

**Written Testimony
James W. Runcie
Chief Operating Officer
Federal Student Aid
U.S. Department of Education**

**"Examining the Cybersecurity Incident that Affected the IRS Data Retrieval Tool"
Before the U.S. House of Representatives Committee on Oversight and Government Reform**

May 3, 2017

Thank you, Chairman Chaffetz, Ranking Member Cummings, and members of the Committee, for the opportunity to join you today. I will discuss the events that led up to the security incident that precipitated the Internal Revenue Service (IRS) disabling the Data Retrieval Tool (DRT) on March 3, 2017. I also will discuss the plan the U.S. Department of Education (the Department) office of Federal Student Aid (FSA) and the IRS have to restore DRT functionality, as well as actions FSA has taken to assist impacted students, parents, borrowers, and postsecondary institutions.

FSA remains the largest source of Federal student aid for postsecondary education in the United States. In Fiscal Year 2016, FSA delivered nearly \$125.7 billion in aid to more than 13 million students attending more than 6,000 postsecondary institutions. In response to legislative, regulatory, and policy changes, FSA has successfully implemented a number of major modifications to our operating environment. One of these developments is the implementation of the DRT, which first became available in 2010.

Background about the DRT

Section 6103 of the Internal Revenue Code/USC restricts the sharing of taxpayer information without their explicit consent. The DRT is a solution the IRS and the Department developed to fit the legal constraints around sharing tax information without explicit consent. The DRT is accessed via the *Free Application for Federal Student Aid* (FAFSA[®]) where the applicant can explicitly consent to receive their tax data and then electronically transfer that data into the FAFSA application. In essence, the DRT allows the data to electronically flow through the consumer before being transferred into the FAFSA.

The DRT is the result of a collaborative effort between the IRS and FSA, intended to provide students, parents, and borrowers an easy and effective method to access required IRS tax information and transfer that data directly from the IRS into a FAFSA or an income-driven repayment (IDR) plan application. Using the DRT saves time and ensures greater accuracy of applicants' information. Each year, approximately 20 million FAFSA forms are submitted. The most recent data indicate that roughly half of all FAFSA filers use the DRT to transfer their tax information from the IRS, and approximately 4.5 million borrowers use the DRT to transfer their tax information into an IDR plan application.

The existence of the DRT paved the way for two recent FAFSA simplification advancements aimed at reducing barriers to accessing a postsecondary education: the "Early" FAFSA and the use of "prior-prior" year tax information. Traditionally, the FAFSA is available each year on January 1.

Last year, however, FSA launched the 2017–18 FAFSA three months earlier—on October 1, 2016, rather than January 1, 2017—and required applicants to use tax return data from the prior-prior year (2015, not 2016). This change allowed more FAFSA filers to use the DRT, provided students and families with financial aid information earlier to consider in their selection of schools, and allowed applicants to submit a FAFSA without having to return to the application in order to correct it after they filed their tax return.

The DRT serves as an important program integrity measure, as well. We know that filers may sometimes incorrectly enter their information into the FAFSA, which may result in improper payments. The DRT essentially eliminates the chances of this type of user error-generated improper payment. It also reduces the need for a secondary program integrity measure. Postsecondary institutions are required to verify certain information from the FAFSA for any applicant who has been selected by the Department for such verification. Nationally, using a risk-assessment regression analysis, the Department selects between 25 and 30 percent of FAFSA filers for verification. Verification requires applicants to provide documentation to their institution—including IRS tax return information—to confirm what was provided by the applicant when completing the FAFSA. For applicants who use the DRT, institutions can rely on the information obtained from the IRS, thereby eliminating the burden associated with manually verifying information students and parents reported. While the DRT was operational, the Department saw decreases in verification rates from the prior year of approximately seven percentage points.

IRS and FSA Joint Efforts to Increase Security of the DRT

In October 2016, the IRS contacted FSA about a potential vulnerability it identified with the DRT as a result of a broader review IRS had undertaken assessing all the ways taxpayers and others interact with IRS' systems. FSA sought to determine the best approach to minimize the vulnerability without causing a major disruption to students, parents, and borrowers. To avoid negative impacts to students, parents, and borrowers, the IRS and FSA agreed to keep the DRT operational while the IRS increased monitoring of the tool for any suspicious activity. The increased monitoring was intended to reduce the risk of exposing tax return information and other personally identifiable information (PII) associated with the DRT without limiting access to the FAFSA and IDR plan applications for a significant segment of students and families.

Since October, the IRS and FSA have evaluated nearly one dozen potential options—capable of being integrated with the FAFSA and IDR plan applications—to increase the protection of taxpayer information on the DRT; options considered include different versions of data masking, slight data modification, higher levels of authentication, or a legislative change to Internal Revenue Code section 6103 that would authorize the Department of Education to securely receive the data directly from the IRS. While we hoped to be able to implement a solution to prevent any disruption to the DRT, evaluating options was crucial in being able to move toward the option we will implement for the 2018–19 FAFSA cycle.

Analyzing and Investigating the Suspicious Activity Related to the DRT

By early March, the IRS identified suspicious activity related to the DRT. On March 3, 2017, the IRS alerted FSA, suspended the use of the DRT, and placed an outage message on the DRT website.

There is no evidence that the malicious actors accessed any personal information from the Department's systems. We are confident that the personal information the Department has on borrowers, students, and parents remains appropriately protected. While the FAFSA was involved, FSA believes this was, in essence, a scheme directed at retrieving tax data from the IRS. Using personal information obtained illegally from other sources—including name, Social Security number, date of birth, address, and tax filing status—malicious actors were able to start filling out FAFSAs. The malicious actors then used the DRT to access taxpayer information from the IRS, including the Adjusted Gross Income, which is necessary to file a fraudulent tax return.

FSA provided the IRS with a preliminary analysis related to the list of potentially impacted taxpayers, which included transactional data from FSA systems, to assist the IRS in reconciling conclusions with its own ongoing analysis. On April 3, 2017, the IRS informed FSA that it was treating the security incident as a “major” incident as defined under the Office of Management and Budget's (OMB) guidance in OMB M-17-12.

The Department continues to review data from the IRS to take necessary administrative action to protect applicant data and taxpayer funds. We are cooperating with the Office of Inspector General and will keep it fully informed as it proceeds with its joint criminal investigation with the Treasury Inspector General for Tax Administration.

Communications to Students, Parents, Borrowers, and Others

FSA recognizes the widespread concern about how the unavailability of the DRT has affected those Americans we serve—particularly those who are from low-income backgrounds or who are first-generation college applicants—and the postsecondary institutions they attend. We remain steadfast in our efforts to fulfill our mission of providing access to higher education for all Americans while protecting sensitive student, parent, and borrower information. We are committed to doing all that we can to help students, parents, and borrowers successfully submit applications by manually providing their tax return information while the DRT is unavailable.

Since the DRT was disabled on March 3, 2017, FSA has provided guidance to the public on multiple platforms indicating that students, parents, and borrowers can still apply for federal student aid and repayment plans. Information also explains how to apply while the tool is unavailable.

The IRS and FSA have released two joint statements—on March 9 and March 30—that inform the public (1) that tax information can be provided manually on both the FAFSA and IDR plan application websites and (2) how to obtain copies of their tax returns, if they are unable to access their own copies. Information about the status of the DRT has been posted to FSA's Information for Financial Aid Professionals (IFAP) website—ifap.ed.gov—which serves as the primary information portal for financial aid professionals, and to StudentAid.gov, FSA's flagship information portal for students, parents, and borrowers.

The March 30 announcement on StudentAid.gov includes detailed instructions about completing a FAFSA without access to the DRT, along with an easy-to-follow table showing which line to reference for specific tax information, depending on which IRS tax form the student or parent filed.

Other ways FSA has shared information to help students, parents, borrowers, and institutions, include:

- Providing FSA customer contact centers with information to explain how students, parents, and borrowers should manually provide tax information for the FAFSA and IDR plan applications. Customer service representatives at the Federal Student Aid Information Center currently are fielding approximately 500 more customer inquiries per day related to the DRT than before the tool was disabled.
- Posting an announcement on its fafsa.gov home page that includes a reminder that information can be entered manually on the application, and FSA links directly to guidance available on the IRS's website that provides students, parents, and borrowers with instructions for obtaining a tax return transcript.
- Using social media applications, Facebook and Twitter, to encourage students, parents, and borrowers to apply for aid by manually providing their tax information. Such messaging via social media has been shared broadly by college access organizations that help support FSA's mission.
- Posting on the Financial Aid Toolkit—a website that provides information for counselors and college access mentors—with links to other related information, making it easy for counselors and mentors to share information with the students they support.
- Emailing approximately 2,000 partner organizations—including counselors, mentors, and financial aid professionals—informing them to plan for the DRT to be unavailable until fall 2017, the beginning of the next FAFSA season.
- Notifying financial aid professionals directly via an Electronic Announcement to schools. The communication advises institutions that the online applications remain operational and that applicants should manually provide financial information from copies of their tax returns.
- Adding language to the IDR plan application informing borrowers that servicers can accept documentation of income by fax or mail, or that they may upload proof of income documents directly and securely through servicers' websites. Contact centers and FSA training officers have been also notified of the additional language.
- Sending a memo to state grant agencies encouraging them to consider providing flexibilities related to application deadlines or other administrative requirements for students and families who may need more time to apply for aid while the DRT is unavailable.
- Issuing a Dear Colleague Letter to postsecondary institutions extending flexibilities institutions may choose to use as part of their verification procedures. These flexibilities begin immediately and apply to both the 2016–17 and 2017–18 FAFSA processing and verification cycles.

At the end of March, FSA provided briefings to staff of several congressional committees, including this committee, the Senate Committee on Homeland Security and Governmental Affairs, the Senate Committee on Finance, the House Committee on Ways and Means, and the Senate Committee on Health, Education, Labor and Pensions. We will continue to be accessible to you and provide

answers to your questions as we work toward making the FAFSA accessible to everyone who wants to go pursue a postsecondary education while protecting sensitive taxpayer data.

The Encryption Solution

In an effort to determine an acceptable solution to a vulnerability related to the DRT, as previously stated, on February 9, 2017, the IRS and FSA agreed to pursue an encryption solution. This solution provides potentially the best balance between securing personal information and access to financial aid under current law and in time for the next federal student aid application cycle, which starts on October 1. The DRT returns 11 taxpayer data elements to the FAFSA and four data elements to the IDR application. The solution will encrypt the taxpayers' information and hide it from applicants' view on the IRS DRT web page, as well as on the FAFSA and IDR plan application web pages. While students, parents, and borrowers will still be able to electronically transfer their own data into a FAFSA or an IDR plan application, taxpayer information will no longer be visible to would-be malicious actors. We acknowledge some filers may have concerns about not being able to see the information they are transferring from the IRS into the FAFSA. We will continue to work with the financial aid community and the IRS to address these concerns.

FSA and the IRS have been working together to expedite the implementation of the encryption solution. The IRS, which had to modify four basic input and output web pages and supporting processes, implemented the majority of the solution in March in a configurable way, which allowed the IRS to turn it on or off separately for the IDR plan application and the FAFSA.

To implement the encryption solution, FSA must re-engineer the IDR plan application and FAFSA application processes. And because process changes to both applications significantly impact other parts of the financial aid ecosystem—students, parents, borrowers, postsecondary institutions, state grant agencies, and servicers, among others—the changes and impacts must be carefully communicated in a thorough, deliberate manner. Obscuring taxpayer information in the FAFSA process will require additional assistance from postsecondary institutions.

Currently, FSA and the IRS are working toward a goal to implement the encryption solution by the end of May or early-June for the IDR plan application. FSA's implementation of the solution for the FAFSA, however, is more complicated.

Each award year involves a separate FAFSA implementation. Presently, there are two active FAFSA cycles:

1. The 2016–17 FAFSA cycle, which began January 1, 2016, and extends until June 30, 2017, when no new applications will be accepted; and
2. The 2017–18 FAFSA cycle, which began October 1, 2016, and extends until June 30, 2018.

The 2018–19 FAFSA cycle will begin October 1, 2017, and will extend until June 30, 2019. The implementation of the 2018–19 FAFSA began in August 2016.

Over the years, FSA has worked to simplify the experience for the FAFSA filer; despite relatively complex program requirements. FSA has implemented improvements to the FAFSA, including skip logic, multiple external interfaces, and hundreds of validation edits in order to assist applicants or to reduce the number of questions posed to applicants, based on their individual circumstances. As would be expected, any time a change is made to the FAFSA process, a significant amount of testing must occur to ensure that the process and supporting web pages operate as intended.

When FSA and the IRS agreed to the encryption solution, FSA had to compress the 2018–19 FAFSA implementation schedule by three months in order to implement the 2018–19 FAFSA by October 1, 2017, as planned. We will implement by that date, and the 2018–19 FAFSA cycle will include the encryption solution.

The earliest possible timeframe to implement the solution for the 2017–18 FAFSA cycle would have been October 1, 2017. By that time, we estimate that 92 percent of the expected 2017–18 FAFSA filers would already have submitted their applications; before the DRT was disabled, approximately 4.7 million 2017–18 FAFSA applicants used the tool.

More critically, in order to implement the solution by October 1 for the 2017–18 FAFSA cycle, FSA would have needed to divert contractor expertise, technical resources, and Federal subject matter experts from the upcoming 2018–19 FAFSA implementation. Striving to make the DRT available to the remaining eight percent of 2017–18 FAFSA filers would have introduced an unacceptable level of risk to the applicants relying on the 2018–19 FAFSA launch. Such a diversion of resources would have significantly increased the likelihood of flaws in the 2018–19 FAFSA implementation or would have caused the 2018–19 FAFSA to be launched after October 1. Diverting resources also could have impacted application processing, resulting in delays in institutions and students accessing Federal loan, grant, and work study funds. Therefore, the DRT will remain unavailable and the encryption solution will not be implemented for the remainder of the 2017–18 FAFSA cycle.

Conclusion

For several months, FSA and the IRS have been working collaboratively to address an identified vulnerability with the DRT, investigate the related security incident, implement short-term solutions, and discuss other options for long-term solutions that ensure that the FAFSA remains accessible to everyone who wants to go to college while protecting sensitive taxpayer data. As FSA works to implement the encryption solution by the end of May or early-June for the IDR plan application and by October 1 for the 2018–19 FAFSA, we also have begun developing comprehensive communications plans for students, parents, borrowers, postsecondary institutions, and others about the solution. We continue to work with the IRS to implement the encryption solution, because we understand that the protection of individuals' personal information is critically important and share the IRS' commitment to make information security a high priority.

I appreciate the opportunity to provide the Committee with an overview of events that precipitated the IRS disabling the DRT, actions FSA has taken to assist impacted students, parents, borrowers, and institutions, and the plan to implement the encryption solution. I welcome any questions you may have today.

James W. Runcie, Chief Operating Officer, Office of Federal Student Aid — Biography

Former U.S. Secretary of Education Arne Duncan appointed James W. Runcie as the Chief Operating Officer (COO) for the Office of Federal Student Aid (FSA) on September 15, 2011. FSA is the federal government's first Performance-Based Organization established as part of the *Higher Education Amendments of 1998* to modernize the delivery of student financial assistance, and improve service to millions of students and the postsecondary institutions they attend.

The COO advises the Secretary of Education on matters related to the U.S. Department of Education's operation of student financial assistance programs under *Title IV* of the *Higher Education Act of 1965*, as amended.

As COO, Mr. Runcie is responsible for the strategic and operational management of FSA. Since 2010, FSA has managed an unprecedented increase in the student loan portfolio from approximately 9.2 million recipients with \$155 billion of William D. Ford Federal Direct Loan Program (Direct Loan), to 32 million recipients with \$1 trillion of Direct Loans today. The overall portfolio is approximately \$1.3 trillion with more than 42 million borrowers. Despite this growth, the portfolio performance has improved substantially with cohort default rates dropping more than 20% in the most recent three years, and over 43% of the Direct Loan portfolio dollars in income driven repayment plans. On an annual basis, FSA originates and disburses approximately \$125 billion of loans and aid to approximately 13 million students attending over 6,000 colleges and institutions of higher education. FSA comprises numerous operating units and divisions reporting to the COO. These include product management and servicing, customer experience, enterprise data research and analytics, risk management, acquisitions, compliance, enforcement, finance, technology, project management, communications and outreach, administrative services and strategic planning. FSA has an operating budget of approximately \$1.6 billion and more than 13,000 employees and contractors.

Prior to managing FSA, Mr. Runcie garnered 20 years of experience in the banking sector, working with major financial institutions, including UBS Investment Bank, Banc of America Securities (Bank of America), and Donaldson, Lufkin & Jenrette (Credit Suisse). His duties included transaction management and execution, project management, business development, group operations, marketing, human resources and risk management. Mr. Runcie also worked on a broad range of services, including public and private capital raising, mergers and acquisitions, merchant banking, debt-equity-hybrid structures and general advising. He also worked within numerous industries, including technology, internet, financial, industrial, casino and gaming, healthcare, agribusiness, sports, retail, toy and others. Assignments included transactions and advisory work in North America, Latin America, Europe and Asia. Prior to his banking experience, Mr. Runcie was a systems consultant in the network division of Xerox Corporation.

Mr. Runcie holds a Bachelor's of Arts in Mathematics from the College of the Holy Cross and a Master's of Business Administration, with distinction, from Harvard Business School.