

Improper Payments Reporting Details

The Department is committed to preventing improper payments with front-end controls, and detecting and recovering them if they occur. In FY 2014, the Department continued efforts to: 1) assess the risk of improper payments, 2) estimate improper payments, 3) address root causes of improper payments, and 4) recover improper payments. These four efforts are described in more detail below.

The Department implemented actions that meet the requirements of the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) (Public Law 112-248) and the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Public Law 111-204), both of which amend the *Improper Payments Information Act of 2002* (IPIA) (Public Law 107-300), as well as the Office of Management and Budget's (OMB) Circular A-123, Appendix C, [Requirements for Effective Measurement and Remediation of Improper Payments](#). Agencies are required to review and assess all programs and activities to identify those susceptible to significant improper payments. The OMB guidance defines significant improper payments as those in any particular program that exceed both 1.5 percent of program payments and \$10 million annually or that exceed \$100 million. OMB also has established specific reporting requirements for agencies with programs that possess a significant risk of erroneous payments and for reporting on the results of recovery auditing activities.

Internal Controls and Accountability

The Department maintains the internal controls, human capital, information systems, and other infrastructure necessary to minimize improper payments. As detailed in the *Analysis of Controls, Systems, and Legal Compliance* portion of this AFR, the Department's internal control framework is robust. It includes important controls at many levels of the payment process designed to help prevent and detect improper payments. These controls are periodically assessed for design and operating effectiveness as part of Department self-assessments of internal controls. For example:

- Schools are responsible and held accountable for recipient verification for need-based aid. FSA certifies a school's eligibility for participation in Title IV programs, conducts periodic Program Reviews of schools to verify compliance, and evaluates school financial statement and compliance audits to ensure any potential compliance issues or control weaknesses are resolved.
- FSA offices, managers, and staff responsible for these programs are accountable for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, and promptly detects and recovers any improper payments that may occur. Offices and managers are held accountable through a variety of mechanisms and controls, including annual performance measures aligned to the strategic plan, organizational performance review criteria, and individual annual performance appraisal criteria.
- Department and FSA contractors are held accountable through various contract management and oversight activities and functions, control assessments, and audits.
- Department program staff work with the Department's Risk Management Service (RMS) to use the Decision Support System (DSS) Entity Risk Reviews (ERR) to assess

grantee risk and assist in the determination of special conditions for grant awards. In FY 2014, RMS produced 112 reports assessing risk for 1,214 grant applicants to new discretionary grant awards, and 141 reports assessing risk for 2,984 discretionary grantees. These reports were used to review 95 new award competitions, and 84 non-competitive continuations (NCCs).

- The Department coordinates and manages the resolution of internal and external audits, which includes working with program managers, the Office of General Counsel, and impacted parties to collect debt associated with improper payments.
- The Department leverages a continuous controls monitoring process to help detect anomalies and potential issues in agency payment-related data, including Department and FSA payments made through the core financial system.

Risk Assessments

As required by the OMB Circular A-123, Appendix C, the Department conducts an assessment of the risk of improper payments in each program at least once every three years. Below is a summary of these assessments.

Risk Assessment Results		
Program	Last Risk Assessment	Risk-Susceptible?
FSA Managed Programs		
Federal Pell Grants	FY 2014	Yes
The Teacher Education Assistance for College and Higher Education Grant	FY 2014	No
Federal Supplemental Educational Opportunity Grant	FY 2014	No
Iraq and Afghanistan Service Grant	FY 2014	No
Federal Perkins Loan Program	FY 2014	No
Federal Direct Loan Program	FY 2014	Yes
Federal Family Education Loan Program	FY 2014	Yes ⁽¹⁾
Federal Work-Study Program	FY 2014	No
Other Department Programs		
Title I	FY 2013	No ⁽²⁾
Other Grant Programs	FY 2013	No
Contract Payments	FY 2013	No
Administrative Payments	FY 2014	No

⁽¹⁾ FFEL, as a program that had previously been determined to be risk-susceptible, must first report improper payment estimates that are less than the stated thresholds for a minimum of two consecutive years before formally reclassifying the program's risk categorization. FFEL was estimated below the threshold for high-risk programs in FY 2013 and FY 2014.

⁽²⁾ Title I is included in the table [because it is a Section 57 program](#).

FSA-Managed Programs

The Department performed a risk assessment for all FSA-managed programs during FY 2014 and determined that the Pell Grant and Direct Loan programs were susceptible to risk of significant improper payments. For each program, risk assessment meetings were held with program owners, key personnel, and other designees to discuss the inherent risk of improper payments as it relates to the following ten risk factors:

- Newness of Program or Transactions;
- Complexity of Program or Transactions;
- Volume of Payments;
- Level of Manual Intervention;
- Changes in Program Funding Authorities, Practices, and Procedures;
- History of Audit Issues;
- Prior Improper Payments Reporting Results;
- Human Capital Management;
- Nature of Program Recipients; and
- Management Oversight.

A risk rating was assigned to each factor based on established criteria. Weighted percentages were assigned to each risk factor rating based on the probability of occurrence of an improper payment. An overall risk score was then computed for each program, calculated by the average of the sum of the weighted scores for each risk factor and overall rating scale.

The risk assessment results found that, in FY 2014, the FFEL program is low risk (i.e., not risk susceptible to significant improper payments). This determination is corroborated by the prior year (FY 2013) estimate of 0 percent, which is well below the risk-susceptible thresholds of 1.5 percent and \$10 million in estimated error or \$100 million in estimated error as defined in OMB Circular A-123, Appendix C. While FFEL has been assessed as low risk this year, a FFEL estimate was still performed and is presented here. Consistent with OMB guidance, any program that has previously been determined to be risk-susceptible must first report improper payment estimates that are less than the stated thresholds for a minimum of two consecutive years before formally reclassifying the program's risk categorization. We will coordinate with OMB in FY 2015 to formally change this risk categorization and, in so doing, remove the requirement for future annual reporting of FFEL estimates.

Other Department Programs

The Department performed a risk assessment for all non-FSA grant programs during FY 2013 using the methodology described in the [FY 2011 AFR](#). This methodology relies on an examination of the total questioned costs for each program that result from required OMB Circular A-133 [Single Audits](#). The Department's FY 2013 assessment determined that

none of these non-FSA grant programs were susceptible to significant improper payments. The specific grant programs reviewed are provided on the Department's [website](#).

During FY 2013, the Department completed a risk assessment of all contract payments, including those for FSA. The risk assessment was based on the results of an ongoing FY 2013 contingency-based contract to review FY 2007 through FY 2012 contract payments as well as cyclical A-123 risk assessments. Based on an evaluation of the risk assessments and results of the recapture audit, the Department determined that contract payments are not susceptible to significant improper payments.

In 2014, the Department also completed risk assessments on administrative payments to employees in accordance with IPERIA. Five areas of administrative payments were examined: Salary, Locality Pay, Travel, Purchase Card, and Transit Benefits. The Department determined it was not susceptible to significant improper administrative payments to employees. This analysis was based on a review of actual recaptured payments and the likelihood of payment errors. Each respective administrative payment area noted above was below the risk threshold designated for susceptibility.

Improper Payment Estimate Methodologies

FSA-Managed Programs

After refining the FY 2013 alternative estimation methodology, the Department obtained approval from OMB to use an alternative methodology for estimating improper payments for the FSA programs for FY 2014 and forward. This alternative methodology, as contemplated in OMB Circular A-123, Appendix C (A-123C), leverages data collected through FSA Program Reviews, which include procedures such as verifying student-reported income levels, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. The methodologies for all three programs are described on the Department's [improper payment website](#).

In addition to the rate that resulted from the OMB-approved methodology, the Department has, consistent with prior years, estimated an improper payment rate for the Pell program using Internal Revenue Service (IRS) data. This estimate is provided as a supplemental data point for comparison to prior year estimates calculated under that methodology.

Elementary and Secondary Education Act of 1965, Title I, Part A Program

The Department estimates improper payments for this program using questioned cost data in audit reports. This methodology is described in the [FY 2012 AFR](#). No reduction targets are proposed since the Department's risk assessments have not identified Title I as a program susceptible to significant improper payments; Title I is included in the table because it is a [Section 57 program](#).

Improper Payment Estimates (Dollars in Millions)

Program or Activity	FY 2013			FY 2014			FY 2015			FY 2016			FY 2017		
	Outlays \$ ⁽²⁾	IP %	IP \$	Outlays \$ ⁽³⁾	IP %	IP \$	Outlays \$ ⁽⁴⁾	IP %	IP \$	Outlays \$ ⁽⁴⁾	IP %	IP \$	Outlays \$ ⁽⁴⁾	IP %	IP \$
Pell Grants ⁽¹⁾	32,338	2.26	731	31,554	2.16	682	32,456	2.15	698	33,135	2.14	709	34,767	2.13	740
Direct Loan	102,497	1.03	1,056	102,140	1.50	1,532	100,936	1.49	1,504	106,057	1.48	1,570	111,473	1.46	1,628
FFEL	10,817	0.00	0	10,016	0.00	0	8,004	0.00	0	7,458	0.00	0	7,101	0.00	0
Title I	14,724	.385	56.7	16,372	.214	35.0	16,062	.214	34.4	15,394	.214	32.9	15,442	.214	33.0

⁽¹⁾ The Pell estimate for FY 2013 was reported using the previously developed methodology that relies on a comparison of student data with IRS data. In FY 2014, OMB approved the alternative methodology relying on FSA Program Reviews, and the Pell estimates are reported using the updated methodology. As a point of comparison, the FY 2014 preliminary estimate for Pell using the previous methodology that relies on data from comparing student data with IRS data is 1.94 percent or \$612 million.

⁽²⁾ The source of FY 2013 outlays for all programs is FMS as presented in the FY 2013 AFR.

⁽³⁾ The source of FY 2014 outlays for all program amounts is FMS.

⁽⁴⁾ The source of FY 2015–2017 Pell outlay amounts is the supporting documentation for the FY 2014 President’s Budget request at the Mid-Session Review. The source of FY 2015–2017 Direct Loan and FFEL outlay amounts is the supporting documentation for the FY 2014 President’s Budget request.

NOTE: The FY 2014 Pell overpayment improper payment rate estimate is 2.11 percent or \$666 million and the underpayment improper payment rate estimate is 0.05 percent or \$16 million. The FY 2014 Direct Loan overpayment improper payment rate estimate is 1.46 percent or \$1,491 million and the underpayment improper payment rate estimate is 0.04 percent or \$41 million. The FY 2014 FFEL overpayment and underpayment improper payment rate estimates round down to 0.000 percent or \$0 million.

Root Causes and Corrective Actions

This section summarizes the root causes of improper payments and the Department's strategies to mitigate improper payments.

FSA-Managed Programs

FSA continues to utilize the Internal Revenue Service Data Retrieval Tool (IRS DRT), which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online Free Application for Federal Student Aid (FAFSA). In addition, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. These and other ongoing corrective actions, such as system edits, Program Reviews, and compliance audits, are described in the [FY 2012 AFR](#).

In the charts that follow for each risk-susceptible program, the root causes presented were identified through improper payment testing and categorized using categories of error as defined in the March 2010 update to OMB Circular A-123, Appendix C ([OMB Memorandum M-10-13](#)). The corrective actions presented are recommendations to the schools (for Pell Grants and Direct Loans) and financial institutions (for FFEL) for findings that resulted from FSA Program Reviews.

Pell Grant Program. The Pell Grant Program includes the drawdown of funds by schools and the disbursement of aid from the school to the student; year-end closeout and the return of unsubstantiated funds; return of undisbursed funds to Title IV collections from schools; and collections by the school on overpayments from recipients.

Direct Loan Program. The Direct Loan Program includes the drawdown of funds by schools, the origination of a loan and disbursement of funds from the school to the student (or their account); consolidations; servicing of the loan and collections from loan holders; and return of Title IV collections (undisbursed funds or overpayments) from schools.

Root Causes and Corrective Actions for the Pell Grant and Direct Loan Programs

IPIA Error Category	Root Cause
Documentation and Administrative Errors	Incorrect awards based on Expected Family Contribution (EFC)
	Incorrect processing of student data during normal operations
	Student account data changes not applied or processed correctly
Verification Errors	Ineligibility for a Pell Grant/Direct Loan (e.g., validity of high school attended, history of degrees obtained)
	Satisfactory academic progress not achieved
	Incorrectly calculated return period

Improper payment findings are detailed within the FSA Program Reviews, which also include the corrective actions taken by the schools or financial institutions to either resolve the finding or finding(s) that contain liabilities or detail their ongoing corrective actions. Overall, FSA necessitates that all findings identified during the FSA Program Reviews are tracked through resolution via the Postsecondary Education Participants System (PEPS). This corrective action process is further described in the [FY 2012 AFR](#).

Root Causes and Corrective Actions for the Direct Loan Consolidation Program

IPIA Error Category	Root Cause
Documentation and Administrative Errors	Incorrect processing of Loan Verification Certificate (LVC)
	Processing of duplicate LVCs
	Loan not intended for consolidation was processed
	Incorrect information submitted on the LVC and processed

The underlying root cause of improper payments identified for Direct Loan Consolidations in the table above is due to processing errors at the servicer level. However, the legacy servicer's contract is ending and the day-to-day servicing of newly made traditional Direct Loan Consolidations has been transferred to the Title IV Additional Servicers' (TIVAS) platforms. FSA will continue to monitor the full transition of the consolidation function to these servicers.

Improper payments identified through testing of Direct Loan Consolidations for FY 2014 were remediated or are in the process of being remediated.

FFEL Program. During FY 2014, the FFEL Program made no new loan originations. FY 2014 payment types and cash flows associated with the guarantees on loans originated in prior years (i.e., the existing FFEL portfolio) include: Special Allowance Payments (SAP), Interest Benefits, Lender Fees, Origination Fees, Consolidation Loan Rebate Fees, Reinsurance, and Account Maintenance Fees.

Root Causes and Corrective Actions for the FFEL Program

Most of the reporting errors observed during FY 2014 were the result of smaller lenders using software systems that were not updated or were processed on bank systems not designed for processing the reporting of FFEL program loans.

IPIA Error Category	Root Cause
Documentation and Administrative Errors	Manual entries processed erroneously (e.g., using only one payment code during the billing quarter when an activity occurred that required the use of two billing codes)
	Incorrect calculation of the average daily balance due to software formula errors

Corrective actions include recommendations to the financial institutions for findings that resulted from FSA Program Reviews, which include, but are not limited to: regularly conduct staff training courses designed to prevent incorrect usage of payment codes, including SAP codes, and incorrect calculation of average daily balances; establish procedures that eliminate reporting errors related to manual entries processed erroneously; hire sufficient staff/employees who are knowledgeable of the FFEL program; and obtain and install any necessary updates to their systems to certify software formulas are accurate.

If unable to perform servicing requirements, lenders are required to seek the services of other individuals or firms to reduce and eliminate reporting errors due to manual processing.

Root Cause Summary

Consistent with FY 2013, the results of the root cause analysis across all risk-susceptible FSA programs for FY 2014 highlighted that the underlying root cause of improper payments was due to processing errors that occur at the institution level.

Further analysis of the improper payment findings and associated root causes identified for FSA programs were attributed to Documentation and Administrative Errors and Verification Errors (as defined by IPIA) by the following percentages, calculated by dollar amount (i.e., the absolute dollar amount of improper payments identified within the category proportional to the total dollar amount of error in the sample reviewed):

IPIA Error Category	Pell Grants	Direct Loans	Direct Loan Consolidations	FFEL
<i>Documentation and Administrative Errors</i>	15%	19%	100%	100%
<i>Verification Errors</i>	85%	81%	0%	0%

Other Department Programs

Risk Management. The Department continues to take measures to prevent improper payments through the application of the Entity Risk Review (ERR) report by grants officers and awarding officials in the preaward stage of the grants process. Using data drawn from the Federal Audit Clearinghouse, Dun & Bradstreet, the Department's grants system, and Institutes of Higher Education (IHE) accreditation reporting, this report identifies financial, programmatic, and controls risks posed by award to the prospective grantee. Program staff apply this report in devising special conditions of award, as well as monitoring plans for the life of the grant, strengthening them as the Department's first line of defense against improper payments by grantees.

Do Not Pay. The Department continues to mitigate risk of improper payments by leveraging available data to detect and prevent payments before they occur. These data are collected through the Continuous Control Monitoring System (CCMS), which applies seven integrity checks that are used as systemic preventive and predictive analytic tools to mitigate risks related to improper payments. Two additional integrity checks were implemented in FY 2014 that increased the reliability of transactional controls and the effectiveness of antifraud controls. The Department also participates in the Department of Treasury Do Not Pay System initiative. Both of these preventive processes allow the Department to conduct research and investigation of any findings in order to initiate proper actions.

Implementation of the Do Not Pay Initiative to Prevent Improper Payments						
	Number (#) of payments reviewed for improper payments	Dollars (\$) of payments reviewed for improper payments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of improper payments reviewed and not stopped	Dollars (\$) of improper payments reviewed and not stopped
Reviews with the Death Master File (DMF) only	998,447	\$138,196,388,434	0	0	0	0
Reviews with System for Award Management (SAM) databases	1,005,029	\$140,864,372,529	0	0	0	0

Data Analytics. The Department leverages data analytics techniques to help reduce the risk of improper payments and to better identify and address root causes of error. The Department gathers and manages thousands of records on audits of grantees in an Audit Accountability and Resolution Tracking System (AARTS). The Department is analyzing the audit data to determine trends in findings and resolution throughout the Department; these data enable the Department to search for and better understand commonalities in findings as well as grantees with repeat findings. This analytics effort is helping the Department reduce improper payments by strengthening audit resolution and grants management.

Recovery Auditing

Agencies are required to conduct recovery audits for contract payments and programs that expend one million dollars or more annually if conducting such audits would be cost effective. The following table presents a summary of the Department's cost-benefit analysis.

Additional Recovery Auditing Cost Effectiveness	
Recovery Audit Program Area	Cost Effective
Non-FSA Grant Programs	No
FSA Programs	No
Contracts	No

A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's [FY 2012 Report on the Department of Education's Payment Recapture Audits](#).

Contract Payment Recapture Audits. Although the Department has not found prior contract recovery audits to be cost effective, the Department issued a contingency-based contract during FY 2013 to audit all FY 2007 through FY 2012 contract payments for possible errors and recapture. This contract was awarded with the expectation that

advances in data mining techniques might be able to detect payment errors that were previously undetected.

The audit ended in January 2014 and did not uncover any improper payments. In addition to the audit, as part of its A-123 review, the Department reviewed a random sample of contract payments made in FY 2014 and similarly did not uncover any improper payments subject to recovery. As a result of these efforts, the Department plans no further efforts to conduct recapture audits.

The following chart presents the results of previous recapture efforts:

Contract Payment Recapture Audit Reporting (\$ in millions)	
Amount Subject to Review for Current Year (2014) Reporting*	\$10,027
Actual Amount Reviewed and Reported (2014)*	\$10,027
Amounts Identified for Recovery (2014)	\$0
Amounts Recovered (2014)	\$0
% of Amount Recovered out of Amount Identified (2014)	NA
Amount Outstanding (2014)	\$0
% Amount Outstanding out of Amount Identified (2014)	NA
Amount Determined Not to be Collectable (2014)	\$0
% Amount Determined Not to be Collectable out of Amount Identified (2014)	NA
Amounts Identified for Recovery Prior Years (2005–14)	\$0
Amounts Recovered (2005–14)	\$0
Cumulative Amounts Identified for Recovery (2005–14)	\$0
Cumulative Amounts Recovered (2005–14)	\$0
Cumulative Amounts Outstanding (2005–14)	\$0
Cumulative Amounts Determined Not to be Collectable (2005–14)	\$0

*Includes FY 2007 through FY 2012 contract payments subject to the FY 2013–2014 recapture audit contract.

The Department has not established formal recovery targets for contract payments given the consistently insignificant findings. Since FY 2004, the Department's audits have found no improper payments for recovery, and there are no outstanding overpayments to report. Should future contract payments be identified for recovery, the Department will establish recovery targets, taking into consideration the nature of the overpayments and any potential barriers to recovering funds.

Recoveries of Improper Payments. The Department works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in Compliance Audits, OIG Audits, and Department-conducted program reviews as potential improper payments. Accounts receivable are established for amounts determined to be due to the Department and collection actions are pursued. Recipients of Department funds can appeal the management decisions regarding funds to be returned to the Department, thereby delaying

or decreasing the amounts the Department is able to collect. The following chart provides estimates of the amounts identified and recovered through all Compliance Audits, OIG Audits, and Program Reviews for FY 2012 through FY 2014. The Department anticipates recovering similar amounts in FY 2015.

Overpayments Recaptured Outside of Payment Recapture Audits (\$ in millions)						
Agency Source	Amount Identified (FY 2014)	Amount Recovered (FY 2014) ⁽¹⁾	Amount Identified (FY 2013)	Amount Recovered (FY 2013) ⁽¹⁾	Cumulative Amount Identified (FY 2012–14)	Cumulative Amount Recovered (FY 2012–14)
Compliance Audit Reports	26.3	14.6	19.8	7.7	67.8	26.6
OIG Audit Reports	0.4	0.7	22.1	5.2	25.2	6.1
Program Reviews	47.7	18.5	38.9	8.0	117.3	33.2

⁽¹⁾ Includes all amounts recovered during the year, not just the recoveries of amounts identified during the year.

In addition to the amounts above, for the Pell Grant Program, recoveries also occur when overpayments to students are assigned to FSA for collection. Pell amounts recovered through student debt collection were approximately \$13.7 million in FY 2014, \$13.0 million in FY 2013, and \$113.7 million cumulative from FY 2004 to FY 2014. While all programs may have student debts transferred to debt collection, the categorization of resulting collections as an improper payment recovery is unique to Pell. Unlike loans, Pell Grant payments transferred to debt collection commonly indicate a potential improper payment at time of disbursement.

Statutory and Regulatory Barriers

The Department believes that there are high burden of proof requirements in the *General Education Provisions Act* (GEPA), which are a significant reason why the Department recovers only a small percentage of the original questioned costs in non-FSA grant program audits. The GEPA, 20 U.S.C. 31 Subchapter IV § 1234a, requires the Department to establish a prima facie case for the recovery of funds, including an analysis reflecting the value of services obtained. In accordance with 20 U.S.C. 31 Subchapter IV § 1234b, any amount returned must be proportionate to the extent of harm the violation caused to an identifiable federal interest. A detailed discussion of program-specific barriers can be found in the [FY 2012 Report on the Department of Education's Payment Recapture Audits](#).

Accountable Official's Report on High-Priority Programs

OMB issued an overhauled version of Appendix C to Circular A-123 on October 20, 2014. Included among the changes is the elimination of a separate report on high-priority programs as mandated by Executive Order 13520, *Reducing Improper Payments* (November 30, 2009), and previous OMB Appendix C guidance. To eliminate duplicate reporting, the new version of Appendix C to Circular A-123 states that agencies should include the accountable official's report on high-priority programs in their AFRs or PARs beginning with FY 2014 reporting.

An agency's accountable official's report is required to include:

- (i) the agency's methodology for identifying and measuring improper payments by the agency's high-priority programs;
- (ii) the agency's plans, together with supporting analysis, for meeting the reduction targets for improper payments in the agency's high-priority programs; and
- (iii) the agency's plan, together with supporting analysis, for ensuring that initiatives undertaken pursuant to this order do not unduly burden program access and participation by eligible beneficiaries.

In FY 2010, OMB designated the Pell Grant Program a high-priority program because estimated FY 2010 Pell improper payments of \$1,005 million exceeded the OMB FY 2010 high-priority program threshold of \$750 million. Since then, the Department has worked with OMB to implement all applicable high-priority program requirements. In order to avoid duplicate reporting on the Department's high-priority programs, certain requirements already reported in preceding sections of this AFR will be referenced in this section instead.

Estimation Methodology and Reduction Targets. Please see the Improper Payment Estimate Methodologies section for additional information on the new alternative estimation methodology, this year's estimate, and reduction targets for the Pell Grant Program. This alternative methodology, which leverages FSA Program Reviews, is described on the Department's [improper payment website](#).

Root Causes and Internal Controls. Root causes and internal controls for improper payments in the Pell Grant Program are discussed in the previous sections of this AFR. Additional controls for the Pell Grant Program are presented in this section.

Front-end System Edits. The Department continues to take steps to implement or improve preventative controls, such as front-end edits in eligibility and payment systems. Recent examples include the following.

As reported in the FY 2012 Accountable Official's Report, the Department implemented two new controls related to the Pell Grant Program (Pell Grant Lifetime Eligibility Used (LEU) and Unusual Enrollment History (UEH)).

- **Pell LEU.** The *Consolidated Appropriations Act of 2012*, Public Law 112-74, amended the *Higher Education Act* (HEA) of 1965, as amended, section 401(c)(5), to reduce the duration of a student's eligibility to receive a Federal Pell Grant from 18 semesters (or its equivalent) to 12 semesters (or its equivalent). This provision applies to all Federal Pell Grant eligible students effective with the 2012–13 award year. The calculation of the duration of a student's eligibility will include all years of the student's receipt of Federal Pell Grant funding. This change in the duration of students' Federal Pell Grant eligibility is not limited only to students who received their first Federal Pell Grant on or after the 2008–09 award year, as the HEA previously provided when the duration of eligibility was 18 semesters. Beginning with the 2013–14 award year, Pell Grant LEU percentages are provided by National Student Loan Data System (NSLDS) and are included along with the Pell Lifetime Limit Flag values on the Institutional Student Information Record (ISIR).

- **Pell UEH Flag.** The UEH Flag serves the purpose of indicating whether the student has an unusual enrollment history with regard to the receipt of Federal Pell Grant funds. When a student's records indicate that the student's enrollment history falls significantly outside the norm, the student's records must be reviewed by the institution. Based upon academic transcripts it may already possess, or by obtaining academic transcripts or grade reports, the institution must determine, for each of the previously attended institutions, whether academic credit was earned during the relevant award year. Academic credit is considered to have been earned if the academic transcript shows that the student completed any number of credits or clock hours.

If the institution makes a determination of continued eligibility, the financial aid administrator may choose to require the student to establish an academic plan, similar to the type of plan used to resolve satisfactory academic progress appeals. It may also be necessary to counsel the student about the Pell Grant duration of eligibility provisions—and the impact of the student's attendance pattern on the future Pell Grant eligibility. It is also recommended that the student be counseled on the impact of loan eligibility under the new 150 percent subsidized loan limitation.

If a student who did not earn academic credit at the relevant institutions does not provide, to the financial aid administrator's satisfaction, an explanation and documentation for each of those failures, the institution must deny the student additional Title IV, HEA program assistance, not just Pell Grant eligibility.

In FY 2013, a new Central Processing System (CPS) edit was added: the NSLDS Fraud Loan Flag. Previously, a warning was indicated for situations where a guaranty agency, a Perkins school, or the Department (e.g., OIG) had determined that a loan was obtained fraudulently. This new control alerts both the institution and the FAFSA applicant that the NSLDS indicates that the student has one or more student loans that may have been obtained fraudulently and is not eligible to receive any federal student aid until this issue is resolved. In these rare cases, the loan is listed under the perpetrator's identifiers and thus he or she cannot get further Title IV federal student aid, including a Pell Grant.

In addition, in FY 2014, two new IRS Display Flags were added to CPS and included in FAFSA reports sent to schools and students: the Student IRS Display Flag and the Parent IRS Display Flag. The new IRS Display Flags inform schools whether the IRS DRT was displayed to the student or parent, and, if not, the reason the IRS DRT was not displayed. The IRS Display Flags are used in addition to the Student IRS Request Flag and Parent IRS Request Flag, which describe the student or parent's use of the IRS DRT. The IRS Request Flags inform schools whether tax information was requested from the IRS and whether the student or parent changed the requested data after it was transferred. These flags aid schools in their verification requests to students.

IRS Data Retrieval Tool. The IRS DRT is a joint effort by the Department and the IRS which enables Title IV student aid applicants and, as needed, parents of applicants to transfer certain tax information from an IRS website directly to their online FAFSA. For the 2014–15 FAFSA processing cycle, 5.6 million students and parents have transferred their tax data from the IRS to the FAFSA using the IRS DRT. This usage represents approximately 31.7 percent of the 17.7 million FAFSAs submitted for the 2014–15 academic year between January 1, 2014, and September 28, 2014. Recent functionality changes to the IRS DRT include redesigned filtering questions to require yes or no responses instead of check-the-box responses and improved instructions for using the IRS

DRT, including enhanced help text to aid users in determining who might be able to use the tool and how it should be used.

FSA will continue to explore ways to facilitate the detection of error, based on the results of the FAFSA/IRS Data Statistical Study. Additionally, FSA continues to simplify the application process by using web-based “smart logic” and promoting the real-time use of the IRS DRT. For example, compared to the 2009–10 FAFSA processing cycle, the estimated time to complete the FAFSA application online has decreased from approximately 60 minutes to less than 30 minutes. These enhancements, coupled with improved error detection, should allow FSA to further reduce improper payments.

High-priority programs are required to develop a supplemental measure (or measures) to help gauge progress in reduction efforts and to augment the annual measure. In coordination with OMB, the Department developed a supplemental measure around IRS DRT usage. The most current supplemental measure for the Pell Grant Program is the total number of Pell-eligible applicants who transferred tax data from the IRS as a percent of the total number of Pell-eligible applicants who were determined to be eligible to use the IRS DRT to transfer tax data. As of September 28, 2014, this measure is estimated at 66.5 percent for the 2014–15 FAFSA processing year. Upon OMB approval, the Department will begin to post IRS DRT usage status using this measure to PaymentAccuracy.gov.

School Verification. FSA continues to utilize the verification process as a key action in addressing the inaccuracies on the FAFSA by enhancing verification regulations which are published in the Federal Register annually. Verification is the process required by the Department that schools conduct to confirm specific information reported on the FAFSA by the applicant. The Department requires schools to have written verification policies and procedures to include deadlines for students to submit documentation and consequences of not meeting the deadlines; method of notifying students of award changes due to verification; correction procedures; and procedures for referring overpayment cases to the Department. Schools are required to give each applicant selected for verification a written statement explaining the student’s responsibilities and the school’s method of notification during the process.

The Department continues to refine the verification process and to conduct statistical analysis to establish the most effective and efficient criteria for selecting applicants with the highest probability of error on their FAFSA submissions for verification. Changes to the verification process for the 2014–15 award year included adding other untaxed income to the FAFSA items selected for verification, adding identity verification result functionality to financial aid administrator access and making adjustments to the verification tracking groups as discussed below.

As with 2014–15 award year verification, the Department will continue to use data-based statistical analysis to select applicants for verification. A Verification Tracking Flag will be set on the applicant’s Institutional Student Information Record (ISIR) to indicate placement into one of the 2015–16 Verification Tracking Groups. An applicant will remain in the original 2015–16 Verification Tracking Group for the entire 2015–16 award year regardless of subsequent corrections to the applicant’s record. Although 2015–16 applicants will not be assigned to Verification Tracking Group V2 (formerly Supplemental Nutrition Assistance Program (SNAP) Verification Group), SNAP must be verified for applicants placed in

Verification Tracking Groups V1, V4, V5, and V6, if the receipt of SNAP is indicated on the ISIR. The individual verification items from the 2015–16 Federal Register notice that an applicant must verify are based upon the Verification Tracking Group to which the applicant is assigned. The complete chart of the 2015–16 Verification Tracking Groups is found in the Department’s Dear Colleague Letter, [GEN-14-11](#), issued on June 30, 2014.

Annually, the Department analyzes grant recipients and the verification selection system, and informs the financial aid community of what FAFSA items are subject to verification for the upcoming award year. This annual analysis is performed to enhance verification methodology and to meet the goal of selecting the applicants who are most likely to have incorrect information on their FAFSA.

The anticipated costs to the Department related to improving the IRS DRT so that more FAFSA applicants use the tool is, in relation to projected savings and simplicity, marginal. More significant, but not able to be estimated, are the increased costs to the schools and colleges that must perform verification. However, to the extent that applicants use the IRS DRT, schools’ verification efforts are reduced.

Measures to Ensure Program Access. FSA is committed to ensuring program access and providing federal student aid, such as the Pell Grant, to all eligible students pursuing postsecondary education. The IRS DRT supports access to aid programs through the financial aid application process by allowing students to transfer tax data directly from the IRS to the online FAFSA and lessens the burden of income verification. Thus, FSA continuously promotes use of the IRS DRT. In addition, FSA recognizes the importance of an application process that can accurately determine eligibility without causing undue burden on students and their families. For example, while we recognize an increased and well adopted move towards online FAFSA completion, we continue to offer additional application methods to individuals to ensure that applicants can take advantage of an application option that best suits their personal needs. Furthermore, improvements in the last few years to the FAFSA and IRS DRT have resulted in a decrease in the average time it takes a student to complete the online FAFSA.

On February 4, 2013, FSA’s Customer Experience group announced a new partnership alliance between FSA and the IRS. This partnership is a result of ongoing IRS DRT agreement between the two organizations. The new partnership will focus on reaching more individuals in low- to moderate-income communities with the goal of providing them with information, assistance, and access to relevant IRS and FSA services. The partnership is expected to contribute to increased awareness of FSA programs, such as the Pell Grant Program, and create opportunities for increased access to the FAFSA, which determines student aid eligibility.

In addition, as indicated in Dear Colleague Letter [GEN-13-16](#) issued on June 13, 2013, and referred to in [GEN-14-05](#), the Department encouraged all FAFSA applicants to use IRS DRT to transfer official IRS tax return information into their FAFSA application, either when initially completing the FAFSA or during the corrections process. The Department also noted in [GEN-13-16](#) that acceptable documentation for verification of IRS tax return information is generally limited to the IRS DRT or an IRS Tax Return Transcript.

Beginning with the 2013 tax year (the 2014–15 FAFSA Processing Year), the IRS has added a new, more efficient way that tax filers can request and receive Tax Return

Transcripts. With the new IRS “Get Transcript Online” tool, the tax filer submits an online transcript request to the IRS and, if the request is authenticated, a second window displays the transcript in Portable Document Format (PDF). This new IRS tool potentially reduces the burden on FAFSA applicants who are requested to provide tax transcripts. Overall, both the Department’s and FSA’s strategic plans support efficient and effective access to student aid programs such as the Pell Grant Program.

In March 2014, the Department launched a new initiative, the FAFSA Completion Initiative, through which the Department is partnering with state student grant agencies to allow these agencies to provide secondary schools, school districts, and certain designated entities with limited, yet important, information on student progress in completing the FAFSA form. Because the timely completion of a FAFSA form is an essential step for many families in obtaining financial aid to pursue a postsecondary education, the FAFSA Completion Initiative will enable state student grant agencies and their school and district partners to identify those students who have not filed a FAFSA form and better target counseling, filing help, and other resources to those students. FAFSA completion is essential for receiving federal financial aid; therefore, identifying such students can promote college access and success by ensuring students, particularly low-income students, have access to financial aid to fund their education.