

## Payment Integrity Information Act Reporting

All program outlays can be categorized as one of three payment type categories: proper payments, improper payments, and unknown payments. OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, defines an improper payment as a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; any payment that is not authorized by law; and any payment that does not account for credit for applicable discounts. OMB Circular A-123, Appendix C, also defines an unknown payment as a payment that could either be proper or improper, but it cannot be determined whether the payment was proper or improper because of insufficient or lack of documentation.

The Department places a high value on maintaining the integrity of all payments to ensure that the billions of dollars in federal funds it disburses annually are considered proper payments. 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. Low amounts of improper and unknown 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 and unknown 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 received from the Department to subordinate organizations and individuals. Due to these third-party controls being outside of the Department's operational management, they present a higher risk to the Department, as evidenced by its 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 rely on its Payment Integrity Monitoring Application (PIMA), 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 refine 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 sound financial stewardship to the American taxpayer.

## Description of Risk-Susceptible and High-Priority Programs

In FY 2023, the Federal Pell Grant, William D. Ford Federal Direct Loan, Title I, Part A, Education Stabilization Fund (ESF), Special Education Grants to States, and the *Individuals with Disabilities Education Act* (IDEA) programs continued to be designated as programs that are “susceptible to significant improper payments” (referred to as Phase 2 per OMB Circular A-123, Appendix C guidance). The Federal Pell Grant program remains an OMB-designated high-priority program. The William D. Ford Federal Direct Loan program was considered a high-priority program during the year based on FY 2022 reporting, but based on FY 2023 improper payment and unknown payment results described in this Payment Integrity reporting section, the Direct Loan program no longer meets the threshold and is not considered a high-priority program for FY 2023.

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

### Federal 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. Grant funds can be disbursed directly to the school to be applied towards a student’s costs, directly to the student, or a combination of both. A student is eligible to receive a Pell Grant if the student meets the requirements of an eligible student under 34 Code of Federal Regulations (CFR) Part 668. Students may use their grants at any participating postsecondary institution as established by 34 CFR Part 690 and further updated by the *Higher Education Reconciliation Act of 2005* (HERA) and the *Higher Education Opportunity Act of 2008* (Public Law 110-315) (HEOA).

### William D. Ford Federal 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. A student is eligible to receive a Direct Loan if the student enrolls in a school that provides Direct Loans, and the student meets the requirements of an eligible student under 34 CFR Part 668. Eligible students may receive a Direct Loan in accordance with the annual and aggregate loan limits as established by 34 CFR Part 685.203 and further updated by HERA and HEOA.

### Special Education Grants to States

The *Special Education Grants to States, Individuals with Disabilities Education Act* (IDEA) program provides formula grants to assist the 50 states, the District of Columbia, Puerto Rico, the Department of the Interior, Outlying Areas, and the Freely Associated States in meeting the excess costs of providing special education and related services to children with disabilities. To be eligible for funding, states must serve all children with disabilities between the ages of 3 through 21, except that they are not required to serve children aged 3 through 5 or 18 through 21 years if services are inconsistent with state law or practice or

the order of any court. A state that does not provide a Free Appropriate Public Education (FAPE) to children with disabilities aged 3 through 5 cannot receive base payment funds attributable to this age group or any funds under the Preschool Grants program. Funds are allocated among states in accordance with a variety of factors, as outlined in the funding formula under section 611(d) of the IDEA.

### Education Stabilization Fund

The Education Stabilization Fund (ESF) was established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) in March 2020, with subsequent allocations to the Fund codified through the *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSA Act), and the *American Rescue Plan Act* (ARP Act). The ESF is an investment of more than \$263 billion and is composed of relief funds that support state and institutional efforts to prevent, prepare for, and respond to the coronavirus impacts on our nation's students. Programs created under the ESF investment include: Education Stabilization Fund Discretionary Grants, Governor's Emergency Education Relief Fund, Elementary and Secondary School Emergency Relief Fund, Homeless Children and Youth, Emergency Assistance to Non-Public School, Outlying Areas, Bureau of Indian Education, and Higher Education Emergency Relief Fund.

### Title I, Part A

Title I, Part A (Title I) of the *Elementary and Secondary Education Act*, as amended by the *Every Student Succeeds Act* (ESEA), provides financial assistance to LEAs and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards. Federal funds are currently allocated through four statutory formulas that are based primarily on census poverty estimates and the cost of education in each state.

In FY 2023, the Department used statistically valid sampling and estimation methodologies to estimate the improper payment rates for the Pell Grant, Direct Loan, IDEA, ESF, and Title I 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, IDEA, ESF and Title I improper payment estimates in FY 2023 and prior years, please visit <https://paymentaccuracy.gov>.

### 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 with annual outlays of more than \$10 million that is not reporting an improper payment estimate. In FY 2023, the Department assessed improper payment risk for ten grant programs and two administrative activities. These risk assessments did not identify any additional Education programs or activities as being susceptible to significant improper payments. Additionally, the Department also conducted risk assessments of all FSA-managed programs. There were no additional programs identified as susceptible to significant improper payments.

### Identified and Recaptured Improper Payments

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 has 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 collection. 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 the improper payments were identified. The Department continues to work to improve its methods to identify, collect, and report on improper payments. For detailed information on identified and recovered improper payments in FY 2023, readers can visit <https://paymentaccuracy.gov>.

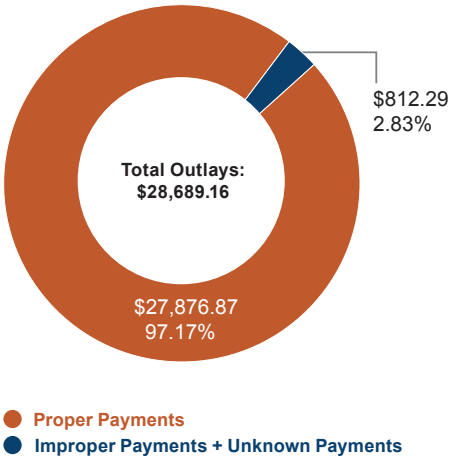
### High Priority Programs—Sampling and Estimation Methodology Plan (S&EMP)

For FY 2023 AFR reporting, the Department used a statistically valid S&EMP to estimate improper and unknown payments for the Pell Grant and Direct Loan programs. The Department submitted the statistically valid S&EMP to OMB on June 29, 2023. This statistical methodology uses a random sample of annual compliance audits, with associated final audit determination (FAD) letters, if applicable, that cover approximately 5,400 eligible schools. A small population of schools may apply for and receive a waiver or exemption from the compliance audit requirements. FSA accounts for these disbursements through a statistically valid sampling process. In addition to the compliance audits and related data, the methodology also uses the Free Application for Federal Student Aid (FAFSA) Internal Revenue Service (IRS) Data Statistical Study ("Study") and the results of tests of Federal Family Education Loan to Direct Loan consolidations and Direct Loan refunds. A plain language description of the methodology used and the results obtained for each of these programs is available on the Department's **improper payments website**.

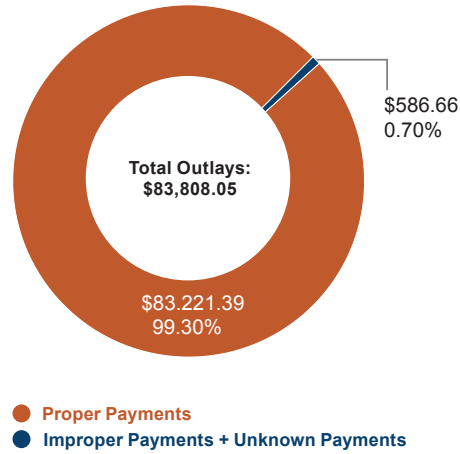
### High-Priority Programs—Improper and Unknown Payment Payment Estimates

Readers can obtain more detailed information on reporting improper payment and unknown payment estimates in FY 2023 and prior years at <https://paymentaccuracy.gov>.

**Figure 14.** FY 2023 Pell Grant Estimates  
(Dollars in Millions)



**Figure 15.** FY 2023 Direct Loan Estimates  
(Dollars in Millions)

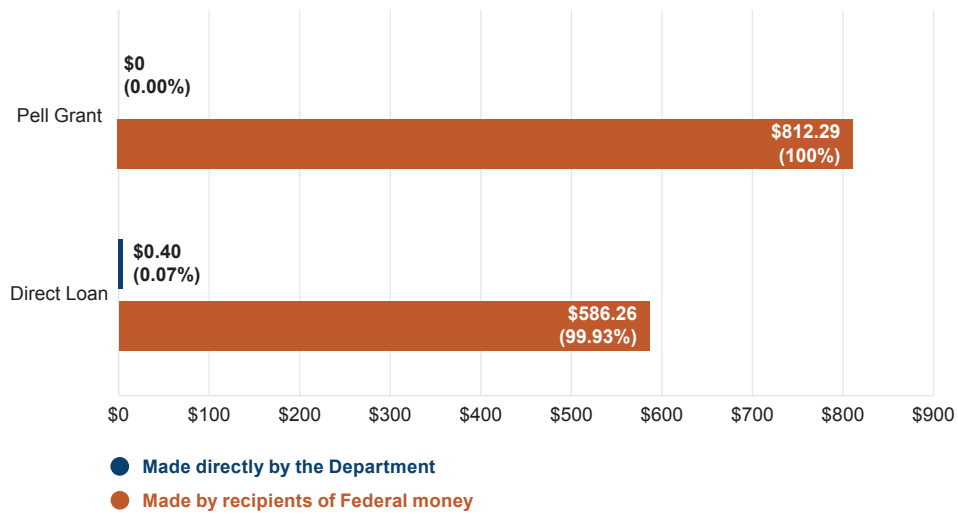


Note: The source of the FY 2023 Pell Grant and Direct Loan outlay amounts is FSA's Financial Management System (FMS).

The FY 2023 Pell Grant estimates include results from the Study which estimates Pell Grant improper payment rates based on a comparison between information reported by recipients of Pell Grant funds on the FAFSA and income details reported to the IRS. Rates from the Study are included in the Pell Grant improper payment estimate and categorized as a misreported income root cause. The misreported income root cause accounts for approximately 75 percent of the estimated FY 2023 Pell Grant improper payments.

Figure 16 summarizes the estimated amount of improper payments and unknown payments made directly by the Department and the amount of improper payments made by recipients of federal money. For additional details, please refer to the **High Priority Programs—Root Cause Categories** section.

**Figure 16.** FY 2023 Sources of Improper Payments & Unknown Payments  
(Dollars in Millions)



### High Priority Programs—Insufficient or Lack of Documentation

Of the \$812.29 million and \$586.66 million in estimated improper payments and unknown payments for the Pell Grant and Direct Loan programs, respectively, approximately 0.01 percent and 0.00 percent are categorized as unknown due to inability to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

### High Priority Programs—Monetary Loss and Non-Monetary Loss

This section presents the portion of the improper payment estimates that are attributed to monetary loss and non-monetary loss. Monetary loss and non-monetary loss are defined by OMB.

- **Monetary loss to the Federal Government:** An amount that should not have been paid and in theory should/could be recovered.
- **Non-monetary loss to the Federal Government:** Either an underpayment or a payment to the correct recipient for the correct amount where the payment process fails to follow applicable regulation and/or statute.

The monetary loss and non-monetary loss amounts reported in Table 18 are estimates; not all monetary loss is recoverable.

**Table 18:** FY 2023 Monetary and Non-Monetary Loss for High-Priority Programs\*

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Improper Payment and Unknown Payment Estimate
Pell Grant	Estimated Monetary Loss to the Government	\$403.92	49.72%
	Estimated Non-Monetary Loss to the Government	\$405.23	49.89%
	Estimated Unknown Improper Payments	\$3.15	0.39%
	<b>Total</b>	<b>\$812.29</b>	<b>100.00%</b>
Direct Loan	Estimated Monetary Loss to the Government	\$67.82	11.56%
	Estimated Non-Monetary Loss to the Government	\$518.84	88.44%
	Estimated Unknown Improper Payments	\$0.00	0.00%
	<b>Total</b>	<b>\$586.66</b>	<b>100.00%</b>

\*Numbers may not add up due to rounding.

Of the estimated monetary loss for the Pell Grant and Direct Loan programs, the majority is outside of the agency's control. As explained previously, 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. These "third-party" controls are outside of the Department's operational control. Examples of root causes outside of the Department's operational control are defined further in the following section. The amounts of monetary loss within and outside of the agency's control are reported in Table 19.

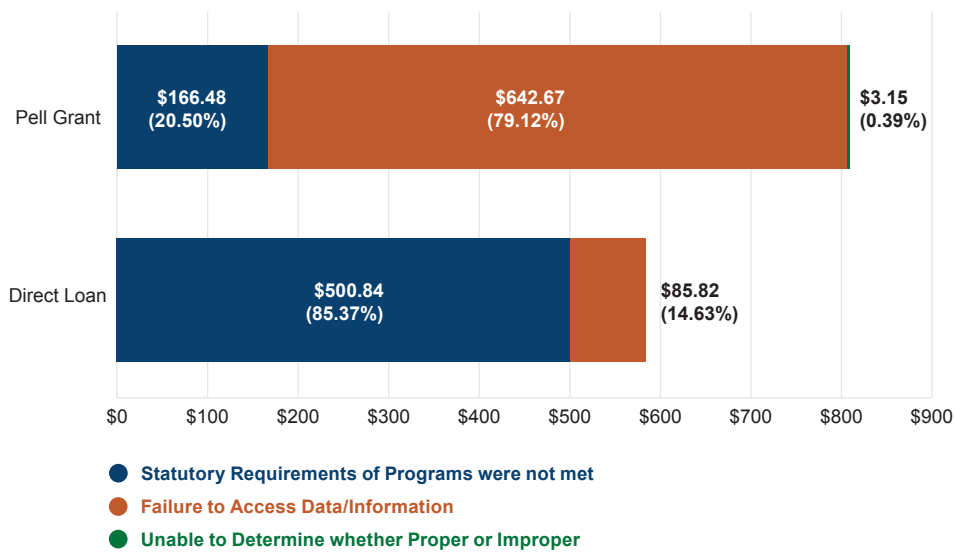
**Table 19:** FY 2023 Monetary Loss Within and Outside Agency Control for High-Priority Programs

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Monetary Loss
Pell Grant	Estimated Monetary Loss Within Agency Control	\$381.57	94.47%
	Estimated Monetary Loss Outside Agency Control	\$22.35	5.53%
	<b>Total</b>	<b>\$403.92</b>	<b>100.00%</b>
Direct Loan	Estimated Monetary Loss Within Agency Control	\$0.00	0.00%
	Estimated Monetary Loss Outside Agency Control	\$67.82	100.00%
	<b>Total</b>	<b>\$67.82</b>	<b>100.00%</b>

### High Priority Programs—Root Cause Categories

FY 2023 root cause categories of error, as defined in OMB Circular A-123, Appendix C (OMB Memorandum M-21-19), were “Statutory Requirements of Program Were Not Met,” “Failure to Access Data/Information,” and “Unable to Determine Whether Proper or Improper.” Specific root causes associated with the “Statutory Requirements of Program Were Not Met” category include, but are not limited to, a school’s failure to perform or properly complete verification, a school’s failure to provide disbursement notifications to the student in a timely manner, untimely credit balance return to the Department, and inadequate documentation for meeting Satisfactory Academic Progress (SAP) standards. Specific root causes associated with the “Failure to Access Data/Information” category include, but are not limited to, misreported income, incorrect academic level or enrollment status used, a school’s failure to observe annual eligibility limits, a school’s failure to properly complete verification, incorrect financial aid determination, and incorrect decision to complete return of Title IV funds calculation. Specific root causes associated with the “Unable to Determine Whether Proper or Improper” category may include, but are not limited to, inaccurate and/or inadequate tracking of attendance, lack of supporting eligibility documentation retained by schools, and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA.

**Figure 17.** FY 2023 Root Causes of Improper Payments\*  
(Dollars in Millions)



\* Numbers may not add up due to rounding.



## High Priority Programs—Corrective Actions

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. FSA's Office of Partner Participation and Oversight (PPO) annually initiates more than 100 program reviews of the approximately 5,400 eligible schools to assess institutions' compliance with Title IV regulations. PPO 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.

PPO monitors annual compliance audits of schools. A school that participates in any Title IV program must at least annually have a compliance audit of its administration of that program unless an allowable waiver or exemption has been granted or, for Single Audit filers, the Title IV programs (major program) have been determined low-risk. Independent auditors perform the compliance audits to monitor schools' administration of FSA programs. If any deficiencies are identified, the school must develop a corrective action plan that addresses the audit report findings. Auditors are required to evaluate whether the school has taken appropriate corrective action to address findings and recommendations from prior audits. PPO also performs audit resolution. This includes reviewing and evaluating the effectiveness of a school's corrective action and mitigation efforts for noted exceptions in audit reports.

FSA continues to work with Treasury to implement the authorities provided in the FUTURE Act. Implementation of the authorities provided in the FUTURE Act will significantly improve data authentication by enabling FSA to automatically receive certain federal tax information (FTI) from the IRS through a direct-data exchange with applicant approval and enabling customers to automatically report their income for the total and permanent disability (TPD) discharge post-monitoring, income-driven repayment (IDR), and FAFSA processes. Implementation of the authorities provided in the FAFSA Simplification Act will improve reporting through, for example, modifying and simplifying the questions that students and their families have to answer on the FAFSA form.

The corrective actions listed below are specific to the root causes of improper payments identified from the FY 2023 improper payment fieldwork, and are tailored to reflect the unique processes, procedures, and risks involved with the Pell Grant and Direct Loan programs.

**Table 20.** Pell Grant and Direct Loan Improper Payment Corrective Actions

Corrective Action	Description of Actions Taken in FY 2023 and Planned for FY 2024	OMB Root Cause Category
<p>Implement the authorities provided in the FUTURE Act to improve verification of applicants' and borrowers' income data.</p>	<p>In FY 2023, the Department continued to work diligently and collaboratively with the IRS to implement and operationalize changes to its programs as a result of the FUTURE Act and amendments to section 6103 of the Internal Revenue Code (IRC). FSA and the IRS implemented the FUTURE Act IDR Solution on July 30, 2023.</p> <p>In FY 2024, through the Student Aid and Borrower Eligibility (SABER) Initiative, FSA will continue to implement the authorities and provisions provided in the FUTURE Act and FAFSA Simplification Act which ultimately will streamline and strengthen the collection of data used to determine eligibility for student financial assistance. Implementation of the authorities provided in the FUTURE Act will significantly improve data authentication by enabling FSA to automatically receive certain FTI from the IRS through a direct-data exchange with applicant approval and enabling customers to automatically report their income for the TPD discharge post-monitoring, IDR, and FAFSA processes. Implementation of the authorities provided in the FAFSA Simplification Act will improve reporting through, for example, modifying the questions that students and their families have to answer on the FAFSA form and requiring ED to conduct early awareness and outreach of student aid eligibility. Full implementation of the FUTURE Act is planned for FY 2025. FSA expects that full implementation of the authorities provided in the FUTURE Act will significantly reduce, or eliminate, improper payments due to applicants misreporting income on the FAFSA.</p>	<p>Failure to Access Data/Information</p>
<p>Continue to utilize and promote the IRS Data Retrieval Tool (DRT). Enhance verification procedures.</p>	<p>In FY 2023, FSA monitored the IRS DRT usage on a weekly basis and continued to work diligently and collaboratively to implement the Federal Tax Information Module (FTI-M). The FTI-M was successfully implemented and recorded an initial usage rate of 91%. FSA is encouraged by the high usage rate of the FTI-M.</p> <p>In FY 2024, FSA will continue to promote the IRS DRT until full implementation of the authorities provided in the FUTURE Act is completed. Full implementation of the authorities provided in the FUTURE Act is scheduled for FY 2025, which FSA expects will significantly reduce, or eliminate, improper payments due to applicants misreporting income on the FAFSA. See the status of the corrective action titled <i>"Implement the authorities provided in the FUTURE Act to improve verification of applicants' and borrowers' income data"</i> for additional information.</p>	
<p>Publish and deliver guidance, training, and other resources for institutions processing financial aid that address (1) verification errors; (2) administrative and process errors; and (3) documentation errors frequently made by schools.</p>	<p>In FY 2023, FSA published and delivered various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments and other frequently identified compliance issues. For example, in FY 2023 Q1, FSA published the 2022-2023 FSA Handbook and FSA Assessments, which provide guidance on FAFSA and verification requirements. FSA also published updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. In FY 2023 Q1, FSA held the FSA Training Conference for Financial Aid Professionals, which received positive feedback from financial aid administrators.</p> <p>In FY 2024, FSA will continue to publish and deliver various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments and unknown payments and other frequently identified compliance issues. For example, FSA will continue to publish the FSA Handbook, FSA Assessments, and updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. FSA is coordinating internally to ensure relevant offices within FSA participate in the planning for the FY 2024 FSA Training Conference to ensure key objectives and milestones are met. FSA will host the FY 2024 FSA Training Conference in FY 2024 Q1.</p>	<p>(1) Failure to Access Data/Information</p> <p>(2) Statutory Requirements of Program Were Not Met</p>
<p>Evaluate schools' compliance with federal student aid requirements, assess liabilities for errors in performance, and identify actions schools must take to make the Title IV, HEA programs (Pell Grant and Direct Loan program), or the recipients, whole for any funds that were improperly managed as part of the program review, Single Audit, and/or audit process conducted in accordance with the Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs.</p>	<p>In FY 2023, FSA evaluated schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and assessed liabilities for errors in performance. For improper payments identified through oversight activities, such as compliance audits and program reviews, FSA established accounts receivable and pursued collection for those deemed collectible, including applicable overpayments. For additional information on actions taken to recover overpayments, please see <a href="https://www.fsa.dhs.gov/paymentaccuracy">paymentaccuracy.gov</a>.</p> <p>In FY 2024, FSA will continue to evaluate schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and will assess liabilities for errors in performance. For future improper payments identified through oversight activities, such as compliance audits and program reviews, FSA will continue to establish accounts receivable and pursue collection for those deemed collectible, including applicable overpayments.</p>	<p>(3) Unable to Determine Whether Proper or Improper</p>