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**U.S. Department of Education's Compliance With  
Executive Order 13520, "Reducing Improper Payments" for  
Fiscal Year 2011**

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**FINAL AUDIT REPORT**



**ED-OIG/A03M0004  
October 22, 2012**

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Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

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U.S. Department of Education  
Office of Inspector General  
Philadelphia, Pennsylvania

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## **NOTICE**

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

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

Audit Services

October 22, 2012

TO: Thomas P. Skelly  
Delegated the Authority to Perform the Functions and Duties  
of the Chief Financial Officer  
Office of Chief Financial Officer  
Lead Action Official

John W. Hurt, III  
Chief Financial Officer, Federal Student Aid

FROM: Patrick J. Howard  
/s/  
Assistant Inspector General for Audit

SUBJECT: Final Audit Report  
U.S. Department of Education's Compliance with Executive Order 13520,  
"Reducing Improper Payments for Fiscal Year 2011"  
Control Number ED-OIG/A03M0004

Attached is the subject final audit report that covers the results of our review of the Department's compliance with Executive Order 13520. An electronic copy of the report has been provided to your Audit Liaison Officers. We received your comments concurring with the finding and recommendation.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your offices will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System. The Department's policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Thomas Skelly

John Hurt

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We appreciate the cooperation given us during this review. If you have any questions, please contact me at 202-245-6949 or Bernard Tadley, Regional Inspector General for Audit at 215-656-6279.

Attachment

cc: James Runcie, Chief Operating Officer, FSA  
Dawn Dawson, Audit Liaison Officer, FSA  
Abigail Cornish, Audit Liaison Officer, OCFO  
William Blot, Supervisory Systems Accountant, FSA  
Phillip Juengst, Director of Internal Control, OCFO  
Danny Werfel, Controller, Office of Management and Budget

**Abbreviations, Acronyms, and Short Forms  
Used in this Report**

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AFR	Agency Financial Report
CPS	Central Processing System
Department	U.S. Department of Education
DRT	Data Retrieval Tool
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
FY	Fiscal Year
FY 2011 Accountable Official's Report	FY 2011 Accountable Official's Report on the Pell Grant High-Priority Program
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
Pell	Federal Pell Grant

## RESULTS IN BRIEF

Executive Order 13520, “Reducing Improper Payments,” mandates that Federal agencies with high-priority programs intensify efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government. The Executive Order requires that Federal agencies with high-priority<sup>1</sup> programs name an accountable official to oversee an agency’s efforts to reduce improper payments. In fiscal year (FY) 2010, the Office of Management and Budget (OMB) designated the Federal Pell Grant (Pell) Program as the only high-priority program administered by the U.S. Department of Education (Department).

The Executive Order and implementing OMB guidance require an accountable official to report annually to its agency’s Office of Inspector General (OIG) on the agency’s methodology for identifying and measuring improper payments by the program, the agency’s plans for meeting improper payment reduction targets in the program, and the agency’s plan for ensuring that its efforts to reduce improper payments do not unduly burden eligible beneficiaries’ program access and participation. The OIG is required to review the accountable official’s annual report for compliance with the Executive Order requirements.

### What We Did

Our audit focused on the Department’s “FY 2011 Accountable Official’s Report on the Pell Grant High-Priority Program” (FY 2011 Accountable Official’s Report) for October 1, 2010, through September 30, 2011. Our objective was to determine whether the Department’s FY 2011 Accountable Official’s Report complied with the requirements of Executive Order 13520, “Reducing Improper Payments,” adequately addressed improper payment risks; and described an adequate level of oversight by Federal Student Aid (FSA) to reduce and recapture improper payments.

### What We Found

We found that for FY 2011, the Department complied with Executive Order 13520, adequately addressed improper payment risks, and described an adequate level of oversight to reduce and recapture improper payments. However, we found that the Department did not consider Pell Program recipients who did not use the Internal Revenue Service (IRS) Data Retrieval Tool (DRT) and recipients who were not selected for verification in its improper payment monitoring and oversight efforts. The IRS DRT enables financial aid applicants to transfer certain income

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<sup>1</sup> A high-priority program is a program that is susceptible to significant improper payments as defined by legislation and OMB implementing guidance. For FY 2010, the error threshold for high priority programs was \$750 million in improper payments, as reported in an agency’s Agency Financial Report or Performance and Accountability Report (OMB Circular A-123, Appendix C, Part III, Requirements for Implementing Executive Order 13520, “Reducing Improper Payments,” March 22, 2010).

and tax information from an IRS Web site directly to their online Free Application for Federal Student Aid (FAFSA). Verification is a process that schools are required to conduct to confirm specific information reported on the FAFSA by the applicant. OMB guidance states that agencies should use statistical measurements to identify the causes of improper payments and implement corrective actions to prevent and reduce improper payments.<sup>2</sup> Such corrective actions should be implemented and refined on a continuous basis.

### **What We Recommend**

The Department should study Pell Program recipients who do not use the IRS DRT and who are not selected for verification. This study will assist the Department in determining whether it has adequate controls in place to mitigate the risk of improper payments to that population of Pell Program recipients.

We provided a draft of the finding and recommendation to the Department for comment. The Department concurred with the finding and recommendation. We summarize the Department's response at the end of the finding and include its written response as an appendix to this report.

## **BACKGROUND**

### **Executive Order 13520, "Reducing Improper Payments"**

On November 20, 2009, the President signed Executive Order 13520 (74 Federal Register 62201, November 25, 2009), which states that when the Federal Government makes payments to individuals and businesses as program beneficiaries, grantees, or contractors, or on behalf of program beneficiaries, it must make every effort to confirm that the right recipient is receiving the right payment for the right reason at the right time. The purpose of the order was to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries. The order mandates that OMB and Federal agencies with high-priority programs, such as the Pell Program, take actions to reduce and prevent improper payments and report on these efforts.

OMB Circular A-123, Appendix C, Part III, "Requirements for Implementing Executive Order 13520, Reducing Improper Payments," March 22, 2010, provides guidance for the implementation of Executive Order 13520.

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<sup>2</sup> OMB Circular A-123, Appendix C, Part I, "Improper Payment Elimination and Recovery," April 14, 2011.

## **Improper Payments**

Under Section 2(f)(2) of the Improper Payments Information Act of 2002 (IPIA) (Pub. L.107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Pub. L.111-204), an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) to eligible recipients. An improper payment also includes any payment made to an ineligible recipient, payment for an ineligible good or service, or payments for goods or services not received. In addition, according to OMB Circular A-123, Appendix C, Part I, if an agency cannot determine whether a payment is proper because of insufficient or lack of documentation, this payment must also be considered an error.

Accountable official reports must include the agency's methodology for calculating the high-priority program's estimated improper payment rate, plans for meeting improper payment reduction targets, and plans to ensure program access and participation by eligible beneficiaries. Under OMB Circular A-123, Appendix C, Part III, Section C, the report to the agency's OIG must contain the following.

1. A description of the agency's methodology for obtaining a statistically valid estimate of annual improper payments. This information should include the improper payment rate measurement methodology, sample size and related calculations, results of annual measurements, and other measurement-related information as applicable.
2. The agency's plans and supporting analysis for meeting the reduction targets for improper payments, which include:
  - root causes of error in the program;
  - corrective actions that are being implemented and their full implementation date;
  - the types of errors the corrective actions will address and their expected impact;
  - the anticipated costs of the corrective actions and their likely return on investment (that is, amount of errors prevented or reduced for each dollar spent); and
  - an explanation of the program's performance in meeting its reduction targets.
3. The agency's plan, together with supporting analysis, for ensuring that initiatives to reduce and prevent improper payments do not unduly burden program access and participation by eligible beneficiaries.

OMB designates a program as high-priority based on improper payment information in an agency's annual Agency Financial Report (AFR) or Performance and Accountability Report (PAR). OMB annually reevaluates the high-priority program list after agencies publish annual



improper payment information in the PAR or AFR. Beginning with FY 2010 reporting and for all subsequent years, OMB will notify agencies of the new improper payment threshold<sup>3</sup> and whether any programs will be added or removed (based on reporting errors above or below the new threshold) from the high-priority list within 30 calendar days of the submission and publication of agency PAR or AFR as required by OMB. The Pell Program, which is administered by FSA, was designated as a high-priority program by OMB in FY 2010. The Pell Program provides need-based grants to low-income undergraduate and certain post-baccalaureate students for postsecondary education. On March 14, 2012, the Department issued its FY 2011 Accountable Official's Report.

The agency's OIG is responsible for reviewing the agency's accountable official's report for compliance with Executive Order 13520. Additionally, the OIG must assess the level of risk associated with the applicable programs; determine the extent of oversight warranted; and provide the agency head with recommendations, if any, for modifying the agency's methodology, improper payment reduction plans, program access and participation plans.

## COMPLIANCE WITH EXECUTIVE ORDER 13520

We found that the Department complied with Executive Order 13520 as it related to the Pell Program in the following compliance areas.

### **1. Reported Improper Payment Rate Measurement Methodology, Sample Size, Results of Annual Measurements and Related Calculations**

The Department complied with the requirement to report its improper payment rate measurement methodology, sample size, and the results of annual measurements and related calculations. The Department reported that the improper payment rate measurement methodology, sample size, results of annual measurements, and related calculations were based on its annual statistical study, the "Free Application for Federal Student Aid/Internal Revenue Service Statistical Study" (FAFSA/IRS Study). The FY 2011 Accountable Official's Report stated that the primary goal of the FAFSA/IRS Study is to simulate a match between the applicant's or applicant's parent's income data on the FAFSA and the data the applicant or parent reported to the IRS to determine the following:

- average amount of overreporting and underreporting of FAFSA income data compared with IRS data and the potential misallocation of Pell program dollars that could be prevented by a match;

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<sup>3</sup> The FY 2010 threshold is \$750 million in improper payments as reported in the PAR or AFR.

- number of applicants for whom a mismatch between FAFSA and IRS data may be legitimate;
- types of applicants who are more likely to misreport income on the FAFSA; and
- validity of the current verification selection edits in the Department's Central Processing System (CPS), which computes applicant's eligibility for Federal student aid, such as Pell grants.

For FY 2011, the FAFSA/IRS Study was based on a sample of 1,745,358 applicants who were selected from the Department's CPS. The FAFSA/IRS Study results were used to calculate the estimated improper payment rate for the Pell Program. The Department's Pell Program improper payments rates for FYs 2009, 2010, and 2011 are discussed under compliance area number six below.

The FY 2011 Accountable Official's Report also discussed the changes that FSA plans to make to its methodology based on the findings and recommendations contained in an audit report issued by our office (["U.S. Department of Education's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2011,"](#) March 15, 2012, ED-OIG/A03M0001). Our report identified issues with the availability and completeness of the calculation of the estimated improper payment rate for the Pell Program. The Department concurred with our finding and recommendations. The Department stated that it planned to change its estimation methodologies for FY 2012 and that it would expand the description of such methodologies in its future AFRs.

## **2. Reported Root Causes of Errors in the Program**

The Department complied with the requirement to report the root causes of Pell Program errors. The Department identified the inaccuracy of self-reported financial income on the FAFSA as the most significant root cause of potential Pell Program improper payments and fraud as another cause of improper payments.

## **3. Reported Corrective Actions and Implementation Date**

The Department complied with the requirement to report corrective actions and related implementation dates to address the root cause of improper payments in the Pell Program. The Department identified two corrective actions to address inaccurate self-reported financial income on the FAFSA: ongoing improvements to the IRS DRT and enhanced school verification requirements.

The FY 2011 Accountable Official's Report did not identify a date by which the ongoing improvements to the IRS DRT. However, for the 2011–2012 FAFSA processing cycle, the Department made the IRS DRT available on January 30, 2011, to coincide with the beginning of the FAFSA cycle so that applicants could import the most recent income tax data (that is, for 2010).

Because of regulatory changes,<sup>4</sup> schools will be required to verify data for all applicants that are selected for verification beginning with the 2012–2013 award year. The Department is transitioning to a customized selection approach for verification based on the data provided by each applicant on the FAFSA. Under this approach, the process will identify, for a selected applicant, only the information that requires verification based on that applicant's FAFSA submission. Previously, schools were required to verify only key items (such as household size and income) on up to 30 percent of their students' FAFSAs.

**4. Reported the Types of Errors the Corrective Actions Will Address and Their Expected Impact**

The Department complied with the requirement to report on the types of errors and the expected impact that the reported corrective actions will address. The FY 2011 Accountable Official's Report stated that the IRS DRT and verification contribute to fewer instances of inaccurate financial information. Department officials believe that both of these efforts will reduce improper payments.

**5. Anticipated Cost of Corrective Actions and Return on Investment**

The Department complied with the requirement to report on the anticipated cost of the corrective actions and the return on the investment from implementing the corrective actions. The FY 2011 Accountable Official's Report stated that the anticipated cost to the Department related to improving the IRS DRT, so that more FAFSA applicants use the tool, are marginal compared with the projected savings and simplicity. Further, the FY 2011 Accountable Official's Report stated that the Department is not able to estimate increased cost to schools to perform verification; however, to the extent applicants use the IRS DRT, schools' verification efforts will be reduced.

**6. Explanation of Program's Performance in Meeting its Reduction Targets**

The Department complied with the requirement to provide an explanation of the Department's performance in meeting the reduction targets for the Pell Program. For the last three fiscal years (2009 through 2011) the Department reported lower annual improper payment and target rates (3.5, 3.12, and 2.72 for both rates, respectively). The Department received approval from OMB to keep the target rate at 2.72 percent through FY 2014. The Department plans to consider the results of the FY 2012 FAFSA/IRS Study to inform its decisions on future reduction efforts.

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<sup>4</sup> Regulatory changes to verification requirements were published on October 29, 2010, and were effective on July 1, 2012 (75 Federal Register 66832).

## **7. Plan for Ensuring Initiatives Do Not Unduly Burden Program Access**

The Department complied with the requirement to report on its plan for ensuring that its initiatives for reducing Pell Program improper payments do not unduly burden participants' access to the program. According to the Department, OMB has not issued supplemental instructions for agencies to use in developing measures to ensure program access. In the absence of supplemental instructions, the FY 2011 Accountable Official's Report described the Department's efforts to ensure that initiatives to reduce improper payments do not unduly burden Pell Program applicants or parents of applicants. These initiatives include using the IRS DRT, making the IRS DRT available to applicants earlier than in previous years, and offering additional FAFSA application methods. The Department believes that its efforts will reduce improper payments without burdening applicants' program access and participation.

### **Improper Payment Risk**

In addition to the seven compliance areas listed above, the Department was required to address improper payment risk. The Department adequately addressed the significant improper payment risks. The Department was required to identify and address the root causes of Pell Program improper payments. The Department identified the inaccuracy of self-reported financial income on the FAFSA as the most significant root cause (risk) of improper payments. Additionally, the Department noted that fraud by "Pell runners" and distance education fraud rings<sup>5</sup> are also causes of improper payments. The FY 2011 Accountable Official's Report states that FSA has controls in place within existing Department systems that assist in its efforts to mitigate the risk of improper payments (see Finding No. 1 for a discussion of the controls).

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<sup>5</sup> Pell runners give the appearance of legitimate students; however, they enroll in a school with the sole intent of collecting financial aid. These students may withdraw from classes after a few weeks and obtain a refund check from the school, and they do not use the proceeds for educational purposes. The Pell runner repeats this behavior at additional schools.

Distance education fraud rings are composed of one or more ringleaders who facilitate enrolling "straw students" in distance education programs. In exchange, ringleaders receive a portion of the financial aid funds that the school disburses to the straw students. Straw students' sole intent is to collect financial aid.

## FINDING AND RECOMMENDATION

### Level of Oversight by FSA

The Department generally described an adequate level of oversight to reduce and recapture improper payments. The FY 2011 Accountable Official's Report described the controls in the Department's systems, improvements to the IRS DRT, enhancements to the verification requirements by schools, and FSA Program Compliance activities, including school program reviews, as elements of FSA's oversight efforts to reduce and recapture improper payments. However, we found that the Department's improper payment monitoring and oversight efforts did not consider Pell Program recipients who did not use the IRS DRT and who were not selected for verification.

### **FINDING NO. 1 - Pell Program Recipients Who Did Not Use the IRS DRT and Who Were Not Selected For Verification Should Be Considered in FSA's Monitoring and Oversight Efforts**

The FY 2011 Accountable Official's Report addressed the Department's current and planned monitoring and oversight efforts to reduce Pell Program improper payments. These efforts focus on (1) Pell Program recipients that use the IRS DRT to transfer their income data to the FAFSA application and (2) Pell Program recipients selected for verification. However, the FY 2011 Accountable Official's Report did not address monitoring and oversight of those Pell Program recipients who (1) do not use the IRS DRT when completing their FAFSA application and (2) who will not be selected for verification. For these populations of Pell Program recipients, the risk of inaccurate self-reporting of income data on the FAFSA remains. OMB Circular A-123, Appendix C, Part I, Section (A)(14) states that agencies should use the results of statistical measurements to identify the root causes of improper payments and implement corrective actions to prevent and reduce improper payments associated with the root causes identified. The corrective actions should be implemented and refined on a continuous basis and agencies should review the corrective actions to determine whether any existing action can be intensified or expanded.

As indicated in the FY 2011 Accountable Official's Report, the IRS DRT is an optional tool with some basic eligibility requirements. For applicants<sup>6</sup> to be eligible to use the IRS DRT, they must have filed a U.S. tax return, have a valid social security number, and have a marital status that did not change after December 31st. Applicants using the IRS DRT also need to successfully complete the authentication process with the IRS.<sup>7</sup> However, applicants are not required to use

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<sup>6</sup> In this context, "applicants" refers to all FAFSA applicants. Not all applicants are eligible for a Pell grant.

<sup>7</sup> Eligible applicants who choose to use the IRS DRT are temporarily transferred to the IRS Web site, where they are asked a few questions to prove that they are who they say they are.

the IRS DRT and some may choose not to use it to complete the FAFSA income data. IRS DRT usage rates have been low. For example, in academic year 2011–2012, only 22 percent (4,688,748) of students and parents transferred their income and tax data from the IRS Web site to the FAFSA by using the IRS DRT. Further, some eligible applicants may choose not to transmit their income data because the available data may not accurately reflect the required income data. For example, individuals who have filed an amended tax return do not have access to the amended data when using the IRS DRT because the amended tax returns would not be available in the IRS database.

In addition to the population of applicants who do not use the IRS DRT, the Department also must consider the population of Pell Program recipients who are not selected for verification in FSA’s monitoring and oversight efforts. Before the 2012–2013 award year, the Department required schools to verify income and other data only for 30 percent of the FAFSA applications the Department selected for verification. Beginning with the 2012–2013 award year, the 30 percent threshold no longer applies because the Department now requires schools to verify income and other data for all FAFSA applicants selected for verification.

The Department has not yet announced what percentage of FAFSA applicants will be selected for verification.<sup>8</sup> If the Department does not study the population of applicants who will not use the IRS DRT and are not selected for verification, the Department may miss opportunities to further reduce and recapture improper payments.

Because the Pell Program is considered a high-priority program, the Department needs to balance preventing improper payments to Pell Program recipients and ensuring program access. In the FY 2011 Accountable Official’s Report, the Department explained that it relies on existing controls in FSA’s internal control framework to help prevent fraud, waste, and abuse in student aid programs. The internal control framework includes data checks and edits within CPS; matching FAFSA data against various authentication sources (such as Social Security Administration, Department of Homeland Security, Selective Service, and other databases); and verification of FAFSA information by schools. These controls may not adequately address improper payments to Pell Program recipients who do not use the IRS DRT and who are not selected for verification. For example, in a recent Investigative Program Advisory Report<sup>9</sup> issued by our office, we described our investigations of numerous fraud rings that target serious

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<sup>8</sup> In the Regulatory Impact Analysis accompanying the final regulations published in the Federal Register on October 29, 2010, the Department estimated that 30 percent of all applicants will be selected for verification (75 Federal Register 66941).

<sup>9</sup> “Distance Education Fraud Rings,” September 26, 2011, ED-OIG/L42L0001. The report contained recommendations to reduce the vulnerabilities discussed therein. While the Department has taken corrective actions in response to the recommendations, not all recommendations have been fully implemented.

vulnerabilities in distance education programs. Members of such fraud rings are unlikely to use the IRS DRT and may not be selected for verification.

## **RECOMMENDATION**

We recommend that the Chief Financial Officer for the Office of the Chief Financial Officer, in conjunction with the Chief Financial Officer for FSA, require FSA to:

- 1.1** Study Pell Program recipients who do not use the IRS DRT and who are not selected for verification to determine whether the Department has adequate controls in place or needs to implement additional controls to mitigate the risk of improper payments to this population of Pell Program recipients.

## **Department Response**

The Department concurred with the finding and recommendation. The Department agreed to perform a study on the population of Pell Program recipients that do not use the IRS DRT and who are not selected for verification.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of our audit were to determine whether the Department's "FY 2011 Accountable Official's Report on the Pell Grant High-Priority Program" (1) complied with the requirements of Executive Order 13520, "Reducing Improper Payments;" (2) adequately addressed improper payment risks; and (3) described an adequate level of oversight by FSA to reduce and recapture improper payments.

Our audit covered the Department's FY 2011 Accountable Official's Report and the Department's improper payment measurement methodology and plans, and supporting analysis for reducing and recapturing improper payments and for ensuring program access for the Pell Program from October 1, 2010, through September 30, 2011.

Our audit was for the limited purpose described and would not necessarily identify all deficiencies in internal controls. We gained an understanding of the Department's internal controls for preventing improper payments in the Pell Program through interviews of Department officials and reviews of the Department's processes, plans, and corrective actions detailed below.

To accomplish our objectives, we performed the following.

1. Reviewed background information about the Department and the Pell Program.
2. Reviewed the following laws, regulations, and guidance:
  - a. IPERA (Pub. L.111-204), 2010;
  - b. IPIA (Pub. L.107-300), 2002;
  - c. OMB Circular A-123, Appendix C, Parts I and II, "Requirements for Effective Measurement and Remediation of Improper Payments," April 14, 2011;
  - d. OMB Memorandum M-11-04, "Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits," November 16, 2010;
  - e. OMB Circular A-123, Appendix C, Part III, "Requirements for Implementing Executive Order 13520: Reducing Improper Payments," March 22, 2010; and
  - f. Executive Order 13520, "Reducing Improper Payments," November 20, 2009.
3. Reviewed the Department's FY 2011 AFR, including the attachment, titled "Improper Payments Reporting Details." We compared information within the AFR to the FY 2011 Accountable Official's Report.
4. Reviewed the FY 2011 Accountable Official's Report to determine the Department's compliance with Executive Order 13520. Specifically, we reviewed the report to determine whether the Department reported the following:
  - a. Pell Program improper payment rate measurement methodology, sample size, results of annual measurements and related calculations;
  - b. root causes of improper payments in the Pell program;
  - c. corrective actions and implementation dates;
  - d. the types of improper payments the corrective actions will address and their expected impact;
  - e. the anticipated cost of corrective actions and their return on investment;
  - f. an explanation of the Pell Program's performance in meeting its reduction targets; and
  - g. a plan for ensuring that initiatives to prevent and reduce improper payments do not unduly burden program access.
5. Interviewed officials from FSA's Business Operations office, Finance office, and Customer Experience Group.



6. Reviewed FSA's Program Review Process, Authorization/Funding Process, Institution Eligibility Process, and Student Eligibility Review Process.
7. Reviewed IRS DRT supporting documentation.
8. Reviewed the Department's FY 2011 FAFSA/IRS Study.
9. Reviewed the OIG's Investigative Program Advisory Report, "Distance Education Fraud Rings," September 26, 2011, ED-OIG/L42L0001; OIG's Evaluation and Inspection Services report on the review of the Department's process for identifying and reporting high-dollar overpayments as required by Executive Order 13520, April 23, 2012, EDOIG/I13L0003; and OIG's audit report, "U.S. Department of Education's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2011," March 15, 2012, ED-OIG/A03M0001. We also reviewed the Department's corrective action plans in response to recommendations contained in the OIG's Investigative Program Advisory Report and the OIG's Evaluation and Inspection Services report.

Use of computer-processed data for the audit was limited to reports the Department provided to support IRS DRT statistics. We used the data contained in these reports to determine the accuracy and completeness of the IRS DRT statistics. We assessed the reliability of the Department's IRS DRT statistics by reviewing and analyzing the data and interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the objectives of this report.

We performed fieldwork at the Department's offices, located in Washington, D.C., from May 2012 through September 2012. We briefed Department officials on the results of our audit on August 8, 2012.

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

## Appendix



### UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

August 28, 2012

#### MEMORANDUM

TO: Pat Howard  
Assistant Inspector General for Audit  
Office of Inspector General

Bernie Tadley  
Regional Inspector General for Audit  
Office of Inspector General

FROM: Thomas P. Skelly /s/  
Delegated to Perform the Function  
and Duties of the Chief Financial Officer

SUBJECT: Draft Response to OIG Review of the Department's Accountable Official Report  
Under Executive Order 13520

We appreciate the opportunity you have given us to respond the Office of Inspector General's (OIG) draft report on the Pell Grant High-Priority Program, and the way in which you collaborated with the Department in conducting this review. We are pleased your audit found the Department in compliance with the Executive Order 13520, *Reducing Improper Payments*, as it relates to the Pell Grant Program.

The Department has worked diligently to implement Executive Order 13520. We will continue to re-assess and implement strategies to reduce improper payments in the Pell Grant Program. We look forward to further strengthening our efforts through your recommendation on your finding for Objective #3 in your report. Our response to this finding is included below.

**Response to Finding 1:** We concur with Finding 1 that the Department did not consider Pell Program recipients who did not use the IRS DRT and/or who were not selected verification in our improper payment monitoring and oversight efforts. The Department continually updates and enhances its risk model for verification selection based on yearly statistical analysis to identify the most error-prone records. While the Department limits its verification selection to approximately 30 percent of all applicants, we focus on Pell-eligible records specifically.

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

Therefore, the percentage of Pell eligible applicants selected for verification is approximately 60-65 percent of the Pell eligible applicants. In addition, the Department considers the use of the IRS Data Retrieval Tool when selecting a record for verification. In most cases, if the student or parent used the IRS Data Retrieval Tool and did not change any of the data that was transferred, we will not select that record for verification. This means that we are able to select other, more error prone Pell-eligible applicants who did not use the IRS Data Retrieval Tool within our selection pool.

It is important to highlight upcoming verification changes for the 2013-14 award year:

- 1) Beginning with the 2013-14 year, the Department has added verification selection criteria to identify records that have a high statistical likelihood of coming from persons who either are not who they say they are or who do not have serious educational goals; and
- 2) Beginning with the 2013-2014 year, the Department will be providing institutions with a new "Unusual Enrollment History Flag" to identify applicants with prior enrollment patterns (moving among schools on a consistent basis) that could indicate that the applicant is only applying for aid to get cash balances (i.e., Pell Runners).

**Response to Recommendation 1:** We concur with your recommendation that we study Pell Grant recipients who do not use the IRS DRT and/or who are not selected for verification. As mentioned previously, the Department's verification model is based on statistical analysis to identify the most-error prone records. We will study the population of recipients you have identified to enhance our controls to mitigate the risk of improper payments for this population of Pell Grant recipients.

Once again, we appreciate the opportunity to review and respond to the report. If you have any questions or need additional information regarding this response, please contact Jay Hurt at (202) 377-3453.

cc: Teri Lewis, Assistant Regional Inspector General for Audit  
Erin Hudson, Auditor  
Jay Hurt, Chief Financial Officer, FSA