



June 2019

FEDERAL STUDENT LOANS

Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans

Why GAO Did This Study

As of September 2018, almost half of the \$859 billion in outstanding federal Direct Loans was being repaid by borrowers using IDR plans. Prior GAO work found that while these plans may ease the burden of student loan debt, they can carry high costs for the federal government.

This report examines (1) whether there are indicators of potential fraud or error in income and family size information provided by borrowers on IDR plans and (2) the extent to which Education verifies this information. GAO obtained Education data on borrowers with IDR plans approved from January 1, 2016 through September 30, 2017, the most recent data available, and assessed the risk for fraud or error in IDR plans for Direct Loans by (1) matching Education IDR plan data for a subset of borrowers who reported zero income with wage data from NDNH for the same time period and (2) analyzing Education IDR plan data on borrowers' family sizes. In addition, GAO reviewed relevant IDR policies and procedures from Education and interviewed officials from Education.

What GAO Recommends

GAO recommends that Education (1) obtain data to verify income information for borrowers who report zero income on IDR plan applications, (2) implement data analytic practices and follow-up procedures to verify borrower reports of zero income, and (3) implement data analytic practices and follow-up procedures to verify borrowers' family size. Education generally agreed with our recommendations.

View [GAO-19-347](#). For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emreyarrasm@gao.gov and Seto J. Bagdoyan at (202) 512-6722 or bagdoyans@gao.gov.

FEDERAL STUDENT LOANS

Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans

What GAO Found

GAO identified indicators of potential fraud or error in income and family size information for borrowers with approved Income-Driven Repayment (IDR) plans. IDR plans base monthly payments on a borrower's income and family size, extend repayment periods from the standard 10 years to up to 25 years, and forgive remaining balances at the end of that period.

- **Zero income.** About 95,100 IDR plans were held by borrowers who reported zero income yet potentially earned enough wages to make monthly student loan payments. This analysis is based on wage data from the National Directory of New Hires (NDNH), a federal dataset that contains quarterly wage data for newly hired and existing employees. According to GAO's analysis, 34 percent of these plans were held by borrowers who had estimated annual wages of \$45,000 or more, including some with estimated annual wages of \$100,000 or more. Borrowers with these 95,100 IDR plans owed nearly \$4 billion in outstanding Direct Loans as of September 2017.
- **Family size.** About 40,900 IDR plans were approved based on family sizes of nine or more, which were atypical for IDR plans. Almost 1,200 of these 40,900 plans were approved based on family sizes of 16 or more, including two plans for different borrowers that were approved using a family size of 93. Borrowers with atypical family sizes of nine or more owed almost \$2.1 billion in outstanding Direct Loans as of September 2017.

These results indicate some borrowers may have misrepresented or erroneously reported their income or family size. Because income and family size are used to determine IDR monthly payments, fraud or errors in this information can result in the Department of Education (Education) losing thousands of dollars of loan repayments per borrower each year and potentially increasing the ultimate cost of loan forgiveness. Where appropriate, GAO is referring these results to Education for further investigation.

Weaknesses in Education's processes to verify borrowers' income and family size information limit its ability to detect potential fraud or error in IDR plans. While borrowers applying for IDR plans must provide proof of taxable income, such as tax returns or pay stubs, Education generally accepts borrower reports of zero income and borrower reports of family size without verifying the information. Although Education does not currently have access to federal sources of data to verify borrower reports of zero income, the department could pursue such access or obtain private data sources for this purpose. In addition, Education has not systematically implemented other data analytic practices, such as using data it already has to detect anomalies in income and family size that may indicate potential fraud or error. Although data matching and analytic practices may not be sufficient to detect fraud or error, combining them with follow-up procedures to verify information on IDR applications could help Education reduce the risk of using fraudulent or erroneous information to calculate monthly loan payments, and better protect the federal investment in student loans.

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Abbreviations

Direct Loan Education	William D. Ford Federal Direct Loan Program
EDWA	U.S. Department of Education
FAFSA	Enterprise Data Warehouse and Analytics
Fraud Risk Framework	Free Application for Federal Student Aid
HHS	<i>A Framework for Managing Fraud Risks in Federal Programs</i>
IDR	U.S. Department of Health and Human Services
IRS	Income-Driven Repayment
NDNH	Internal Revenue Service
	National Directory of New Hires

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June 25, 2019

The Honorable Virginia Foxx
Ranking Member
Committee on Education and Labor
House of Representatives

The Honorable Brett Guthrie
House of Representatives

As of September 2018, almost half (\$414 billion) of the \$859 billion in outstanding William D. Ford Federal Direct Loans (Direct Loans) was being repaid by student loan borrowers using Income-Driven Repayment (IDR) plans.¹ These plans are designed to make loan repayment more manageable by basing monthly payment amounts on borrowers' income and family size, extending repayment periods from the standard 10 years to up to 25 years, and forgiving any loan balances remaining at the end of the repayment period. The U.S. Department of Education (Education) administers the Direct Loan program and contracts with private loan servicers to handle billing and other tasks, including processing borrowers' applications for IDR plans.

Direct Loan borrowers' use of IDR plans has increased dramatically, with total outstanding loan debt being repaid under these plans growing more than 200 percent from September 2014 to September 2018.² Our prior work found that while IDR plans can benefit borrowers by reducing their monthly payment amounts, they may carry high costs for taxpayers and the government because of the possibility of loan forgiveness.³ Given this, it is important that IDR borrowers' monthly payment amounts be based on accurate income and family size information. You asked us to review Education's verification procedures for IDR plans.

¹Outstanding balances are for Direct Loan borrowers whose loans are in repayment, deferment, or forbearance. Defaulted loan debt is not included.

²The total outstanding balance of Direct Loans in repayment, deferment, or forbearance being repaid with IDR plans increased from \$135 billion in September 2014 to \$414 billion in September 2018.

³GAO, *Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates*, [GAO-17-22](#) (Washington, D.C.: Nov. 15, 2016).

This report examines (1) whether there are indicators of potential fraud or error in income and family size information provided by borrowers seeking to repay their loans with IDR plans and (2) the extent to which Education verifies this information.

To address these questions, we reviewed relevant IDR policies and procedures from Education and its four largest student loan servicers, as well as relevant laws and regulations.⁴ We also interviewed Education officials from Federal Student Aid, the office responsible for developing policies and procedures for administering IDR plans and overseeing how loan servicers carry them out, as well as officials from Education's four largest loan servicers. We assessed Education's procedures against (1) federal standards for internal control,⁵ and (2) GAO's Framework for Managing Fraud Risks in Federal Programs.⁶

We obtained data from Education's Enterprise Data Warehouse and Analytics (EDWA) database on borrowers with IDR plans approved between January 1, 2016 and September 30, 2017, the most recent data

⁴Education contracts with nine loan servicers to communicate with borrowers and process borrowers' student loan payments, among other activities. The four largest loan services are Navient, Nelnet, Great Lakes Educational Loan Services, Inc., and the Pennsylvania Higher Education Assistance Agency. At the time of our analysis, together these four serviced 96 percent of the outstanding balance of federal student loans being repaid with IDR plans as of September 2017. This percentage includes Direct Loans and Education-owned Federal Family Education Loans being repaid with IDR plans. This report focuses on Direct Loans because they represent \$353 billion being repaid with IDR plans, compared with \$23 billion in Education-owned Federal Family Education Loans being repaid with IDR plans.

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014). We assessed Education's procedures against the following internal controls: risk assessment, control activities, and information and communication.

⁶GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 2015). We assessed Education's procedures against the leading practices for data analytics activities in the Framework. We did not conduct a comprehensive fraud risk assessment of the IDR program. Our assessment was limited to the control activities surrounding income and family size declarations on IDR applications.

available at the time of our analysis.⁷ We also obtained national quarterly wage data from the U.S. Department of Health and Human Services' (HHS) National Directory of New Hires (NDNH) for the same time period.⁸ We conducted a match using these data to determine if any borrowers that reported zero income on their IDR applications had wages reported in NDNH in the same quarter in which their IDR plans were approved. For these matches, we estimated whether the borrowers may have had sufficient annual wages to warrant monthly student loan payments greater than zero dollars. For detailed information about how we performed our match, estimated borrowers' annual wages, and limitations to our approach, see appendix I. In addition, we analyzed family sizes reported in Education's data to gain insight into indicators of potential fraud or error. Our results are not generalizable to all IDR plans and borrowers.

We assessed the reliability of Education's and HHS's data by reviewing related documents, interviewing knowledgeable officials responsible for each dataset, and performing electronic tests on specific data elements used in our analyses. Additionally, for the Education data, we compared the data to published Education data on IDR plans; validated a nongeneralizable selection of borrower and loan information against loan servicers' records; and compared borrowers' information with Social Security Administration records. On the basis of our reliability assessment results, we determined that the HHS data and parts of the Education data were sufficiently reliable for our purposes. We analyzed about 878,500 approved IDR plans held by about 656,600 borrowers for our income analysis, and approximately 5 million approved IDR plans for over 3.5 million borrowers for our family size analysis. More details on our scope, methodology, and limitations are included in appendix I.

⁷EDWA is a centralized data warehouse that contains administrative data reported by loan servicers on Direct Loan borrowers and their loans. Some borrowers had multiple IDR plans approved between January 1, 2016 and September 30, 2017, which could be due to various reasons. For example, once borrowers are approved for an IDR plan, they must recertify their income and family size at least once a year. They may also request a recalculation of their monthly payment amount at any time due to changes in their income or family size. A borrower's initial IDR plan and each recertification and recalculation are accounted for as separate plans within EDWA.

⁸NDNH is a national repository of information reported by employers, states, and federal agencies. The NDNH is maintained and used by HHS for the federal child support enforcement program, which assists states in locating parents and enforcing child support orders. In addition to information on newly hired employees, NDNH contains (1) data on quarterly wages for existing employees, collected and reported by state workforce agencies and federal agencies; and (2) data on individuals who apply for or received unemployment compensation, as maintained and reported by state workforce agencies.

We conducted this performance audit from June 2017 to June 2019, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Direct Loan Program and Repayment Plans

The Direct Loan program provides financial assistance to students and their parents to help pay for postsecondary education. Under the Direct Loan program, Education issues several types of student loans (see sidebar).

Current William D. Ford Federal Direct Loan Types

Subsidized Stafford Loans: Available to undergraduate students with financial need (generally the difference between their cost of attendance and a measure of their ability to pay, known as expected family contribution). Borrowers are not responsible for paying interest on these loans while in school and during certain periods of deferment, an option that allows eligible borrowers to temporarily postpone loan payments.

Unsubsidized Stafford Loans: Available to undergraduate and graduate school students irrespective of financial need. Borrowers must pay all interest on these loans.

PLUS Loans: Available to graduate student borrowers and parents of dependent undergraduates. Borrowers must pay all interest on these loans.

Consolidation Loans: Available to eligible borrowers wanting to combine multiple federal student loans (including those listed above) into one loan. Repayment periods are extended up to a maximum of 30 years, thereby lowering monthly payments.

Interest rates for these loans are tied to the Department of the Treasury's 10-year note rate and can vary by loan type. In addition, there are limits on the annual and aggregate amounts that can be borrowed for certain loan types.

Source: GAO summary of U.S. Department of Education documents. | GAO-19-347

After a prospective borrower applies for and is awarded a Direct Loan, Education disburses it through the borrower's school. Once the loan is disbursed, it is assigned to one of nine loan servicers under contract with Education. These loan servicers are responsible for such activities as communicating with borrowers about the status of their loans, providing information about and enrolling borrowers in repayment plans, and processing payments. Once borrowers leave school, they are responsible for making payments directly to their assigned loan servicer.⁹

A variety of repayment plans are available to eligible Direct Loan borrowers, including Standard, Graduated, Extended, and several IDR plans. Borrowers are automatically enrolled in the Standard plan if they do not choose another option, and generally make fixed monthly payments over a period of 10 years.¹⁰ IDR plans can ease repayment burden by setting monthly loan payments based on a borrower's income and family size and extending the repayment period up to 20 or 25 years, depending on the plan. Unlike Standard, Graduated, and Extended repayment plans, IDR plans offer loan forgiveness at the end of the repayment period and monthly payments may be as low as \$0 for some borrowers.

There are a variety of IDR plans, and these plans have differences in eligibility requirements, how monthly payment amounts are calculated, and repayment periods before potential loan forgiveness (see table 1).

⁹Borrowers are not required to make loan payments on Stafford loans and PLUS loans made to graduate student borrowers when they are enrolled in school at least half-time or during the grace period—usually 6 months—after a borrower leaves school or drops below half-time enrollment. Different repayment terms apply to PLUS loans made to parent borrowers and consolidation loans.

¹⁰Terms for other repayment plans vary, depending on the type of loan and when the loan entered repayment. For Direct Consolidation loans entering repayment on or after July 1, 2006, the repayment period for the Standard plan may be up to 30 years. Under the Graduated plan, for loans entering repayment on or after July 1, 2006, borrowers have a fixed repayment term of up to 10 years (or 10 to 30 years for Consolidation loans) and monthly payments gradually increase over time. Under the Extended plan, for loans entering repayment on or after July 1, 2006, borrowers' terms are fixed at 25 years or less. Monthly payments under this plan may be fixed or graduated, and borrowers must have more than \$30,000 in loans to qualify. Monthly payment amounts under the Standard, Graduated, and Extended repayment plans are not based on income.

Table 1: Income-Driven Repayment (IDR) Plans Available to Direct Loan Borrowers

Repayment plan	Eligibility ^a	Monthly payment amount ^e	Repayment period before potential loan forgiveness (in years)
Income-Contingent Repayment	All Direct Loan borrowers	Generally 20 percent of borrower's discretionary income ^f	25
Income-Based Repayment	Income-eligible borrowers ^b who received Direct Loans before July 1, 2014. ^c	15 percent of borrower's discretionary income ^g	25
New Income-Based Repayment	Income-eligible borrowers ^b who received Direct Loans on or after July 1, 2014. ^c	10 percent of borrower's discretionary income ^g	20
Pay As You Earn	Income-eligible borrowers ^b who received Direct Loans on or after Oct 1, 2011. ^d	10 percent of borrower's discretionary income ^g	20
Revised Pay As You Earn	All Direct Loan borrowers	10 percent of borrower's discretionary income	20 (if all loans being repaid were received for undergraduate study) 25 (if any loans being repaid were received for graduate or professional study)

Source: GAO analysis of U.S. Department of Education information. | GAO-19-347

^aDefaulted loans are ineligible for IDR plans. In general, default occurs when a borrower reaches 270 days of delinquency (failure to make a payment when due). In addition, PLUS loans made to parents of dependent undergraduates (Parent PLUS loans) are ineligible for IDR plans; however, Parent PLUS borrowers that consolidated their loans on or after July 1, 2006 are eligible for the Income-Contingent Repayment plan.

^bBorrowers are eligible if their Standard 10-year repayment amount exceeds their repayment amount under the plan.

^cThe New Income-Based Repayment plan is only available to new borrowers on or after July 1, 2014, defined as individuals who had no outstanding federal student loan balance when they received a Direct Loan on or after July 1, 2014. Borrowers who do not meet this definition may be eligible for the Income-Based Repayment plan, but not the new Income-Based Repayment plan.

^dThe Pay As You Earn plan is only available to borrowers who: (1) are new borrowers on or after October 1, 2007, defined as individuals who had no outstanding federal student loan balance when they received a Direct or Federal Family Education Loan on or after October 1, 2007; and (2) received a disbursement of a Direct Loan on or after October 1, 2011.

^eMonthly payments for IDR plans are generally set as a proportion of the borrower's discretionary income, which Education defines as adjusted gross income that exceeds 100 percent of the applicable federal poverty guideline for the Income-Contingent Repayment plan, and 150 percent of the applicable guideline for all other IDR plans. Poverty guidelines are published annually by the Department of Health and Human Services and vary based on geographic location and family size. Adjusted gross income is the adjusted gross income as reported to the Internal Revenue Service, and consists of gross income, including income from employment, unemployment compensation, dividends, interest, tips, and alimony received, minus certain deductions, such as certain retirement contributions, and moving and education expenses. For most plans, except Revised Pay As You Earn, when determining payment amounts, spousal income is considered only for borrowers who jointly file a federal tax return with their spouse.

^fBorrowers pay the lesser of (a) 20 percent of discretionary income, or (b) the amount the borrower would pay over 12 years with fixed payments multiplied by an income percentage factor that is set and annually adjusted by Education.

⁹Monthly payment amounts are capped at less than or equal to the monthly payment amount under the Standard 10-year repayment plan.

Application Process for Income-Driven Repayment Plans	To participate in an IDR plan, borrowers must submit an application to their loan servicer that, among other things, includes information about their income, marital status, and family size (see table 2).
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Table 2: Information Education Requires Direct Loan Borrowers to Provide about Income and Family Size on Income-Driven Repayment (IDR) Plan Applications

Category of information	Information borrowers are required to provide
Income	
Zero Income	On the application form, borrowers check a box indicating they (and their spouse, if applicable) ^b currently do not have income or receive only untaxed income. Borrowers self-certify information as correct by signing the form. No additional documentation is required.
Taxable Income	Borrowers document their income (and that of their spouse, if applicable) ^b by providing one of the following: - Documentation of adjusted gross income from their most recent tax return, either a paper copy or electronically through the Internal Revenue Service’s Data Retrieval Tool. —OR— - Alternative documentation of taxable income, if borrowers’ income has significantly changed since filing their last federal tax return.^c Examples include paystubs, W-2 forms, letters from employers, or a self-certifying letter from the borrower.^d In addition to the supporting documentation, borrowers also certify information is correct by signing the form.
Family Size^a	
	On the application form, borrowers enter separately: - Whether they have a spouse. - The number of children (including children who will be born during the year for which family size is certified) who receive more than half their support from the borrower, regardless of whether the children live with the borrower. - The number of other individuals living with the borrower who receive more than half their support from the borrower and will continue to receive this support for the year the borrower certifies family size.^e Borrowers self-certify information as correct by signing the form. No additional documentation is required.

Source: GAO analysis of U.S. Department of Education documents and information. | GAO-19-347

^aThis definition of family size is also used for independent students on the Free Application for Federal Student Aid (FAFSA), which Education uses to determine students’ need and eligibility for federal student aid.

^bFor most IDR plans, spousal income is only considered in payment calculations if the borrower jointly files federal taxes with his or her spouse; the exception is the Revised Pay As You Earn plan, for which spousal income is considered when calculating payments regardless of whether the borrower filed jointly or separately. However, Education does not consider spousal income for borrowers who certify that they are unable to reasonably access their spouse’s income information or are separated from their spouse.

^cEducation does not define what is meant by “significantly changed.” However, the application includes examples of why income may significantly change, including losing a job, experiencing a drop in income, or getting a divorce.

^dAlternative documentation must be dated no more than 90 days from the date that a borrower signs the IDR application (however, W-2s can be accepted outside of this 90 day window, as long as they are for the prior calendar year). The documentation also must contain the pay frequency, gross pay for the period, and amount of any pre-tax deductions. Borrowers must provide at least one piece of documentation for each source of income.

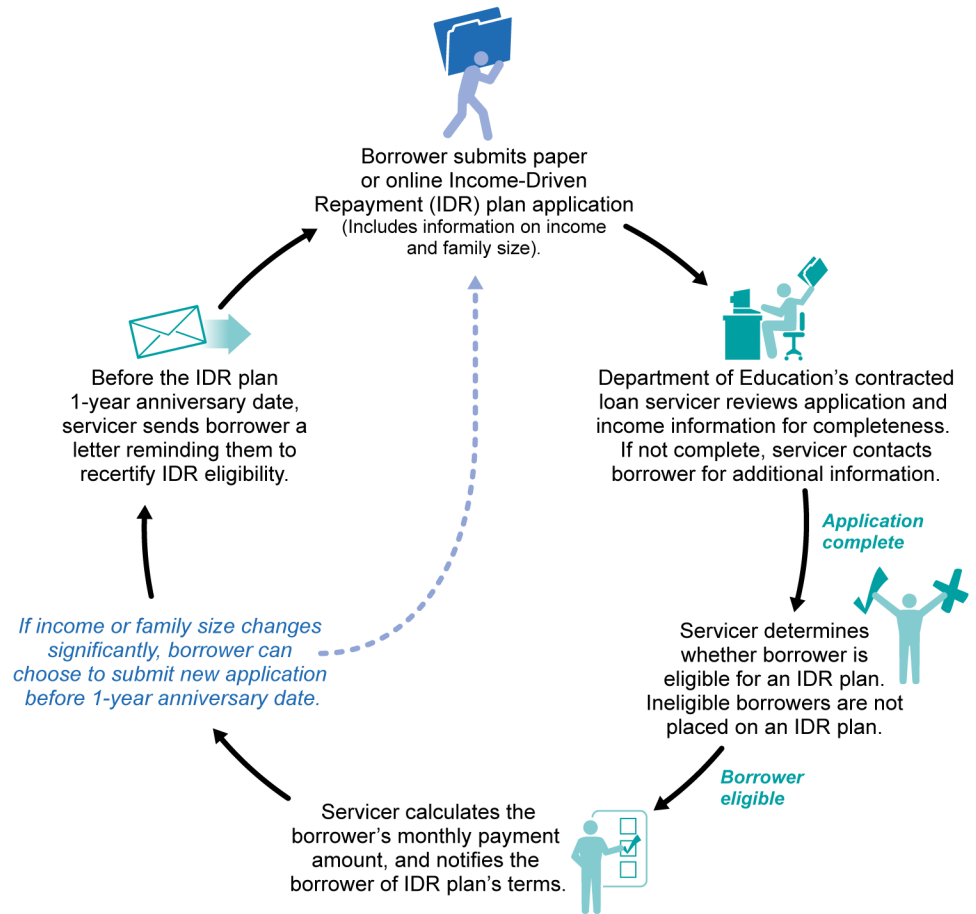
^eSupport includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and college cost payments.

According to Education, Education’s loan servicers review the information borrowers submit on their IDR applications to determine if borrowers are eligible for IDR plans. If the servicer determines that a borrower is eligible, it enrolls the borrower in an IDR plan and calculates the borrower’s monthly payment amount.¹¹ To continue making monthly payment amounts based on income and family size, IDR borrowers must annually submit the IDR application form certifying their income and family size, which servicers then use to update monthly payment amounts. If a borrower’s income changes significantly prior to the borrower’s annual recertification date, the borrower can use the same application form to request a recalculation of the monthly payment amount (see fig. 1).¹² However, borrowers are not required to report any such changes before their annual recertification date.

¹¹On the IDR application, borrowers can request that their servicer enroll them in a specific IDR plan or the plan with the lowest monthly payment amount.

¹²Unless otherwise specified, we use the term “IDR application” to refer to all three of these submission types—initial applications, recertifications, and recalculations.

Figure 1: Cycle of Applications for Income-Driven Repayment (IDR) of Federal Student Loans



Source: GAO analysis of U.S. Department of Education documents and interviews with Department of Education loan servicers. | GAO-19-347

If IDR borrowers do not have any discretionary income, their scheduled monthly payment amount is zero dollars (meaning they will not have to make a monthly loan payment until their discretionary income is high

enough to warrant one).¹³ Scheduled monthly payments of zero dollars count as qualifying payments towards eventual loan forgiveness at the end of the 20- to 25-year repayment period. Borrowers who make monthly payments on IDR plans that are much lower than they would be under the Standard 10-year repayment plan for a long period of time may end up paying less than their original loan amount because their remaining loan balances may be forgiven.¹⁴ However, some borrowers on IDR plans will fully repay their loans before qualifying for forgiveness. Extending the repayment period may also result in some borrowers paying more interest over the life of the loan than they would under the 10-year Standard repayment plan.

Standards and Guidance for Managing Risk of Fraud and Errors in Federal Programs

Fraud in federal programs occurs when individuals or entities intentionally misrepresent themselves in order to benefit from the programs. Fraud poses a significant threat to the integrity of federal programs and erodes public trust in government. Federal programs are at risk for fraud when individuals have both the opportunity and incentive to commit fraud. Although the occurrence of one or more cases of fraud indicates there is a fraud risk, a fraud risk can exist even if fraud has not yet been identified or occurred.

¹³Monthly payments for IDR plans are generally set as a proportion of the borrower's discretionary income, which Education defines as adjusted gross income exceeding 100 percent of the applicable federal poverty guideline for the Income-Contingent Repayment plan, and 150 percent of the applicable guideline for all other IDR plans. Poverty guidelines are published annually by the Department of Health and Human Services and vary based on geographic location and family size. Adjusted gross income is the adjusted gross income as reported to the Internal Revenue Service, and consists of gross income, including income from employment, unemployment compensation, dividends, interest, tips, and alimony received, minus certain deductions, such as certain retirement contributions, and moving and education expenses. For most plans, except Revised Pay As You Earn, when determining payment amounts, spousal income is considered only for borrowers who jointly file a federal tax return with their spouse.

¹⁴See GAO, *Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options*, [GAO-15-663](#) (Washington, D.C.: Aug. 25, 2015). According to Education officials, the earliest possible date for loan forgiveness under the Revised Pay As You Earn Plan was December 2015, and as of February 2019, Education had forgiven \$428,882 in outstanding loan balances for 15 borrowers repaying their loans on this plan. Education officials also said the earliest possible date borrowers may receive loan forgiveness under the Income-Contingent Repayment and Income-Based Repayment plans is July 2019; Pay As You Earn is October 1, 2027; and New Income-Based Repayment is July 2034. In addition, the amount forgiven under IDR plans is subject to federal income tax at the borrower's marginal tax rate.

Proactive fraud risk management is meant to facilitate a program's mission and strategic goals by ensuring that taxpayer dollars and government services serve their intended purposes. In July 2015, GAO issued the Fraud Risk Framework, which provides a comprehensive set of components and leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud in a strategic, risk-based way.¹⁵ The Framework recommends that to effectively manage fraud risks, managers should design and implement specific control activities to prevent and detect potential fraud, such as data analytics. After issuance of the Fraud Risk Framework, the Fraud Reduction and Data Analytics Act of 2015 was enacted to improve federal agency controls and procedures to assess and mitigate fraud risks, and to improve agencies' development and use of data analytics for the purpose of identifying, preventing, and responding to fraud. The act requires agencies to establish financial and administrative controls that incorporate the Fraud Risk Framework's leading practices. We previously reported that Education identified itself as subject to the act.¹⁶

Error also poses a risk to the integrity of federal programs. According to federal internal control standards, to maintain an effective internal control system, managers should use quality information to achieve agency objectives.¹⁷ This includes obtaining information from reliable sources that is reasonably free from errors and communicating it externally to achieve objectives.

¹⁵[GAO-15-593SP](#).

¹⁶GAO, *Fraud Risk Management: OMB Should Improve Guidelines and Working-Group Efforts to Support Agencies' Implementation of the Fraud Reduction and Data Analytics Act*, [GAO-19-34](#) (Washington, D.C.: Dec. 4, 2018).

¹⁷[GAO-14-704G](#).

Indicators of Potential Fraud or Error in Income and Family Size Information Pose Risks to IDR Plans

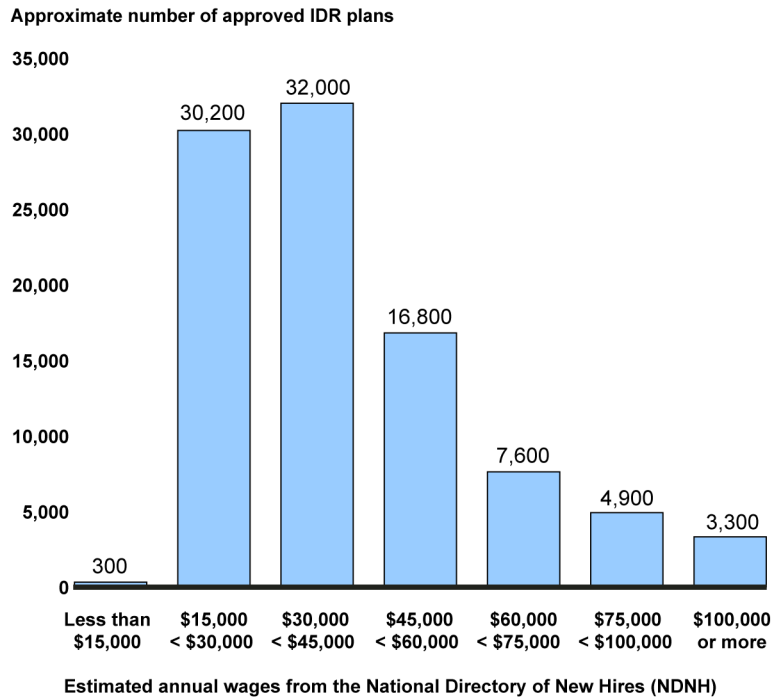
Over 95,000 IDR Plans Were Held by Borrowers Reporting No Income, but Data Suggests They May Have Had Enough Wages to Make Student Loan Payments

Our analysis of Education's IDR plan data and HHS's NDNH wage data for borrowers who reported zero income found that about 95,100 approved IDR plans (11 percent of all IDR plans we analyzed) were held by borrowers who may have had sufficient wages to warrant a monthly student loan payment.¹⁸ These plans were held by about 76,200 unique borrowers who owed nearly \$4 billion in outstanding Direct Loans as of September 2017.¹⁹ According to our analysis, 34 percent of these plans were held by borrowers who had estimated annual wages of \$45,000 or more, including some with estimated annual wages of \$100,000 or more (see fig. 2).

¹⁸We analyzed nearly 878,500 IDR plans that were approved between January 1, 2016 and September 30, 2017. About 656,600 unique borrowers were associated with these plans. As previously stated, some borrowers had more than one approved IDR plan in the data we analyzed. We identified IDR borrowers who both (1) reported zero income on their IDR application, and (2) had wages recorded in NDNH during the same quarter in which their IDR plan was approved. We then estimated the annual wages for these borrowers by multiplying their wages for that quarter by four. This approach is similar to the methodology Education requires loan servicers to use to calculate annual wages when borrowers provide an alternative to a tax return to document their income on IDR applications. This methodology may understate or overstate income given that borrowers may not have earned the same amount in each of the four quarters. For detailed information on our analysis, scope, and limitations, see appendix I.

¹⁹The median amount of Direct Loan debt owed by these 76,200 borrowers as of September 2017 was about \$32,000, and the average amount owed was about \$51,900.

Figure 2: Estimated Annual Wages for Direct Loan Borrowers Whose Income-Driven Repayment (IDR) Plans Were Approved Based on Reports of Zero Income, but Who May Have Had Enough Wages to Make Payments



Source: GAO analysis of U.S. Department of Education and U.S. Department of Health and Human Services data. | GAO-19-347

Note: Numbers may not sum to the total due to rounding. Annual wages are estimated based on National Directory of New Hires (NDNH) quarterly wage data for about 95,100 IDR plans (11 percent of nearly 878,500 plans GAO reviewed). Plans were approved between January 1, 2016 and September 30, 2017 and correspond to about 76,200 borrowers. Some borrowers had more than one approved IDR plan in the data GAO analyzed. In addition to new hire information, NDNH includes nationwide data reported by employers, states, and federal agencies on employees' quarterly wages.

GAO's estimated annual wages do not take into account other taxable income that is not reported in NDNH's quarterly wage data, or any pre-tax deductions that may apply when determining IDR plan payments. Some borrowers whose information is included in these results could have accurately reported zero income at the time of their IDR application and therefore would not have been required to make any payments.

Our results from matching the Education and HHS data indicate the possibility that some borrowers misrepresented or erroneously reported their income, highlighting the risk of potential fraud and errors in IDR plans. Borrowers may have a financial incentive to commit fraud to reduce their monthly payment amount and, by extension, possibly increase the amount of loan debt forgiven at the end of their repayment periods. However, we cannot determine whether fraud occurred through data matching alone. Where appropriate, we are referring these results to

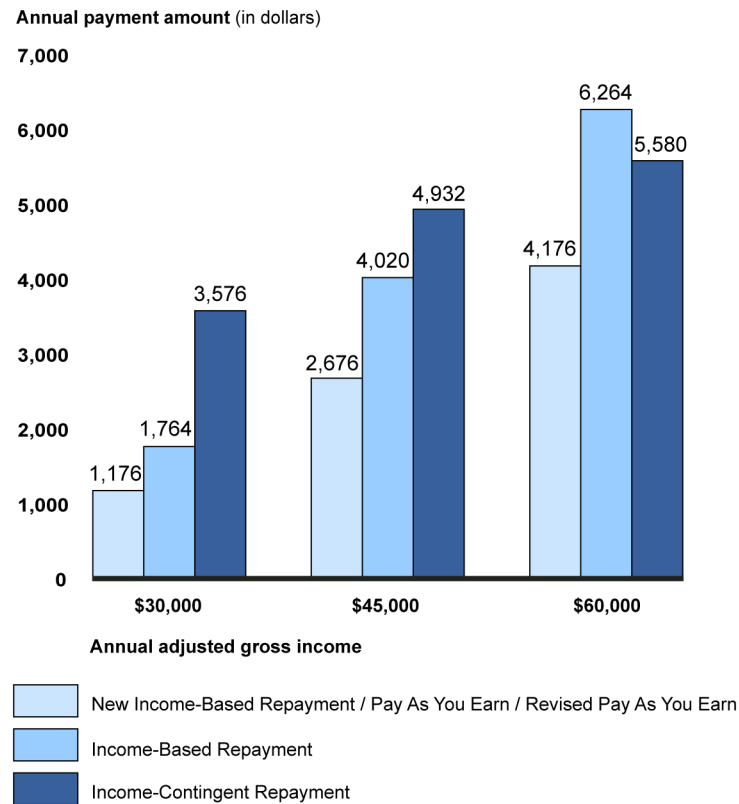
Education for further investigation. Among the 76,200 borrowers in our data matching results, it is possible that some accurately reported zero income even though they had wages reported in NDNH in the same quarter in which their IDR application was approved. For example, a borrower may have earned wages at the start or end of a quarter, but was not earning wages at the time of submitting the IDR application. Conversely, our analysis cannot identify borrowers who may have earned additional taxable income that is not part of NDNH data, but should be included on IDR applications, such as income for individuals who are self-employed or receiving alimony.²⁰ Regarding the potential for error, officials from Education and all four loan servicers we spoke with stated that it is possible that borrowers could incorrectly report that they had no taxable income. Officials from Education said, for example, that borrowers may misunderstand the question about taxable income on the IDR application, and one loan servicer, echoing this perspective, stated that some borrowers may mistakenly think that some of their income is nontaxable when it is in fact taxable.

To examine how borrowers' failure to report their income could affect the amount repaid to Education over the course of a year, we used Education's online repayment estimator to illustrate how much hypothetical borrowers with different annual adjusted gross incomes would expect to pay under each IDR plan (see fig. 3).²¹ If a borrower at one of these income levels instead reported zero income on the IDR application, Education could lose thousands of dollars per borrower each year in student loan payments. Such a situation could also potentially increase the ultimate cost to the federal government and taxpayers for loan forgiveness because scheduled monthly payments of zero dollars count toward the borrower's 20- or 25-year repayment period.

²⁰Borrowers applying for IDR plans are required to provide information on all sources of taxable income including income from employment, unemployment, dividends, interest, tips, and alimony. According to the Congressional Research Service (CRS), NDNH includes wages only for individuals who are covered by unemployment compensation, and self-employed individuals are generally excluded from this system. See Congressional Research Service, *The National Directory of New Hires*, 7-5700 (Feb. 24, 2014).

²¹For Education's repayment estimator, see: <https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action>

Figure 3: Examples of Student Loan Payments Education Could Forgo If Hypothetical Borrowers Inaccurately Reported Having Zero Income



Source: GAO analysis of U.S. Department of Education's Repayment Estimator as of January 2019. | GAO-19-347

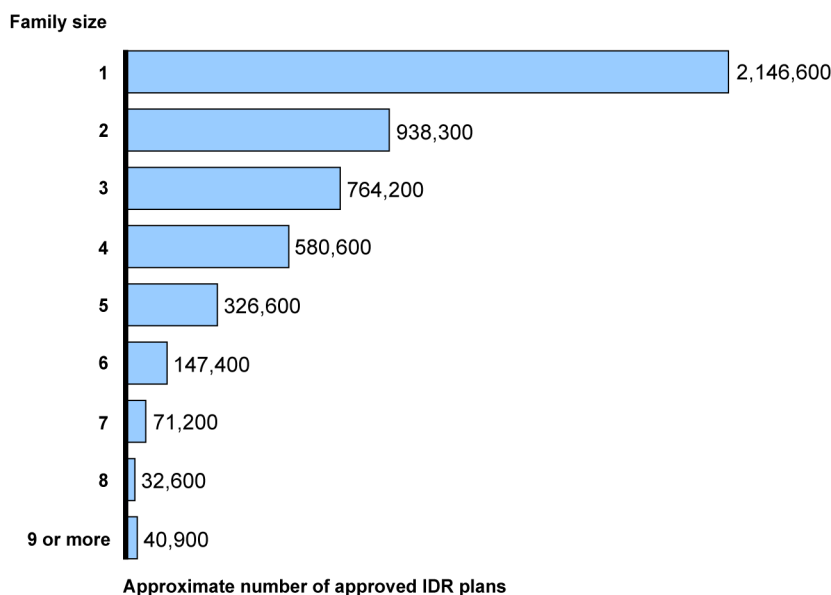
Note: To generate the annual payment amounts for these IDR plans for borrowers with different annual adjusted gross incomes, GAO assumed that the borrowers had a family size of one, lived in the continental United States, and had loans that otherwise qualified for the plans.

Education May Miss Indicators of Potential Fraud or Error in Borrowers' Family Sizes

To examine the extent to which Education's IDR plan data on family size may indicate potential fraud or error, we analyzed the family sizes for about 5 million IDR plans approved between January 1, 2016 and September 30, 2017.²² Of these plans, over 2.1 million (43 percent) were approved with a family size of one, meaning only the borrower was included (see fig. 4). In addition, over 2.6 million plans (52 percent) were approved with family sizes of two to five.

Figure 4: Family Sizes for Income-Driven Repayment (IDR) Plans

Family sizes reported on approximately 5 million IDR plans approved between January 1, 2016 and September 30, 2017 for about 3.5 million Direct Loan borrowers.



Source: GAO analysis of U.S. Department of Education data. | GAO-19-347

Note: Numbers may not sum to the total due to rounding. Some borrowers had multiple approved IDR plans in the data GAO analyzed, and borrowers may have reported a different family size or the same family size on these multiple plans.

²²Approximately 3.5 million unique borrowers held these approved IDR plans. Some borrowers had more than one IDR plan approved between January 1, 2016 and September 30, 2017 for various reasons. For example, once borrowers are approved for an IDR plan, they must recertify their eligibility at least once a year. Borrowers may also request a recalculation of their monthly payment amount at any time due to changes in their income or family size. Borrowers with multiple IDR plans may have reported a different family size or the same family size on each of their approved plans.

At the high end of the spectrum, about 40,900 of the plans we analyzed (about 1 percent) were approved with family sizes of nine or more (see fig. 5).²³ We consider IDR plans with family sizes of nine or more atypical or outliers because they comprise the top 1 percent of all family sizes in Education's data.²⁴ Of these plans, almost 1,200 had family sizes of 16 or more, including two plans held by different borrowers that were approved with a family size of 93. In total, the 40,900 plans approved with family sizes of nine or more corresponded to about 35,200 unique borrowers who owed almost \$2.1 billion in outstanding Direct Loan debt as of September 2017.²⁵

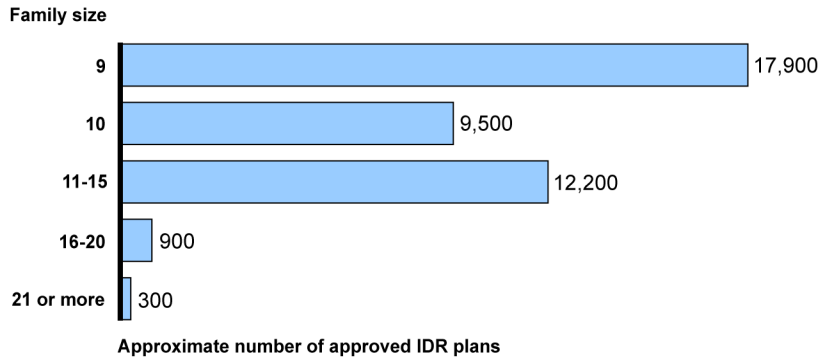
²³As previously discussed, for all IDR plans, a borrower is instructed to include in his or her family size (1) the borrower, (2) the borrower's spouse, (3) the borrower's children (including children who will be born during the year for which family size is certified) if they receive more than half their support from the borrower, regardless of whether the children live with the borrower, and (4) any other individual living with the borrower who receives more than half their support from the borrower and will continue to receive this support for the year the borrower certifies family size.

²⁴Looking for outliers or atypical data is a recognized method for detecting potential fraud or errors because deviations from expected patterns or circumstances can indicate potentially fraudulent activity. Because borrowers may have accurately reported family sizes of nine or more, it is not possible to conclude the existence of fraud or error in these IDR plans without additional verification or investigation. We are not referring family size results to Education for further investigation because they are based on Education's own data.

²⁵The median amount of Direct Loan debt owed by these 35,200 borrowers as of September 2017 was about \$34,800, and the average amount owed was about \$50,700.

Figure 5: Family Sizes of Nine or More for Income-Driven Repayment (IDR) Plans

Family sizes reported on about 41,000 IDR plans (1 percent of about 5 million plans reviewed) approved between January 1, 2016 and September 30, 2017 for about 35,000 Direct Loan borrowers.



Source: GAO analysis of U.S. Department of Education data. | GAO-19-347

Note: Numbers may not sum to the total due to rounding. Some borrowers had multiple approved IDR plans in the data GAO analyzed, and borrowers may have reported a different family size or the same family size on these multiple plans. While IDR plans with family sizes of nine or more were atypical in the data, borrowers with these larger family sizes may have accurately reported them.

While IDR plans with family sizes of nine or more were atypical in our data and could indicate fraud or error, IDR plans with smaller or more typical family sizes could also pose problems.²⁶ Borrowers may have a financial incentive to commit fraud because larger family sizes reported on the IDR application can reduce borrowers' discretionary income and, by extension, their monthly payment amounts.

Regarding the potential for error, officials from Education and all four loan servicers we spoke with said borrowers or loan servicers may inadvertently make mistakes related to family size. For example, officials from Education and one loan servicer said borrowers sometimes report inaccurate family sizes if they are confused about who to count as a member of their family. Officials from this loan servicer told us that a borrower initially applied for an IDR plan claiming a family size of five—himself and four other family members who were not his spouse or children. They said that during a subsequent phone call with loan servicer staff about the borrower's loan, the borrower volunteered that the other

²⁶A family size of one is only the borrower, thus it is reasonable to assume that borrowers reporting only themselves are not overstating the size of their family. If a borrower fails to certify their family size, Education assumes a family size of one for the year. Of the 5 million IDR plans we analyzed, over 2.1 million (43 percent) were approved using a family size of one.

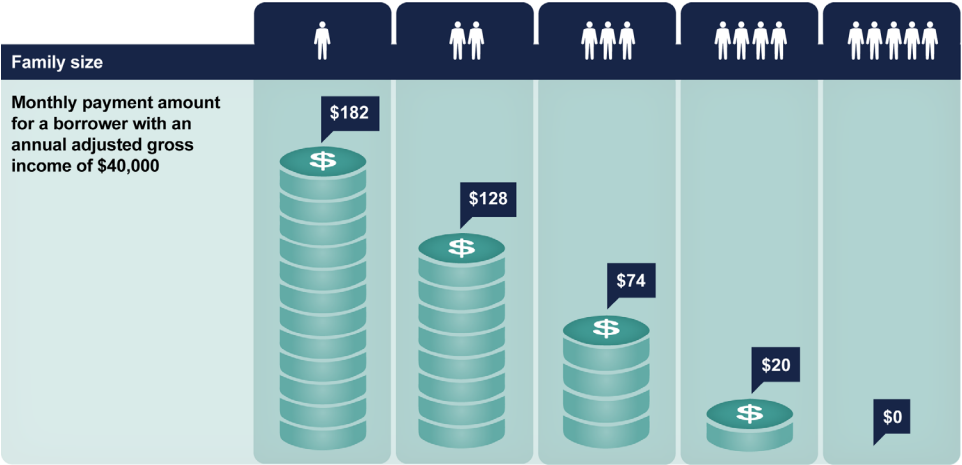
members of his family did not live with him, meaning that for IDR purposes, he had a family size of one.²⁷ It is unclear whether this borrower may have misrepresented his family size to receive a lower monthly payment or did not understand the definition and reported it in error. In regards to loan servicer error, Education officials said that servicers may make mistakes when entering family sizes from paper applications into their computer systems or when determining the total family size because borrowers provide information on family members in up to three places on the application.

To examine the effect of family size on monthly payment amounts in IDR plans, we used Education's online repayment estimator to illustrate how much hypothetical borrowers with the same income but different family sizes would be expected to pay each month under certain IDR plans. We found that a hypothetical borrower with a family size of one and an adjusted gross income of \$40,000 who enrolls in one of three IDR plans that base monthly payment amounts on 10 percent of discretionary income would have a monthly payment amount of \$182 (see fig. 6).²⁸ If this borrower instead reported a family size of two people, the monthly payment amount would decrease by \$54, to \$128. For each additional person, the monthly payment would decrease by \$54. At a family size of five people, the borrower would have no monthly payment.

²⁷As previously discussed, a borrower's family size includes individuals other than a spouse or child only if the individuals (1) live with the borrower and (2) receive more than half their support from the borrower and will continue to receive this support for the year the borrower certifies family size. In this case, when the borrower did not respond to requests to provide additional verification of his family size, loan servicer officials said loan servicer staff recalculated his monthly payments using a family size of one and advised the borrower accordingly.

²⁸We also assumed that the borrower lived in the continental United States.

Figure 6: Effect of Family Size on Monthly Payment for Selected Income-Driven Repayment (IDR) Plans



Source: GAO analysis of U.S. Department of Education's Repayment Estimator as of January 2019. | GAO-19-347

Note: To generate the monthly payment amounts for these IDR plans for a borrower with different family sizes, GAO assumed that the borrower lived in the continental United States and had loans that otherwise qualified for one of the three plans that base monthly payment amounts on 10 percent of discretionary income.

Weaknesses in Education's Procedures to Verify Income-Driven Repayment Plan Information Reduce Its Ability to Detect Potential Fraud or Error, but Approaches Exist to Address Risks

Education Does Not Verify Borrower Reports of Zero Income and Has Limited Protocols for Verifying Borrower Family Size

Education does not have procedures to verify borrower reports of zero income nor, for the most part, procedures to verify borrower reports of family size; although there are approaches it could use to do so.²⁹ Because income and family size are the basis for calculating borrowers' monthly payment amounts for IDR plans, it is important that this information is accurate on IDR applications.

While Education instructs loan servicers to review tax returns and other documentation of taxable income that borrowers are required to provide, as previously discussed, borrowers are not required to provide documentation to support self-attestations of zero income or their family size on IDR applications. Officials from Education and all four loan servicers we spoke with said that servicers are generally instructed to take these self-attestations at face value. However, Education has limited, voluntary procedures for reviewing family size information submitted by borrowers.

- In 2016, Education implemented a voluntary procedure for loan servicers to contact borrowers who report changes in family size of four or more from one year to the next in order to verify the accuracy

²⁹For the purposes of our report, we are defining "approaches" to include data analytic practices (which identify potential fraud or error) and follow-up procedures (which help determine whether fraud or error actually occurred).

of the most recently reported family size. Education officials told us that servicers are not contractually required to follow this procedure.³⁰ In addition, this procedure is not applicable to student loan borrowers when they initially apply for IDR plans.

- In October 2018, Education officials told us they began to follow up with loan servicers about family sizes of 20 or more in IDR program data to ensure these data match the family size information in the loan servicer systems from which they originated. Officials said that this process is to ensure that family size data were accurately transferred from servicers to Education. Borrowers are not contacted for verification of the information itself.

Officials from Education and three of the four loan servicers we spoke with acknowledged that IDR plans are at risk for fraud or error because verification is generally not performed on borrower reports of zero income and borrower reports of family size.³¹ Officials from Education and two of the loan servicers also said that certain program requirements discourage borrowers from providing false information. For example, borrowers are required to sign the IDR form to certify that all provided information is true, complete, and correct, and the form warns borrowers that false statements or misrepresentations are subject to penalties including fines, imprisonment, or both.³² However, the extent to which this requirement may serve as a deterrent is unknown because Education has not assessed the risk of fraudulent reports on IDR applications. Moreover, Education officials told us that they were not aware of any IDR borrowers being investigated or facing penalties for providing false information on

³⁰Three of the loan servicers we spoke with said that they follow this voluntary procedure. Officials from the remaining servicer said they do not follow this procedure because processing delays could have negative consequences for borrowers. They also said they expect borrowers—who certify the information they provide on the form is true, complete, and correct—will provide accurate information on the application.

³¹Officials from the fourth loan servicer indicated that IDR plans are at risk for error as a result of unverified borrower information, but did not offer an opinion as to whether the program may be at risk for fraud for this reason. One of the loan servicers that acknowledged the risk for fraud said that it is not possible to know how often borrowers may misreport zero income because it is self-attested information.

³²Specifically, the application states “WARNING: Any person who knowingly makes a false statement or misrepresentation on this form or on any accompanying document is subject to penalties that may include fines, imprisonment, or both, under the U.S. Criminal Code and 20 U.S.C 1097.” 20 U.S.C. § 1097 establishes penalties for certain offenses with respect to federal student aid funds; for example, any person who knowingly and willfully embezzles, steals, or obtains by fraud any such funds may be subject to a fine of up to \$20,000 and imprisonment of up to 5 years.

the IDR application. Officials from one loan servicer also said that borrowers may be deterred from falsely claiming zero income or misrepresenting their family size because they assume that servicers, acting on behalf of the government, can check the information on IDR applications. However, it is also possible that borrowers would assume that this self-reported information would not be routinely verified because the only documentation requirements discussed on the application relate to verifying taxable income.

Education officials also said that the risk of borrowers providing inaccurate information on IDR applications must be balanced against the impact of adding verification procedures. They said additional procedures could make the already complex IDR application process more burdensome for borrowers to navigate and result in longer application processing times. While it is important to make IDR plans accessible to borrowers who could benefit from them, it is also important that Education design internal control activities to achieve program objectives and respond to risks, including addressing the risk of fraud and error in borrower self-reported information.

GAO's Fraud Risk Framework describes the importance of developing procedures for preventing, detecting, and responding to the risk of fraud in government programs.³³ The risk of fraud exists when there is opportunity and incentive to commit it. The lack of verification of borrower reports of zero income and limited verification of borrower reports of family size on IDR applications creates the opportunity for borrowers to commit fraud. Because lower income and larger family sizes can reduce borrowers' monthly payment amounts and, by extension, possibly increase the amount of loan debt forgiven at the end of their repayment periods, there is also an incentive for some borrowers to commit fraud. In regard to error, federal internal control standards state that agencies should obtain information from reliable sources that are reasonably free from error.³⁴ Education officials and all four loan servicers told us that borrower-reports of family size or zero income can be susceptible to error if, for example, borrowers misunderstand the definitions of these items on IDR applications.

³³ [GAO-15-593SP](#).

³⁴ [GAO-14-704G](#).

Addressing the risk of fraud and error would also help to minimize the costs associated with IDR plans that are passed on to the government and taxpayers. As more borrowers enter IDR plans, the costs of these plans—including loan forgiveness—increase for the government and taxpayers. Using data underlying the President’s fiscal year 2017 budget request, GAO previously reported that Education estimated Direct Loans repaid with IDR plans would cost the federal government about \$74 billion over their repayment periods.³⁵ In its fiscal year 2015-2019 strategic plan for Federal Student Aid, Education acknowledged that as IDR plans continue to grow in popularity, the cost of loan forgiveness could be a major issue for the federal government.³⁶ Education can minimize the costs associated with IDR plans by ensuring payment amounts are based on accurate income and family size information.

Approaches Exist That Could Help Education Identify and Address Potential Fraud or Error in IDR Plans

Education has not fully leveraged available approaches to help detect and prevent fraud or error in IDR plans. Federal internal control standards call for agency management officials to identify, analyze, and respond to risks related to achieving program objectives, such as the risk of using potentially fraudulent or erroneous information about borrowers to calculate monthly payment amounts for student loans.³⁷ Approaches, such as using data analytic practices and follow-up procedures, can help identify and address these risks. Two data analytic practices that can help identify such risks with respect to IDR plans are (1) anomaly detection to identify atypical or unusual information about borrowers and (2) data matching with outside data sources to verify information that borrowers provide. These practices, which can be used on their own or together, can help prevent fraud from occurring and detect potential fraud or error that may have occurred. Because data analytics alone may not be sufficient to determine whether fraud or error has occurred, follow-up procedures can then be used in the investigation and verification to make such determinations.

³⁵[GAO-17-22](#). We reported that Education estimates the long-term costs of the Direct Loan program annually and presents these estimates by loan cohort in the President’s budget. Loan cohort estimates include the cost of IDR plans. Because no loan cohorts have been fully repaid, it is not possible to know the actual cost of these plans.

³⁶U.S. Department of Education, *Federal Student Aid, Federal Student Aid: Strategic Plan Fiscal Years 2015-19* (Washington, D.C.: November 2016).

³⁷[GAO-14-704G](#).

A leading practice in data analytics in GAO's Fraud Risk Framework is conducting data mining to identify suspicious activity or transactions, including anomalies, outliers, and other red flags in the data.³⁸ Similar to our family size analysis, borrower-reported family sizes above a certain threshold on IDR applications could be flagged in loan servicers' and Education's data systems for further verification. Anomaly detection is used to a limited extent to identify errors in family size on IDR plans by one loan servicer and by Education.³⁹ According to officials at Education and all four loan servicers we spoke with, anomaly detection is not used to systematically identify potentially fraudulent reports of family size.

Anomaly detection can also identify deviations from expected patterns in data over time. Because IDR borrowers are required to fill out applications annually, it would be possible to develop automated queries to look for unusual patterns in borrower-reported income and family size from one year to the next. Officials from Education and servicers described several patterns across applications that could indicate potential fraud, specifically large swings in income from one year to the next, reporting zero income for multiple years, and having a large family size, but relatively low income.

Another leading practice for data analytics in GAO's Fraud Risk Framework is conducting data matching to verify key information, including self-reported data and information necessary to determine eligibility.⁴⁰ The results of our analysis illustrate the usefulness of this technique to identify potential inconsistencies in the income information on IDR plans. Education does not have authority to access wage data from HHS's NDNH or income data from the Internal Revenue Service (IRS) for the purpose of verifying IDR borrowers' income information through data matching. However, private data sources are also available for data matching. We reported in 2016 on the benefits of government

³⁸ [GAO-15-593SP](#).

³⁹ One of the four loan servicers we spoke with said that their computer system flags family sizes greater than 24. If this flag is triggered, an error message is displayed that prompts staff to validate that family size was correctly entered into the system. Also, Education officials said that they flag family sizes of 20 or more to ensure that the family sizes in their data match the family sizes in loan servicer data.

⁴⁰ [GAO-15-593SP](#).

agencies using private data to address the risk of fraud.⁴¹ Moreover, some state agencies (such as those administering the Supplemental Nutrition Assistance Programs) use a private, commercial verification service known as The Work Number® to help determine eligibility for government assistance.⁴² We reported in 2016 that 45 states used income information from The Work Number to help determine eligibility for food assistance benefits under the Supplemental Nutrition Assistance Program.⁴³

Education may also be able to draw on follow-up procedures it has in place for verifying information submitted by students and their families when applying for federal student aid using the Free Application for Federal Student Aid (FAFSA). Education uses a process called “verification” to help identify and correct erroneous or missing information on the application to aid the department’s efforts to reduce improper payments of federal student aid. Each award year, a portion of FAFSA applications are selected for verification, and schools are required to work with the selected applicants to obtain documentation and confirm the accuracy of information provided on these applications.⁴⁴ When selecting FAFSAs for verification, Education aims to select those applications with the highest statistical probability of error and the greatest impact of such error on award amounts.⁴⁵ FAFSA applicants who are selected to verify

⁴¹We reported that officials from selected government agencies (such as the Social Security Administration, Department of Labor, and the IRS) found commercial data services helpful in improving the efficiency of their program integrity activities. GAO, *Program Integrity: Views on the Use of Commercial Data Services to Help Identify Fraud and Improper Payments*, [GAO-16-624](#) (Washington, D.C.: June 30, 2016).

⁴²The Work Number, a payroll information service with information on millions of employees, is operated by Equifax Inc.

⁴³GAO, *Supplemental Nutrition Assistance Program: More Information on Promising Practices Could Enhance States’ Use of Data Matching for Eligibility*, [GAO-17-111](#) (Washington, D.C.: Oct. 19, 2016). To be eligible for Supplemental Nutrition Assistance Program benefits, recipients must meet certain income limits, among other requirements. Moreover, the amount of benefits is partially dependent upon the number of persons living in the household.

⁴⁴See generally 34 C.F.R. §§ 668.51-668.61. For each award year, the Secretary of Education publishes in the *Federal Register* notice of the FAFSA information that schools and applicants may be required to verify. See, e.g., Free Application for Federal Student Aid (FAFSA®) Information To Be Verified for the 2018–2019 Award Year, 82 Fed. Reg. 21,204 (May 5, 2017). For each applicant selected for verification by the Secretary, the Secretary also specifies the specific FAFSA information that must be verified.

⁴⁵Education periodically refines its process for selecting FAFSAs to reduce the burden of verification on applicants, their families, and schools while maintaining the integrity of the federal student aid programs.

their income for the 2018-2019 or 2019-2020 award years may provide a signed copy of their prior years' tax returns. FAFSA applicants may also obtain documentation from the IRS through the IRS Data Retrieval Tool, an IRS tax return transcript, or an IRS Verification of Non-filing Letter.⁴⁶ FAFSA applicants selected to verify their household size must provide a signed statement that provides the name, age, and relationship to the student of each person in the household.

For IDR plans, Education could implement follow-up procedures for IDR applications it identifies as at risk for fraud or error and seek additional documentation from borrowers. For example, to verify reports of no income, borrowers could be asked to provide an IRS Verification of Non-filing Letter, documentation that the borrower recently lost a job, or documentation that shows income the borrower receives is nontaxable, such as public assistance benefits. To verify family size, as is the case with FAFSA verification, borrowers could be asked to provide a signed statement with the names, ages, and relationship to the borrower of each family member.⁴⁷ Another option might be to request that borrowers provide documentation showing that family members (other than the borrower's spouse and children) receive mail at the borrower's address as well as documentation of the financial support provided by the borrower.⁴⁸ Such follow-up procedures would be consistent with federal internal control standards advising managers to design control activities to achieve program objectives and respond to risks.⁴⁹

⁴⁶In an electronic announcement dated January 9, 2019, Education provided flexibilities that schools may use as part of verification for students and families that have difficulty obtaining documentation needed to verify their FAFSA information. For example, if individuals are unable to obtain documentation of non-filing from the IRS and the school has no reason to question the applicant's good-faith effort to obtain such documentation, schools may accept a signed statement certifying that the individual (1) attempted but was unable to obtain verification of non-filing from the IRS or other tax authorities; and (2) has not filed and is not required to file a 2016 or 2017 income tax return. Individuals must also provide a listing of the sources of any 2016 or 2017 employment income, the amount of income from each source, and a copy of IRS Form W-2, or an equivalent document, for each source.

⁴⁷Similarly, applicants for the Supplemental Nutrition Assistance Program are generally required to provide the Social Security numbers of each household member.

⁴⁸The IDR process manual for one loan servicer states that its representatives can require this type of documentation if they believe that a borrower may be providing fraudulent information about their family size. This loan servicer said that staff requests for this documentation are limited to borrowers who report an increase in family size of four or more from one year to the next.

⁴⁹[GAO-14-704G](#).

Conclusions

While Income-Driven Repayment plans can help borrowers with limited incomes afford their monthly student loan payments, these plans can also result in high costs to the federal government and taxpayers. To minimize these costs, it is important that Education accurately determine monthly payment amounts under its IDR plans. Because these determinations are based on income and family size information that borrowers self-report, there is risk for potential fraud or error. Our data matching analysis showed, for example, that tens of thousands of borrowers who were not making monthly loan payments because they reported zero income on IDR applications may have had enough income to do so. Where appropriate, we are referring these borrowers to Education for further investigation. In addition, an increase in family size can cause a borrower's payments to decrease, creating a potential incentive for fraud, and our analysis found atypically large family sizes that are generally not verified by Education. The results of our analyses highlight the risk for fraud or error, as well as weaknesses in Education's procedures. In turn, the weaknesses we identified raise questions about the strength of Education's institutional oversight of a major program involving hundreds of billions of dollars. The fact that, cumulatively, the borrowers and their plans we reviewed owed over \$6 billion in loans helps illustrate the risk of potential financial loss for the government from fraud or error absent comprehensive oversight.

It is important for Education to take steps to obtain data to verify borrower reports of zero income and to implement other data analytic practices and follow-up procedures for verifying borrower-reported information. Such actions would help ensure that (1) IDR payment amounts are based on information that accurately represents a borrower's situation and is free from fraud and error; and (2) the federal government's fiscal exposure to IDR loans is safeguarded from the risk of loss. Implementing data analytic practices and follow-up procedures to review and verify borrower reports of zero income could help deter borrowers from inaccurately reporting zero income and detect those who have done so, either fraudulently or in error. Similarly, implementing practices and procedures to review and verify reported family sizes could further stem potential fraud or error. Without such changes, IDR plans will remain vulnerable to fraud and error, potentially raising program costs for the federal government and taxpayers.

Recommendations for Executive Action

We are making the following three recommendations to Education's Federal Student Aid office:

The Chief Operating Officer of Federal Student Aid should obtain data in order to verify income information for borrowers reporting zero income on IDR applications. For example, Education could pursue access to federal data sources or obtain access to an appropriate private data source. (Recommendation 1)

The Chief Operating Officer of Federal Student Aid should implement data analytic practices, such as data matching, and follow-up procedures to review and verify that borrowers reporting zero income on IDR applications do not have sources of taxable income at the time of their application. (Recommendation 2)

The Chief Operating Officer of Federal Student Aid should implement data analytic practices, such as data mining, and follow-up procedures to review and verify family size entries in IDR borrower applications. For example, Education could review and verify all borrower reports of family size or a subset identified as being most susceptible to fraud or error. (Recommendation 3)

Agency Comments and Our Evaluation

We provided a draft of this report to the Departments of Education (Education) and Health and Human Services (HHS) for review and comment. HHS provided technical comments, which we incorporated as appropriate. We also provided relevant report sections to the Social Security Administration and the four loan servicers included in our review for technical comments. Loan servicers provided technical comments, which we addressed as appropriate.

Education generally agreed with our recommendations, stating that it plans to implement significant additional verification policies to ensure that borrowers who participate in IDR plans do not misrepresent their income or family size to the department.

While Education agreed with our recommendation to obtain data in order to verify income for borrowers reporting zero income, it suggested that GAO may wish to convert this recommendation to a Matter for Congressional Consideration to provide Education with access to IRS data. In its response, Education stated that the President's fiscal year 2020 budget request includes a proposal that Congress pass legislation allowing the IRS to disclose tax return information directly to the

department for the purpose of administering certain federal student financial aid programs. According to Education, such legislation, if enacted, would allow borrowers to more easily certify their income on an annual basis to maintain enrollment in IDR plans, and allow the department to use the information to mitigate improper payments to borrowers as a result of misreported income data. Education also stated that in the meantime, it would explore whether commercially available data are sufficient in terms of scope, reliability, and cost effectiveness. Given that there are existing actions Education can take to implement our recommendation, we believe our recommendation is appropriate. Moreover, we believe that Education is best positioned to determine whether the proposal, if enacted, would address our recommendation, or if it would need to be expanded or modified in order to do so.

Regarding our second recommendation, Education stated that it would develop data analytic practices to verify borrower reports of zero income contingent upon the enactment of legislation providing the department with access to federal income data. However, implementing our recommendation does not necessarily require Education to wait for such legislation. Our draft report describes data analytic practices, such as anomaly detection, which Education could implement using its own data to identify deviations from expected patterns in data over time. Education also stated that it plans to develop additional follow-up procedures to verify borrower reports of zero income, such as requiring borrowers to substantiate reports of zero income with appropriate documentation. In addition, Education described plans to formalize procedures to make referrals to Education's Office of Inspector General or the Department of Justice for suspected cases of IDR fraud. We encourage Education to combine its follow-up procedures with data analytic practices to satisfy the recommendation.

Education agreed with our third recommendation to implement data analytic practices and follow-up procedures to verify family size, noting that this information could be subject to misrepresentation or erroneous reporting by borrowers. Education stated that it would review various data points that can be used to select IDR applications and certifications for additional review prior to approval, such as providing more scrutiny when borrowers report unusual increases in family size from one year to the next. Education also stated that it plans to formalize additional procedures to require certain borrowers to substantiate their family size. For example, Education will consider requiring IDR applicants to provide statements listing each household member and how they are related to the borrower.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to relevant congressional committees, the Secretary of Education, the Chief Operating Officer of Federal Student Aid, and other relevant parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact us at (617) 788-0534 or emreyarrasm@gao.gov or (202) 512-6722 or bagdoyans@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made key contributions to the report are listed in appendix III.

Melissa Emrey-Arras

Melissa Emrey-Arras, Director
Education, Workforce, and Income Security Issues

Seto J. Bagdoyan

Seto J. Bagdoyan, Director
Forensic Audits and Investigative Service

Appendix I: Objectives, Scope, and Methodology

This report examines (1) whether there are indicators of potential fraud or error in income and family size information provided by borrowers seeking to repay their loans with Income-Driven Repayment (IDR) plans and (2) the extent to which the Department of Education (Education) verifies this information.

To address these questions, we reviewed relevant IDR policies and procedures from Education and its four largest loan servicers—Navient, Nelnet, Great Lakes Educational Loan Services, Inc., and the Pennsylvania Higher Education Assistance Agency. We selected these loan servicers because, at the time of our analysis, together they serviced 96 percent of the outstanding balance of loans being repaid with IDR plans as of September 2017.¹ We also interviewed Education officials from Federal Student Aid, the office responsible for developing policies and procedures for administering IDR plans and overseeing how loan servicers carry them out, as well as the officials from the selected loan servicers. Additionally, we reviewed relevant federal laws and regulations and Education's procedures for verifying information on the Free Application for Federal Student Aid. We assessed Education's procedures against federal standards for internal control for developing sufficient control activities, risk assessment, and information and communication.² We also assessed Education's procedures against the leading practices for data analytics activities in GAO's Framework for Managing Fraud Risks in Federal Programs.³

To determine whether there were indicators of potential fraud or error in borrowers' income and family size information on IDR plans, we obtained data from Education's Enterprise Data Warehouse and Analytics (EDWA) database on borrowers with William D. Ford Federal Direct Loans (Direct Loans) and IDR plans approved between January 1, 2016 and September 30, 2017, the most recent data available at the time of our

¹This percentage includes Direct Loans and Education-owned Federal Family Education Loans being repaid with IDR plans. This report focuses on Direct Loans because as of September 2017 they represent \$353 billion being repaid with IDR plans, compared with \$23 billion in Education-owned Federal Family Education Loans being repaid with IDR plans.

²GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

³GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 2015). We did not conduct a comprehensive fraud risk assessment of the IDR program. Our assessment was limited to the control activities surrounding income and family size declarations on IDR applications.

analysis. EDWA is a centralized data warehouse that contains administrative data reported by loan servicers on IDR borrowers and their loans. Some borrowers had multiple approved IDR plans in the data we analyzed.⁴ We also obtained national quarterly wage data from the U.S. Department of Health and Human Services' (HHS) National Directory of New Hires (NDNH) for the same time period. NDNH is a national repository of information reported by employers, states, and federal agencies. The NDNH is maintained and used by HHS for the federal child support enforcement program, which assists states in locating parents and enforcing child support orders. In addition to information on newly hired employees, NDNH contains (1) data on quarterly wages for existing employees, collected and reported by state workforce agencies and federal agencies; and (2) data on all individuals who apply for or received unemployment compensation, as maintained and reported by state workforce agencies.

For our analysis of borrower-reported incomes, we matched approximately 656,600 Education borrowers to NDNH quarterly wage data to determine if any borrowers who reported zero income on their IDR applications had wages reported in the same quarter in which their IDR plans were approved.⁵ We took additional steps to further review and refine these matches and provide reasonable assurance that the NDNH wage data were associated with the correct borrower by comparing (1) the borrower's state of residence as reported in the Education data to the state agency submitting the NDNH wage data and (2) the borrower's name as reported in the Education data to the employee name reported in the NDNH data. For the refined matches, we then estimated whether the borrowers may have had sufficient annual wages based on wages reported in NDNH to potentially warrant monthly student loan payments greater than zero dollars on their associated IDR plan. Specifically, we aggregated all NDNH wages reported for the borrower in the quarter in which their IDR plan was approved to determine a total quarterly wage amount. We then multiplied the total quarterly wage amount by four—the number of quarters in a calendar year—to generate an estimate of annual

⁴For example, once borrowers are approved for an IDR plan, they must recertify their eligibility at least once a year. Borrowers may also request a recalculation of their monthly payment amount at any time due to changes in their income or family size. A borrower's initial IDR plan and each recertification and recalculation are accounted for as separate plans within EDWA.

⁵We focused our review on borrowers with zero income since they are not required to provide additional documentation of their income when submitting the IDR application.

wages for the borrower. Our approach was based on the methodology Education instructs loan servicers to use to calculate annual wages when borrowers provide an alternative to a tax return to document their income on IDR applications. This methodology may understate or overstate income given that borrowers may not have earned the same amount in each of the four quarters. Our estimates of annual wages are based on the wages reported in NDNH for each borrower and do not take into account any pre-tax deductions that may apply when determining IDR payments. Our estimates of annual wages also do not include borrowers' spousal income or any other taxable income for the borrower that is not included in the NDNH quarterly wage data—such as unemployment compensation received or unearned income such as alimony. We did not independently verify the wages reported in NDNH or the actual total annual income earned by borrowers identified in our match, as this was outside the scope of our review.

Using the estimated annual wage, we then determined whether a borrower would have had a monthly payment greater than zero by using Education's IDR plan repayment calculations for each IDR plan. To calculate the monthly payment, we used (1) the estimated annual wage from our NDNH data analysis; (2) the family size reported on the borrower's approved IDR plan; (3) the borrower's approved IDR plan type; and (4) the relevant percentage of the HHS poverty guideline amount for the borrower's family size, state of residence, IDR plan approval year, and IDR plan type.⁶ For borrowers on Income-Based Repayment, New Income-Based Repayment, Pay As You Earn, and Revised Pay As You Earn plans, we rounded all calculated monthly payments that were less than \$5 down to zero, in accordance with Education's repayment calculations. We then identified which borrowers had calculated payments that were greater than zero. We did not determine the actual repayment amount borrowers may have had, as this was outside the scope of our review. Finally, for borrowers for whom we had calculated a payment greater than zero, we determined the total outstanding Direct Loan balance (principal and accrued interest) as of September 2017, based on EDWA data.

⁶Per Education's IDR plan repayment calculations, we used 150 percent of the relevant HHS poverty guideline for borrowers with Income-Based Repayment, New Income-Based Repayment, Pay As You Earn, and Revised Pay As You Earn plans, and 100 percent of the relevant HHS poverty guideline for borrowers with Income-Contingent Repayment plans.

For our analysis of borrower-reported family sizes, we analyzed the overall distribution of family sizes reported on approximately 5 million approved IDR plans. We reviewed the percentile distribution for family size on all IDR plans in our analysis and identified those in the top 1 percent of the data—in this case, IDR plans that had a reported family size of nine or more. We defined these IDR plans as having atypical family sizes for the Education data. We did not independently verify the family size reported on the IDR plans. For the borrowers with family sizes of nine or more, we determined the total outstanding Direct Loan balance (principal and accrued interest) as of September 2017.

To examine the effects of borrowers inaccurately reporting income and family size on loan payment amounts, we analyzed the estimated monthly loan payment amounts for various hypothetical repayment scenarios from Education’s online repayment estimator as of January 2019, which used the 2018 HHS poverty guidelines. To examine the effect of various family sizes on loan payment amounts, we assumed a hypothetical borrower lived in the continental United States; had an adjusted gross income of \$40,000; an outstanding Direct Loan balance of \$30,000 (close to the average outstanding Direct Loan balance of \$33,600 as of September 2018); and an interest rate of 5.1 percent (the Direct Loan 2018-2019 interest rate for an undergraduate borrower). To examine the effect of various incomes on monthly payment amounts, we assumed hypothetical borrowers had adjusted gross incomes based on estimated annual wages common in our data matching analysis (\$30,000, \$45,000, and \$60,000), a family size of one (meaning just the borrower), and lived in the continental United States. For this analysis, we also assumed hypothetical borrowers had an interest rate of 5.1 percent and an outstanding Direct Loan balance of \$50,000, which we selected to be high enough to qualify these hypothetical borrowers for all IDR plans at each of the selected income levels.

To assess the reliability of the EDWA data, we reviewed documents related to the database and Education loan data generally; interviewed knowledgeable Education officials; performed electronic testing to determine the validity of specific data elements that we used to perform our work; compared the data we received to published Education data on the number of IDR borrowers and amount of their outstanding loans; and compared borrowers’ personal information to the Social Security Administration’s Enumeration Verification System to identify borrowers whose information may not have been accurate. As part of our reliability assessment of the EDWA data, we selected a nongeneralizable sample of 16 borrowers and their IDR plan and loan information from the EDWA

data to compare against four selected loan servicers' records. Specifically, we stratified borrowers into two groups based on common and potentially outlying incomes and family sizes in the EDWA data. We then randomly selected two borrowers from each stratum for each of the four selected loan servicers (a total of four borrowers per loan servicer). We reviewed all IDR plan data in our scope for each selected borrower, including the plan type, family size, income, and total monthly payment. We did not review original documents, such as the IDR applications or documentation of income. We discussed the results of our review with knowledgeable Education and loan servicer officials to gain additional understanding of each selected borrower's IDR plan information as well as any differences between EDWA and loan servicer data.

We originally obtained EDWA data on approximately 6.5 million IDR plans approved between January 1, 2016 and September 30, 2017 that were held by almost 4.8 million Direct Loan borrowers. Based on data reliability issues we identified during our review, we had to limit the scope of our analysis to a subset of EDWA data that we determined were sufficiently reliable for our purposes. Education officials disclosed issues that impacted the IDR plan data reported to Education by one of its loan servicers. Specifically, Education and the loan servicer had identified instances where the loan servicer's internal data were changed for valid reasons but the changes were not reported to Education correctly.⁷ As a result, we excluded data reported by this servicer from all analyses in our report. We also identified issues with monthly payment amounts for some borrowers in the EDWA data. Accordingly, we limited our borrower-reported income analysis to borrowers who reported zero income and had a scheduled monthly payment of zero dollars.⁸ Ultimately, we analyzed about 878,500 IDR plans held by about 656,600 borrowers for our income analysis and approximately 5 million IDR plans held by 3.5 million borrowers for our family size analysis. Consequently, our overall income and family size analyses results may be understated and are not generalizable to all IDR plans and borrowers.

⁷Education officials reported that they were working with the loan servicer to correct the reporting issues and that they expected the issues to be resolved in the second quarter of 2019.

⁸There were nearly 1.3 million IDR plans held by over 1.1 million borrowers who had reported zero income in the Education data we originally received. From this we determined that about 878,500 IDR plans were sufficiently reliable for our analysis.

Consistent with our report scope, our analyses of borrower-reported income focused on identifying indications of potential fraud or error; however, our analyses do not show that fraud or error occurred. It is not possible to determine whether fraud or error occurred through data matching alone. As previously discussed, our estimates of annual wages are based on the NDNH quarterly wage data, and do not take into account any deductions that may be applicable for determining adjusted gross income, which is used to determine IDR plan payment amounts. As a result, our estimates could overstate borrowers' incomes for IDR plan purposes. Additionally, wages are reported in NDNH quarterly, so we are not able to determine when in a quarter a borrower earned wages. For example, a borrower may have earned wages at the start or end of a quarter, but was not earning wages at the time of submitting the IDR application. Because borrowers are only required to certify their income annually, such a scenario would not constitute fraud or error even though it would result in a match in our analysis. In addition, our use of Education's methodology to annualize wages based on quarterly wages may understate or overstate income if a borrower did not earn wages at the same level over the entire year. We are also not able to identify additional taxable income that is not reported to NDNH but should have been included on borrowers' IDR applications, which could understate borrowers' incomes. Consequently, our analysis may overstate or understate the number of borrowers who reported no income on their IDR application yet may have had sufficient wages to warrant a monthly student loan payment.

To assess the reliability of the NDNH data, we reviewed documents related to the database, interviewed knowledgeable HHS officials, and performed electronic testing to determine the validity of specific data elements in the NDNH data that we used to perform our work. On the basis of our own reliability assessment results, we determined that the NDNH data were sufficiently reliable for the purposes of this report.

We conducted this performance audit from June 2017 to June 2019, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the U.S. Department of Education



May 17, 2019

Ms. Melissa Emrey-Arras
Director, Education, Workforce, and Income Security Issues
United States Government Accountability Office
Washington, D.C. 20548

Dear Ms. Emrey-Arras:

Thank you for providing the U.S. Department of Education ("Department") with the opportunity to respond to the draft Government Accountability Office (GAO) report, "FEDERAL STUDENT LOANS: Education Needs to Verify Borrowers' Information for Income-Driven Repayment (IDR) Plans" (GAO-19-347).

In an August 2015 report, the GAO found that many eligible borrowers did not participate in IDR plans, expressed concern about the extent to which borrowers were aware of such plans, and recommended the Department take action to increase borrowers' awareness of IDR.¹ In this new report, GAO observes that Direct Loan borrowers' use of IDR plans has increased dramatically, with total outstanding loan debt being repaid under these plans growing more than 200 percent from September 2014 to September 2018. Last year, borrowers were repaying the Department's Office of Federal Student Aid (FSA) almost one-half of the \$859 billion in outstanding Federal Direct Loans using IDR plans.

In its new study, GAO examined whether there are indicators of potential fraud or error in income and family size information provided by borrowers on IDR plans as well as the extent to which the Department verifies this information. To conduct its study, GAO matched Department data on borrowers with IDR plans for Direct Loans who reported zero income with wage data obtained from the Department of Health and Human Services' National Directory of New Hires (NDNH) database. It also analyzed the Department's IDR plan data on borrowers' reported family sizes.

We appreciate the time and the effort that went into the audit and the opportunity to comment on the draft report. We plan to implement significant additional verification policies, in light of GAO's findings, to ensure that borrowers who participate in IDR plans do not misrepresent their income or family size to the Department. As FSA's Chief

¹ GAO, Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options, GAO-15-663 (Washington, D.C.: August 2015).

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Operating Officer, I am pleased to provide below the Department's responses to each of GAO's three recommendations.

Recommendation 1: The Chief Operating Officer of Federal Student Aid should obtain data in order to verify income information for borrowers reporting zero income on IDR applications. For example, Education could pursue access to federal data sources or obtain access to an appropriate private data source.

Response: We concur with this recommendation and hope that Congress enacts legislation like that discussed below. In the meantime, we will work to implement new processes that will require borrowers to provide proof of income and family size, including if they report zero income.

The Administration has, in fact, proposed in the President's FY2020 Budget that Congress except the Department from the restrictions in Section 6103 of the Internal Revenue Code and allow the Internal Revenue Service (IRS) to disclose tax return information directly to the Department for the purpose of administering certain federal student financial aid programs. Such an exception would allow borrowers to more easily certify their income on an annual basis to maintain enrollment in IDR plans and allow the Department to use the information to mitigate improper payments to Federal student loan borrowers as a result of misreported income data. Moreover, access to the tax return information would also improve the accuracy of data on the Free Application for Federal Student Aid (FAFSA®) data by prepopulating certain fields on the FAFSA® form.

We are hopeful the Congress will enact such legislation, which would partially address GAO's recommendation to the extent that a borrower's income information has not changed since the borrower filed his or her last tax return. In addition, the legislation would assist borrowers in more easily managing their student loan repayment and mitigate against borrower error and fraud. However, it is important to note that currently all online IDR applicants use the IRS Data Retrieval Tool as a first step in the IDR application process, and so such borrowers' applications would include information about Adjusted Gross Income unless the borrower had not filed a tax return for the two preceding years. In the meantime, we will explore whether commercially available data are sufficient in terms of scope and reliability and assess the cost effectiveness of using such data in light of the fact that these data are already maintained by other federal agencies. For the foregoing reasons, GAO may wish to convert this recommendation as a matter for Congress given the need for legislative action for the Department to have access to the IRS's income data. In addition to enacting the Administration's proposal, the Congress could also enact legislation providing for the Department's use of the NDNH in the same way that GAO used these data to develop its findings for this report. Under current law, the Department is permitted access to the NDNH only for purposes of collecting debt from individuals who have defaulted on student loans or owe an obligation to refund an overpayment of a grant.

Recommendation 2: The Chief Operating Officer of Federal Student Aid should implement data analytic practices, such as data matching, and follow-up procedures to

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review and verify that borrowers reporting zero income on IDR applications do not have sources of taxable income at the time of their application.

Response: We concur with this recommendation to the extent that Congress enacts legislation like that discussed in our Response to Recommendation 1, which would provide the Department with access to the income data needed to conduct the recommended data matching and the analytic procedures to verify borrowers certifying zero income on IDR applications. Having routine access to such data is critical to establishing the extent to which GAO's findings are indicative of potential reporting errors or fraud on the part of borrowers. As GAO explains in its report, its methodology was limited in that the wage data it obtained from the NDNH are reported quarterly, and GAO was unable to determine when in a quarter a borrower earned wages. As a result, a borrower may have earned wages at the start or end of a quarter but was not earning wages at the time of submitting an IDR application and certifying zero income.

We welcome GAO's plan to share its data and results with us. We plan to use this information to inform our own analysis including, for example, whether the borrowers GAO identified as potentially misreporting their income continued to certify zero income beyond the calendar quarter during which GAO found conflicting data. Such an analysis could help further refine the GAO's results as an indicator of potential reporting errors or fraud.

We also agree and will develop additional follow up procedures to review and verify that all borrowers reporting zero income on IDR applications verify their income or lack thereof. This could include, for example, requiring borrowers who report that they have no taxable income to substantiate an absence of income with confirmation from the IRS of the non-filing of income tax returns. For those borrowers who report a loss of income after the date of their last income tax return on file with the IRS, due to a job loss or divorce, for example, documentation required to substantiate such an event could include an employment termination letter from an employer, a lay-off or furlough notice, or legal documentation evidencing a divorce. For borrowers who seek a change in monthly payment amounts based on zero income between annual certification periods, we will consider requiring borrowers to intermittently substantiate their current circumstances prior to their next annual income certification date and evaluate whether regulatory changes are necessary to implement such a practice.

We will further assess our procedures for steps to be taken when we have reason to believe that a borrower has provided false information. Currently, borrowers receive a notice and warning that any person who knowingly makes a false statement or misrepresentation on an IDR application is subject to penalties that may include fines, imprisonment, or both under the U.S. Criminal Code and the Higher Education Act (20 U.S.C. 1097). We plan to formalize procedures to make referrals to the Department's Office of Inspector General or the Department of Justice for suspected cases of IDR fraud.

Recommendation 3: The Chief Operating Officer of Federal Student Aid should implement data analytic practices, such as data mining, and follow-up procedures to

Page 4 - Ms. Melissa Emrey-Arras

review and verify family size entries in IDR borrower applications. For example, Education could review and verify all borrower reports of family size or a subset identified as being most susceptible to fraud or error.

Response: We concur with this recommendation to the extent it is feasible as discussed below. As GAO notes in their report, family size self-reporting used in determining IDR monthly payments could be subject to misrepresentation or erroneous reporting by the borrower and presents an opportunity for the Department to review its procedures in processing this aspect of IDR plans. As suggested, we will review various data points that can be used to select IDR applications and certifications for additional review prior to approvals. For example, we could provide more scrutiny in those cases where borrowers indicate an unusual increase in family size from one year to the next or report a family size that is inconsistent with the family size they reported to the IRS. This additional scrutiny is warranted because the online IDR application already asks borrowers to check their answers to questions that are used to calculate family size when there are changes from year to year. Additionally, we plan to formalize additional processes and procedures to require certain borrowers to substantiate reported family size. For example, we will consider, as suggested by GAO, requiring IDR applicants to substantiate family size with a statement that lists the name and age of each household member and the relationship of that household member to the borrower. As noted above, we will also further assess our procedures for steps to be taken when we have reason to believe that a borrower has provided false information.

I appreciate your examination of this important subject.

Sincerely,


Mark A. Brown
Chief Operating Officer
Federal Student Aid

Appendix III: GAO Contacts and Staff Acknowledgments

GAO Contacts

Melissa Emrey-Arras, (617) 788-0534 or emreyarrasm@gao.gov

Seto J. Bagdoyan, (202) 512-6722 or bagdoyans@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Debra Prescott and Philip Reiff (Assistant Directors), Nancy Cosentino and Mariana Calderón (Analysts-in-Charge), Sarah Cornetto, Jeffrey G. Miller, and Rachel Stoiko made key contributions to this report. Additional assistance was provided by Susan Aschoff, David Ballard, Deborah Bland, Benjamin Bolitzer, Melinda Cordero, Vijay D'Souza, Kevin Daly, Angie Jacobs, Candace Silva-Martin, Sheila R. McCoy, Maria McMullen, Kevin Metcalfe, John Mingus, Drew Nelson, Mimi Nguyen, Matt Valenta, and Ariel Vega.

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