

Department of Education

Statement by

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on

Improper Payments

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before you today to discuss Improper Payment Prevention.

With one exception, all Department of Education programs have consistently been below the Improper Payment Information Act functional thresholds for susceptibility to “significant improper payments” (2.5 percent and \$10 million) or “significant erroneous payments.” The one exception has been the Pell Grant program.

I would like to focus today on how the Department has addressed the Pell Grant deficiencies and the steps taken and actions planned to comply with the Improper Payment Information Act of 2002 and the amendments enacted as the Improper Payments Elimination and Recovery Act of 2010. I can also provide for the record how we carried out our annual review and assessments of all programs and activities to identify those susceptible to significant improper payments as part of our internal control process. Even though the other programs fall

below the Act's functional threshold, we still subject them to on-going risk assessments, monitoring and validation to limit improper payments. I will also discuss the recovery procedure we are undertaking to get back any improper payments.

Pell Grant Payments and Income Data

As reported in our 2010 Agency Financial Report (AFR), the Pell Grant program is the Department's only program that exceeds the 2.5 percent and \$10 million threshold for susceptibility to "significant improper payments." Pell Grants provide need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. The program has an estimated improper payment rate of just over 3 percent, resulting from incorrectly reported recipient income. This 3 percent amounts to just over \$1 billion in estimated total improper payments in 2010. Of these, approximately \$648 million (2.01 percent) were overpayments and approximately \$361 million (1.12 percent) were in underpayments, yielding \$287 million (0.89 percent) in net overpayments. Our risk assessments found that incorrect student and parent self-reported financial income on the Free Application for Federal Student Aid (FAFSA) was the most significant root cause of potential Pell improper payments. The FAFSA requires applicants to provide nearly two dozen pieces of information, many of which they also provide to the Internal Revenue Service (IRS) on their federal tax forms.

The Department requires postsecondary educational institutions to verify key items on up to 30 percent of their students' FAFSA forms, focusing on those individuals that qualify for Pell Grants. Students selected for verification must provide copies of their (and their parents') tax

returns and supporting documentation to college financial aid administrators. The financial aid administrator then manually compares the applicant's tax return data against the information provided by the applicant on the FAFSA. This lengthy process is burdensome to students, families, and schools and fails to eliminate inappropriate Pell payments based on inaccurate income information.

In 2009, our office of Federal Student Aid implemented a voluntary process where applicants can access information from their past tax returns electronically (through an automated process with the IRS) and import that information directly into the online FAFSA form. In the current (2010-11) academic year, half a million applicants have used the automated process so far, but most still enter the data manually.

Beginning with the 2011-2012 academic year, the IRS automated data retrieval process will be enhanced to increase usage. The tool was made available on January 30, 2011, for use during the peak of the FAFSA application cycle. Additional improvements will make data available to students filing corrections and will include improvements in the IRS tax filer authentication process. These enhancements will improve the administration and integrity of the Pell Grant program by ensuring that applicants receive the correct Pell Grant for which they are eligible and that Pell Grants go to the neediest applicants.

Starting in the 2012-13 academic year, applicants will be directed to use the IRS data retrieval process to populate the FAFSA automatically with required IRS items once their tax return has been filed. Applicants who file their taxes after they have filed their FAFSA will be

reminded to update their FAFSAs with IRS data. Finally, most applicants who are selected for verification by colleges will be required to correct their FAFSA with IRS data or provide their school with an IRS-approved transcript of their tax data instead of simply supplying a copy of their tax return. Using IRS data to pre-populate the aid application and enhance aid verification procedures for financial aid administrators will reduce the improper payments for Pell by an estimated \$340 million in 2012 alone, and an estimated \$4 billion over the next 10 years.

Programs Other than Pell Grants and Recovery Efforts

Beyond the on-going internal control reviews conducted under the Federal Managers Financial Integrity Act (FMFIA) and OMB Circular A-123, a primary tool that the Department has used to identify and prevent improper payments in non-Federal Student Aid (FSA) programs have been recovery audits and risk assessments. For example, from 2004 through 2006, the Department retained an independent certified public accounting (CPA) firm to conduct recovery audits for contracts and purchase orders on a contingency fee basis. Over the course of the 3-year recovery audit contract period, ED recovered a total of \$112,506, which is less than one hundredth of one percent (.0025 percent) of all contract and purchase order payments at ED. Due to the fact that very few improper payments were actually identified and the insignificant amount that the firm recovered, ED decided not to continue the work for 2007. The Department has continued to implement a contract recovery auditing initiative in-house since 2007.

Also, since 2002 ED has used a statistically valid methodology to assess the risk of improper payments uniformly for all ED non-FSA grant programs. This work is completed

through an interagency agreement with the Department of Energy's Oak Ridge National Laboratory. For 2010, these assessments included a risk assessment of the Elementary and Secondary Education Act of 1965, Title I Grants to Local Educational Agencies (Grants to LEAs) formula program. In 2010, the Grants to LEAs program appropriation was \$14.5 billion, and the Oak Ridge risk assessment yielded an estimated improper payment rate of 0.04 percent, or \$4.7 million (.04 percent of total funds obligated and drawn). This finding confirms previously reported data indicating that the risk of improper payments for most education programs is extremely low.

Within FSA, the office responsible for management and oversight of the student loans programs, funds have been committed for a new support contract to respond to new improper payment related requirements. This work will include processes and strategies for improper payment reporting, identification, reduction, and recovery for all student aid programs including Pell grants and student loans.

OMB recently established quarterly reporting requirements for Federal agencies on "high-dollar overpayments" in response to Executive Order 13520 on Reducing Improper Payments, issued in November 2009. The Department has submitted four such quarterly reports. These reports included a total of four high-dollar overpayments. These overpayments were attributable to bank account routing errors, a processing error in connection with a new servicing process implementation, or duplicate payments. All funds have been recovered.

More details on our work on Improper Payments can be found in our Annual Financial Report on the web: <http://www2.ed.gov/about/reports/annual/2010report/5a-improper-payments.pdf>

Future Activities

Not unlike the other agencies we have heard from today, the Department is currently considering a number of new strategies and tools to satisfy the expanded improper payment requirements and to prevent improper payments before they occur. For example, the Department is exploring the cost-effectiveness of data mining and hunting software that could be used to detect anomalies and potential issues in agency financial data prior to obligation, and the creation of a team to follow-up when anomalies are identified. This new tool would be used to examine payment records and identify issues such as duplicate payments, payments for services not rendered, overpayments, and fictitious vendors. The agency is also investigating root causes of improper payments when they do occur and developing corrective action plans to address any systemic weaknesses. This software is one example of a tool that would enable the Department to shift from traditional back-end detective activities to front-end prevention. The Department is also considering the cost-effectiveness of implementing an expanded payment recovery audit program, the scope of which would include both Department contracts and grant programs. If such a program proves to be cost-effective, the Department would hire a private firm on a contingency basis to pursue recovery audits in many ED contracts and grant programs.

Thank you, Mr. Chairman and Members of the Subcommittee, for your attention to this important issue, and I would be happy to answer any questions.