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 2023

May 23, 2024
ED-OIG/A24NY0157

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.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services

May 23, 2024

TO: Denise L. Carter
Delegated the Duties of the Assistant Secretary
Office of Finance and Operations

Richard Lucas
Acting 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 2023," Control Number ED-OIG/ A24NY0157

Attached is the subject final audit report that consolidates the results of our review of the U.S. Department of Education's compliance with the payment integrity information reporting requirements for fiscal year 2023. We have provided an electronic copy to your audit liaison officers. We received your comments partially agreeing with the recommendations 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 me at (202) 987-0173 or Myra Hamilton at (214) 661-9545 or at Myra.Hamilton@ed.gov.

Attachment

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Results in Brief

What We Did

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) 2023.

Our audit covered the Department's payment integrity activities for FY 2023 (October 1, 2022, through September 30, 2023). We reviewed the Department's risk-susceptible programs reported in the accompanying materials to the Department's FY 2023 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 Improper Payment Reporting Requirements for Fiscal Year 2022."

What We Found

We found that the Department complied with the PIIA for the FY 2023 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 computing improper payments and unknown payments. Specifically, the Department's improper payment and unknown payment estimates for the Improving Basic Programs Operated by Local Educational Agencies (Title I) and Education Stabilization Fund (ESF) programs were produced from incomplete Stage 1 sampling populations as described in Finding 2. An incomplete Stage 1 sampling population of drawdowns could affect the accuracy of the confidence intervals for the improper payment and unknown payment estimate.

While we found the point estimates reflect the annual improper payment and unknown payments, the Department's improper payment and unknown payment estimates for five programs were not reliable because of issues in the calculation of the confidence intervals, as described in Finding 3. Specifically, the improper payment and unknown payment estimates for the Title I, ESF, and the Individuals with Disabilities Education Act Part B (Special Education) programs were based on inaccurate Stage 2 sampling populations. This inaccuracy affected the reliability of the confidence intervals that the Department calculated for the three estimates. In addition, we identified errors in the sample extrapolation spreadsheet that the Department used to calculate an improper payment and unknown payment estimate for the Special Education program. Finally, the improper payment sampling and estimation plans for the Federal Pell Grant (Pell) and the William D. Ford Federal Direct Loan (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 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.

The point estimate for the improper payments or unknown payments is an estimate of the number of improper payments or unknown payments in the population; the point estimate is not the actual number of improper payments or unknown payments in the population. 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. 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 We Recommend

We recommend that the Department develop and implement procedures to ensure the sampling populations of drawdowns are complete, and ensure changes made for the query design are implemented in subsequent years for programs that are required to produce an improper payment estimate. We also recommend that, for programs that require them, the Department design and implement sampling and estimation plans that produce reliable estimates, and that include language stating why Stage 2 sampling populations may not match Stage 1 sampling populations and explaining the statistical impact of this on the estimates. Further, we recommend that the Department design and implement a quality assurance checklist to ensure that the proper details from the drawdown populations are accurately included on the sample extrapolation spreadsheet. Finally, we recommend that FSA develop sampling and estimation plans for the Pell and Direct Loan programs that will produce reliable estimates.

Auditee Comments and Our Response

We provided a draft of this report to the Department and FSA for comment. 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 (see Auditee Comments).

Department Comments

The Department agreed with Findings 1 and 2 and the recommendations made in Finding 2. For Finding 3, the Department agreed with the part of the finding and Recommendations 3.1 and 3.2, related to the non-FSA managed program estimates.

FSA Comments

FSA did not agree with the part of Finding 3 and Recommendation 3.3 related to the FSA managed program estimates. FSA stated that its sampling and estimation methodology plan for developing improper payment and unknown payment rates and confidence intervals is sound and produces statistically valid estimates of improper payments and unknown payments so that stakeholders have a reliable depiction of estimated improper payments and unknown payments.

OIG Response

The Department's proposed actions for Finding 2, if implemented as described, are responsive to our recommendations. In addition, the Department's proposed actions related to the non-FSA managed programs in Finding 3, if implemented as designed, are responsive to Recommendations 3.1 and 3.2.

Regarding FSA's disagreement related to the Pell and Direct Loan programs in Finding 3, because FSA used some compliance audits that included nonrandom samples to derive both the Pell and Direct Loan program improper payment estimates, any margin of error that FSA calculated to then be used to compute the confidence intervals around those estimates rendered the confidence intervals inappropriate and unreliable. We raised similar issues in our audits of the Department's compliance with the PIIA for FY 2021 and FY 2022. Since the issue was first raised in our audit for FY 2021, FSA has not provided support or explanation on how the inclusion of compliance audits with nonrandom samples in the second stage sampling can permit a valid measurement of the margin of error and, in turn, produce the calculation of confidence intervals that are appropriate and reliable. Although FSA disagreed with Recommendation 3.3, the proposed actions, if successfully implemented, are responsive to the recommendation.

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).[1] The PIIA requires each agency's Inspector General to determine the agency's compliance with the statute for each fiscal year.

Background

Signed into law in March 2020, the PIIA was enacted to improve government-wide efforts to identify and reduce improper payments. The PIIA requires each agency, in accordance with guidance prescribed by the Office of Management and Budget (OMB), to periodically review and identify all programs and activities that may be susceptible to significant improper payments. Under 31 United States Code (U.S.C.) section 3351(4), an improper payment is any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under statutory, contractual, administrative, or other legally applicable requirements. An improper payment also 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.

Under 31 U.S.C. section 3352(c)(2)(A), if the agency cannot determine whether a payment is proper due to lacking or insufficient documentation, the payment must be treated as an improper payment. 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). Under 31 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 accompanying

[1] The PIIA is codified at 31 United States Code sections 3351–3358.

materials to the annual financial statement[2] of the agency and as required in applicable OMB guidance.

Payment Integrity Information 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.

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 its programs. As it relates to the Federal Pell Grant (Pell) and the William D. Ford Federal Direct Loan (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 Improving Basic Programs Operated by Local Educational Agencies (Title I), Individuals with Disabilities Education Act Part B (Special Education), and Education Stabilization Fund (ESF) programs 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.

[2] 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 each of the six compliance requirements. See the specific descriptions in Table 1 and subsections below.[3]

Table 1. Fiscal Year 2023 PIIA Compliance Reporting Table

PIIA Compliance Requirements	Title I	Special Education	ESF	Pell	Direct Loan
1a. Published payment integrity information with the annual financial statement.	Compliant	Compliant	Compliant	Compliant	Compliant
1b. Posted the annual financial statement and accompanying materials on the agency website.	Compliant	Compliant	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	NA	NA	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	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	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	NA	NA	Compliant	Compliant

[3] The use of NA in the table indicates the requirement was not applicable for the fiscal year 2023 PIIA reporting period.

PIIA Compliance Requirements	Title I	Special Education	ESF	Pell	Direct Loan
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	NA	NA	Compliant	Compliant
5b. Has demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	NA	NA	NA	Compliant	Compliant
5c. Has developed a plan to meet the improper payment and unknown payment reduction target.	NA	NA	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	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 Fiscal Year (FY) 2023 Agency Financial Report (AFR) on November 16, 2023, and submitted through the FY 2023 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). For the FY 2023 reporting period, FSA programs and activities were subject to the 3-year requirement and FSA conducted risk assessments of seven programs as required. The Department conducted risk assessments of its programs and activities during the FY 2022 reporting period as required. However, it performed qualitative risk assessments for nine programs and two administrative activities that had significant changes for FY 2023. We found that

the Department and FSA's 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 threshold.

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.

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 did not have to submit a corrective action plan for the Title I, ESF, and Special Education programs because the reported improper payment and unknown payment estimates were below the statutory threshold.

   The Department also included 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.

5. **Published, Demonstrated Improvement, and Developed a Plan to Meet its Reduction Targets.** The Department complied with the requirement to publish reduction targets for the Pell and Direct Loan programs, demonstrated improvement, and developed plans to meet the reduction targets, as required under 31 U.S.C. section 3351(2)(E).

   For the Pell and Direct Loan programs, FSA demonstrated improvements through the reduction target rates. FSA reported that progress was made on annual milestones to implement its corrective action plans, such as updates made to the OMB Compliance Supplement used by auditors performing annual compliance audits on schools. FSA also reported that there was continued progress on the implementation of the authorities provided in the Fostering Undergraduate Talent by Unlocking Resources for Education Act to improve verification of applicants' income data and that it continued to utilize and promote the Internal Revenue Service Data Retrieval Tool and enhance verification procedures.

The Department did not have to publish reduction targets for the Title I, Special Education, and ESF programs because the reported improper payment and unknown payment estimates were 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 0.0 percent for the Title I, Special Education, and ESF programs. The Department reported improper payment and unknown payment rates of 2.83 percent for the Pell program and 0.70 percent for the Direct Loan program.

Other Payment Integrity Activities

We evaluated the Department's improper payment sampling and estimation plans and estimates, efforts to prevent and reduce improper payments, and assessment of the level of risk associated with the high-priority programs and reviewed the oversight and financial controls used by the Department to identify and prevent improper payments in the high-priority programs as required by to 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

The Department implemented corrective actions that could prevent and reduce improper payments and unknown payments and reported them in the accompanying material to its FY 2023 AFR. We found that the Department is continuing its efforts to prevent and reduce improper payments in its programs. Some of the strategies that the Department employed to prevent and reduce improper payments included updating procedures in response to identified risks in program-specific processes that caused improper payments. FSA maintained an internal control framework, which included performing computer matches against external sources performed in FSA systems during the aid delivery process and conducting annual program risk assessments and reviews of program participants. Also, FSA reported that it continued to enhance verification procedures and provide school administrators with training and guidance to target causes of improper payments and other frequently identified compliance issues.

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 3. 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 Title I, Special Education, ESF, Pell, and Direct Loan programs could be improved and that the related estimates were not reliable. Specifically, the improper payment and unknown payment estimates for the Title I and ESF programs were based on incomplete Stage 1 sampling populations due to control weaknesses when implementing the sampling and estimation methodology plans, as described in Finding 2.

Further, we found that the Department's improper payment and unknown payment estimates for all five programs were not reliable, as described in Finding 3. Specifically, the improper payment estimates for the Title I, Special Education, and ESF programs were not reliable due to inaccurate Stage 2 sampling populations and the Pell and Direct Loan programs included nonrandom student-level sampling from some of the compliance audits which affected the appropriateness of the confidence intervals used in the calculation of the improper payment and unknown payment estimates. The point estimate for the improper payments or unknown payments is an estimate of the number of improper payments or unknown payments in the population; the point estimate is not the actual number of improper payments or unknown payments in the population. 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. As a result, both the point estimate and the confidence interval must be correctly calculated for the improper payment and unknown payment estimates to be reliable. Therefore, while we found the point estimates reflect the annual improper payment and unknown payments, concerns about the reliability and appropriateness of the confidence intervals undermine the reliability of the payment estimates for five programs.

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 described these controls as an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and to ensure compliance by all participating parties. This includes routinely conducting program reviews to confirm that institutions of higher education met requirements for institutional eligibility, financial responsibility, and administrative capability; and the use of compliance audits of FSA's loan and grant programs as a key source to identify risks and potential improper payments.

Department Comments

The Department agreed with the finding. There were no recommended actions.

Finding 2. The Department's Processes for Implementing its Improper Payment and Unknown Payment Sampling and Estimation Methodologies Could Be Improved

The Department's implementation of its methodologies for identifying the population to calculate the improper payment and unknown payment estimates for certain programs can be improved. The Department's sampling and estimation methodology used a two-stage approach. In Stage 1, the Department identified the drawdown population, and in Stage 2, it selected a sample of the drawdown population for testing. We found errors in both stages. We found that the Department's Stage 1 populations of drawdowns were not complete for the Title I and ESF programs, and the Department's use of three data filters in its query to identify the Stage 1 population resulted in missing drawdowns. The errors in Stage 2 are discussed in Finding 3.

Incomplete Stage 1 Drawdown Populations

We found that the Department's Stage 1 sampling populations of drawdowns were not complete for calculating the improper payment and unknown payment estimates for the Title I and ESF programs. The Department developed and executed sampling and estimation plans to select outlays for October 1, 2021, to September 30, 2022. However, the Structured Query Language (SQL) used to develop the Stage 1 population of drawdowns for FY 2023 erroneously selected drawdown populations from October 1, 2021, to September 21, 2022. This error resulted in selecting a sample from an incomplete population of drawdowns for FY 2023. Specifically, we found 7 drawdowns for the Title I program and 32 drawdowns for the ESF program in G5, the Department's grants management system, that were excluded from the Stage 1 sampling populations.

Missing Stage 1 Drawdown Population Due to Use of Three Data Filters in Query

The Department's use of three data filters in its SQL query to identify the sample population of drawdowns resulted in selecting fewer available drawdowns for its Stage 1 population. The Department's SQL query filtered the Transaction Effective Date, Accounting Period, and Deposit Date when identifying the population of drawdowns. To be included in the population of drawdowns for any year being analyzed for improper payments, the transaction would only be selected if it met the parameters for all three filters. For example, when identifying the population for October 1, 2021, to September 30, 2022, there were 23 transactions for the ESF program where the Transaction Effective Date and the Accounting Period met these parameters, but the

Deposit Date was after September 30, 2022, thus excluding these 23 transactions from the population. Using similar logic, these 23 transactions would also not be included in the population for the next year's analysis for October 1, 2022, to September 30, 2023. Therefore, if the Department continues to use the same query each year when implementing its sampling and estimation methodology, it is possible that transactions will be missed and never be included in any year's estimate of improper payments.

According to OMB A-123 Appendix C Part II B, the main purpose of an improper payment estimate is to reflect the annual estimated known improper payments made by the program. Also, each agency has the responsibility of designing and documenting a program's sampling and estimation plan with the mindfulness that during its annual compliance review, its Office of Inspector General (OIG) will consider the accuracy of the improper payment and unknown payment estimates.

According to OMB Circular A-123 Appendix C VIII Appendix 1A, a reliable improper payment and unknown payment estimate is defined as improper payment and unknown payment estimates produced from accurate sampling populations, testing procedures, and estimation calculations.

According to OMB Circular A-123 Appendix C Part II B, an agency must work with its statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable.

Because the Department did not have adequate controls in place, the sample populations for the Title I and ESF programs were not complete for calculating the improper payment and unknown payment estimates. Regarding the incomplete drawdown population, the Department stated that in its initial request to the information technology group for drawdown data, it requested disbursements from October 1, 2021, to September 21, 2022. However, when the Department subsequently requested the full fiscal year data, the information technology group did not update the query date for the effective transaction date and the Department did not conduct a review to assess that the appropriate dates were used in the SQL and formula used on the drawdown populations. Regarding the missing drawdown population, the Department stated that the Office of Finance and Operations requested the query to include the three data filters. When informed of this error, the Department changed the query design for its FY 2024 improper payment estimation activities. The Department stated that its reporting activities for FY 2024 use FY 2023 drawdowns and confirmed that the 23 transactions excluded from the FY 2022 population were included in the FY 2023 population.

An incomplete Stage 1 sampling population of drawdowns could affect the accuracy of the confidence intervals for the improper payment and unknown payment estimate.

Recommendations

We recommend that the Chief Financial Officer for the Department—

2.1 Develop and implement procedures to ensure that the sampling populations of drawdowns are complete for the basis of calculating the improper payment and unknown payment estimates.

2.2 Ensure changes made for the query design concerning the use of three filters, are implemented in subsequent years for programs that are required to produce an improper payment estimate.

Department Comments

The Department agreed with the finding and recommendations. The Department stated that, for the Title I and ESF programs, a very small number of FY 2022 drawdowns (less than 0.1 percent) were inadvertently excluded from the initial population query. However, the Department stated that the error would not have impacted the sample size for each program and would have had a negligible effect on the point estimates and confidence intervals. Regarding the missing drawdowns due to the use of three data filters, the Department agreed with OIG's analysis but stated that the Stage 1 populations met its definition of eligible drawdowns.

In response to the recommendations, the Department stated that it has already created a standard operating procedure outlining the steps for obtaining and reviewing the sample population used in the estimation process. The standard operating procedure includes modified query language that will be used to produce an accurate and complete sampling population for Department programs requiring an improper payment estimate.

OIG Response

While OIG agrees that the missing drawdowns likely would not have affected the sample size for each program, we disagree that it can be known with any certainty that excluding them would have had only a negligible effect on the point estimates and confidence intervals. To do so, one would have to assume that if one or more of the excluded drawdowns were selected as part of the sample, the associated payments would not have been determined to be improper or unknown. Without a complete population for FY 2022 from which to select the sample, the Department does not have a reliable estimate of improper payments and unknown payments. However, the

Department’s proposed actions, if implemented as described, are responsive to our recommendations.

Finding 3. The Department's FY 2023 Improper Payment and Unknown Payment Estimates Were Not Reliable

While we found that the point estimates for the five programs in our review (Title I, Special Education, ESF, Pell, and Direct Loan) reflect the programs' annual improper payments and unknown payments, we found that the Department's improper payment and unknown payment estimates for these five programs were not reliable. Specifically, for the Title I, Special Education, and ESF programs, the improper payment and unknown payment estimates were based on inaccurate sampling populations, which affected the reliability of the confidence intervals that the Department calculated for the three estimates. In addition, we identified errors in the sample extrapolation spreadsheet that the Department used to calculate an improper payment and unknown payment estimate for the Special Education program.[4] Further, 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 reliability of the confidence intervals used in the calculation of the improper payment and unknown payment estimates.

Description of Sampling and Estimation Plans and Estimates for the Title I, Special Education, and ESF Programs

The FY 2023 improper payment sampling and estimation methodology plans that the Department submitted to OMB for the Title I, Special Education, and ESF programs included a two-stage sampling approach. In the first stage, the Department defined the sampling population based on drawdowns made by grantees[5] during FY 2022 from G5, the Department's grants management system. In the second stage, the Department requested payment-level details based on randomly selected drawdowns from the first stage sample. The Department selected a sample of payments from the second stage payment-level population and requested supporting documentation such as program applications, invoices, and other information for how the funds were expended. The Department reviewed the supporting documentation to determine whether the payment transactions were proper, improper, or unknown. After making its

[4] Extrapolation is a statistical technique to estimate future data using existing data.

[5] For the Title I and Special Education programs, drawdowns were made by State educational agencies and for the ESF program, drawdowns were made by State educational agencies and institutions of higher education.

determination, the Department used the results of its reviews and the formulas included in its sampling and estimation plans to produce estimates of improper payments and unknown payments.

Inaccurate Sampling Populations

For the Title I, Special Education, and ESF programs, the sampling populations that the Department used to select its payment-level populations were inaccurate. For each program, the Department sampled from the population of payments provided by grantees; however, the populations were not complete or did not depict an accurate payment-level population of the selected Stage 1 drawdowns for 4 grantees for Title I, 7 for Special Education, and 20 for ESF (see Appendix B). As stated in the sampling and estimation methodology plans, the Department would seek the payment-level data to match the total requested amount for the selected drawdowns. Without an accurate population of payments for the second stage portion of the sampling design, the sampling weights are not computed accurately. Without accurate sampling weights, the confidence intervals are not accurate. As a result, this affected the reliability of the confidence intervals that the Department calculated for the three estimates.

To allow for a reliable improper payment and unknown payment estimate of the population of drawdowns, the grantees must provide an accurate population of payments that is equivalent to the sampled first stage drawdowns. For these grantees, the populations of payments were not accurate populations from which to develop a reliable estimate of the corresponding sampled drawdowns selected at the first stage.

According to OMB Circular A-123 Appendix C Part II B, an improper payment estimate should reflect the program's annual estimated known improper payments, and each agency is responsible for designing and documenting a program's sampling and estimation plan with the understanding that the agency's OIG will consider the accuracy of the improper payment and unknown payment estimates during its annual compliance review. An agency must work with its statistician to determine the appropriate confidence interval given program characteristics, available resources, and whether the estimate is reliable. In addition, OMB Circular A-123 Appendix C Part VI states that the OIG should evaluate and consider the adequacy of the sampling and estimation plan when determining program compliance.

The Department stated the sampling populations were inaccurate for the Title I, Special Education, and ESF programs because of system limitations and varying processes at the grantees. As a result, the supporting documentation that the Department received did not always match the selected Stage 1 drawdowns.

In addition, the Department stated that it anticipates receiving data where there are multiple draws during the Stage 1 sampling process and identified additional steps to be taken to handle multiple draws because they are due to G5 limitations. Any additional steps taken will be outlined within future sampling and estimation methodology plans.

Errors on Sample Extrapolation Spreadsheet

We found errors on the Department's sample extrapolation spreadsheet for the Special Education program. The Department's sample extrapolation spreadsheet was used to project the results of the sampled drawdowns tested to calculate the improper payment and unknown payment estimates and related confidence intervals. The Department used a random number generator to select a sample of 71 drawdowns. Two of the selected drawdowns were selected multiple times in the random sample. One drawdown (ID 10225) was selected five times and the other (ID 10229) was selected twice, as noted on the Department's randomized list of drawdowns. However, in the extrapolation spreadsheet, ID 10225 was applied to the sample twice and ID 10229 was applied five times. This caused two errors in the computation of the sampling weights. This issue affects the computation of the confidence intervals. See Table 2.

Table 2. Results from the Department's Sample Extrapolation Spreadsheet for the Special Education Program

Drawdown ID	Number of Times Drawdown ID was Selected in Sample	Drawdown Amount Randomly Selected by ID	Number of Times Drawdown ID was Extrapolated	Drawdown Amount from Extrapolation File by ID
10225	5	$1,042,304,082	2	$416,921,633
10229	2	$377,035,798	5	$942,589,495
Total	**7**	**$1,419,339,880**	**7**	**$1,359,511,128**

According to OMB Circular A-123 Appendix C VIII Appendix 1A, a reliable improper payment and unknown payment estimate is defined as improper payment and unknown payment estimates produced from accurate sampling populations, testing procedures, and estimation calculations.

The Department stated that it did not have a control in place during the FY 2023 reporting period to ensure details from the drawdown population were accurately included on the extrapolation spreadsheet. However, the Department stated that it implemented quality assurance checks to ensure the proper details from the drawdown population are accurately included on the extrapolation sheet and will apply the appropriate steps for the FY 2024 PIIA reporting period.

Improper Payment and Unknown Payment Estimates for the Pell and Direct Loan Programs Were Not Reliable

We found that the Pell and Direct Loan programs' improper payment sampling and estimation plans and the estimates that they produced were not reliable. Specifically, the improper payment sampling and estimation plans for both programs included nonrandom student-level sampling from some compliance audits which affected the 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 2023, FSA reported a 2.83 percent improper and unknown payment rate with a 95 percent confidence that the improper and unknown payment rate was between 1.77 percent and 3.89 percent for the population of student payments from the Pell program. FSA implemented a two-stage statistical sampling methodology and incorporated overpayment and underpayment rates reported in the Free Application for Federal Student Aid (FAFSA)/ Internal Revenue Service Data Statistical Study to estimate improper and unknown payments rates for the Pell program.

- At the first stage, FSA's sampling unit was the compliance audits of schools and school systems conducted under the requirements of the Single Audit Act, the OMB Compliance Supplement, and OIG Audit Guidance. For selected compliance audits, FSA reviewed the schools' most recently completed compliance audits to identify findings reported by the independent auditors.
- 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. FSA's second stage sampling used a mean-based estimator to project student-level results up to the associated school and compliance audit. The

projected student-level results were based on the independent auditor's identified student-level improper and unknown payment amounts.

The second component incorporated improper payment rates reported in the FAFSA/Internal Revenue Service Data Statistical Study to account for improper payments associated with misreported income on the FAFSA. The improper payment overpayment rate and underpayment rate (both due to misreported income on the FAFSA) published in the FAFSA/Internal Revenue Service Data Statistical Study were applied to Pell disbursements included in the Pell program improper payment calculations.

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

For FY 2023, FSA reported a 0.70 percent improper and unknown payment rate with a 95 percent confidence that the improper and unknown payment rate was between 0.11 percent and 1.30 percent for the population of student payments from the Direct Loan program. FSA implemented a two-stage statistical sampling methodology (similar to the estimate for the Pell program) and combined two estimates from the sampling of loan consolidations and refund payments to estimate improper and unknown payments for the Direct Loan program.

For the loan consolidations and refund payments, FSA selected a sample of Direct Loan consolidation overpayments and underpayments and a sample of Direct Loan refund payments made between July 2022 and June 2023 and tested the payments to determine whether the payments were proper, improper, or unknown.

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

As noted in our prior audit reports, the independent auditors used random or nonrandom methods for selecting samples of students for compliance audits. FSA's inclusion of nonrandom samples in its second stage sampling affected the reliability of the confidence intervals that FSA calculated for the two estimates. To compute confidence intervals, a margin of error is required. However, nonrandom samples do not permit the measurement of margin of error because there is no "random chance" to compute. This indicates that because it is not appropriate to calculate a margin of error when nonrandom samples are used, any such calculated margin of error that is then used to compute confidence intervals will render the estimation calculations for the confidence intervals inappropriate and unreliable. Because FSA used nonrandom samples to derive both the Pell and Direct Loan program improper payment estimates, any margin of error that FSA calculated to then use to compute the confidence intervals around those estimates rendered the confidence intervals inappropriate and unreliable.

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." It also states that "[e]ach 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 …."

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.

OMB Circular A-123 Appendix C Part VIII Appendix IA defines "reliable improper payment and unknown payment estimate" as "estimates produced from accurate sampling populations, testing procedures, and estimation calculations."

FSA stated that its sampling and estimation methodology plans are sound and produce statistically valid estimates of improper payments and unknown payments so that stakeholders have a reliable depiction of estimated improper payments and unknown payments. Further, FSA stated that it determined that the best source of data to estimate improper and unknown payments was a random sample of compliance audits that were conducted by independent public accountants (IPA). FSA stated that the compliance audits used to calculate FSA's improper payment and unknown payment estimates were conducted under the Single Audit Act, the OIG Guide for Financial Statement Audits of Proprietary Schools and for Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs (OIG Audit Guide), and the OIG Guide for Audits of Proprietary Schools and for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools (Foreign Audit Guide). In addition to the random sampling performed by FSA to select a sample consisting of these three types of compliance audits, IPAs are required to perform random sampling for compliance audits conducted in accordance with the OIG

Audit Guide and Foreign Audit Guide. FSA stated that even though the IPAs were not required to perform random sampling for audits conducted in accordance with the Single Audit Act, it determined the Single Audit Act compliance audits would produce statistically valid estimates.

Effect of an Unreliable Improper Payment and Unknown Payment Estimate

Because the improper payment estimates for the Title I, Special Education, ESF, Pell, and Direct Loan programs are unreliable, stakeholders such as OMB, the public, Congress, and other users of the Department's FY 2023 Agency Financial Report and paymentaccuracy.gov improper payment data do not have a reliable depiction of the estimated improper payments for these five 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 number of improper payments or unknown payments in the population; the point estimate is not the actual number of improper payments or unknown payments in the population. 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 the five programs reflected the programs' annual improper payments and unknown payments; however, we question the reliability 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—

3.1 For programs that require them, design and implement improper payment and unknown payment sampling and estimation plans that are appropriate for the sampling of payments based on accurate sampling populations and result in reliable estimates. The improper payment and unknown payment sampling and estimation plans should also include language stating why sampling populations in Stage 1 may not match sampling population in Stage 2 and explain the statistical impact on the estimates.

3.2 Implement its quality assurance checklist to ensure the proper details from the drawdown population are accurately included on the extrapolation sheet.

3.3 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.

Auditee Comments and OIG Response

The Department partially agreed with Finding 3. Specifically, the Department agreed with the part of the finding and Recommendations 3.1 and 3.2 related to the non-FSA managed program estimates; FSA did not agree with the part of the finding or Recommendation 3.3 related to the FSA-managed program estimates.

Department Comments

The Department agreed with the part of the finding related to the Title I, Special Education, and ESF programs' estimates. The Department stated that although there were differences between the Stage 1 and Stage 2 data, these differences did not impact the point estimate, nor did they result in inaccurate confidence intervals. The Department stated that it took additional steps when it received data from State educational agencies containing split draws and other State-specific processes that resulted in variances between the actual drawdown amount and the list of payments that was provided.

The Department agreed with Recommendations 3.1 and 3.2. The Department stated that it will include an "explanation of changes" section within its sample and estimation plans that addresses the population differences between Stage 1 and Stage 2 data. The Department will perform additional quality assurance checks on the sampling populations for each program requiring an estimate by utilizing a quality check tool.

OIG Response

We appreciate the Department's explanation of the additional steps that it implemented in cases where payment data from the States differed from drawdown amounts, including adjusting sampling weights to account for variances in the estimating process. However, the Department did not provide any documentation that would allow us to evaluate these activities or their effect on the point estimates and confidence intervals. For transparency and accountability purposes, it should be included in its sampling and estimation plans, an explanation of any differences between Stage 1 and Stage 2 data and a description of any additional steps taken to ensure the accuracy of its improper payment estimates. The Department's proposed actions, if implemented as described, are responsive to Recommendations 3.1 and 3.2.

FSA Comments

FSA did not agree with the finding related to the Pell and Direct Loan programs. 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 payments and unknown payments. FSA stated that it has identified the true root causes of improper payments and unknown payments and that it is taking appropriate corrective action to prevent and reduce them. Further, FSA stated that Pell and Direct Loan programs funds are dispersed 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 quality data to meet its priorities and goals of OMB Circular A-123 Appendix C.

Although FSA disagreed with Recommendation 3.3 pertaining to the Pell and Direct Loan programs, it will continue efforts to obtain OMB's approval that its sampling and estimation plan is acceptable considering program resources and characteristics. Further, FSA stated that it is collaborating 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, including the point estimates and confidence intervals around the estimate, of agency programs for PIIA reporting purposes.

OIG Response

In the finding, we do not question FSA's use of compliance audits as a data source to estimate improper payments and unknown payments. Rather, because FSA used some compliance audits that included nonrandom samples to derive both the Pell and Direct Loan program improper payment estimates, any margin of error that FSA calculated to then use to compute the confidence intervals around those estimates rendered the confidence intervals inappropriate and unreliable. We raised similar issues in our audits for FY 2022 Final Audit Report A23NY0119 and FY 2021 Final Audit Report A22GA0050. As such, FY 2023 is the third consecutive year we have a finding regarding FSA's calculation of confidence intervals for the estimated improper payments and unknown payments for the Pell and Direct Loan programs. Since the issue was first raised in our audit for FY 2021, FSA has not provided support or explanation on how the inclusion of compliance audits with nonrandom samples in the second stage sampling can permit a valid measurement of the margin of error and, in turn, produce the calculation of confidence intervals that are appropriate and reliable. In addition, we did not conclude that FSA failed to identify the true root causes of improper payments and unknown payments and failed to take appropriate corrective actions. Rather, without an accurate confidence interval, the true range of how high or low the improper payments and unknown payments are in the population is unknown. This may limit its efforts to identify the true root causes and take appropriate corrective actions to prevent and reduce improper payments. As a result, we did not revise Finding 3 as it pertains to the Pell and Direct Loan programs' estimates.

Although FSA disagreed with Recommendation 3.3, the proposed actions to request OMB's approval of the Pell and Direct Loan programs' sampling and estimation plans as appropriate methodology and collaborate with OMB on revising OMB Circular A-123 Appendix C, if successfully implemented, are responsive to the recommendation.

Appendix A. Scope and Methodology

Our audit covered the Department's improper payment reporting for FY 2023 (October 1, 2022, through September 30, 2023). We reviewed the Department's risk-susceptible programs that were reported or referenced in the payment integrity section of the Department's FY 2023 AFR and accompanying materials. Our review also included following up on corrective actions the Department had taken in response to our FY 2022 improper payment audit report.

To accomplish our audit objective, we:

1. 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 to ensure compliance with all requirements of PIIA.
2. Reviewed the payment integrity section in the Department's FY 2023 Agency Financial Report and FY 2023 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. Information on paymentaccuracy.gov includes quarterly program scorecards, annual improper payment datasets, and the annual improper payments dashboard.
3. Reviewed background information about the Department and its programs that were susceptible to significant improper payments in FY 2023 (Title I, ESF, Special Education, Pell, and Direct Loan).
4. Interviewed officials from the Department and FSA.

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

For our review of the other requirements pertaining to the Department's payment integrity activities, outlined in OMB Circular A-123 Part VI, we reviewed information that the Department reported in the accompanying material to its AFR, such as total program outlays, the causes of improper payments and unknown payments, and the amounts of improper payments identified and recaptured in the Department's programs and activities. We also reviewed the Department's program and administrative activity risk assessment methodologies.

Sampling Methodology

We selected nonstatistical random samples of payments to obtain documentation to answer our audit objectives. We used auditor judgment to identify the appropriate sampling methodology for each program. The results from our sample testing apply only to the sample items we reviewed and cannot be projected to the entire population.

Pell and Direct Loan Program Samples

The purpose of our Pell and Direct Loan program sample testing was to evaluate the accuracy and completeness of the improper payment rate estimates and determine whether the Department followed its prescribed testing procedures. We selected a nonstatistical random sample of 1 of the 218 payments for the Pell program and 1 of the 222 payments for the Direct Loan program that FSA included in its improper payment testing for these programs and determined to be proper.

Samples of Payments for the Title I, ESF, and Special Education Programs

The purpose of our sample testing for the Title I, ESF, and Special Education programs was to evaluate the accuracy and completeness of the Department's improper payment and unknown payment rate estimates and to determine whether the Department followed its prescribed testing procedures for each program. We reviewed the Department's testing spreadsheets and supporting documentation for a sample of payments included in the improper payment calculations for the three programs and determined whether the sampled payments were allowable and supported with sufficient documentation based on the Department's testing methodology.

Title I Program Sample

We selected a nonstatistical random sample of 4 of the 216 payments that the Department determined to be proper. The Department's sample methodology consisted of sampling payments from 2 strata (one stratum consisting of a single State educational agency and a second stratum consisting of all other State educational agencies). The nonstatistical random sample consists of 2 of the 60 proper payments from the single State educational agency stratum in the sampling frame and 2 of the 156 proper payments from the other State educational agencies stratum in the sampling frame.

ESF Program Sample

We selected a nonstatistical random sample of 4 of the 543 payments that the Department determined to be proper.

Special Education Program Sample

We selected a nonstatistical random sample of 4 of the 132 payments that the Department determined to be proper.

Sample of Risk Assessments

We used a judgmental sample methodology to select one qualitative risk assessment sample to test for accuracy from the Department and one from FSA. The Department identified nine programs and two administrative activities that required new risk assessments due to significant funding increases. FSA conducted seven risk assessments of its programs.

Use of Computer-Processed Data

Our use of computer-processed data for the audit included (1) the spreadsheet the Department used to determine the programs that experienced significant funding increases, and thereby required a risk assessment; (2) the spreadsheet and report table containing known improper payments for programs included in the Department's risk assessments; and (3) improper payment estimate spreadsheet data for the three Department programs with reported improper payment estimates for FY 2023. We used the improper payment estimate spreadsheet data for the Title I, ESF, and Special Education programs to determine the accuracy and completeness of the improper payment and unknown payment estimates. We assessed the reliability of the data by doing the following:

a. For the spreadsheet the Department used to determine the programs that experienced significant funding increases and thereby required a risk assessment, we compared program outlays between FY 2021 and FY 2022 to determine whether any programs had significant funding increases and would require a new risk assessment. We checked the formulas and determinations to determine whether the threshold that the Department applied to the programs in the spreadsheet that would identify the program as having a significant funding increase was accurate.

b. For the spreadsheet containing known improper payments for programs included in the Department's qualitative risk assessments, we obtained documentation to support the improper payment amounts listed in the spreadsheet.

c. For the improper payment estimate spreadsheet data for the Title I, ESF, and Special Education programs, we assessed the accuracy and completeness of the data. We compared data elements of the sampled items in the spreadsheets, such as the control number, state educational agencies names, local educational agencies names, and payment amounts, to the information in the invoices.

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

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. Stage 1 Drawdown Differences for Finding 3

As described in Finding 3 for the Title I, Special Education, and ESF programs, the Stage 2 sample amounts were not accurate. See Table 3 for the payment-level populations for Title I, Table 4. for Special Education, and Table 5 for ESF.

Table 3. Payment-Level Population for the Title I Program

State Educational Agencies	Department's Sampled Drawdown Amounts	Payment-Level Population Provided to the Department	Amount by Which Payment-Level Population Differed from Sampled Drawdowns
Grantee A	$24,155,895	$24,156,243	$348
Grantee B	$1,110,000	$1,208,151	$98,151
Grantee C	$2,386,115	$5,459,886	$3,073,770
Grantee D	$30,437,212	$30,437,609	$397

Table 4. Payment-Level Population for the Special Education Program

State Educational Agencies	Department's Sampled Drawdown Amounts	Payment-Level Population Provided to the Department	Amount by Which Payment-Level Population Differed from Sampled Drawdowns
Grantee A	$19,758,866	$20,003,158	$244,293
Grantee B	$5,851,275	$6,019,103	$167,828
Grantee C	$13,869,063	$14,939,693	$1,070,629
Grantee D	$604,049	$1,726,548	$1,122,500
Grantee E	$35,573,219	$35,491,247	$(81,972)
Grantee F	$826,738	$830,369	$3,631

Table 5. Payment-Level Population for the ESF Program

Grantee	Department's Sampled Drawdown Amounts	Payment-Level Population Provided to the Department	Amount by Which Payment-Level Population Differed from Sampled Drawdowns
Grantee A	$3,061,563	$3,064,466	$2,902
Grantee B	$500,000	$509,037	$9,037
Grantee C	$568,163	$568,922	$758
Grantee D	$4,362,784	$4,467,800	$105,016
Grantee E	$138,582,479	$312,225,643	$173,643,164
Grantee F	$2,400,000	$4,652,443	$2,252,443
Grantee G	$4,341,810	$7,659,300	$3,317,490
Grantee H	$17,485,922	$17,986,384	$500,463
Grantee I	$410,075,474	$751,986,771	$341,911,297
Grantee J	$5,520,000	$5,533,181	$13,181
Grantee K	$10,114,586	$9,819,913	$(294,673)
Grantee L	$6,685,001	$6,951,865	$266,864
Grantee M	$1,588,990	$1,869,400	$280,410
Grantee N	$18,863,087	$19,728,121	$865,034
Grantee O	$1,111,971	$4,172,722	$3,060,751
Grantee P	$3,000,000	$5,522,000	$2,522,000
Grantee Q	$89,251,469	$89,252,739	$1,269
Grantee R	$50,000,000	$107,255,309	$57,255,309
Grantee S	$12,009,005	$18,053,084	$6,044,078
Grantee T	$2,175,463	$26,105,626	$23,930,163

Appendix C. 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
FY	fiscal year
IPA	Independent public accountant
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
Special Education	Individuals with Disabilities Education Act Part B
SQL	Structured query language
Title I	Improving Basic Programs Operated by Local Educational Agency
U.S.C.	United States Code

Auditee Comments

UNITED STATES DEPARTMENT OF EDUCATION

MEMORANDUM

DATE: May 2, 2024

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

Myra Hamilton
Regional Inspector General
Office of Inspector General

FROM: Denise Carter
Delegated the Duties of the Assistant Secretary
Office of Finance and Operations

DENISE CARTER Digitally signed by DENISE CARTER Date: 2024.05.02 10:55:26 -04'00'

On behalf of Richard Lucas
Acting Chief Financial Officer
Federal Student Aid

WILLIAM TRUITT Digitally signed by WILLIAM TRUITT Date: 2024.05.02 10:41:11 -04'00'

SUBJECT: Response to Discussion Draft Report, "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for FY 2023," Control Number ED-OIG/A24NY0157

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

Matthew Loeding
Auditor in Charge
Office of Inspector General

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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.

Overall Comments

The Department and Federal Student Aid (FSA) appreciate the Office of Inspector General's (OIG's) review of the five programs reflected in the report, and the six compliance requirements applicable to each of those programs. As reflected in the OIG's report, the Department and FSA met all compliance requirements of the Payment Integrity Information Act of 2019 (PIIA). In addition, the Department and FSA appreciate the OIG's recognition and acknowledgement of the accomplishments made by our organizations in implementing corrective actions during FY 2023, implementing oversight and financial controls to prevent and reduce improper payments in high priority programs (Federal Pell Grant and William D. Ford Federal Direct Loan), and plans to continue implementing controls to further reduce improper payments. Furthermore, as a result of the low improper payment estimates for the Title I, Part A (Title I) and Special Education Grants to States (IDEA) programs in FY23, as well as the OIG's compliance determination, both programs have moved from Phase 2 to Phase 1 in FY24. The Office of Management and Budget (OMB) has been informed of the changes in reporting status for both programs.

The Department concurs with Finding 1 and Finding 2. However, the Department partially concurs with Finding 3. Specifically, FSA does not concur with the portion of Finding 3 that pertains to FSA managed programs. FSA maintains that its sampling and estimation methodology plan (S&EMP) for developing improper payment and unknown payment rates and confidence intervals is sound and produces statistically valid estimates of improper payments and unknown payments so that stakeholders have a reliable depiction of estimated improper payments and unknown payments. FSA has identified the true root causes of improper payments and unknown payments and is taking appropriate corrective action to prevent and reduce them.

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 Complied with the PIIA for the FY 2023 Reporting Period.

Department's Response to Finding 1: Although the Department concurs with the compliance determination, we respectfully request that this determination be written as a results narrative rather than as a 'finding.'.

Finding 2. The Department's Processes for Implementing its Improper Payment and Unknown Payment Sampling and Estimation Methodologies Could Be Improved

Department's Response to Finding 2: The Department concurs with Finding 2. For the Title I and the Education Stabilization Fund (ESF) programs, a very small number of FY22 drawdowns (less than 0.1%) were inadvertently excluded from the initial population query. However, this amount would not have impacted the sample sizes for each program to meet precision and confidence targets and would have a negligible impact on the reported estimates and confidence intervals, which would still be well within those targets. The Department has already modified the query to ensure the correct timeframe is consistently applied for future programs requiring estimation.

Regarding the missing Stage 1 drawdowns due to the use of three data filters, although we agree with the OIG's analysis, we contend that the Stage 1 populations met the Department's definition of eligible drawdowns (i.e., payments requested and deposited within FY22). The FY23 sampling population is accurate and complete as a result of modifying the query in FY24.

OIG Recommendations

We recommend that the Chief Financial Officer for the Department —

OIG Recommendation 2.1: Develop and implement procedures to ensure that the sampling populations of drawdowns are complete for the basis of calculating the improper payment and unknown payment estimates.

OIG Recommendation 2.2: Ensure changes made for the query design concerning the use of three filters, are implemented in subsequent years for programs that are required to produce an improper payment estimate.

Department's Response to Recommendations 2.1 and 2.2: The Department concurs with both of the OIG's recommendations. The Department has already created a Standard Operating Procedure (SOP) outlining the steps for obtaining and reviewing the sample population used in the estimation process. This SOP includes the modified query language that will be used to produce an accurate and complete sampling population for Department programs requiring an improper payment estimate.

Finding 3. The Department's FY 2023 Improper Payment and Unknown Payment Estimates Were Not Reliable

Department's Response to Finding 3: The Department concurs with Finding 3 for its non-FSA managed programs' estimates. Although there are differences between the Stage 1 and Stage 2 data, these differences did not impact the point estimate, nor did they result in inaccurate confidence intervals. The Department took additional steps when it received data from State Educational Agencies (SEAs) containing split draws and other state-specific processes that resulted in variances between the actual drawdown amount and the list of payments SEAs provided. In cases where there was a split draw, the Stage 2 sample was selected from all SEA payments associated with the combined drawdown total. Results of the Stage 2 sample testing were used to determine an improper payment and unknown payment rate for each associated drawdown in the sample. The Stage 2 rates were then applied to the Stage 1 selected drawdown amount, and the projection was performed utilizing the weight for the associated drawdown based on the Stage 1 probability of selection. This approach facilitates the proper weighting of the Stage 2 payment sample testing results to the drawdown population total.

FSA's Response to Finding 3: FSA management and statisticians do not agree with Finding 3. FSA's S&EMP is sound and produces statistically valid estimates of improper payments and unknown payments so that stakeholders have a reliable depiction of estimated improper payments and unknown payments. FSA has identified the true root causes of improper payments and unknown payments and is taking appropriate corrective action to prevent and reduce them.

OMB Circular A-123, Appendix C ("A-123C") Part II, (B)2 states that agencies are responsible for producing improper payment and unknown payment estimates that are accurate and appropriate given program characteristics, and the OIG will consider whether the S&EMP used is adequate and appropriate given program characteristics. For the Pell Grant and Direct Loan programs, the Department provides funding to approximately 5,400 institutions that disburse the grants and loans to students, and FSA does not control the payment operations at those institutions. Given those characteristics, FSA determined that 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 (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."

Compliance audits used to calculate FSA's improper payment and unknown payment estimates are conducted under the Single Audit Act, 2 C.F.R. 200 ("Uniform Guidance"), and OMB Compliance Supplement; the "OIG Guide for Financial Statement Audits of Proprietary Schools and for Compliance Attestation Examination Engagements of Proprietary Schools and Third-Party Servicers Administering Title IV Programs" (OIG Audit Guide); and the "OIG Guide for Audits of Proprietary Schools and for Financial Statement Audits and Compliance Attestation Engagements of Foreign Schools" (Foreign Audit Guide). In addition to the random sampling performed by FSA to select a sample consisting of these three types of compliance audits, IPAs are required to perform random sampling for compliance audits conducted in accordance with the OIG Audit Guide and Foreign Audit Guide. While IPAs are not required to perform random sampling for audits conducted in accordance with the Single Audit Act, Uniform Guidance, and OMB Compliance Supplement, FSA considered the following factors in deciding to use Single Audit Act compliance audit data so that FSA's S&EMP would produce statistically valid estimates, and stakeholders would have a reliable depiction of estimated improper payments and unknown payments:

- IPAs who conduct the compliance audits perform student transaction level sampling in accordance with audit standards set by the Uniform Guidance, OMB Compliance Supplement for single audits, AICPA Standards, and/or Generally Accepted Government Auditing Standards (GAGAS) (also known as the Government Accountability Office's Yellow Book), which require auditors to follow sampling guidance and use audit techniques and sample sizes that are sufficient to reduce sampling risk to an acceptably low level.

- FSA worked with OMB, the audit community, and the OIG to align the sampling requirements in the OMB Compliance Supplement with A-123C. As a result, the OMB Compliance Supplement requires auditors to use a sampling methodology that incorporates a desired level of assurance (confidence level) and expected exception rate. Therefore, samples selected by auditors adhering to the OMB Compliance Supplement have appropriate and accurate confidence intervals regardless of how samples are selected.

- FSA's S&EMP was designed following well established and generally accepted statistical theory for probability samples. The sample design was consistent with statistical requirements in current OMB guidance (M-21-19), and the S&EMP contained references to well respected textbooks and practitioners for all formulas used in the design, selection, and estimation of the sample.

- FSA's S&EMP assumes that any instances of nonrandom sampling may include selection of higher-risk students and, therefore, the improper payment and unknown payment estimates and confidence intervals do not systematically under-represent improper payment and unknown payment risks. Based on this assumption, FSA found it appropriate to interpret results and draw conclusions about confidence intervals for its S&EMP. FSA statisticians agreed with this when considering FSA's program characteristics and available resources to estimate improper payments and unknown payments.

- Costs and limitations may apply to random sampling. Although random selection is a tool that mitigates the presence of bias in a sample, it does not guarantee that any specific sample is appropriately representative of the broader population and may miss critical groups of particular interest. Therefore, FSA recognizes the decades of ongoing research into the utility of nonrandom samples and ability to make inferences from them, and FSA's methodology is consistent with the research in this area. FSA carefully considered and addressed the limitations and potential biases of this approach so that FSA was able to draw meaningful conclusions and inferences from the non-random sample data obtained through compliance audits. FSA provided the OIG with examples of research and scholarly publications by experts in this area during the 2022 PIIA Audit and is available to provide the research and publications again.

Finally, FSA has identified the true root causes of improper payments and unknown payments and is taking appropriate corrective action to prevent and reduce them. FSA identified root causes such as student eligibility, disbursements to students, and return of Title IV funds, among others, as root causes of improper payments, and FSA is taking corrective actions to address those causes. FSA annually meets with improper payment subject matter experts to discuss refinements to its A-123C activities, including FSA's S&EMP. Stakeholders or subject matter experts agree that FSA is capturing the correct root causes of improper payments and have not identified any new root causes of improper payments to consider.

OIG Recommendations

We recommend that the Chief Financial Officer for the Department —

OIG Recommendation 3.1: For programs that require them, design and implement improper payment and unknown payment sampling and estimation plans that are appropriate for the sampling of payments based on accurate sampling populations and result in reliable estimates. The improper payment and unknown payment sampling and estimation plans should also include language stating why sampling populations in Stage 1 may not match sampling populations in Stage 2 and explain the statistical impact on the estimates.

OIG Recommendation 3.2: Implement its quality assurance checklist to ensure the proper details from the drawdown population are accurately included on the extrapolation sheet.

Department's Response to Recommendations 3.1 and 3.2: The Department concurs with the OIG's Recommendations 3.1 and 3.2. The Department will include an "explanation of changes" section within its S&EMPs that addresses the population differences between Stage 1 and Stage 2 data. The Department will perform an additional Quality Assurance (QA) Check on the sampling populations for each program requiring an estimate by utilizing a Quality Check (QC) tool.

OIG Recommendation 3.3: 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's Response to Recommendation 3.3: FSA does not concur with the OIG's recommendation. FSA notes that the OIG's recommendation to FSA is a recommendation for improvement rather than a recommendation for compliance as defined in A-123C Part VI, (C)4. When making recommendations for improvement, the OIG is not required to provide concrete recommendations, and the OIG's recommendation is a reiteration of the provisions in A-123C for the suggested content of an S&EMP. As explained in FSA's response to the OIG's finding pertaining to the reliability of improper payment and unknown payment estimates for the Pell Grant and Direct Loan programs, FSA's S&EMP is sound and produces statistically valid estimates of improper payments and unknown payments so that stakeholders have a reliable depiction of estimated improper payments and unknown payments, and FSA has identified the true root causes of improper payments and unknown payments and is taking appropriate corrective action to prevent and reduce improper payments. However, while continuing to maintain that FSA's Pell Grant and Direct Loan S&EMP is statistically valid, FSA will continue its previous efforts to request OMB approval of FSA's S&EMP as an acceptable plan considering program resources and characteristics in accordance with the provisions provided in PIIA §3352(c)(1)(A).

Furthermore, FSA is collaborating with OMB through the OMB A-123C Re-Write Working Group to advocate for inclusion of language in the next update to A-123C that would specifically allow agencies to use compliance audits as a reliable data source to support the statistically valid estimation of agency programs for PIIA reporting purposes under certain circumstances. FSA's proposed updates to A-123C would provide that, when program characteristics are such that the control environment of a payment process is external to a federal agency, and the federal agency does not directly control the payment process to the end recipient (e.g., when a federal agency provides funding to Non-Federal entities that determine eligibility and disburse payments), the federal agency may rely on and incorporate payment data from Single Audit Act or other federally mandated compliance audits performed by independent auditors of the Non-Federal entities in the S&EMP. In these circumstances, for the purposes of the S&EMP, the compliance audit payment data will be considered reliable and allow agencies to draw conclusions that would support statistically valid estimates, including the calculation of point estimates and confidence intervals around the estimate.

Finally, FSA will also continue to collaborate with the OIG, Departmental components, and the independent audit community to identify ways to improve the usefulness of information obtained in Single Audit Act compliance audits.

If there are questions, or for additional information regarding this response, please contact Carolyn Dempster at Carolyn.Dempster@ed.gov.