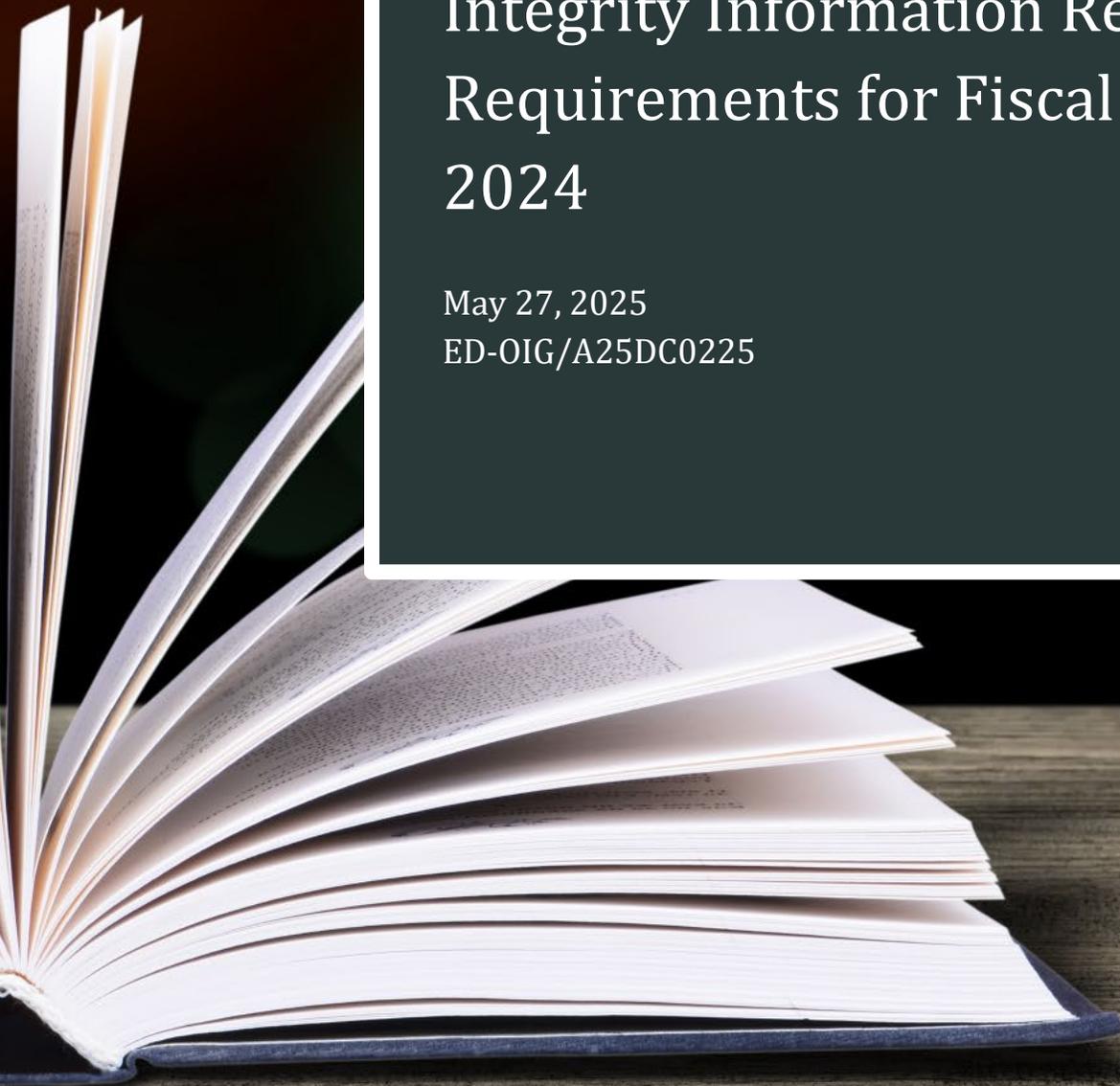




U.S. Department of Education  
Office of Inspector General

# U.S. Department of Education's Compliance with Payment Integrity Information Reporting Requirements for Fiscal Year 2024

May 27, 2025  
ED-OIG/A25DC0225



## 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. The appropriate Department of Education officials will determine what corrective actions should be taken.

In accordance with Freedom of Information Act (Title 5, United States Code, Section 552), reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

Audit Services

May 27, 2025

TO: Richard Lucas  
Acting Assistant Secretary/Chief Financial Officer  
Office of Finance and Operations

Rhonda C. Shaffer  
Chief Financial Officer  
Federal Student Aid

FROM: Sean Dawson /s/  
Assistant Inspector General for Audit

SUBJECT: Final Audit Report, "The U.S. Department of Education's Compliance with Payment Integrity Information Reporting Requirements for Fiscal Year 2024," Control Number ED-OIG/A25DC0225

Attached is the subject final audit report that consolidates the results of our review of the U.S. Department of Education's compliance with payment integrity information reporting requirements for fiscal year 2024. We have provided an electronic copy to your audit liaison officers. We received your comments agreeing with Finding 1 and partially agreeing with Finding 2 in our draft report.

U.S. Department of Education policy requires that you submit a corrective action plan within 30 days of the issuance of this report. The corrective action plan 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. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

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 recommendations that have not been completed after 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact Michele Weaver-Dugan at (202) 360-8454 or [michele.weaver-dugan@ed.gov](mailto:michele.weaver-dugan@ed.gov).

Attachment

# Results in Brief

## U.S. Department of Education's Compliance with Payment Integrity Information Reporting Requirements for Fiscal Year 2024



### **Why the OIG Performed this Audit**

The objective of our audit was to determine whether the U.S. Department of Education (Department) complied with the Payment Integrity Information Act of 2019 (PIIA) for fiscal year (FY) 2024.

Our audit covered the Department's payment integrity activities for FY 2024 (October 1, 2023, through September 30, 2024). We reviewed the Department's risk-susceptible programs reported in the accompanying materials to the Department's FY 2024 Agency Financial Report. We also reviewed the corrective actions the Department implemented in response to our prior audit report titled, "U.S. Department of Education's Compliance with Payment Integrity Information Reporting Requirements for Fiscal Year 2023."

### **What Did the OIG Find?**

We found that the Department complied with the PIIA for the FY 2024 reporting period because it met all six compliance requirements as described in [Finding 1](#). However, we found that the Department could improve its processes for implementing its methodologies for estimating improper payments and unknown payments. While we found that the point estimates for the Federal Pell Grant (Pell) and William D. Ford Federal Direct Loan (Direct Loan) programs reflect the programs' annual improper payments and unknown payments, we found that the Department's improper payment and unknown payment estimates for these programs were not reliable because of issues in the calculation of the confidence intervals, as described in [Finding 2](#). Specifically, the improper payment sampling and estimation plans for the Pell and Direct Loan programs included nonrandom student-level sampling from some of the compliance audits Federal Student Aid (FSA) used to calculate the estimates, which affected the accuracy and appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates. The nonrandom student-level sampling issue has been a repeat finding since our report on the Department's compliance with improper payment reporting requirements for FY 2019.

### **What Is the Impact?**

Without an accurate confidence interval, the Department may not have a true sense of how high or low the improper payment or unknown payment amount could be in the population. This may limit its efforts to identify the true root causes of improper payments in the programs and take appropriate corrective action to prevent and reduce improper payments.

### **What Are the Next Steps?**

We recommend that FSA develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates.

We provided a draft of this report to the Department and FSA for comment. The Department and FSA agreed with Finding 1 and FSA partially agreed with Finding 2. FSA did not specifically agree or disagree with the recommendation but stated the corrective actions it plans to take in response to our recommendation. FSA's proposed actions are not fully responsive to our recommendation. We summarize the Department's and FSA's comments at the end of each finding and provide the full text of the comments at the end of the report.

# Table of Contents

Introduction .....	1
Finding 1. The Department Complied with PIIA Requirements.....	3
Finding 2. The Department’s FY 2024 Improper Payment and Unknown Payment Estimates for the Pell and Direct Loan Programs Were Not Reliable.....	9
Appendix A. Scope and Methodology.....	15
Appendix B. Acronyms and Abbreviations.....	19
Department and FSA Comments .....	20

# Introduction

## Purpose

We conducted this audit to determine whether the U.S. Department of Education (Department) complied with the Payment Integrity Information Act of 2019 (PIIA).<sup>1</sup> The PIIA requires each agency's Inspector General to determine the agency's compliance with the statute for each fiscal year (FY).

## Background

Signed into law in March 2020, the PIIA was enacted to improve governmentwide efforts to identify and reduce improper payments. Office of Management and Budget (OMB) Circular A-123 Appendix C 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, or any payment for a good or service not received. OMB Circular A-123 Appendix C defines an unknown payment as "a payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper due to lacking or insufficient documentation."

The PIIA requires each agency, in accordance with guidance prescribed by OMB, to review at least once every 3 years all programs and activities with annual outlays greater than \$10 million and to identify those that may be susceptible to significant improper payments.<sup>2</sup> Under 31 United States Code (U.S.C.) section 3352(c)(1)(A), for each program and activity identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology that OMB approved, of the improper payments made under each program and activity and include those estimates in the

---

<sup>1</sup> The PIIA is codified at 31 United States Code sections 3351-3358.

<sup>2</sup> According to OMB Circular A-123 Appendix C Part VIII, issued in March 2021, significant improper payments are defined as annual improper payments and unknown payments in the program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays). This is referred to as the statutory threshold.

accompanying materials to the annual financial statement<sup>3</sup> of the agency and as required in applicable OMB guidance.

### **PIIA Reporting Requirements**

To comply with the PIIA, an agency must meet the six requirements at 31 U.S.C. section 3351(2), discussed in further detail below. If an agency does not meet one or more of these requirements, then it is not compliant with the PIIA.

Under 31 U.S.C. section 3352(b)(1), the Director of OMB is required to identify a list of high-priority programs for greater levels of oversight and review. Under 31 U.S.C. section 3352(b)(2), each agency with a high-priority program must report to the Inspector General and make available to the public (1) any action that the agency has taken or plans to take to recover improper payments and (2) any action that the agency intends to take to prevent future improper payments. According to 31 U.S.C. section 3352(b)(2)(E)(i), the agency's Inspector General must review (1) the assessment of the level of risk associated with any high-priority program, (2) the quality of the program's improper payment estimates and methodologies, and (3) the oversight or financial controls used to identify and prevent improper payments under the program.

Under 31 U.S.C. section 3351(2)(C), an agency must publish improper payment and unknown payment estimates for programs it identified as being susceptible to significant improper payments. For FY 2024, the Education Stabilization Fund (ESF), Federal Pell Grant (Pell), and William D. Ford Federal Direct Loan (Direct Loan) programs were identified as being susceptible to significant improper payments. The Department and Federal Student Aid (FSA) engaged contractors to assist with developing and executing the sampling and estimation plans used to produce improper payment and unknown payment estimates for these programs. As it relates to the Pell and the Direct Loan programs, we will use the term "FSA" to refer to the actions of FSA and its contractors throughout this report, unless otherwise stated. Also, as it pertains to the ESF program and to the reporting of payment integrity information, generally, we will use the term "Department" to refer to the actions of the U.S. Department of Education and its contractors throughout this report, unless otherwise stated.

---

<sup>3</sup> The Department's annual financial statements are included in its Agency Financial Report.

## Finding 1. The Department Complied with PIIA Requirements

We found that the Department complied with the PIIA because it met all six compliance requirements. See the specific descriptions in Table 1 and subsections below.

**Table 1. Fiscal Year 2024 PIIA Compliance Reporting Table**

PIIA Compliance Requirements	ESF	Pell	Direct Loan
1a. Published payment integrity information with the annual financial statement.	Compliant	Compliant	Compliant
1b. Posted the annual financial statement and accompanying materials on the agency website.	Compliant	Compliant	Compliant
2a. Conducted improper payment risk assessments for each program with annual outlays greater than \$10,000,000 at least once in the last 3 years.	NA <sup>4</sup>	NA	NA
2b. Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold.	NA	NA	NA
3. Published improper payment and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statement.	Compliant	Compliant	Compliant
4. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	NA	Compliant	Compliant
5a. Published improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	NA	Compliant	Compliant

---

<sup>4</sup> The use of NA in the table indicates the requirement was not applicable for the fiscal year 2024 PIIA reporting period.

PIIA Compliance Requirements	ESF	Pell	Direct Loan
5b. Has demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	NA	Compliant	Compliant
5c. Has developed a plan to meet the improper payment and unknown payment reduction target.	NA	Compliant	Compliant
6. Reported an improper payment and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.	Compliant	Compliant	Compliant

**1. Published Payment Integrity Information with the Annual Financial Statement.**

The Department complied with 31 U.S.C. section 3351(2)(A), as it published and posted on its website an annual financial statement and the required accompanying materials. The Department published its FY 2024 Agency Financial Report (AFR) on November 14, 2024, and submitted through the FY 2024 OMB Data Call its payment integrity information required under OMB guidance.

- 2. Conducted Program-Specific Risk Assessments.** The Department complied with 31 U.S.C. section 3351(2)(B), as it conducted a risk assessment for each program or activity that conforms with the requirements of 31 U.S.C. section 3352(a). The Department conducted qualitative risk assessments of 20 programs and 2 administrative activities, including those that had not been assessed in the last 3 years, those experiencing significant funding increases, and those with significant programmatic or legislative changes. We found that the Department’s qualitative risk assessments generally were sufficient and supported the conclusion of whether the program or activity would make improper payments and unknown payments above or below the statutory threshold.

Risk assessments of FSA-managed programs were not conducted during the FY 2024 reporting period. FSA conducted risk assessments of all required FSA-managed programs<sup>5</sup> during the FY 2023 reporting period and did not identify any new

---

<sup>5</sup> The Pell and Direct Loan programs are not required to be risk assessed as they have already been identified as programs being susceptible to significant improper payments and are reporting improper payment and unknown payment estimates.

programs or existing programs with significant changes that would trigger the need for a new risk assessment.

3. **Published Improper Payment and Unknown Payment Estimates.** The Department complied with the requirement to publish improper payment and unknown payment estimates. Under 31 U.S.C. section 3351(2)(C), an agency must publish improper payment and unknown payment estimates for programs it identified as being susceptible to significant improper payments. The Department published improper payment and unknown payment estimates for all of the programs it identified as susceptible to significant improper payments—the ESF, Pell, and Direct Loan programs.
4. **Published Programmatic Corrective Action Plans.** The Department complied with 31 U.S.C. section 3351(2)(D), as it reported on its actions to reduce improper payments and unknown payments in programs susceptible to significant improper payments. The Department reported the corrective actions, taken and planned, to reduce improper payments and unknown payments in the Pell and Direct Loan programs. We reviewed the corrective action plans and determined that the plans adequately addressed the root causes of improper and unknown payments. The Department did not have to submit a corrective action plan for the ESF program because the reported improper payment and unknown payment estimate was not above the statutory threshold.
5. **Published, Demonstrated Improvement, and Developed a Plan to Meet its Reduction Targets.** The Department complied with the requirement to publish reduction targets, demonstrated improvement, and developed plans to meet the reduction targets, as required under 31 U.S.C. section 3351(2)(E). Reduction targets were established for the Pell and Direct Loan programs and plans were developed to meet those targets. The Department demonstrated improvements in payment integrity by planning multiple corrective actions to mitigate improper payments for the Pell and Direct Loan programs, most significantly through implementing authorities provided in the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act to significantly improve data authentication. These corrective actions are planned to be completed in FY 2025. The Department further demonstrated improvement to payment integrity in the Pell program by reducing its estimated improper payment and unknown payment rate and meeting its FY 2024 reduction target.

The Department did not have to publish reduction targets for the ESF program because the reported improper payment and unknown payment estimate was below the statutory threshold.

**6. Reported Improper Payment and Unknown Payment Rate of Less Than 10 Percent.**

The Department complied with the requirement to report improper payment and unknown payment rates of less than 10 percent for each applicable program as required under 31 U.S.C. section 3351(2)(F). The Department reported an improper payment and unknown payment rate of 0.00 percent for the ESF program, 2.64 percent for the Pell program, and 0.94 percent for the Direct Loan program.

### **Other Payment Integrity Activities**

We evaluated the Department's efforts to comply with additional PIIA requirements. This included the Department's work to prevent and reduce improper payments, develop improper payment sampling and estimation methodology plans and estimates, and assess the level of risk associated with its high-priority program. We also reviewed the oversight and financial controls used by the Department to identify and prevent improper payments in the high-priority programs as required by 31 U.S.C. section 3352(b)(2)(E)(i) and 31 U.S.C. section 3353(a)(3)(E). See details below.

### **Efforts to Prevent and Reduce Improper Payments**

Compared to FY 2023,<sup>6</sup> the Department reported an additional \$288 million in estimated improper payments and unknown payments. Total estimated improper payments and unknown payments declined for the ESF program but increased for the Pell and Direct Loan programs. The improper and unknown payment rate declined for the Pell program and increased for the Direct Loan program, and the Pell program's rate met its FY 2024 reduction target, while the Direct Loan program's rate did not. See Table 2.

---

<sup>6</sup> As noted in [Finding 2](#), improper payment and unknown payment estimates for the Pell and Direct Loan programs were not reliable. However, since FSA's methodology for developing the estimates has remained consistent, we believe a comparison of year-over-year changes and performance in meeting reduction targets is still useful as part of our evaluation of efforts to prevent and reduce improper payments.

**Table 2. Improper and Unknown Payment Trends and Reduction Targets**

Program	FY 2023 Amount (millions)	FY 2024 Amount (millions)	FY 2023 Rate (percent)	FY 2024 Reduction Target (percent)	FY 2024 Rate (percent)
ESF	\$0.14	\$0.10	0.00	N/A	0.00
Pell	\$812.30	\$872.15	2.83	2.82	2.64
Direct Loan	\$586.66	\$814.87	0.70	0.70	0.94

The Department implemented corrective actions that it anticipates will prevent and reduce improper payments and unknown payments. To address its most impactful root cause of improper payments, FSA implemented authorities provided in the FUTURE Act to obtain Federal tax information directly from the Internal Revenue Service, which is expected to significantly reduce misreported income on the Free Application for Federal Student Aid (FAFSA). In FY 2024, FSA implemented the FAFSA Processing System and Federal Tax Information systems to automatically provide the student’s and family’s Federal tax information to FSA for the 2024–2025 FAFSA form. Other corrective actions taken included publishing and delivering various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments at the schools.

While improper payments and unknown payments have increased in the past year for the Pell and Direct Loan programs, FSA expects implementation of authorities provided by the FUTURE Act will significantly reduce improper payments. For the Pell program alone, FSA expects improper payments to decline by as much as \$704 million (81 percent). In consideration of this corrective action and the oversight and financial controls described below, we found that the Department’s ongoing and recent efforts are focused on preventing and reducing improper payments and unknown payments and we have no further recommendations to provide.

### **Risks Associated with the Pell High-Priority Program**

We found that the high-priority program’s improper payment and unknown payment estimate may not reflect the true level of risk because the improper payment estimate for the Pell program was unreliable, as described in Finding 2. The Department included Pell program risks, such as risks related to student eligibility, student disbursements, and return of Title IV of the Higher Education Act of 1965 funds, in the development of the improper payment sampling and estimation plan for the high-priority program. We

also determined that the information in the payment integrity scorecard for the Pell high-priority program was supported, accurate, and complete.

### **Improper Payment Sampling and Estimation Methodology Plans and Estimates**

We found that the improper payment sampling and estimation methodology plans for the Pell and Direct Loan programs could be improved and that the related estimates were not reliable, as described in Finding 2.

We also found deficiencies in the sampling populations used in the calculation of the ESF program's improper payment and unknown payment estimate. However, the Department's sampling and estimation methodology included steps to minimize the impact of such deficiencies on the estimate. As a result, the deficiencies we identified had a minimal effect on the reported improper payment and unknown payment estimate for the ESF program.

### **Oversight and Financial Controls**

We found that the Department adequately described the oversight and financial controls it designed and implemented to identify and prevent improper payments in its programs. The Department and FSA stated that they maintained a robust internal control framework that includes controls designed to help prevent, detect, and recover improper payments and unknown payments. Internal controls identified by the Department include annual program risk assessments, reviews of program participants, and the Department's Payment Integrity Monitoring Application, which helps identify anomalies in grants payment data, supports investigations to validate improper payments, and address root causes. The Department has determined that payment recapture audits would not be cost effective for any of its programs or activities, but the Department does identify and recover improper payments through other recovery mechanisms.

### **Department and FSA Comments**

The Department and FSA agreed with the finding.

## **Finding 2. The Department's FY 2024 Improper Payment and Unknown Payment Estimates for the Pell and Direct Loan Programs Were Not Reliable**

While we found that the point estimates for the Pell and Direct Loan programs reflect the programs' annual improper payments and unknown payments, we found that the Department's improper payment and unknown payment estimates for these programs were not reliable. Specifically, the improper payment sampling and estimation plans for the Pell and Direct Loan programs included nonrandom student-level sampling from some of the compliance audits FSA used to calculate the estimates, which affected the accuracy and appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates. The nonrandom student-level sampling issue has been a repeat finding since our report on the Department's compliance with improper payment reporting requirements for FY 2019.

### **Description of Sampling and Estimation Plan and Estimate for the Pell Program**

For FY 2024, FSA reported a 2.64 percent improper and unknown payment rate with a 95 percent confidence that the improper and unknown payment rate was between 2.18 percent and 3.11 percent for the Pell program. FSA leveraged available data from existing internal control activities, including improper and unknown payments identified through compliance audits and estimates of improper payment rates reported in the FAFSA/Internal Revenue Service Data Statistical Study to estimate improper and unknown payments rates for the Pell program.

For estimating improper payments and unknown payments based on compliance audit findings, FSA implemented a two-stage statistical sampling methodology.

- At the first stage, FSA's sampling unit was compliance audits of schools and school systems conducted under the requirements of either the Single Audit Act or Office of Inspector General (OIG) Audit Guidance. For selected compliance audits, FSA reviewed the schools' most recently completed compliance audits to determine the improper payment and unknown payment estimates.
- At the second stage, FSA's sampling unit consisted of the students who were selected by the independent auditor performing the compliance audit. In performing the compliance audits, the independent auditors select a sample of students using either a random or nonrandom sampling approach to assess whether the school materially complied with the requirements of the Title IV

program. The type of sampling performed depends on the applicable guidance for the compliance audit.<sup>7</sup> The second stage sampling uses a mean-based estimator to project student-level results up to the associated school and compliance audit. The projected student-level results are based on the independent auditor's identified student-level improper and unknown payment amounts.

Improper payments and unknown payments identified during the review of compliance audits are extrapolated to the entire population, and improper payments are categorized as overpayments, underpayments, or technically improper. The gross improper payment error rate from the FAFSA/Internal Revenue Service Data Statistical Study is added to account for improper payments due to misreported income.

### **Description of Sampling and Estimation Plan and Estimate for the Direct Loan Program**

For FY 2024, FSA reported a 0.94 percent improper and unknown payment rate with a 95 percent confidence that the improper and unknown payment rate was between 0.26 percent and 1.63 percent for the Direct Loan program. In developing the estimate, FSA implemented a two-stage statistical sampling methodology for compliance audits (similar to the methodology used for the Pell program estimate), selected a sample of Direct Loan consolidation overpayment and underpayment activity, and selected a sample of Direct Loan refund activity. For both loan consolidations and refunds, samples were tested to determine which of these transactions were improper payments or unknown payments. The results from each of these were extrapolated, resulting in three estimates that were combined to form an overall estimate for the Direct Loan program.

### **Unreliable Improper and Unknown Payment Rate for the Pell and Direct Loan Programs**

FSA's inclusion of nonrandom samples in its second stage sampling affected the accuracy and appropriateness of the confidence intervals that FSA calculated for the two estimates. To compute confidence intervals, a margin of error is required. However, when nonrandom samples are used, the margin of error is not an accurate

---

<sup>7</sup> For-profit schools must have a compliance audit conducted under the OIG Title IV Audit Guide, which requires auditors to perform random sampling. Public and nonprofit schools must comply with the Single Audit Act, and its associated regulations and guidance, and are required to follow American Institute of Certified Public Accountants standards, which allows for both random and nonrandom sampling.

measurement of sampling risk which leads to an inaccurate estimation of the confidence intervals. Because FSA used nonrandom second-stage student-level samples to derive both the Pell and Direct Loan program improper payment and unknown payment estimates, the calculated confidence intervals are not accurate or appropriate.

OMB Circular A-123 Appendix C Part II B states that

[t]he main purpose of an [improper payment] estimate is to reflect the annual estimated known [improper payments] made by the program.... Each agency has the responsibility of designing and documenting a program's [sampling and estimation plan] with the mindfulness that during their annual compliance review, their OIG will take into account the accuracy of the [improper payment] and [unknown payment] estimates.

According to OMB Circular A-123 Appendix C, a reliable improper payment and unknown payment estimate is produced from accurate sampling populations, testing procedures, and estimation calculations.

OMB Circular A-123 Appendix C Part II B states that

[f]or purposes of this guidance, [sampling and estimation plans] will be considered statistically valid if they produce point estimates and confidence intervals around those estimates. Agencies must work with their statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. If a program is unable to develop a [sampling and estimation plan] that produces a point estimate and confidence interval around the estimate, then it must include in their [sampling and estimation plan] a detailed explanation as to why it is not possible.

The American Institute of Certified Public Accountants' Audit Guide on Audit Sampling sections 2.19, 2.23, and 2.24 note that sampling risk is the risk that the conclusion based on a sample might be different from the conclusion reached if the test were applied in the same way to the entire population. Statistical sampling uses the laws of probability to measure sampling risk. Any sampling procedure that does not permit the numerical measurement of sampling risk is a nonstatistical sampling procedure. Statistical sampling uses the laws of probability through random selection to ensure that every item has a known chance of being chosen. This allows the sampling risk to be measured and estimated.

The nonrandom student-level sampling issue has been a repeat finding since our report on the Department's compliance with improper payment reporting requirements for FY 2019. In response to our FY 2023 report, FSA stated that its sample and estimation plan is sound and produces statistically valid estimates of improper payments and unknown payments, so stakeholders have a reliable depiction of estimated improper and unknown payments. FSA added that Pell and Direct Loan program funds are disbursed to approximately 5,400 institutions and it does not control the payment operations at those institutions. Given these characteristics, FSA stated that it determined the best source of data to estimate improper payments and unknown payments was a random sample of compliance audits. By using the compliance audits, FSA leveraged existing data to meet its priorities and the goals of OMB Circular A-123 Appendix C. In its sampling and estimation methodology plan, FSA notes that the second stage sampling for public and non-profit schools is based on requirements that would prevent intentional under-representation of improper payment and unknown payment risk factors and would, if anything, tend to overestimate improper payment risk. FSA noted that it had assessed the direction and potential magnitude of any resulting bias and deemed it to be negligible and acceptable given the historically low projected improper payment rates for both the Pell and Direct Loan programs.

Although FSA has repeatedly noted that it disagrees with our conclusions pertaining to the reliability of the Pell and Direct Loan programs' improper payment and unknown payment estimates, FSA has stated that it would continue to pursue efforts to obtain OMB's approval of its methodology, considering program resources and characteristics, as per 31 U.S.C. section 3352(c)(1)(A). This same corrective action has been proposed by FSA in response to related recommendations included in our annual PIIA compliance audit reports since the FY 2020 report. We reviewed the status of the corrective actions for each of the prior audits and any documentation related to completion of the actions. We found that in response to our FY 2020 audit, FSA reached out to OMB officials in 2021 to obtain approval of its sampling and estimation plan methodology, in accordance with section 3352(c)(1)(A) of the PIIA. One OMB official indicated that OMB no longer reviewed or approved sampling and estimation plans while another subsequently indicated OMB may provide approval. FSA did not provide any additional documentation to indicate it has been actively pursuing OMB approval since 2021. We noted that related corrective actions for our FY 2021 and FY 2022 PIIA compliance audits were closed at FSA's request because FSA noted that they were duplicates of the corrective actions FSA was proposing in response to our FY 2023 audit and tracking could be streamlined under that one audit.

In its response to our FY 2023 report, FSA noted that it would collaborate with OMB to advocate for the inclusion of language in the next update to OMB Circular A-123

Appendix C that would specifically allow agencies to use compliance audits as a reliable data source to support statistically valid estimates of agency programs for PIIA reporting purposes. We found that FSA has collaborated with OMB; however, a revised circular has not yet been published and FSA officials explained that they have not received feedback from OMB on their proposed revisions of the circular. FSA officials noted that if they are unsuccessful, they will continue to seek OMB approval for the sampling and estimation plan methodology. If the circular is not revised in accordance with FSA's proposed revisions, we would note that the applicable corrective actions for this repeat recommendation should not be closed until approval is received from OMB.

Because the improper payment estimates for the Pell and Direct Loan programs are unreliable, stakeholders such as OMB, the public, Congress, and other users of the Department's FY 2024 AFR and [paymentaccuracy.gov](https://www.paymentaccuracy.gov) improper payment data do not have a reliable depiction of the estimated improper payments for these programs. The improper payment and unknown payment estimates consist of both the point estimate and the confidence intervals. The point estimate for the improper payments or unknown payments is an estimate of the amount of improper payments or unknown payments in the population, not the actual amount. The computed confidence interval for the improper payment or unknown payment point estimate is a range which is expected to contain the true improper payment or unknown payment number in the population. Stakeholders need both a valid point estimate and the associated confidence intervals to have a reliable depiction of the improper payments or unknown payments in the population. We found that the point estimates for these two programs reflected the programs' annual improper payments and unknown payments; however, we question the accuracy and appropriateness of the associated confidence intervals. Without an accurate confidence interval, the Department may not have a true sense of how high or low the improper payment or unknown payment amount could be in the population. This may limit its efforts to identify the true root causes of improper payments in the programs and take appropriate corrective action to prevent and reduce improper payments.

## **Recommendations**

We recommend that the Chief Financial Officer for the Department—

- 2.1 In conjunction with the acting Chief Financial Officer for FSA, develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates. Specifically, the plan should (a) produce appropriate and accurate confidence intervals around a statistically valid point estimate; (b) consistent with 31 U.S.C. section 3352(c)(1)(A), produce an estimate that is otherwise appropriate using a methodology approved by the

Director of OMB; or (c) consistent with OMB Circular A-123 Appendix C Part II B(2), include a detailed explanation as to why it is not possible to produce a statistically-valid point estimate and appropriate and accurate confidence intervals around the estimate.

### **FSA Comments**

FSA partially agreed with the finding and did not state whether it agreed or disagreed with the recommendation. FSA stated that the Pell and Direct Loan programs provide funding to 5,378 active institutions of postsecondary education that disburse the grants and loans to students, and FSA does not control the payment operations at those institutions. Given those characteristics, in 2018 FSA determined the best source of data to estimate improper payments and unknown payments was a random sample of compliance audits conducted at the institutions by independent public accountants. FSA stated that by using compliance audits, it leverages existing quality data rather than imposing additional burdens on institutions or incurring additional costs, thus meeting the priorities and goals of OMB Circular A-123 Appendix C.

In response to Recommendation 2.1, FSA stated it will research and evaluate potential new sources of data and determine if a suitable cost-effective methodology is appropriate to meet the improper payment priorities and goals of OMB Circular A-123 Appendix C. FSA also stated that if deemed appropriate, it will also perform an assessment of the current methodology in use and fortify or bolster the methodology as required to increase the reliability of the improper payment estimates.

### **OIG Response**

FSA's proposed actions are not fully responsive to our recommendation. Specifically, if FSA does not identify a suitable cost-effective methodology or does not adequately fortify or bolster its current methodology, the FY 2025 improper payment and unknown payment estimates for the Pell and Direct Loan programs would continue to be unreliable. If FSA continues to use the same methodology in FY 2025 that it has for the past several years, FSA should seek OMB approval of its methodology or include a detailed explanation as to why it is not possible to produce a statistically valid point estimate and appropriate and accurate confidence intervals around the estimate.

## Appendix A. Scope and Methodology

Our audit covered the Department’s improper payment reporting for FY 2024 (October 1, 2023, through September 30, 2024). We reviewed the Department’s risk-susceptible programs that were reported or referenced in the payment integrity section of the Department’s FY 2024 AFR and accompanying materials. Our review also included following up on corrective actions the Department had taken in response to our FY 2023 improper payment audit report.

To accomplish our audit objective, we reviewed the PIIA; OMB Circulars A-123 Appendix C, Requirements for Payment Integrity Improvement and A-136 Financial Reporting Requirements; OMB Annual Data Call Instructions; and Council of the Inspector General on Integrity and Efficiency’s guidance for OIG PIIA Compliance Reviews to ensure compliance with all requirements of PIIA. In addition, we interviewed officials from the Department and FSA involved in improper payment and unknown payment reporting. Further, we reviewed

1. Background information about the Department and its programs that were susceptible to significant improper payments in FY 2024 (ESF, Pell, and Direct Loan).
2. The payment integrity section in the Department’s FY 2024 AFR and FY 2024 accompanying materials, which include information the Department provides through quarterly surveys and annual data calls to OMB that is used to populate information on [paymentaccuracy.gov](https://paymentaccuracy.gov). Information on [paymentaccuracy.gov](https://paymentaccuracy.gov) includes quarterly program scorecards, annual improper payment datasets, and the annual improper payments dashboard.
3. Department risk assessment methodologies, plans, and results.
4. FSA’s corrective action plans, root cause analysis, and calculation of reduction targets and tolerable improper payment and unknown payment rates.

As part of our procedures, we also gained an understanding of the Department’s and FSA’s internal controls that were significant to the audit objectives and assessed the design, implementation, and operating effectiveness of those controls.

### Sampling Methodology

We selected nonstatistical samples of payments and other documentation related to programs and activities designated as susceptible to significant improper payments to answer our audit objectives. We also selected a nonstatistical sample from the program and activity improper payment risk assessments performed. We used auditor judgment to identify the appropriate sampling methodology for each of the ESF, Pell, and Direct

Loan programs and the risk assessments. The results from our sample testing apply only to the sample items we reviewed and cannot be projected to the entire population.

### **Risk Assessment Sample**

The Department identified 20 programs and 2 administrative activities that required a new risk assessment in FY 2024. We used a nonstatistical judgmental selection methodology to select 1 qualitative risk assessment to test the accuracy of the risk assessment conducted and determine whether the risk assessment was sufficient, supported, and conducted in conformity with the requirements of the PIIA and related guidance. FSA did not conduct any risk assessments of its programs in FY 2024 and was not required to.

### **ESF Sample**

We selected a nonstatistical random sample of 4 of the 556 payments that the Department sampled to determine the estimated improper payment and unknown payment rate for the ESF program. We reviewed the Department's testing spreadsheets and supporting documentation for these four payments and determined whether the improper payment and unknown payment amounts identified from these sampled payments were supported and accurately identified.

### **Pell Program Sample**

We selected a nonstatistical random sample of 1 of the 218 compliance audits FSA sampled as part of its calculation of the Pell program's estimated improper payment and unknown payment rate. We reviewed the audit report and supporting documentation for this compliance audit and determined whether the amount of improper payment and unknown payment amounts included in the estimate were supported and accurately identified.

### **Direct Loan Program Sample**

The Direct Loan improper payment and unknown payment estimate is created from improper payment and unknown payments identified through compliance audits, Direct Loan consolidation overpayments and underpayments, and Direct Loan refunds. Of the 222 compliance audits, 120 Direct Loan consolidation overpayments and underpayments, and 120 Direct Loan refunds that FSA sampled as part of its calculation of the Direct Loan program's estimated improper payment and unknown payment rate, we selected a nonstatistical random sample of 1 from each of these areas for a total of 3 samples. We obtained the supporting documentation for these and determined whether the improper payment and unknown payment amounts included in the estimate were supported and accurately identified.

## Use of Computer-Processed Data

Our use of computer-processed data for the audit included (1) payment integrity data reported in the FY 2024 AFR; (2) the spreadsheet the Department used to determine the programs requiring a risk assessment; (3) improper payment estimate data used in determining the improper payment and unknown payment estimate for the three Department programs with reported improper payment estimates for FY 2024; and (4) data used in forecasting and establishing the reduction targets for the Pell and Direct Loan programs. We assessed the reliability of the data by doing the following:

1. We compared payment integrity data reported in the FY 2024 AFR to the payment accuracy data set found on [paymentaccuracy.gov](https://www.paymentaccuracy.gov), amounts reported in the OMB Data Call, and supporting documentation provided by the Department.
2. For the improper payment data used to determine the improper payment and unknown payment estimates for the ESF, Pell, and Direct Loan programs, we assessed the accuracy and completeness of the data by comparing selected data elements found in the testing results for each program to supporting documentation. For ESF, this included comparing the names of State and local educational agencies and payment amounts to invoices and other supporting documentation. For compliance audits used in the Pell and Direct Loan estimates, this included comparing the OPEID, institution name, fiscal year, and improper payment amount to audit reports and other supporting documentation. For Direct Loan consolidation data, this included comparing payment amounts, dates, loan holder name, borrower names, and servicer. For Direct Loan refund data, this included comparing payment amount, invoice number, payee name, payment date, and servicer.
3. We compared the prior-year improper payment and unknown payment rates in the payment accuracy dataset found on [paymentaccuracy.gov](https://www.paymentaccuracy.gov) to the rates used in developing the reduction targets for the Pell and Direct Loan programs.

We did not assess the reliability of data reported in the spreadsheet the Department used to determine the programs and activities requiring a risk assessment as the data in the spreadsheet did not materially support our findings and conclusion. To answer our objective, we were interested in the Department's process for using the data to identify which programs should be risk assessed, so we verified the Department's formulas for determining whether any programs and activities had significant funding increases or had known improper payment amounts exceeding the statutory threshold, requiring the program to be risk-assessed in FY 2024.

Based on the work performed, we determined that the information was sufficiently complete and reliable to be used in meeting the audit objective.

We performed the work for this audit from December 2024 through April 2025. We discussed the results of our review with Department and FSA officials on April 7, 2025.

### **Compliance with Auditing Standards**

We conducted this performance 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Appendix B. Acronyms and Abbreviations

AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
ESF	Education Stabilization Fund
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
FUTURE	Fostering Undergraduate Talent by Unlocking Resources for Education
FY	fiscal year
NA	not applicable
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant
PIIA	Payment Integrity Information Act of 2019
U.S.C.	United States Code

# Department and FSA Comments



UNITED STATES DEPARTMENT OF EDUCATION

## MEMORANDUM

**DATE:** May 19, 2025

**TO:** Sean Dawson  
Assistant Inspector General for Audit  
Office of Inspector General

Michelle Weaver-Dugan  
Director, Internal Operations  
Oversight Team  
Office of Inspector General

**FROM:** Richard Lucas  
Acting Assistant Secretary/Chief Financial Officer  
Office of Finance and Operations

Rhonda C. Schaffer  
Chief Financial Officer  
Office of Federal Student Aid

**SUBJECT:** Response to Discussion Draft Report, "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for FY 2024," Control Number ED-OIG/A25DC0225

We appreciate the opportunity to respond to the subject Discussion Draft Report. The Department is committed to maintaining effective internal controls to demonstrate payment integrity and prevent, detect, and recover improper payments.

Following are the Department and Federal Student Aid's (FSA) responses to each finding and recommendation.

**cc:** Jeffrey Nekrasz  
Director of Student Financial Assistance Advisory and Assistance  
Office of Inspector General

Bryan Erickson  
Auditor in Charge  
Office of Inspector General

400 MARYLAND AVE. S.W., WASHINGTON, DC 20202-4500

[www.ed.gov](http://www.ed.gov)

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

## Overall Comments

The Department and Federal Student Aid (FSA) appreciate the Office of Inspector General's (OIG's) review of the three programs reflected in the report and the six associated compliance requirements. As noted in the OIG's report, the Department and FSA met all compliance requirements of the Payment Integrity Information Act of 2019 (PIIA). The Department also acknowledges and values the OIG's recognition of its efforts to prevent and reduce improper payments.

The Department and FSA concur with Finding 1. However, FSA partially concurs with Finding 2. The Department's and FSA's responses to the findings and recommendations in the OIG's discussion draft report are provided in the following sections.

### **Finding 1. The Department and FSA Complied with the PIIA for the FY 2024 Reporting Period.**

**Department and FSA Response to Finding 1:** The Department and FSA concur with the compliance determination.

### **Finding 2. The Department's FY 2024 Improper Payment and Unknown Payment Estimates for the Pell and Direct Loan Programs Were Not Reliable**

#### **FSA Response to Finding 2:**

FSA partially concurs with this finding. OMB Circular A-123, Appendix C ("A-123C") section II.B.2. states that agencies are responsible for producing Improper Payment (IP) and Unknown Payment (UP) estimates that are accurate and appropriate given program characteristics, and the OIG will consider whether the Sampling and Estimation Methodology Plan (S&EMP) used is adequate and appropriate given program characteristics. For the Pell Grant and Direct Loan programs, the Department provides funding to 5,378 active institutions of postsecondary education that disburse the grants and loans to students, and FSA does not control the payment operations at those institutions. Given those characteristics, in 2018 FSA determined that the best source of data to estimate IP and UP was a random sample of compliance audits conducted at the institutions by independent public accountants (IPAs). By using compliance audits, FSA leverages existing quality data rather than imposing additional burdens on institutions or incurring additional costs so that FSA can meet the following priorities and goals of A-123C:

- "... reducing administrative burden to allow agencies to focus on preventing improper payments and ensuring taxpayer money is serving its intended purpose;"
- ensuring "federal agencies focus on identifying, assessing, prioritizing, and responding to payment integrity risks to prevent improper payments in the most appropriate manner;" and;
- allowing "agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments."

## **OIG Recommendations**

We recommend that the Chief Financial Officer for FSA —

### **OIG Recommendation 2.1:**

In conjunction with the acting Chief Financial Officer for FSA, develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates. Specifically, the plan should (a) produce appropriate and accurate confidence intervals around a statistically valid point estimate; (b) consistent with 31 U.S.C. section 3352(c)(1)(A), produce an estimate that is otherwise appropriate using a methodology approved by the Director of OMB; or (c) consistent with OMB Circular A-123 Appendix C Part II B(2), include a detailed explanation as to why it is not possible to produce a statistically-valid point estimate and appropriate and accurate confidence intervals around the estimate.

### **FSA Response to Recommendation 2.1:**

FSA will research and evaluate potential new sources of data and determine if a suitable cost-effective methodology is appropriate to meet the improper payment priorities and goals of A-123C. If deemed appropriate, FSA will also perform an assessment of the current methodology in use and fortify or bolster the methodology as required to increase the reliability of the improper payment estimates.

If there are questions, or for additional information regarding this response, please contact Carolyn Dempster at [Carolyn.Dempster@ed.gov](mailto:Carolyn.Dempster@ed.gov).