precision rates required for a rigorous estimate of the Emergency Impact Aid and RESTART programs. The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

For detailed information on Pell Grant, Direct Loan, Emergency Impact Aid, RESTART and EAI improper payment estimates in FY 2020 and prior years, please visit **https://paymentaccuracy.gov**.

I. ACTIONS TAKEN TO ADDRESS AUDITOR RECOVERY RECOMMENDATIONS

Agencies are required to conduct recovery audits for all programs and activities that expend more than $1 million in a fiscal year, 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 and 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 decide not to 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.

The Department continues to work to improve its methods to identify, collect, and report on improper payment collections. For detailed information on identified and recovered improper payments in FY 2020, readers can visit **https://paymentaccuracy.gov**.

II. FRAUD REDUCTION REPORT

The Department continues to work with OMB to implement the F*raud Reduction and Data Analytics Act (FRDAA) of 2015* as incorporated by the Payment Integrity Information Act (PIIA) of 2019 and actively participates with OMB and other agencies in a government-wide workgroup that is collaborating on an implementation plan.

The Department has also taken steps to proactively identify the risk of fraud occurring across the agency. Through establishing an overarching Fraud Risk Governance Structure in FY 2020, the Department now has a means of promoting consistent organizational behavior by providing guidelines and assigning responsibility for fraud risk management, including the implementation of strong antifraud procedures and controls. Sources of guidance in implementing effective fraud risk management programs can be found in previous regulatory resources such as the PIIA and OMB A-123. In creating and adopting this Fraud Risk Governance Structure, the Department has identified several potential common fraud schemes and indicators. In doing so, internal and external fraud is differentiated to capture important distinctions in identifying and preventing both. Common fraud schemes include prospective vendors offering gifts or seemingly routine benefits during a competitive process, unbalanced bidding caused by employees providing their preferred bidder with information not disclosed to other vendors, and a vendor attempting to charge more than agreed to in the contract. OIG Investigative Services has identified several fraud indicators and further broken them down into the following categories:

1. *K-12 Fraud*—No separation of duties, missing school funds or property, inventory and financial records not reconciled, unreasonable costs, delayed or no reporting, unauthorized or related-party transactions, suspicious or unverifiable existence of vendors, grant award money runs out too quickly.
2. *Postsecondary Education Fraud*—Unexplained increase in wealth or lifestyle, unresolved or repeat audit findings and reluctance to provide information to auditors, nonexistent "students," high employee turnover rate with low morale, lack of written policies and procedures, commonalities on Free Application for Federal Student Aid (FAFSA®) such as students sharing bank account numbers, home addresses, phone numbers or email addresses.
3. *Public Corruption*—Irregularities in contract awards or undue influence by people in decision making positions, suspicious bidding trends and patterns, conflicts of interest, transactions lacking business purpose, use of shell companies, bill and payment requests for services that may not have been provided.
4. *Computer Crime*—People requesting access to systems for which they do not need access, people accessing systems outside of normal working hours, excessive number of complaints about identity theft from customers, proprietary data belonging to an organization available unsecured on the internet.

This Fraud Risk Governance Structure also outlines the current efforts already underway at the Department to mitigate the risk of fraud, such as:

- Required internal trainings covering fraud, waste, and abuse.
- Multiple risk assessments by the OEDARM and FSA.
- Antifraud controls/tools that foster a culture of responsibility and awareness to mitigate fraud risk from penetrating the Department.
- FSA's draft Fraud Risk Framework intended to outline FSA's fraud risk management activities designed to combat fraud and preserve integrity in operations and programs, safeguard taxpayer monies, and minimize improper payments.

- OIG Audits.
- Data analytics further consisting of preliminary analytics (trend analysis, pattern recognition, outlier detection), FSA Analytics using machine learning techniques to detect and mitigate potential fraud in the student loan portfolio, and OIG Information Technology Audits and Computer Crime Investigations who proactively monitor ED data through sophisticated modeling for criminal activity and network intrusions.
- Fraud Awareness Initiatives including (but not limited to) fraud communication (such as through the EDSOC Cyber Threat and Intelligence Security Bulletin), OIG fraud awareness and communication, and FSA's fraud awareness communications during International Fraud Awareness Week.

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 act upon fraud.

To build capacity and expertise for and to dedicate resources to fraud risk identification and mitigation, especially in the Title IV programs, FSA has created a compliance and fraud risk group and designated a fraud risk advisor within its Enterprise Risk Management Directorate (ERMD). During FY 2020, ERMD's compliance and fraud risk group's primary work on fraud included:

1. Working to revise the charter and reconstitute the Enterprise Fraud Risk Advisory (EFRA) Group. The EFRA Group was established in FY 2019 to promote the integration of fraud risk management practices and processes into the daily operations of FSA to assist in achieving organizational strategic goals and objectives. Its primary responsibility is to provide oversight, planning, and coordination of enterprise fraud risk management activities.
2. Continuing to receive and process distance education fraud ring referrals from the Department's OIG.
3. Establishing a third-party debt relief (TPDR) fraud unit in FY 2020. The TPDR unit is working to centralize TPDR complaints within FSA, collaborate with the OIG and other consumer and law enforcement agencies to investigate complaints against potential TPDR companies, and identify mitigation strategies to address fraud risk related to TPDR companies.

The Department, in its efforts to combat fraud, takes into account the Government Accountability Office (GAO) Framework for Managing Fraud Risks in Federal Programs (GAO Fraud Risk Management Framework). The Department commits to oversee fraud risk management activities as highlighted in the above-mentioned Fraud Risk Governance Structure. Additionally, the Department continues to assess the risks associated with fraud across the Department as incorporated by the multitude of risk assessments performed by program offices. Internal controls related to fraud are implemented according to the Internal Control Framework and are evaluated accordingly to ensure that specific control activities exist to mitigate assessed risks. The Department has catalogued internal controls related to fraud prevention and detection, which includes detective and preventive controls related to its grant and administrative payments.

The Department continues to evaluate the current fraud landscape and will adopt activities to improve fraud risk management. For example, to combat improper use of federal funding under the *Every Student Succeeds Act* (ESSA), the Department requires that each recipient and subrecipient publicly display the contact information of the Department's OIG hotline to facilitate the reporting of suspected improper use of ESSA funding. Furthermore, in accordance with 2 CFR 200 (Uniform Guidance), each recipient and subrecipient provides assurances of truthfulness and accuracy of the information they provide in applications and in response to monitoring and compliance reviews.