U.S. Department of Education
Office of Inspector General

Fiscal Year 2027 Management Challenges Facing the U.S. Department of Education

November 13, 2026



Fiscal Year 2027 Management Challenges Facing the U.S. Department of Education

What are Management Challenges?

The Government Performance and Results Modernization Act of 2010 defines major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse, and mismanagement, and where a failure to perform well could seriously affect the ability of the U.S. Department of Education (Department) to achieve its mission or goals. In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) reports annually on the most serious management and performance challenges the Department faces, its progress in addressing those challenges, and further actions that it could take to enhance its effectiveness.

What We Did

To identify management challenges, we examined audit, inspection, flash review, and investigative work that was completed or part of a body of work that was completed between October 1, 2023, and September 30, 2026; reviewed corrective actions that the Department has not completed; assessed ongoing audit, inspection, flash review, and investigative work to identify significant vulnerabilities; and analyzed new programs and activities that could pose significant challenges.

What We Found

For fiscal year (FY) 2027, we identified five management challenges the Department faces as it continues its efforts to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. These challenges are (1) change management, (2) oversight and monitoring of grantees, (3) oversight and monitoring of student financial assistance programs, (4) data quality and reporting, and (5) information technology (IT) security.

Progress in Addressing Challenges

In response to a draft of this report, the Department stated that the challenges identified reflect areas requiring continued management attention and described several areas in which it made progress during FY 2026. The Department stated that, over the past year, it implemented significant changes to the Federal student assistance programs under the One Big Beautiful Bill Act (OBBBA), continued efforts to improve operational processes and maintain program delivery during a period of substantial organizational change, undertook efforts to identify and prevent fraud in the Federal student assistance programs and improve program oversight, made improvements to Section 117 foreign funding reporting, and took steps to strengthen audit follow-up activities. We recognize the significance of some of these actions and encourage the Department to continue assessing and mitigating related risks and monitoring the effectiveness of its controls.

Management Challenge 1—Change Management

On February 11, 2025, the President signed Executive Order 14210, "Implementing the President's 'Department of Government Efficiency' Workforce Optimization Initiative," with the stated goal of commencing a critical transformation of the Federal bureaucracy to restore accountability to the American public and a requirement that agencies develop agency reorganization plans and identify opportunities for consolidation or elimination. Two weeks later, on February 26, 2025, the President signed Executive Order 14219, "Implementing the President's 'Department of Government Efficiency' Cost Efficiency Initiative," with a focus on transforming Federal spending on contracts, grants, and loans to ensure transparency in government spending and accountability for government employees. On March 20, 2025, the President signed Executive Order 14242, "Improving Education Outcomes by Empowering Parents, States, and Communities," directing the Secretary of Education (Secretary) to take all necessary steps to facilitate the closure of the Department, to the maximum extent appropriate and permitted by law, and to return authority over education to the States and local communities while ensuring the effective and uninterrupted delivery of services, programs, and benefits on which Americans rely.

In response to the President's executive orders and policy direction, the Department revised many of its priorities and made changes to its organizational structure, staffing, and operations to reflect those new priorities. For example, the Department's workforce optimization efforts resulted in staffing changes in 16 of its 17 offices and an overall reduction of at least 40 percent of the more than 4,000 employees who were working for the Department as of January 2025. These staffing changes resulted in the elimination of several suboffices in 15 of the 17 Department offices, including some that appear to have been performing statutory functions or oversight and monitoring functions.[1] In addition, since May 2025, the Department has entered into 14 agreements with 6 Federal agencies, under which the other Federal agencies will manage major aspects of the Department's programs and operations under the oversight of the Department.[2] For example, these agreements obtain services supporting the administration of approximately $55 billion in formula and discretionary grant program funding administered by the Department as well as the administration of Federal student assistance programs, starting with managing and collecting on over $234 billion in defaulted Federal student loan debt. Further, the Department is in the process of relocating its headquarters functions from the Lyndon B. Johnson building to a nearby building in Washington, DC and assigning staff to work in other Federal agency buildings throughout the city.

The Department has many statutorily required responsibilities which, in part, include managing and overseeing a student loan portfolio of more than $1.7 trillion; awarding and administering over $76 billion in discretionary program funds to a wide range of eligible recipients, including local

---

[1] Department Changes in Staffing and Operations (ED-OIG/F25DC0245, issued June 2026).

[2] Partner agencies include the U.S. Departments of Labor (three agreements), Interior (one agreement), Health and Human Services (four agreements), Justice (three agreements), State (two agreements), and Treasury (one agreement).

educational agencies (LEA), State educational agencies (SEA), institutions of higher education (IHE), individuals, nonprofits, and other organizations; and monitoring such recipients' use of funds and progress in meeting project and program objectives. It is also responsible for implementing and overseeing the implementation of programmatic changes resulting from new legislation. For example, the Department has issued regulations and is revising its operational processes to implement several significant changes made to Federal student assistance programs by the OBBBA, with many of these changes effective as of July 1, 2026.[3] In FY 2026, the Department had an administrative budget of about $2.7 billion and around 2,300 employees, along with contractors that provide outsourced business operations, to perform these and its other functions.

Why This is a Challenge

The Department is in a state of significant transition, having made several major changes relating to its organizational structure, staffing, operations, and priorities since January 2025. Change of this magnitude can result in challenges associated with employee resistance, fatigue, and uncertainty—such as decreased productivity, operational disruption, and lost efficiency—and have an impact on the organization's ability to respond to stakeholder questions and concerns. To successfully manage change, the Department must align its management of human capital with its performance plans and strategic objectives.

Human capital management is a set of interrelated strategies and practices aligned with an organization's mission, guiding the processes for selecting, developing, training, and managing a high-quality, productive workforce.[4] According to the Office of Personnel Management, organizations that achieve and sustain excellence in strategic human capital management outperform those that do not. The Government Performance and Results Modernization Act of 2010 requires agencies to indicate how human capital management will support strategic goals within each agency's strategic plan and annual performance plan. In addition, each agency must develop a human capital operating plan aligned with the agency's strategic plan and annual performance plan. The Department's most recent human capital operating plan was issued for FY 2025 and supported its FY 2022–2026 strategic plan and FY 2025 annual performance plan. The Department did not issue an annual performance plan for FY 2026 and has yet to issue its annual performance report for FY 2025, strategic plan for FY 2026–2030, or annual performance plan for FY 2027.[5] According to the Department, it has adopted the President's stated intention to close the Department and to cede its functions to the States as its new strategic plan. Uncoordinated human capital management can reduce organizational performance and threaten and impede progress in the achievement of goals and objectives.

---

[3] These changes are described in the management challenge, "Oversight and Monitoring of Student Financial Assistance Programs."

[4] Office of Personnel Management: Human Capital Management Overview (retrieved October 2026).

[5] In November 2026, Federal Student Aid issued its FY 2026–2030 Strategic Plan.

The Department has historically faced challenges related to its oversight and monitoring of grantees and student financial assistance programs. Reduced staffing and resources and other significant organizational changes, such as implementing agreements under which other Federal agencies will manage aspects of the Department's programs, may make it much more difficult for the Department to effectively meet those challenges and continue to perform its statutory and mission-critical activities, especially if it does not have in place a robust process for managing these changes and plans for building and maintaining institutional knowledge that may have been lost when key staff departed.

Our recent work, and that of the Government Accountability Office (GAO), has identified instances where the Department's 2025 workforce optimization efforts impacted the performance of statutory and mission-critical activities.

- The workforce optimization efforts resulted in the elimination of the unit responsible for the oversight and approval of the closure of OIG external audits. It is unclear which Department office, if any, now oversees external audit follow-up and closure activities, and no external OIG audits have been closed since January 2025, even though several audits have been resolved and appear ready for closure.[6]
- In 2025, Federal Student Aid (FSA) stopped assessing student loan servicers on accuracy and call quality due to a lack of staff capacity. In 2025, the number of staff at FSA dropped by more than 45 percent.[7]
- FSA's group that conducts program reviews of institutions was significantly impacted by workforce optimization efforts. The group still has some remaining staff and, according to FSA, continues to conduct program reviews of IHEs, though at a reduced scale due to staffing limitations.[8]
- The Department did not fully comply with the requirements of the Geospatial Data Act, in part, because of a lack of resources and subject matter expertise resulting from workforce optimization efforts.[9]

In FY 2027 and beyond, it is critical that the Department strategically plan for and effectively manage the major operational, human capital, and organizational changes that it has already taken or may yet undertake. The Department must effectively articulate and communicate to employees its strategic goals and objectives, planned staffing and organizational changes and their rationale, employees' roles and responsibilities in helping to implement them, and how these changes will better enable the Department to achieve its mission and strategic goals and objectives and support

---

[6] Department's Follow-Up Process for External Audits (ED-OIG/I25DC0239, issued August 2026).

[7] Federal Student Loans: Education Needs to Address Gaps in Servicer Oversight (GAO-26-108534, issued March 2026).

[8] Department's Compliance with Payment Integrity Information Reporting Requirements for FY 2025 (ED-OIG/A26DC0288, issued August 2026).

[9] Department's Compliance with the Geospatial Data Act (ED-OIG/A26DC0284, issued September 2026).

America's students. The Department should also establish key goals, objectives, and performance measures to gauge the success of its efforts and provide transparency and accountability for its actions. As a foundation for these efforts, the Department should issue a strategic plan and an annual performance plan consistent with the Government Performance and Results Modernization Act of 2010 and a human capital operating plan aligned with its strategic plan and annual performance plan.[10]

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. The Department engaged contractor support to assist in the resolution of external audits, FSA hired more than 200 new staff members (with additional hiring expected) and has begun training program review staff, and the Department issued regulations to implement the programmatic changes made to the Federal student assistance programs by the OBBBA.

[10] The Office of Personnel Management issued a final rule, effective November 30, 2026, that will replace the requirement for a human capital operating plan with that of an annual staffing plan. Annual staffing plans are to be aligned with the agency strategic plan, annual performance plan, agency budget, President's management agenda, and the human capital framework.

Management Challenge 2—Oversight and Monitoring of Grantees

The Department is responsible for administering education programs that Congress authorized and the President signed into law. This responsibility includes awarding program funds to a wide range of eligible recipients, including LEAs, SEAs, IHEs, individuals, nonprofits, and other organizations, and monitoring their use of funds and progress in meeting program objectives. The Department is also responsible for ensuring that programs are administered fairly and that grants are executed in conformance with both authorizing statutes and laws prohibiting discrimination in federally funded activities, collecting data and conducting research on education, and helping to focus attention on education issues of national importance. The funding for many grant programs flows through primary recipients (such as SEAs) to subrecipients (such as LEAs or other entities). The primary recipients must oversee and monitor the subrecipients' activities to ensure compliance with Federal requirements.

The Department administers programs that touch every area and level of education, serving students from early learning through adult education. Its grant programs annually serve more than 17,500 public school districts and over 54 million students attending more than 99,000 public and 30,000 private schools. One of the key programs that the Department administers is Title I, Part A, which provides financial assistance to LEAs and schools with high numbers or high percentages of children from low-income families, to help ensure that all children meet challenging State academic standards. In FY 2026, this program provided about $18.4 billion to serve an estimated 26 million students in nearly 90 percent of school districts and about 60 percent of all public schools. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which provided more than $14 billion in FY 2026 to help States and school districts meet the special educational needs of an estimated 7.6 million students with disabilities.

Why This is a Challenge

Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our recent work, and that of GAO, related to various grant programs identified weaknesses in grantee oversight and monitoring that included concerns with SEA and LEA controls and Department oversight processes. For example, our audits of several States' implementation of their Department-approved Statewide accountability systems found that States did not always correctly identify schools requiring support and improvement, affecting the allocation of additional funding and services under their approved plans.[11] Our audit of another State's administration of the pandemic-related Emergency Assistance

[11] Mississippi Department of Education's Implementation of Selected Components of Mississippi's Statewide Accountability System (ED-OIG/A22IL0091, issued March 2024), Oregon Department of Education's Implementation of Selected Components of Oregon's Statewide Accountability System (ED-OIG/A23IL0142, issued September 2024), Connecticut State Department of Education's Implementation of Selected Components of Connecticut's Statewide Accountability System (ED-OIG/A24IL0199, issued September 2025), and West Virginia Department of Education's Implementation of Selected Components of West Virginia's Statewide Accountability System (ED-OIG/A24IL0200, issued September 2025).

to Nonpublic Schools program found that it used $20 million to provide services and assistance to ineligible nonpublic schools.[12] In an inspection involving another pandemic relief program, we found that a grantee did not ensure that the services contracted for and paid with $3.9 million in Elementary and Secondary School Emergency Relief funds were provided in accordance with the executed contract.[13] Other inspections at the school district level identified significant unallowable and unsupported costs charged to Magnet School Assistance Program grants[14] and weaknesses in processes for overseeing the development of individualized education programs (IEP) and delivery of IEP services for children with disabilities.[15]

At the Department, we found that Office of Elementary and Secondary Education (OESE) staff did not screen School-Based Mental Health Services program grant applications to ensure that they met all application requirements before entering them into the peer review process and did not always implement post-award activities as designed, including program monitoring plans and reviews of grantees' annual performance reports.[16] In addition, for the Title I, Part A program, GAO reported that in 2026, the Department suspended its annual monitoring of selected States' compliance with fiscal requirements, including State oversight of school districts' practices, and focused on closing prior findings and reviewing grant balances. The Department stated that it plans to conduct streamlined monitoring in 2027 but did not provide GAO with details on its monitoring plans.[17]

Going forward, the Department may face challenges in the following areas related to its oversight and monitoring of grantees.

- **Oversight of Activities Performed by Grantees with Department-Approved Waivers.** With some restrictions, the Elementary and Secondary Education Act (ESEA) authorizes the Secretary to waive any statutory or regulatory requirement related to the administration of the ESEA. In July 2025, OESE issued a Dear Colleague letter inviting SEAs, LEAs, schools, and Tribal leaders to seek creative and effective waivers for improving student academic achievement and maximizing the impact of Federal funds. The Department encouraged

---

[12] Wisconsin Department of Public Instruction's Administration and Oversight of Emergency Assistance to Nonpublic Schools Grant Funds (ED-OIG/A24NY0195, issued September 2025).

[13] Puerto Rico Department of Education's Use of ARP ESSER Funds to Measure Student Academic Progress (ED-OIG/I25GA0233, issued March 2026).

[14] Savannah-Chatham County Public School System's Administration of the Magnet Schools Assistance Program Grant (ED-OIG/I25GA0276, issued September 2026) and New York City Community School District 13's Administration of the Magnet Schools Assistance Program Grant (ED-OIG/I25GA0260, issued October 2026).

[15] Omaha Public Schools' Oversight of IEPs (ED-OIG/I25CA0218, issued December 2025) and Prince George's County's Oversight of IEPs (ED-OIG/I25CA0261, issued August 2026).

[16] OESE's Processes for Awarding School-Based Mental Health Services Grant Program Grants and Monitoring Grantee Performance (ED-OIG/A24IL0156, issued March 2025).

[17] Managing Risks in Federally Funded, State-Administered Programs (GAO-26-109100, issued July 2026).

State and local leaders to think creatively about how Federal funds may be best leveraged to respond to parents' concerns about the quality of education delivered in America's public schools and outlined existing areas of flexibility under the ESEA and the waiver process. The Department has waived certain ESEA requirements for 7 States, and 26 States have been granted the authority to waive selected statutory or regulatory requirements for school districts and schools.

Creative and non-traditional approaches to implementing activities under the ESEA could potentially lead to improved student academic achievement at the State and local levels, if designed and implemented properly. However, increased flexibility and alternative ways for grantees to implement ESEA activities could result in less funding and support for disadvantaged and vulnerable groups of students. It could also result in a significant increase in Department resources—time, money, staffing—needed to effectively oversee and monitor those activities. Department oversight and monitoring of the grant funds and activities impacted by those waivers could be challenging because Department program reviewers will need to evaluate grantee compliance against criteria that are likely to differ by grantee and that may also be new and unfamiliar to the reviewers.

- **Oversight of Grant Program Services Obtained Through Interagency Agreements.** In May 2025, the Department executed an interagency agreement (IAA) with the U.S. Department of Labor to obtain services for administration and management activities for the adult education and family literacy programs and career and technical education programs that were previously performed by the Department's Office of Career, Technical, and Adult Education. Between November 2025 and June 2026, the Department announced that it executed additional IAAs with five Federal agencies (Health and Human Services, Interior, Justice, Labor, and State) to obtain services for a significant portion of the K–12 and postsecondary education programs work historically performed by the Department, as well as other work related to civil rights enforcement and student privacy protection. Under these agreements, the receiving agencies will provide grant administration services to the Department in managing and overseeing Department programs, including conducting monitoring activities to ensure program compliance and providing technical assistance to grantees. However, the Department will maintain all statutory responsibilities and continue overseeing the education programs subject to the IAAs, including coordinating audit resolution and closure, monitoring internal controls and risk assessments for impacted programs, and reviewing grantees' annual performance and fiscal reports.

  In executing these partnerships, the Department has described its goals as streamlining Federal education activities, reducing administrative burdens, and refocusing programs and activities to better serve students and grantees. The OIG has consistently made recommendations aimed at improving program efficiency and effectiveness and is supportive of such efforts. However, this substantial change in operations, whereby two partner agencies will now be responsible for sharing data and carrying out and coordinating on activities related to grantee oversight and monitoring that were previously performed by

just one agency—coupled with the significant loss of staff at the Department over the past 2 years and the elimination of certain subcomponents that provided program offices with monitoring and technical assistance support—is likely to present its own set of challenges. It will be critically important for the Department to ensure that program expertise is transferred and that there is continuous communication between the agencies to avoid any gaps in grantee oversight and monitoring or duplication of effort.

- **Resolution of External Audits.** The Office of Management and Budget requires agencies to establish processes to ensure the prompt and proper resolution of audit recommendations and implementation of corrective actions. Audits serve the interests of the Department by reporting whether grant terms and conditions are fulfilled; applicable statutes and regulations are followed; and fiscal and other operations are conducted in a legal, efficient, and economical manner. The Department's 2025 workforce optimization efforts resulted in the elimination of the unit responsible for the oversight and approval of the closure of OIG external audits. Since then, the Department's audit follow-up operations have become unclear and appear largely inactive.[18]

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. The Department engaged contractor support to assist in the resolution of external audits after determining that additional support was necessary to manage the overall volume and complexity of its audit portfolio. The Department stated that this support will also help it evaluate longer-term process efficiencies and identify new methodologies for audit follow-up and closure activities.

[18] Department's Follow-Up Process for External Audits (ED-OIG/I25DC0239, issued August 2026).

Management Challenge 3—Oversight and Monitoring of Student Financial Assistance Programs

Within the Department, FSA administers the Federal student assistance programs, and the Office of Postsecondary Education (OPE) develops Federal postsecondary education policy and regulations for these programs. OPE also administers the review process for accrediting agencies to ensure that the Department recognizes only agencies that are reliable authorities for evaluating the quality of education and training that postsecondary institutions offer.

FSA oversees the delivery of more than $130 billion annually in Federal student assistance, in the form of loans, grants, and Federal work study, to more than 10.5 million postsecondary students and their families. FSA directly manages or oversees a loan portfolio of more than $1.7 trillion, representing about 219 million student loans to more than 45 million borrowers. FSA also oversees approximately 5,280 postsecondary institutions that participate in the Federal student assistance programs. In FY 2026, FSA performed these functions with an administrative budget of about $2.5 billion (more than $1.9 billion of which is for contracts as noted below) and less than 900 employees—approximately 40 percent fewer staff than it had in FY 2024—along with contractors that provide outsourced business operations.

In March 2026, the Department entered into an IAA with the U.S. Department of Treasury (Treasury), under which Treasury will assume operational responsibility and provide operational support for aspects of the Department's Federal student assistance programs. The agreement is to be implemented in three phases. In the first phase, Treasury will assume operational responsibility for managing and collecting on over $234 billion in defaulted Federal student loan debt. In the second phase, Treasury will provide operational support for administrative operations for servicing non-defaulted student loan debt. In the third phase, Treasury will provide operational support for additional activities, such as administering the Free Application for Federal Student Aid (FAFSA), assessing student and institutional eligibility, origination of loans, oversight, and enforcement activities. The Department, through both OPE and FSA, will maintain all statutory responsibilities, including policy development.

Why This is a Challenge

The Department must provide effective oversight and monitoring of Federal student assistance programs to help ensure organizational goals can be achieved, that the programs are operating effectively and efficiently, and are not subject to fraud, waste, and abuse. The Department's responsibilities include coordinating and monitoring the activity of many Federal, State, nonprofit, and private entities involved in Federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department. These entities include postsecondary institutions, contracted servicers, accrediting agencies, guaranty agencies, lenders, and Treasury.

The following are some examples of challenges that the Department faces regarding the oversight and monitoring of Federal student assistance programs.

- **Implementation of IAA with Treasury.** The Department is implementing the first phase of its IAA with Treasury, where Treasury assumes operational responsibility for managing and collecting on defaulted Federal student loan debt. For each of the three phases, the Department will need to coordinate roles and responsibilities with Treasury, the sharing of data, and the transfer of operational activities currently performed by FSA. Effective coordination and oversight are essential to ensure that program requirements are met and program goals and objectives are achieved.
- **Implementation of Provisions in the OBBBA.** As noted under Management Challenge 1, the OBBBA made significant changes to the Federal student assistance programs. Many of these changes were effective July 1, 2026. The Department issued final regulations for these programmatic changes in May and July 2026. FSA will need to oversee and monitor program participants' implementation of these changes. These changes include
    - the creation of the Workforce Pell program, making students enrolled in short-term programs eligible for Pell grants (the effective implementation of which will be particularly important given issues that we noted—specifically, inaccurate completion and placement rates—in recent inspections of schools' compliance with short-term program requirements to be eligible to participate in the Direct Loan program);[19]
    - the creation of accountability measures for institutions, specifically addressing that programs will not be eligible to participate in the Direct Loan program if they result in low earning outcomes for students;
    - the introduction of annual and aggregate limits for Direct Loans for graduate and professional students;
    - the introduction of annual and aggregate limits for parent borrowers of Direct PLUS Loans, lifetime maximum aggregate limits for student borrowers, including graduate and professional students, and institutionally determined loan limits for a program;
    - the proration of Direct Loan amounts for a student enrolled on a less than full-time basis; and
    - the creation of the Repayment Assistance Plan, a new income-based repayment plan for borrowers; the phase out of existing repayment plans; and a requirement that student loan borrowers repay their loans under either a standard repayment plan or the Repayment Assistance Plan.
- **Oversight of Institutional and Program Eligibility.** Under the Higher Education Act (HEA), FSA is responsible for assessing the eligibility of institutions and programs to participate in

[19] Short-Term Program Eligibility Compliance: Rosedale Technical College (ED-OIG/I25NY0265, issued July 2026) and Short-Term Program Eligibility Compliance: National Holistic Institute (ED-OIG/I25NY0266, issued October 2026).

Federal student assistance programs and assessing the administrative capability and financial responsibility of institutions by conducting program reviews. Our work has identified weaknesses in FSA's oversight of institutions participating in Federal student assistance programs—weaknesses that could be exacerbated by the significant loss of staff across FSA's eight School Participation Divisions.[20] According to FSA, while the group that conducts its program reviews of institutions was significantly impacted by the Department's 2025 workforce optimization efforts, the group still has some remaining staff and continues to conduct program reviews of institutions of higher education, though at a reduced scale due to staffing limitations. Additionally, the group that conducted program reviews of guaranty agencies and lenders no longer has any staff, but FSA stated that it maintains oversight controls through other mechanisms external to FSA.[21]

- **Contract Oversight.** More than $1.9 billion of FSA's annual administrative budget is devoted to contracting for loan servicing, systems, and other activities to support Federal student assistance programs. Department policy requires every contract to be monitored to provide assurance that the contractor performs the work called for in the contract and to develop a clear record of accountability for performance. Our work, and that of GAO, has identified weaknesses in FSA's oversight of its contractors. GAO found that in February 2025, FSA stopped assessing student loan servicers on accuracy and call quality due to a lack of staff capacity. The decision to stop assessing these performance metrics occurred shortly after the downsizing of the Federal workforce beginning in January 2025. Prior to FSA discontinuing this oversight, most servicers did not meet the performance standards for accuracy and faced financial penalties. FSA continued to assess servicer performance on other performance metrics, which are less labor intensive to monitor.[22]
- **Student Eligibility and Fraud.** FSA and participating institutions implement controls to assess student eligibility for Federal student assistance. Despite such controls over student eligibility, fraud rings consisting of large, loosely affiliated groups of criminals continue to fraudulently obtain Federal student aid. We have found that FSA could strengthen its preventive controls to better protect Federal student aid funds and the public from fraudulent activity. For example, in 2024, we made recommendations for FSA to take additional actions related to the verification of user identities when granting access to FSA systems, including online submissions of the FAFSA.[23] In 2026, we recommended that FSA work with the Internal Revenue Service to implement additional controls to detect and

---

[20] The Importance of Strengthening Internal Controls in FSA: FYs 2019–2024 (issued December 2024).

[21] Department's Compliance with Payment Integrity Information Reporting Requirements for FY 2025 (ED-OIG/A26DC0288, issued August 2026).

[22] Federal Student Loans: Education Needs to Address Gaps in Servicer Oversight (GAO-26-108534, issued March 2026)

[23] FSA's Actions to Mitigate Risks Associated with the FSA ID Account Creation Process (ED-OIG/F23IT0138, issued July 2024).

prevent the misuse of stolen identities on FAFSA submissions and for FSA to conduct risk-based verification and validation procedures at the time users' accounts are created to access FSA systems.[24]

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. FSA assigned a Senior Executive to oversee the implementation of the IAA with Treasury, FSA and Treasury launched the Defaulted Loan Support Center and FSA has taken other actions to assist defaulted borrowers, the Department issued regulations to implement the programmatic changes made to the Federal student assistance programs by the OBBBA, and FSA hired more than 200 new staff members (with additional hiring expected) and has begun training program review staff. In addition, FSA implemented a real-time identity fraud detection capability within the FAFSA and has taken other actions to address fraud in Federal student assistance programs.

[24] Fraud Advisory: Potential Fraud Involving FAFSA from Dependent Students with Unusual Parent Data (issued February 2026).

Management Challenge 4—Data Quality and Reporting

The Department collects, analyzes, and reports on data for many purposes that include enhancing the public's ability to access high-value education-related information, reporting on programmatic and operational performance, informing management decisions, and improving education in the United States. The Department collects information from numerous sources, including States, which compile information relating to public school districts; public schools; postsecondary institutions, including colleges, universities, and institutions offering technical and vocational education at or beyond the high school level; and surveys of private schools, public elementary and secondary schools, IHEs, students, teachers, and principals.

In addition, the Department and FSA issue annual reports to inform Congress, the President, other external stakeholders, and the American people on how these organizations used Federal resources. These annual reports enable stakeholders to assess the organizations' performance relative to their missions and to determine whether the organizations have been accountable for the resources entrusted to them.

Why This is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and complete. The Department relies on program data to evaluate program performance and inform management decisions. Quality and reliable data are critical and necessary when monitoring grantees' performance, which is one of the Department's key responsibilities. Within the Department, the Institute of Education Sciences (IES) compiles a wide range of statistics and develops products to ensure that educational programs conform to high standards of quality, integrity, and accuracy. In FY 2025, however, IES reduced its workforce by nearly 90 percent. Further, under the IAAs, other agencies will be taking on increasing responsibilities for collecting and assessing grantee performance and fiscal data as part of their monitoring efforts, and, with proper oversight by the Department, will need to ensure that systems and controls are in place to assure the reliability of these data.

The following are some other examples of challenges that the Department faces regarding data quality and reporting.

- **Reliability of Loan Program Subsidy Data.** The design and implementation of controls over the reliability of the underlying data used in the Federal student loan programs' subsidy re-estimates has been identified as a material weakness in each annual financial statement audit from FY 2018 through FY 2025.[25] Errors identified in the underlying data resulted in the Department and FSA receiving disclaimers of opinion on their financial statements from

[25] FY 2025 Department Financial Statement Audit (ED-OIG/A25FS0234, issued January 2026).

FYs 2022 through 2024; however, no such disclaimer was reported for FY 2025.[26] Subsidy re-estimates are periodic revisions of the estimated costs to the government of extending or guaranteeing Federal student loans. Subsidy re-estimates are important for transparency and accountability in Federal student loan programs, helping to manage financial risks and ensure the efficient use of funds.

- **Reliability of Postsecondary Institution Data.** The Department's publicly available postsecondary institution data (College Scorecard, College Navigator, and Integrated Postsecondary Education Data System (IPEDS) Data Center) are used to analyze trends in postsecondary education and help students attending postsecondary schools, prospective students, and their parents compare postsecondary schools and make informed school enrollment decisions. Our recent work on the quality of data reported through the Department's IPEDS surveys, managed by the National Center for Education Statistics (NCES), found that some schools did not always report verifiable data on students' cost of attendance, financial aid, and the schools' graduation rates to the Department.[27] As a result, prospective students and their parents might make enrollment decisions based on such unreliable information. Furthermore, we found that while the Department had control activities for IPEDS data quality in place, it had not conducted a review or evaluation of its internal controls over the process for ensuring the quality of IPEDS survey data.[28]
- **Compliance with the Geospatial Data Act.** For FY 2026, the Department was not in full compliance with the requirements of the Geospatial Data Act.[29] Geospatial data can enhance operations and support decision-making, including formula grant allocations. It also informs public and congressional reports, such as the School Pulse Panel, the annual Condition of Education publication, and the College Scorecard. We found that the Department does not have adequate resources to fulfill the responsibilities of effective geospatial data collection, production, and stewardship; geospatial data was not included in the Department's record schedules approved by the National Archives and Records Administration; and the Department's geospatial data was not always documented with all relevant metadata for geospatial data. This occurred, in part, because of a lack of resources and subject matter expertise resulting from the Department's 2025 workforce optimization efforts. NCES, within IES, is the primary Federal entity for collecting and analyzing

---

[26] FY 2022 Department Financial Statement Audit (ED-OIG/A22FS0064, issued January 2023), FY 2023 Department Financial Statement Audit (ED-OIG/A23FS0127, issued November 2023), and FY 2024 Department Financial Statement Audit (ED-OIG/A24FS0168, issued November 2024).

[27] Quality of Data Reported through the Department's IPEDS Surveys by NUC University (ED-OIG/I24IL0174, issued April 2025), Quality of Data Reported through the Department's IPEDS Surveys by Joliet Junior College (ED-OIG/I24IL0210, issued September 2025), and Quality of Data Reported through the Department's IPEDS Surveys by Southern New Hampshire University (ED-OIG/I24IL0217, issued January 2026).

[28] NCES' Internal Control Activities Over IPEDS (ED-OIG/F25IL0003, issued August 2026).

[29] Department's Compliance with the Geospatial Data Act (ED-OIG/A26DC0284, issued September 2026).

education data. Out of 191 IES employees, 161 were separated due to workforce optimization efforts, leaving 30 (16 percent) employees remaining in all of IES, none of whom worked on geospatial data. Our three prior assessments for FYs 2020, 2022, and 2024, found that the Department complied with the requirements of the Geospatial Data Act.

- **Oversight of Section 117 Reporting.** Section 117 of the HEA mandates financial transparency of IHEs by requiring the reporting of gifts from and contracts with a foreign source to the Department. Our inspection of Section 117 reporting requirements found that FSA did not have any monitoring plans, policies, or procedures in place for its oversight of Section 117 reporting, and that although it was accurately posting the data it received from IHEs through its reporting portal onto its public-facing website, improvements could be made to assist in identifying and reducing data input errors.[30] Subsequent to our inspection, the Department and the U.S. Department of State entered into an IAA in February 2026, under which the U.S. Department of State is to administer Section 117's reporting and information collection provisions, along with enforcement and other activities; the Department will maintain all statutory responsibilities and oversight of the program. As with the other IAAs, it will be critically important for the Department to ensure that program expertise is transferred and that there is continuous communication between the agencies to avoid any gaps in oversight and monitoring or duplication of effort.

Progress in Addressing the Challenge

According to the Department, it made progress in addressing this challenge during FY 2026. The administration of Section 117 reporting requirements was transferred from FSA to the Office of the General Counsel, and the Department provided training to IHEs on Section 117 reporting and introduced a new reporting portal to improve reporting by IHEs and its monitoring capabilities.

[30] FSA's Oversight of Section 117 Reporting Requirements (ED-OIG/I24DC0166, issued February 2025).

Management Challenge 5—Information Technology Security

The Federal Information Security Modernization Act (FISMA) requires the OIG to assess the effectiveness of the Department's information security program. FISMA mandates that this evaluation include (1) testing the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems; and (2) an assessment of the effectiveness of the information security policies, procedures, and practices of the agency. The Department's Office of the Chief Information Officer (OCIO) monitors and evaluates contractor-provided IT services through a service-level agreement framework and develops and maintains common business solutions required by multiple program offices. FSA does not have its own chief information officer; however, it has a chief technology officer, whose primary responsibility is to promote the effective use of technology to achieve FSA's strategic objectives through sound technology planning and investments, integrated technology architectures and standards, effective systems development, and production support.

From FY 2023 through FY 2025, the Department's overall IT security program and practices were assessed as effective, with nearly all FISMA domains meeting the requirements needed to operate at a Level 4 (Managed and Measurable) or Level 5 (Optimized) maturity rating.[31] For FY 2026, the Department's overall information security program and practices were again assessed as effective, as 5 out of the 10 FISMA domains met the requirements needed to operate at a Level 4 maturity rating or higher.[32] However, regression was noted across multiple FISMA domains. Specifically, the Department's core maturity ratings were sustained across five domains and regressed across four domains, and its supplemental maturity ratings were sustained for one domain and regressed for two. This downward trend in FISMA maturity ratings indicates that the Department's security program and practices are not operating in a manner that is sustainable over the long term.

Why This is a Challenge

In recent years, the Department made significant progress in strengthening its IT security program. In our FY 2026 Management Challenges Report, we noted that the Department could see this progress halted and possibly even reversed because of the substantial loss of staff within OCIO specifically and across the Department more generally. OCIO had an overall reduction of at least 52 percent of employees resulting from the Department's 2025 workforce optimization efforts. In addition, fewer than 50 percent of employees remained in the FSA suboffice that provides primary IT services for all FSA systems.[33] This is in stark contrast to a priority corrective action that the Department identified in its response to this same challenge in FY 2025—specifically, that it planned to establish and protect dedicated lines of funding and personnel for its enterprise cyber

---

[31] FY 2023 Department FISMA Audit (ED-OIG/A23IT0118, issued September 2023), FY 2024 Department FISMA Audit (ED-OIG/A24IT0153, issued August 2024), and FY 2025 Department FISMA Audit (ED-OIG/A25IT0212, issued July 2025).

[32] FY 2026 Department FISMA Audit (ED-OIG/A26IT0281, issued September 2026).

[33] Department Changes in Staffing and Operations (ED-OIG/F25DC0245, issued June 2026).

and IT program. If the Department is unable to hire or retain qualified individuals to fill key positions in its security program, there is increased risk that processes and controls that have been put in place to protect the security of the Department's resources will further diminish or fail. This could increase the susceptibility of the Department's operations to fraud, waste, abuse, and cyber threats and result in more findings and recommendations in its annual security audits and inspections.

Further, the Department may lack the capacity to implement corrective actions for existing findings and recommendations, thereby exposing it to continuing information security weaknesses. While the Department's overall IT security program and practices were assessed as effective for FY 2026, more than 20 recommendations were made to the Department to strengthen its IT controls. Without measurable improvements in these areas, the Department cannot ensure that its overall IT security program remains effective in protecting its systems and resources from compromise and loss. Additionally, the program may face increasing difficulty adapting to emerging and rapidly evolving cybersecurity threats, including those driven by advances in artificial intelligence and post-quantum computing, which demand stronger, more resilient, and continuously maturing security capabilities. As technology environments and cybersecurity requirements evolve, it is important that the Department ensures that it implements and strengthens the respective security controls to protect its information and resources.

The Department's systems house millions of sensitive records on students, parents, and others, and are used to process billions of dollars in education funding. These systems are primarily operated and maintained by contractors and are accessed by thousands of authorized people (including Department employees, contractor employees, and other third parties such as school financial aid administrators). Given the notable increase in occurrences of high-profile data breaches (both in the public and private sectors) and advanced cybersecurity attacks, the importance of safeguarding the Department's information and information systems cannot be overstated. Protecting this complex IT infrastructure from constantly evolving cyber threats is an enormous responsibility and challenge. Without adequate management and operational and technical security controls, the Department's IT systems and information are vulnerable to attacks, both internal and external. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability.

Progress in Addressing the Challenge

In its response to the FY 2026 FISMA audit, the Department noted that it has taken several actions to improve its IT security program and will be prioritizing other actions, including leveraging emerging technologies, to protect its networks and data and restore and sustain maturity in those domains where we identified regression from FY 2025. The Department stated that, among other things, it implemented an artificial intelligence-enabled cloud-based platform for storing, processing, analyzing, and using large amounts of data to facilitate enhancements to its Cybersecurity Framework Risk Scorecard, and improved documentation practices and standard operating procedures for its Supply Chain Risk Management program.

Acronyms and Abbreviations

Department	U.S. Department of Education
ESEA	Elementary and Secondary Education Act
FAFSA	Free Application for Federal Student Aid
FISMA	Federal Information Security Modernization Act
FSA	Federal Student Aid
FY	fiscal year
GAO	Government Accountability Office
HEA	Higher Education Act
IAA	Interagency Agreement
IEP	individualized education program
IES	Institute of Education Sciences
IHE	institution of higher education
IPEDS	Integrated Postsecondary Education Data System
IT	information technology
LEA	local educational agency
NCES	National Center for Education Statistics
OBBBA	One Big Beautiful Bill Act
OCIO	Office of the Chief Information Officer
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OPE	Office of Postsecondary Education
SEA	State educational agency
Secretary	Secretary of Education
Treasury	U.S. Department of Treasury

Department Comments

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF FINANCE AND OPERATIONS

November 3, 2027

TO: René Rocque
Acting Inspector General
U.S. Department of Education

FROM: Mark Washington, Deputy Assistant Secretary
Delegated Duties of the Deputy Chief Financial Officer
Office of Financial Management

MARK WASHINGTON
Digitally signed by MARK WASHINGTON
Date: 2026.11.03 10:06:11 -05'00'

SUBJECT: **Response to Office of Inspector General Draft Report, "Fiscal Year 2027 Management Challenges Facing the U.S. Department of Education"**

The Department appreciates the opportunity to provide comments on the Office of Inspector General's (OIG) draft report, *Fiscal Year 2027 Management Challenges Facing the U.S. Department of Education*, and thanks OIG for its continued communication throughout FY 2026.

The Department values OIG's independent perspective on risks and vulnerabilities affecting its programs and operations. While the challenges identified in the draft report generally reflect areas requiring continued management attention, the Department believes it is important that the report also recognizes significant progress made during FY 2026, particularly in implementing major programmatic changes, strengthening oversight, and addressing longstanding management challenges.

Over the past year, the Department successfully implemented significant changes to Federal student assistance programs under the One Big Beautiful Bill Act (OBBBA), including completing related rulemaking activities and implementing the applicable provisions. These efforts required extensive coordination across offices and with external stakeholders. The Department also continued efforts to improve operational processes, strengthen collaboration, and maintain program delivery during a period of substantial organizational change.

In the area of program oversight and integrity, Federal Student Aid (FSA) has undertaken extensive efforts to identify and prevent fraud, strengthen oversight of program participants, and implement statutory changes, including the Workforce Pell program. The Department has also made significant improvements to Section 117 foreign funding reporting through a new reporting portal, expanded access to information for monitoring and enforcement, and increased coordination with the Department of State. These efforts support greater transparency, accountability, and stronger internal controls.

The Department has also continued efforts to address longstanding audit findings and improve its corrective action processes. Although challenges remain in resolving the backlog of external audits, the Department has taken steps to strengthen audit follow-up activities, including obtaining contractor support to assist with audit resolution. These efforts reflect continued attention to improving oversight and addressing outstanding recommendations.

The Department recognizes that sustained progress requires ongoing monitoring, effective internal controls, and continued coordination across offices and with Federal partners. The Department remains committed to addressing identified risks while ensuring that management challenges and related corrective actions are evaluated in the context of current operations and progress made.

We appreciate OIG's consideration of our comments and look forward to continued collaboration in addressing the Department's management challenges.