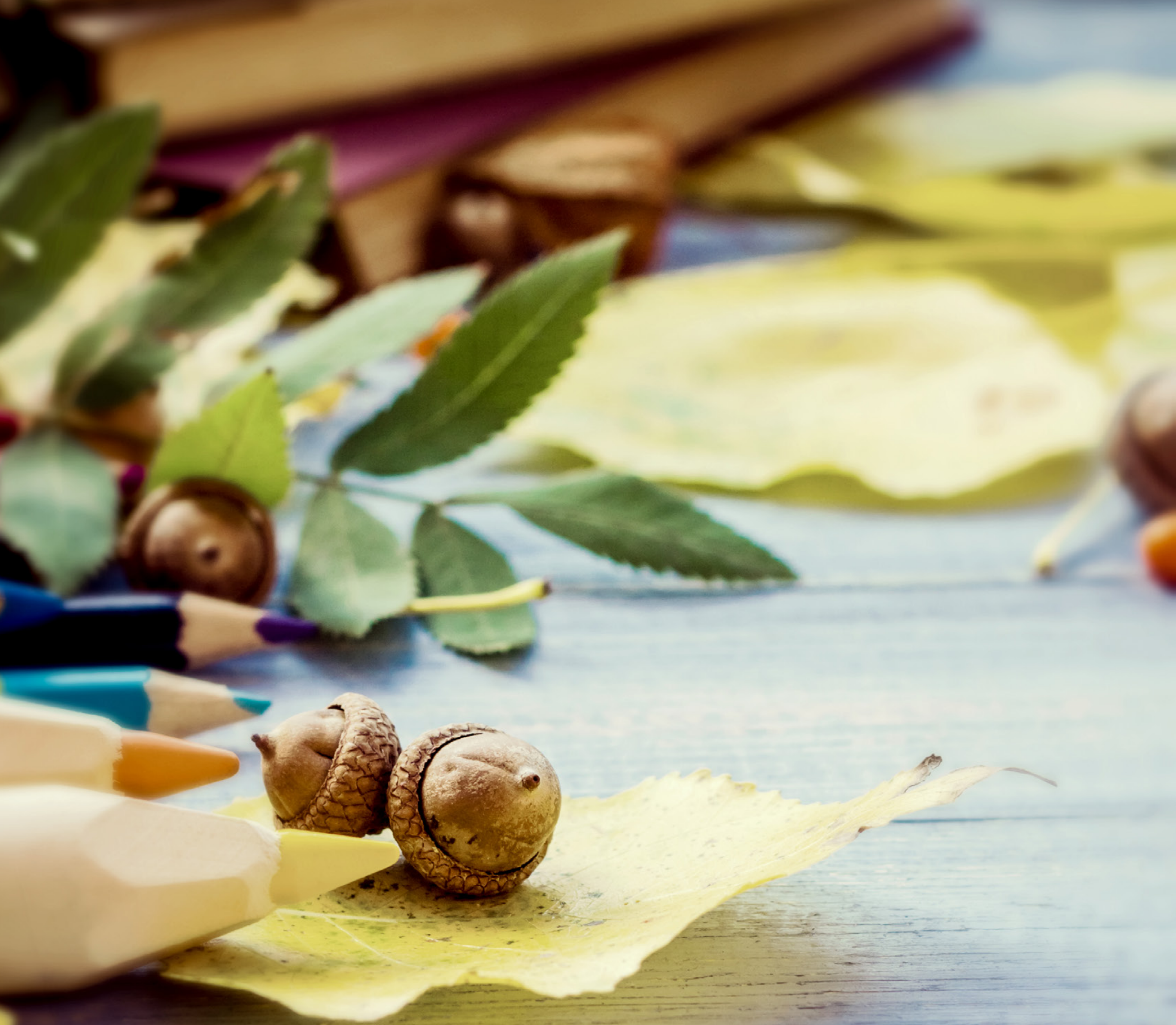


FY 2018 Management Challenges

November 2017

Office of Inspector General
Kathleen S. Tighe
Inspector General

November 2017

Please Note:

The Inspector General's FY 2018 Management Challenges is available on the ED OIG website at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

The Inspector General

November 6, 2017

TO: The Honorable Betsy DeVos
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2018

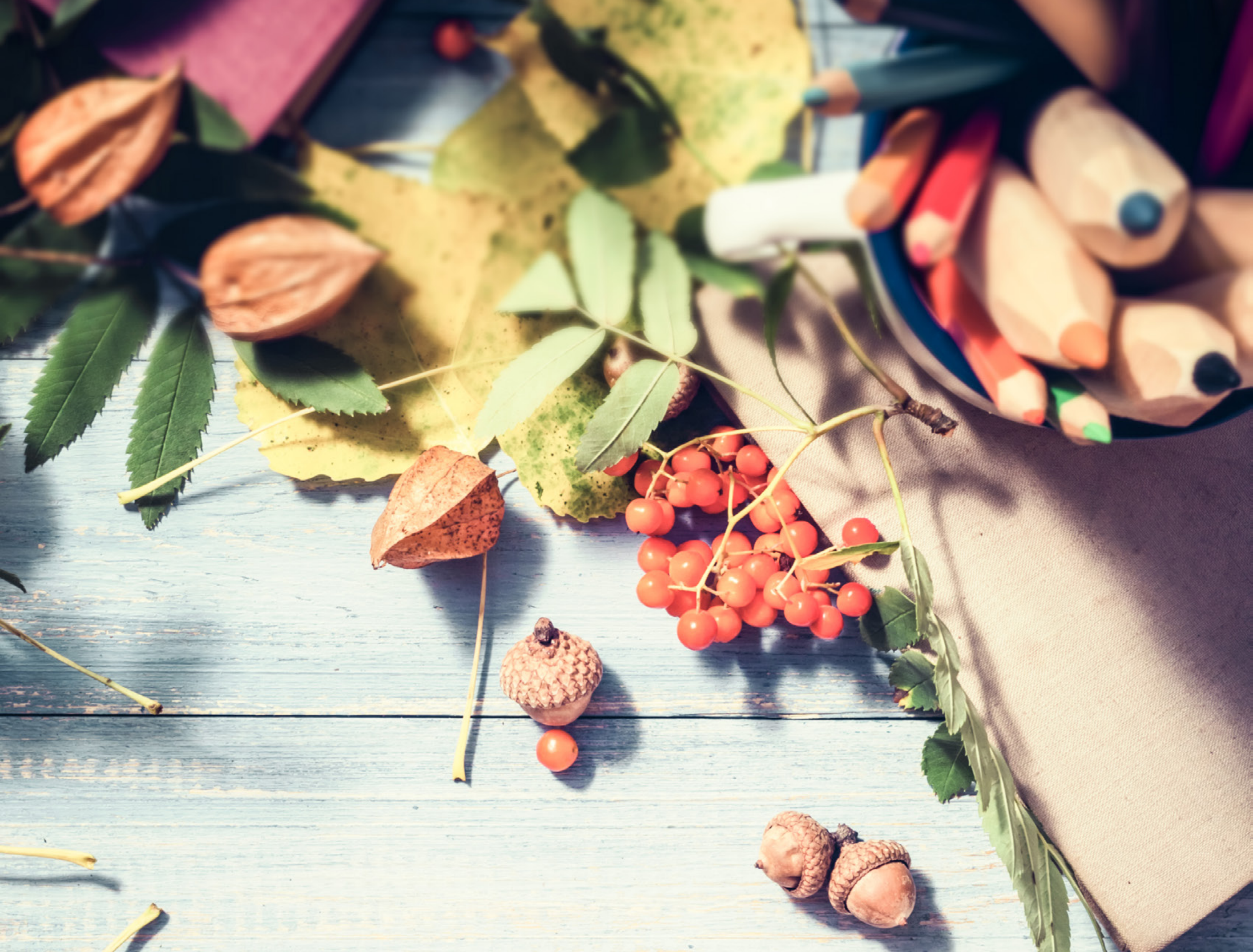
The Reports Consolidation Act of 2000 requires the U.S. Department of Education (Department) Office of Inspector General to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges. To identify management challenges, we routinely examine past audit, inspection, and investigative work, as well as issued reports where corrective actions have yet to be taken; assess ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyze new programs and activities that could post significant challenges because of their breadth and complexity.

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, four of the five remain as a management challenge for fiscal year (FY) 2018. We removed information technology system development and implementation because our current body of work does not support its continued reporting as a challenge to the Department. Our planned work for FY 2018 includes audits of the Department's implementation of the Federal Information Technology Acquisition Reform Act and the Department's implementation of the Portfolio of Integrated Value-Oriented Technologies Contracts. Our conclusions from this and other work could result in this area returning as a management challenge in future years.

The FY 2018 management challenges are:

1. Improper Payments,
2. Information Technology Security,
3. Oversight and Monitoring, and
4. Data Quality and Reporting.

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2018 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.



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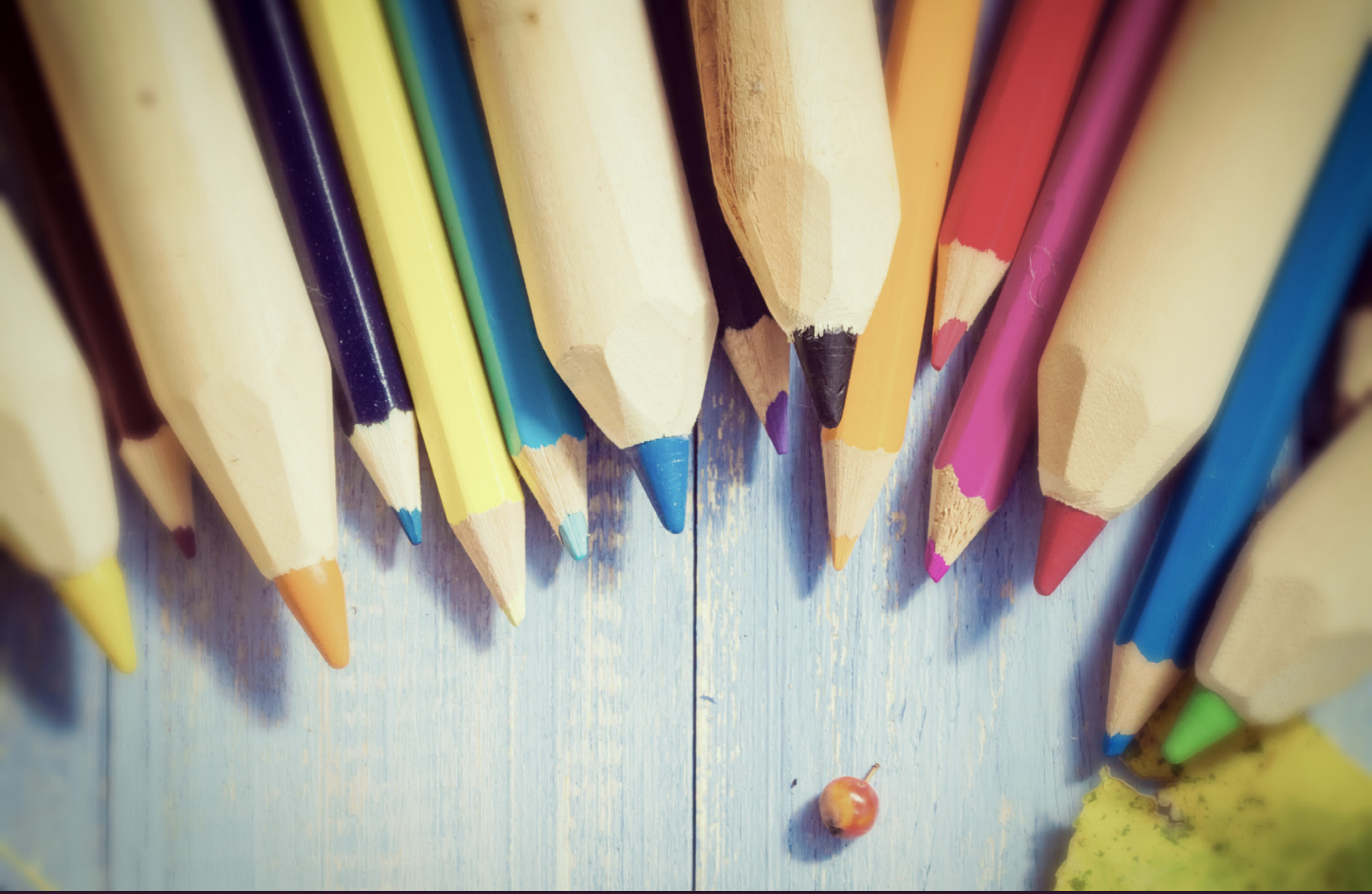


Executive Summary

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The Reports Consolidation Act of 2000 requires the OIG to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges.

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, four of the five remain as a management challenge for fiscal year (FY) 2018. We removed information technology system development and implementation because our current body of work does not support its continued reporting as a challenge to the Department. Our planned work for FY 2018 includes audits of the Department's implementation of the Federal Information Technology Acquisition Reform Act and the Department's implementation of the Portfolio of Integrated Value-Oriented Technologies Contracts. Our conclusions from this and other work could result in this area returning as a management challenge in future years.

The FY 2018 management challenges are:

1. Improper Payments,
2. Information Technology Security,
3. Oversight and Monitoring, and
4. Data Quality and Reporting.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. This FY 2018 Management Challenges Report is available at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

Management Challenge 1—Improper Payments

Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal Pell Grant (Pell) and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments. In addition, the Office of Management and Budget (OMB) has designated these programs as high-priority programs, which are subject to greater levels of oversight.

Our recent work has demonstrated that the Department remains challenged to meet required improper payment reduction targets and to intensify its efforts to successfully prevent and identify improper payments. In May 2018, we reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete; however, we identified opportunities for the Department to improve (1) its policies and procedures over the Direct Loan and Pell program's improper payment calculations, (2) the completeness of its improper payment corrective action reporting, and (3) the evidence or support for its Agency Financial Report reporting. We also concluded that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) because it (1) did not meet the reduction targets it established for the Direct Loan and Pell programs, (2) did not comply with applicable guidance regarding its risk assessment for the Vocational Rehabilitation State Grants program, and (3) did not consider all required risk factors in completing its risk assessments for certain grant programs and contracting activities.

Overall, our semiannual reports to Congress from April 1, 2014, through March 31, 2017, included more than $2.3 million in questioned or unsupported costs from audit reports and more than $44 million in restitution payments from our investigative activity. We also recently issued a report on Western Governors University that identified over $700 million in questioned costs.

Progress in Meeting the Challenge

The Department stated that it places a high value on maintaining payment integrity to ensure that Federal funds reach intended recipients in the right amount and for the right purpose. The Department stated that its work to sustain payment integrity in response to this challenge includes establishing policies, business processes, and controls over key payment activities that are intended to prevent, detect, and recover improper payments. The Department added that its efforts intend to achieve the appropriate balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome.

The Department reported that it had developed and implemented corrective actions in response to OIG recommendations to improve the accuracy and completeness of its 2017 improper payment estimates for the Direct Loan and Pell Grant programs. The Department added that it developed and implemented corrective actions to improve its improper payment risk assessment process for non-Federal Student Aid (FSA) grant programs and contracts.

The Department stated that it continues to assess and enhance its controls over payments. According to the Department, this includes routinely analyzing application and payment data and considering other factors, such as program reviews and audit reports, to help identify ways to further reduce risks and enhance its controls. The Department also stated that its payment integrity internal control framework includes more than 500 controls designed to help prevent and detect improper payments. According to the Department, those controls are included in the universe of internal controls that are tested annually to assess their design and operating effectiveness. When control deficiencies are detected, the Department works to identify the root causes, develops corrective action plans, and tracks the plans through resolution.

Finally, the Department stated that it has increased its efforts to enhance payment integrity through three new or ongoing initiatives. These included (1) establishing a payment integrity workgroup, (2) developing a continuous control monitoring system, and (3) developing policies and new business processes to more accurately report the number and amount of improper payments detected and collected.

What Needs to Be Done

The Department needs to continue to take action to improve its ability to reduce improper payments. The Department should continue its work to complete planned corrective actions to bring programs into compliance with IPERA and improve its quality control processes, process documents, and policies and procedures. While the Department continues to review its controls, it should continue to explore additional opportunities for preventing improper payments. Although the Department has added controls and seeks to strike a balance between burden and controls, it needs to consider options to strengthen existing internal controls and to develop new and cost-effective controls to reduce the level of risk.

The Department needs to develop and implement processes to more effectively and efficiently monitor Student Financial Assistance (SFA) program recipients, State educational agencies (SEA), and local educational agencies (LEA) to ensure they properly spend and account for Federal education funds. This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients.

Management Challenge 2—Information Technology Security

Why This Is a Challenge

Department systems contain or protect an enormous amount of sensitive information, such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

The OIG's work related to information technology continues to identify control weaknesses and ineffective security management programs that the Department needs to address to adequately protect its systems and data. For example, our most recent report on the Department's compliance with the Federal Information Security Modernization Act of 2014 (FISMA) concluded that the Department's and FSA's overall information security programs were generally not effective. We found the Department and FSA were generally effective in two of the five security functions reviewed—identify and recover. However, they were not generally effective in the three remaining security functions—protect, detect, and respond.

Our report included specific findings in the areas of configuration management, identity and access management, security and privacy training, information security continuous monitoring, and incident response. We made recommendations assist the Department and FSA with increasing the effectiveness of their information security program so that they fully comply with all applicable requirements.

Progress in Meeting the Challenge

The Department reported that it continued to make progress in implementing actions to mitigate risks associated with information technology security during FY 2017. The Department stated that it completed a cybersecurity workforce capability assessment to identify current gaps in the Department's cybersecurity workforce skills and certifications and developed several new cybersecurity guidance documents. The Department also noted that the Chief Information Security Officer is leading coordination efforts to meet deadlines for assigning new cybersecurity codes to positions with information technology, cybersecurity, and cyber-related functions.

The Department further responded that beginning in December 2016, the Chief Information Security Officer formally established and led a Cybersecurity Steering Committee to improve the Department's cybersecurity posture and communicate critical information. The Department stated that the committee also coordinated and resolved issues that impacted the quality and timely reporting of performance measures; coordinated reporting for the Department's high-value assets; ensured timely completion of high visibility, government-wide security operations directives; and completed risk assessment actions required by the President's Executive Order, Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure, and OMB M-17-25.

The Department reported that the Chief Information Security Officer led a number of cybersecurity policy updates that include improving the Department's overarching cybersecurity policy guidance, revising its Handbook for Cybersecurity Incident Response and Reporting, and developing a Cybersecurity Strategy and Implementation Plan. According to the Department, its plan highlights Departmental cybersecurity initiatives, strategies, and action items that are directly mapped to the Cybersecurity Framework categories. Finally, the Department stated that it completed numerous other actions that included the completion of risk assessments for all systems in the FISMA inventory and the formal designation of a Senior Accountable Official for cybersecurity risk.

What Needs to Be Done

The Department reported significant progress towards addressing longstanding information technology security weaknesses. However, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations.

While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of information technology security controls, particularly in the areas of configuration management and identity and access management. Within configuration management, we identified weaknesses that include the Department using unsupported operating systems, databases, and applications in its production environment and not adequately protecting personally identifiable information. Within identity and access management, we identified weaknesses where the Department has not fully implemented its network access control solution or two-factor authentication and where the Department and FSA did not adhere to the required Federal background investigation process for granting and monitoring access to its external users.

Our FISMA audits will continue to assess the Department's efforts, and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes. To that end, the Department needs to effectively address IT security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

Management Challenge 3—Oversight and Monitoring

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended and programs are achieving goals and objectives. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Two subareas are included in this management challenge—SFA program participants and grantees.

Oversight and Monitoring—SFA Program Participants

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the Higher Education Act of 1965, as amended, to ensure that the programs are not subject to fraud, waste, and abuse. The Department's FY 2018 budget request includes $134.2 billion in new grants, loans, and work-study assistance to help an estimated 12.2 million students and their families pay for college.

The growth of distance education has added to the complexity of the Department's oversight of SFA program participants. The management of distance education programs presents challenges to the Department and school officials because little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the Federal student aid laws and regulations and creates new opportunities for fraud, abuse, and waste in the SFA programs. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to obtain Federal student aid.

Our audits and work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants.

Progress in Meeting the Challenge

The Department reported that it employs several oversight tools in its work to ensure program participants' compliance with statutes and regulations and to mitigate the inherent risks associated with the administration of financial assistance programs. These include (1) program reviews, (2) review and resolution of program participant's annual compliance audits and financial statements to ensure administrative capability and financial responsibility, and (3) certification activities to ensure continued eligibility for participation in the Federal student aid programs.

The Department stated that during FY 2017, FSA implemented actions to improve its oversight and monitoring process for schools, lenders, servicers, and guaranty agencies. In August 2017, the Department announced that FSA was adding several key senior executives to help lead and implement a more comprehensive, broader approach to its oversight function. The Department also reported that FSA had begun establishing an integrated system of oversight functions that were intended to better ensure compliance by all participating parties. The Department intends for this approach to oversight to begin with proactive risk management that identifies and mitigates risks before they pose a threat.

The Department stated that is has also taken steps to strengthen its accreditation oversight. According to the Department, this includes improving data sharing, enhancing its processes to determine agency effectiveness, and improving its processes to assess whether agencies evaluate institutions in a manner consistent with the Secretary's Criteria for Recognition.

The Department stated that this management challenge reflects the inherent risks associated with Federal student aid and the ongoing challenge to mitigate these risks through oversight and monitoring.

What Needs to Be Done

The Department continues to identify important accomplishments that are intended to improve its ability to provide effective oversight. We recognize the progress the Department is making and the need to balance controls with both cost and the ability to effectively provide necessary services. However, our audits and investigations involving SFA programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to improve it processes.

The financial responsibility provisions that were planned to go into effect in July 2017 as part of the borrower defense regulation changes would have included tools to improve the Department's oversight of schools. Enforcement of such regulations could have improved FSA's processes for mitigating potential harm to students and taxpayers by giving FSA the ability to obtain financial protection from schools based on information that is broader and more current than information schools provide in their annual audited financial statements. The Department needs to implement provisions that will allow it to receive important, timely information from publicly traded, private for-profit, and private nonprofit schools that experience triggering events or conditions. Collecting and analyzing this information could improve FSA's processes for identifying Title IV schools at risk of unexpected or abrupt closure.

Overall, the Department needs to ensure that the activities of its new efforts to better coordinate oversight result in effective processes to monitor SFA program participants and reduce risk. It should work to ensure that its program review processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers. Finally, the Department could enhance its oversight of SFA programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

Oversight and Monitoring—Grantees

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 18,200 public school districts and 50 million students attending more than 98,000 public schools and 32,000 private schools. Key programs administered by the Department include Title I of the Elementary and Secondary Education Act, which under the President's 2018 request would deliver $15.9 billion for local programs that provide extra academic support to help nearly 25 million students in high-poverty schools meet challenging State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide about $11.9 billion to help States and school districts meet the special educational needs of 6.8 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve LEA and SEA control issues; fraud relating to education programs; fraud perpetrated by SEA, LEA, and charter school officials; and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

The Department noted that mitigating the risks associated with grants awarded to States, school districts, institutions of higher education, and other entities remains a significant challenge given the Department's relatively limited resources for oversight and monitoring. The Department stated that in response to this challenge, it initiated an enterprise-approach to risk management in FY 2017 and implemented targeted actions to improve support for grant recipients. The Department added that these actions focused on increasing staff expertise and leveraging risk-based tools and approaches to provide improved technical assistance and oversight.

The Department also reported that it completed several activities that were intended to improve its monitoring skills and capacity across offices through a variety of collaborative training and development efforts. Examples included developing training related to distance monitoring and the providing technical assistance.

The Department added that it has implemented a number of new risk-based monitoring tools and approaches. The Department stated that its Risk Management Service provided analysis of complex monitoring issues that are intended to support well-informed, timely decision-making and preparation for site monitoring visits. The Department further reported that it deployed two monitoring tools that were intended to (1) assist in analyzing risk and create risk-based monitoring plans and (2) centralize and automate key monitoring data while expanding the monitoring information into new areas.

The Department also noted that its grant offices had implemented a number of new risk-based approaches to better target limited resources on those educational agencies and entities in need of the most assistance. This included the expansion of the Office of Elementary and Secondary Education's (OESE) fiscal monitoring pilot that leverages joint reviews across its programs. The Department reported that this approach has better positioned it to work more proactively with SEAs and LEAs, identify issues of concern, and share best practices and lessons learned.

The Department further reported other improvements that included the Office of Career, Technical, and Adult Education's enhancements to its comprehensive monitoring web portal, the Office of Postsecondary Education's collaboration with other offices in developing and implementing a standard discretionary grant site visit monitoring tool, and the Institute of Education Sciences' efforts to improve the oversight of privacy and information security.

What Needs to Be Done

The Department acknowledges that this area is a major risk and points out actions it has taken to address this challenge. In particular, its efforts to pilot joint program fiscal monitoring reviews appear to leverage its limited resources to focus on areas of risk. The Department should closely review the results of this pilot and look for ways to improve it and expand it into other areas. Also, the Department should continue to make use of risk-based information, develop common training and procedures, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs.

As various offices implement improvements to monitoring, such as those cited above, the Department should review their effectiveness and replicate effective practices to other program areas. Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. Another area where there is the potential to make use of limited resources to improve oversight is to review the results of single audits and program monitoring efforts in order to revise the single audit process and updates to the 2 C.F.R. 200, Subpart F—Compliance Supplement to improve program compliance and help mitigate fraud and abuse.

Management Challenge 4—Data Quality and Reporting

Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department relies on program data to evaluate program performance and inform management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the Department, SEA, and LEA level. This included weaknesses in controls over the accuracy and reliability of program performance and graduation rate information provided to the Department.

Progress in Meeting the Challenge

The Department reported that it made progress in FY 2017 to implement actions that are intended to mitigate the inherent risks associated with data quality. The Department stated that it continued to build standardized procedures to evaluate the quality of SEA-submitted data. As an example, the Department noted that two of its offices used a new tool to identify, follow up on, and track individual State data quality concerns after the submission of School Year 2015–16 Consolidated State Performance Reports.

The Department stated that it developed a policy that promotes a comprehensive approach to active and strategic data management with clearly identified roles and responsibilities for data management work. The Department added that the EDFacts Data Governance Board continues to promote and support program offices' stewardship of data through a unified Information Collection package, standardized technical reporting instructions, centralized data submission systems, and increasingly standardized post-submission data quality procedures. The Department also reported that it implemented a new certification for Consolidated State Performance Reports. The certification served as reminder that the person certifying the data was providing assurance, on behalf of the State, of the accuracy of the data submission to the Department.

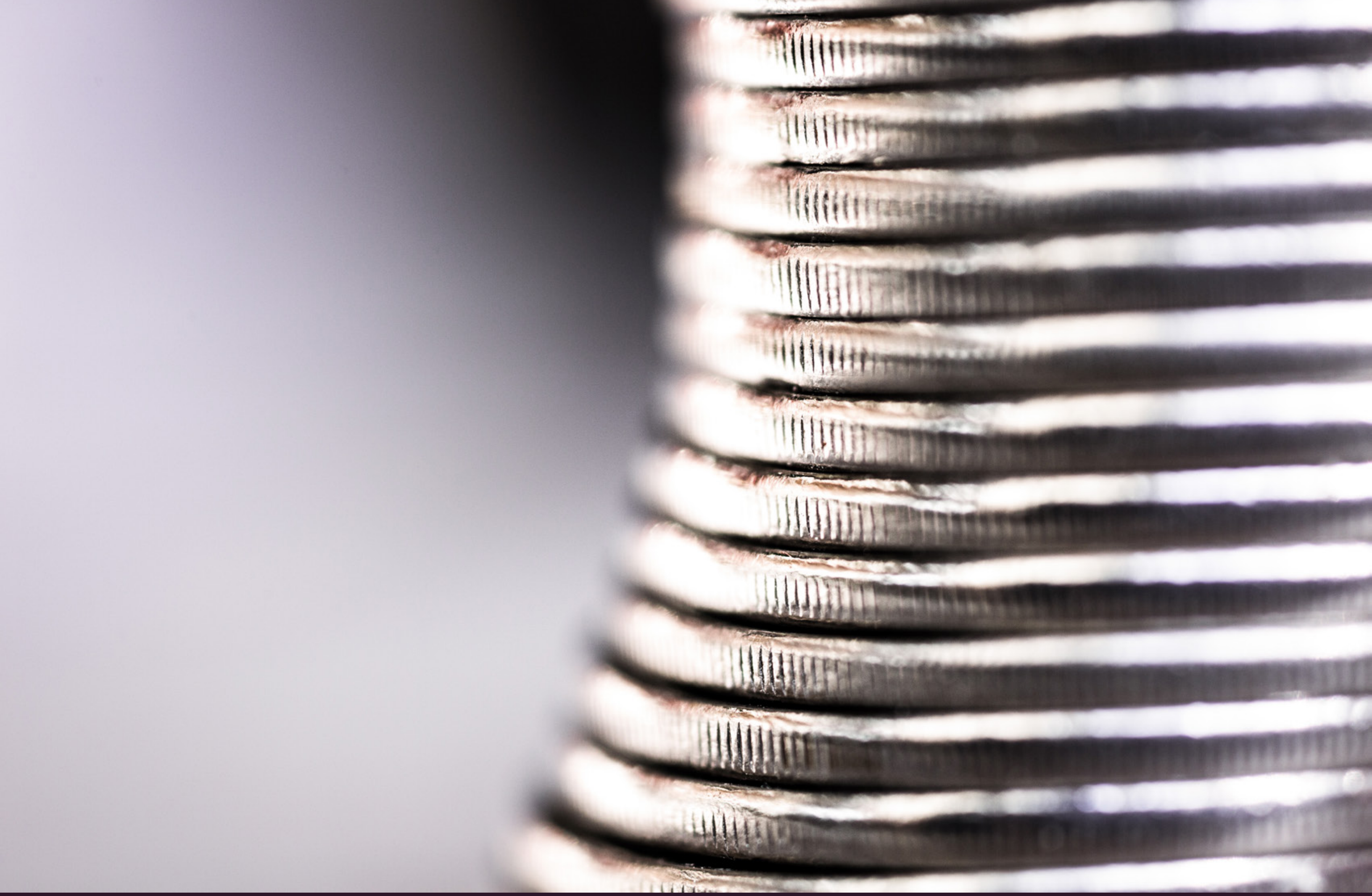
The Department stated that the EDFacts Data Governance Board routinely meets to exchange best practices. For example, board members shared strategies used with State grantees to document data review procedures, build replicable processes, and generate meaningful and timely messages back to the grantees post-data submission. The Department further stated that the National Center for Education Statistics developed a basic Data Quality Summary Form that will be shared with the Department principal offices for use in their reviews of submitted data files.

The Department also reported that OESE initiated work to develop a plan to address issues of data quality, data security, data reporting, and overall data management. As part of the effort, OESE is using prior OIG data quality recommendations as areas for possible improvement. Finally, the Department stated that the Office of Career, Technical, and Adult Education continues to offer several ongoing initiatives to help States develop and implement accountability systems that yield valid, reliable, and complete data on the progress of career and technical education students. The Department reported that these efforts included annual conferences to improve the quality and consistency of the definitions and measurement approaches that States use to report performance data, conference calls to discuss emerging issues in accountability, and customized technical assistance to States to improve the validity, reliability, and completeness of their data.

What Needs to Be Done

The Department continues to complete significant work that is intended to improve the overall quality of data that it collects and reports. This effort remains important, as data quality contributes to effective program management and helps ensure the credibility of information published by the Department. Although the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge. Our recent audits continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's efforts by the EDFacts Data Governance Board to promote common strong practices across its program offices is an important step to improving the quality of data the Department relies on. In addition, efforts to strengthen data certification statements and reach out to States and other entities that report data to the Department are important steps to reinforce the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should also make use of its current oversight mechanisms, such as single audits and program monitoring protocols, to ensure that program participants have strong controls to ensure the quality of data submitted to the Department and to ensure that they have good practices to support the data certifications they sign.



Improper Payments

Improper payments occur when funds go to the wrong recipient, the right recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or the recipient uses funds in an improper manner. The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to annually report information on improper payments to the President and Congress, focusing on risk assessments, statistical estimates of improper payments, and corrective actions.

Although not all improper payments are fraud and not all improper payments represent a loss to the Government, all improper payments degrade the integrity of Government programs and compromise citizens' trust in Government. Under the direction of the Office of Management and Budget (OMB), agencies have identified the programs that are susceptible to significant improper payments and measured, or have put into place plans to measure, the estimated amount of improper payments.

The U.S. Department of Education (Department) performed a risk assessment for all Federal Student Aid (FSA)-managed programs during fiscal years (FY) 2014 and 2015 and determined that the Federal Pell Grant (Pell) and William D. Ford Direct Loan (Direct Loan) programs were susceptible to risk of significant improper payments.

The Department also performed risk assessments of administrative payments in FY 2014 and Title I, other grant programs, and contract payments in FY 2016. The Department determined that those payments and programs were not susceptible to significant improper payments.

The Department, as well as other agencies, must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. Overall, the Department remains challenged to intensify its efforts to prevent and identify improper payments.

Our most recent work in this area concluded that the Department did not comply with IPERA for FY 2016 because it did not meet two of IPERA's six compliance requirements. While we found that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete, we identified opportunities for improvement within all three areas. Our prior work found problems with the accuracy, completeness, and reliability of the Department's improper payment estimates and estimation methodologies for the Pell and Direct Loan programs as part of its compliance with IPERA, but those issues have been largely addressed. That audit work also identified concerns with the Department's ability to effectively address root causes of improper payments and assess progress over time because of the estimation methodology it uses. Additionally, our audit and investigative work has identified improper payments in the Student Financial Assistance (SFA) programs and by State educational agencies (SEAs) and local educational agencies (LEAs).

Background

IPERA and OMB guidance require Federal agencies to implement plans to reduce improper payments. It further requires the Department to annually report on its progress in reducing improper payments and the Office of Inspector General (OIG) to review the Department's report and offer recommendations for improvement.

The Department's FY 2016 Agency Financial Report (AFR) stated that the Department's FY 2016 gross outlays totaled about $285 billion, consisting of appropriated budgetary resources of $88 billion and nonbudgetary credit program funding of $197 billion. The Department explained that its gross outlays primarily comprise credit program loan disbursements and claim payments, credit program subsidy interest payments to U.S. Department of the Treasury, and grant payments. The Department further stated that internal controls designed to prevent, detect, and recover improper payments are an essential part of its internal control framework. The Department added that key controls related to improper payments include preaward risk assessments, use of independent data sources (such as Internal Revenue Service data retrieval) to ensure accurate award amounts, automated system controls to detect and prevent payment errors, and award and payment monitoring.

As of September 2017, OMB had designated 20 Federal programs as "high priority," including the Department's Pell and Direct Loan programs. The high-priority programs are those that reported $750 million or more in improper payments in a given year, did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or have not yet established a program error rate and have measured components that were above the threshold. The Department's FY 2016 AFR stated that OMB designated Pell a high-priority program because estimated FY 2010 Pell improper payments of $1.0 billion exceeded the high-priority program threshold of $750 million. The Department also reported that OMB designated the Direct Loan program as a high-priority program during February 2015 as estimated improper payments of $1.53 billion in FY 2014 exceeded the $750 million threshold.

The Department also conducts an assessment of the risk of improper payments in each program at least once every 3 years and under this process identified the Pell and Direct Loan programs as susceptible to significant improper payments. Significant improper payments are defined as those in any particular program that exceed both 1.5 percent of program payments and $10 million annually or that exceed $100 million. OMB guidance requires agencies to report the annual amount of estimated improper payments and corrective actions taken or planned for all programs identified as susceptible to significant improper payments.

In May 2016, we reported that the Department's improper payment estimates for both the Direct Loan and Pell Grant programs were inaccurate and unreliable because the Department used estimation methodologies that did not include all program reviews that could identify improper payments and did not include improper payments from ineligible programs or locations, or other sources. In response to our recommendations, the Department revised its estimates in FY 2016. This resulted in significant increases in the improper payment rate for both the Direct Loan and Pell programs. Although we believe that the revised rates are more realistic, the significant increases in improper payment rates emphasize the need for the Department to more aggressively address this challenge by using a more stable estimation methodology and intensifying its efforts to address the root causes.

The Pell program provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. In its FY 2016 AFR, the Department reported a FY 2016 improper payment rate estimate for the Pell program of 7.85 percent, with an estimated improper payment value of $2.21 billion.

Under the Direct Loan program, the Department provides low-interest loans for students and parents to help pay for the cost of a student's education after high school. The Direct Loan program includes Direct Subsidized and Unsubsidized Loans for students, PLUS Loans for parents and graduate or professional students, and Direct Consolidation Loans for both students and parents. The Department's payment rate calculation estimated an overall Direct Loan improper payment rate of 3.98 percent, or $3.87 billion, for FY 2016.

The Department also identified more than $22 million in improper payments in its quarterly high-dollar overpayment reports from June 30, 2012, through June 30, 2017. We noted that just 2 of the Department's last 12 quarterly reports (17 percent) identified high-dollar overpayments.

Results of Work Performed

OIG work related to improper payments has evolved and increased over the years to include (1) conducting reviews required under statute and guidance and

(2) reviewing, auditing, and investigating major recipients of Federal funds. The results of this work are presented in the corresponding sections below.

Required Reviews Found Opportunities to Improve the Department's Improper Payment Reporting, Estimates, and Methodologies

In May 2017, we issued an audit report on the Department's compliance with improper payment requirements for FY 2016. While we found that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete, we identified areas for enhancement within all three areas. This included opportunities for the Department to improve (1) its policies and procedures over the Direct Loan and Pell program improper payment calculations, (2) the completeness of its improper payment corrective action reporting, and (3) the evidence or support for its AFR reporting.

We also concluded that the Department did not comply with IPERA because of the following.

- It did not meet the reduction targets it established for the Direct Loan and Pell programs. The Department reported an improper payment rate for the Pell program of 7.85 percent, which exceeded the reduction target of 1.87 percent. It also reported an improper payment rate for the Direct Loan program of 3.98 percent, which exceeded the reduction target of 1.29 percent. In its FY 2016 AFR, the Department stated that the failure to meet targets was due to changes to and the imprecision of the estimation methodologies and was not due to a control failure or increase in actual improper payments in the Direct Loan and Pell programs.
- It did not comply with IPIA and OMB guidance regarding its risk assessment for the Vocational Rehabilitation State Grants program. The Department's risk assessment showed that the program exceeded the statutory thresholds for risk-susceptible programs. However, the Department did not identify and report the program in its FY 2016 AFR as a program that may be susceptible to significant improper payments.
- It did not consider each of the nine risk factors required by IPIA and OMB guidance in completing its improper risk assessments for Department-managed grant programs and FSA-managed contracting activities.

In May 2016, we issued an audit report on the Department's compliance with improper payment requirements for FY 2015. We found that the Department's reported improper payment estimates for both the Pell and Direct Loan programs were inaccurate and unreliable because it used incorrect formulas in performing calculations and deviated from OMB-approved methodologies. We concluded that the Department did not comply with IPERA because it did not meet the annual reduction target for the Direct Loan program. The Department's recalculated FY 2015 improper payment rate of 2.63 percent for the Direct Loan program to correct for formula execution errors we identified was higher than the originally reported rate of 1.30 percent and did not meet its reduction target of 1.49 percent.

We also reported that the Department's improper payment methodologies for the Pell and Direct Loan programs were flawed because the estimation methodologies

(1) did not include all program reviews that could identify improper payments, (2) resulted in volatile improper payment estimates that could be significantly influenced by a single program review, and (3) did not include all improper payments from ineligible programs or locations identified in program reviews. As a result, we could not conclude whether or not the Department actually met its reduction target for the Pell program or whether the Department reduced or increased improper payments.

Finally, we reported that the Department's ability to address the root causes of improper payments is limited because it relies on program reviews. These reviews lead to root causes that vary from year to year and as a result, the Department is limited in its ability to assess progress over time.

In May 2015, we reported that the Department did not comply with IPERA because it did not meet the annual reduction target for the Direct Loan program. The Department reported a FY 2014 improper payment rate for the Direct Loan program (1.50 percent) that did not meet its reduction target (1.03 percent). The Department met the FY 2014 reduction targets for the Pell and Federal Family Education Loan programs. We also found that the improper payment methodologies and estimates in the Department's FY 2014 AFR for both the Pell and Direct Loan programs were inaccurate, incomplete, and unreliable.

Audits and Investigations of Recipients of Federal Funds Identified Improper Payments

OIG audit and investigative work continues to identify various improper payments in the SFA programs and by SEAs and LEAs. Overall, our semiannual reports to Congress from April 1, 2014, through March 31, 2017, included more than $2.3 million in questioned or unsupported costs from audit reports. We also recently issued a report on Western Governors University that identified over $700 million in questioned costs.

Several of our reviews of FSA programs have disclosed improper payments. Our audits and investigations of postsecondary institutions continue to disclose improper payments resulting from ineligible students, ineligible programs, or other noncompliance.

In September 2017, we issued a report on Western Governors University's compliance with the Higher Education Act of 1965, as amended (HEA), and selected Title IV regulations. Western Governors University provides online access to higher education through competency-based bachelor's degree programs, master's degree programs, and teacher licensure programs. The HEA and regulations do not limit the percentage of courses that a school is allowed to offer through distance education or limit the percentage of regular students who may enroll in courses offered through distance education. However, if a school offers more than 50 percent of its courses by correspondence or if 50 percent or more of its regular students are enrolled in correspondence courses, the school loses eligibility to participate in the Title IV programs. We concluded that Western Governors University became ineligible to participate in the Title IV programs as of June 30, 2014, because at least 62 percent of its regular students were enrolled in at least one correspondence course during award year 2013–2014. Western Governors University received almost $332 million in Title IV funds in award year 2014–2015 and more than $381 million in Title IV funds in award year 2015–2016. We recommended FSA require the school return more than $712 million in Title IV funds it received for those award years and any additional funds it received later.

Our September 2015 audit of SOLEX College's administration of selected aspects of the Title IV programs found that SOLEX College's two English as a Second Language programs were not Title IV-eligible. This was because SOLEX College did not limit enrollment in these programs to students who needed English as a Second Language instruction to use their already existing knowledge, training, or skills for gainful employment and did not document its determinations that the students needed the English as a Second Language instruction for such purposes. We found that SOLEX College disbursed $1,795,500 in Pell funds to 413 students who were enrolled in one or both of the ineligible English as a Second Language programs during award years 2012–2013 and 2013–2014.

In addition to work in the SFA programs, we have performed work identifying fiscal issues at SEAs and LEAs. Our March 2016 audit report on State and district monitoring of School Improvement Grant (SIG) contractors in California found that the California Department of Education did not adequately monitor the LEAs in our review to ensure that the LEAs had sufficient fiscal controls for obligating and paying Federal funds to SIG contractors. Our review further identified more than $121,000 in unsupported costs and more than $142,000 paid for services provided before contracts or purchase orders were approved.

The OIG's investigative work continues to identify instances where individuals, schools, or businesses have improperly obtained and used Federal education funds. This includes individuals who wrongly obtained Title IV funds by submitting fraudulent applications as part of fraud rings, schools that implemented schemes to obtain Title IV funds for ineligible students, businesses that obtained funds for services that were never provided, and officials from State and local educational agencies implementing fraud schemes to embezzle cash or steer grant funds. Our semiannual reports to Congress from April 1, 2014, through March 31, 2017, included more than $44 million in restitution payments from our investigative activity. The results of specific investigative work within these areas are identified throughout this report.

OIG work continues in this area as we will perform our annual review of the Department's compliance with the improper payment reporting requirements and its performance in reducing and recapturing improper payments. We will also complete a required risk assessment of the Department's purchase card program and, if deemed necessary, conduct an audit of Department purchase card transactions.

Department Actions and Plans

The Department stated that it places a high value on maintaining payment integrity to ensure that Federal funds reach intended recipients in the right amount and for the right purpose. The Department responded that its work to sustain payment integrity in response to this challenge includes establishing policies, business processes, and controls over key payment activities that are intended to prevent, detect, and recover improper payments. The Department added that its efforts intend to achieve the appropriate balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome. The Department further noted that it must rely on controls established by the recipients of Federal funds, including State, local, and private organizations who further distribute those funds on behalf of the Department.

The Department stated that it was not compliant with IPERA in 2016, in part, because the estimated improper payment rates for the Pell and Direct Loan programs exceeded the reduction targets published in the 2015 AFR. The Department stated that it implemented an alternative estimation methodology in 2016 and again in 2017 that was approved by OMB to estimate improper payments for these programs. This Department noted that this alternative approach leveraged its investment in and available data from FSA's existing internal control framework, specifically program reviews. The Department stated that this approach allowed it to calculate estimates at a much lower cost and without additional burden on schools and students. However, the Department noted that the alternative methodology did not provide the precision level that could be achieved using a statistical sampling methodology, increasing the risk that FSA may fail to achieve its annual reduction targets for these programs due to the lack of precision provided by the alternative methodology.

The Department stated that it has decided that a highly precise statistically valid methodology would be cost prohibitive and that a better use of resources would be to continue using the alternative estimation methodology, while working on ways to improve its precision interval. The Department added that it had implemented corrective actions established in response to prior OIG audits that included the review and strengthening of procedures to develop and execute the estimation methodologies and related plans. The Department stated that it expanded its quality assurance review process over improper payment estimation fieldwork and completed extrapolation workbooks.

The Department noted that it continues to assess and enhance its controls over payments. For example, the Department stated that it routinely analyzes application and payment data and considers other factors, such as program reviews and audit reports, to help devise ways to further reduce risk and enhance controls over student aid payments. The Department stated that its internal control framework over payment integrity includes more than 500 controls designed to help prevent and detect improper payments. Some of the key controls identified by the Department included the following.

- Computer matches against 15–20 external sources performed in FSA systems during the aid delivery process, such as the Death file match preaward, Social Security number validation, and use of excluded parties list database.

- Promotion of the Internal Revenue Service Data Retrieval Tool, which encourages about half of applicants to use Internal Revenue Service income data. The Department implemented the 2017–2018 Free Application for Federal Student Aid (FAFSA) on October 1, 2016, three months earlier than previous application years. In addition, the Department required applicants to provide "prior-prior" year tax information (i.e., for tax year

2015), instead of prior year (i.e., 2016) tax information. These changes allowed for greater usage of the Internal Revenue Service Data Retrieval Tool, thereby reducing improper payments due to misreported income.

- Requirements for school verification of student FAFSA data assessed annually.
- Unusual Enrollment History Flags on the Institutional Student Information Record.
- Annual program risk assessments and reviews of program participants, including schools, lenders, guaranty agencies, contractors.
- Establishment of a Fraud Group to intake and analyze instances of potential fraud.

The Department stated that these controls are included in the universe of internal controls tested annually to assess their design and operating effectiveness. The Department noted that when control deficiencies are detected, it then identifies the root causes, develops corrective action plans, and tracks the plans through resolution.

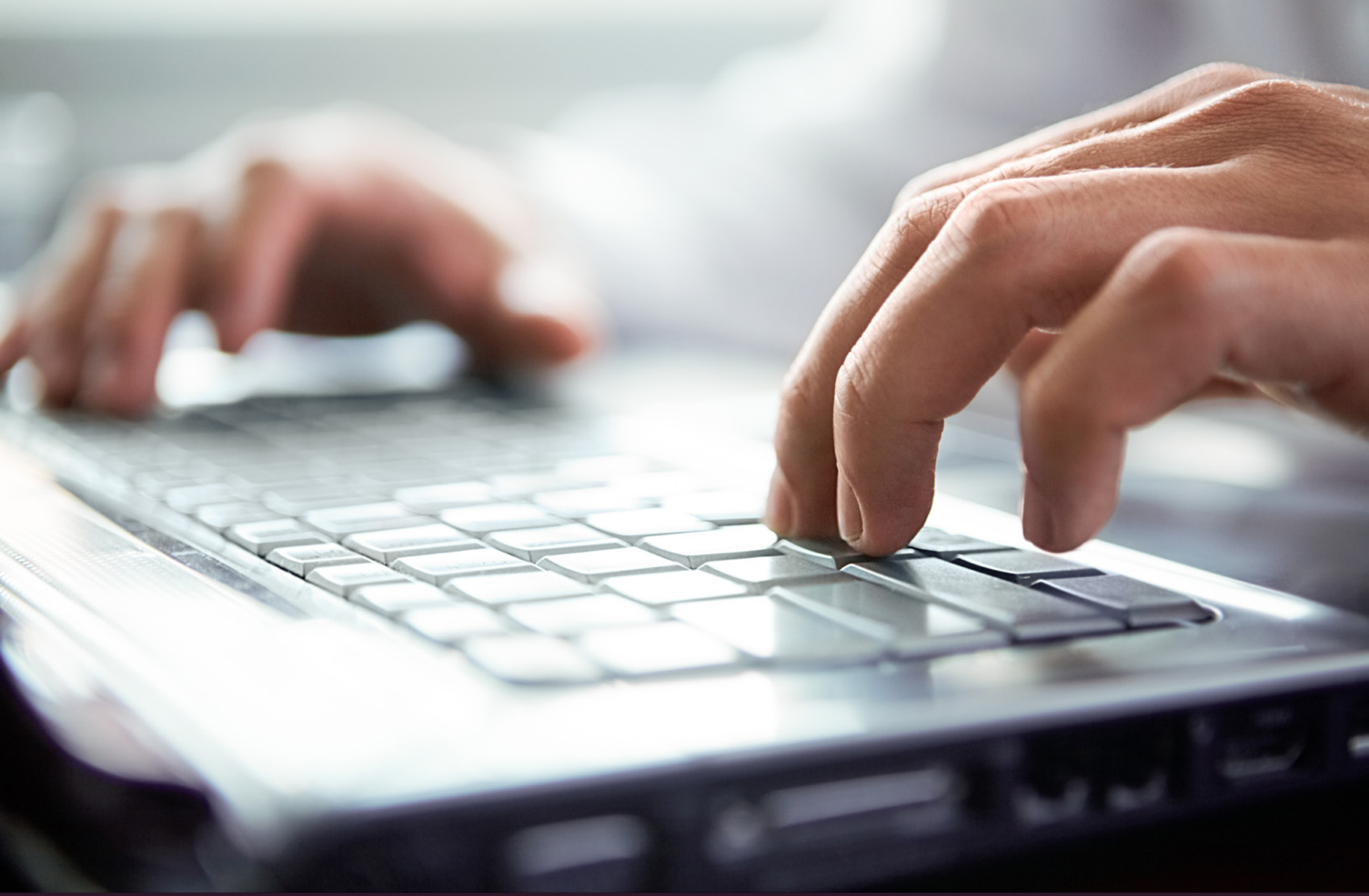
The Department stated that it recognizes the inherent risk in dealing with multiple non-Federal institutions and other organizations that disperse billions of dollars to grant subrecipients and in student aid on behalf of the Department. The Department added that it remains committed to leveraging the audit follow-up process to help us identify and recover improper payments made by these non-Federal organizations and assist them in strengthening their internal controls to minimize future improper payments.

The Department stated that it is working to resolve OIG audit reports and has increased its efforts to enhance payment integrity through three new or ongoing initiatives. These included (1) establishing a payment integrity workgroup to create a framework and governance process to assess the multiple types of Department payments and identify risks inherent in each payment type; (2) developing a continuous controls monitoring system, an application that integrates payments analysis, case management, and reporting functions, to automate and streamline the detection, referral for recovery, and prevention of improper payments; and (3) developing policies and new business processes to more accurately report the number and amount of improper payments detected and collected.

Further Actions Needed to Address the Challenge

The Department needs to continue to take action to improve its ability to reduce improper payments. The Department should continue its work to complete planned corrective actions to bring programs into compliance with IPERA and improve its quality control processes, process documents, and policies and procedures. While the Department continues to review its controls, it should continue to explore additional opportunities for preventing improper payments. Although the Department has added controls and seeks to strike a balance between burden and controls, it needs to consider options to strengthen existing internal controls and to develop new and cost-effective controls to reduce the level of risk.

The Department needs to develop and implement processes to more effectively and efficiently monitor SFA program recipients, SEAs, and LEAs to ensure they properly spend and account for Federal education funds. This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients.



Information Technology Security

The Department's systems contain and protect an enormous amount of sensitive information, such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

The OIG has identified repeated problems in information technology security and noted increasing threats and vulnerabilities to the Department's systems and data. For the last several years, information technology security audits performed by the OIG with contractor assistance and financial statement audits performed by an independent public accountant with OIG oversight have identified security controls that need improvement to adequately protect the Department's systems and data. The Department provided corrective action plans and completed actions in response to OIG audit recommendations. However, the Department needs to effectively address all information technology security deficiencies, provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

In light of high-profile data breaches at other Federal agencies, the importance of safeguarding the Department's information and information systems cannot be understated. The Department's systems house millions of sensitive records on students, their parents, and others, and facilitate the processing of billions of dollars in education funding. These systems are primarily operated and maintained by contractors and are accessed by thousands of authorized individuals (including Department employees, contractor employees, and other third parties such as school financial aid administrators). Protecting this complex information technology infrastructure from constantly changing cyber threats is an enormous responsibility and challenge. While the Department and FSA have both made progress and taken steps to address past problems that we have identified, our work demonstrates that they remain vulnerable to attacks and that key areas still need immediate action and attention.

Background

As of September 2017, the information technology infrastructure for the Department is provided through the Education Department Utility for Communications, Applications, and Technology Environment contract. Services such as email, network infrastructure, desktop support, security, and printers are provided under this contract. The Department intends to shift to an approach where it acquires segments of its information technology requirements using multiple contracts. The Department refers to these successor acquisitions as the Portfolio of Integrated Value Oriented Technologies program.

The Department also has a large Virtual Data Center contract that provides information technology support for FSA data processing. Specifically, the Virtual Data Center serves as the host facility for FSA business systems that process student financial aid applications (grants, loans, and work-study), provide schools with eligibility determinations, and support payments to and from lenders. Currently the Virtual Data Center is in the process of moving to a new hosting environment. Moving to a new hosting environment creates additional risk until the move is completed and operational readiness can be assured along with validating all security controls are implemented correctly and working as intended.

Most of FSA's major business applications are located at the Virtual Data Center, except for the Common Origination and Disbursement System. The production support and processing for this application is located at another Department contractor facility. The Common Origination and Disbursement application and database initiates and tracks disbursements to eligible students and schools for SFA programs.

The Department has experienced sophisticated attacks to its information technology systems, including browser hijacking and phishing campaigns resulting in malware infections, as well as unauthorized accesses accomplished by stealing credentials from employees or external business partners. Many of the computers that are compromised are not Department systems but the home or work computers of students, contractors, and program participants such as schools, lenders, guaranty agencies, and servicers. These systems are used by the Department's external partners to access the Department's many different business systems associated with financial aid. Although the Department can specify security controls for its contractors, it has little authority to mandate security controls and practices of these other parties.

Results of Work Performed

Projects relating to this area include information technology security audits performed by the OIG with contractor assistance, OIG investigative work, and audits performed by the Department's independent public accountant for its financial statement audits. Overall, this work has continued to identify control weaknesses, many of them repeat findings, within information technology security and systems that need to be addressed. The results of this work are presented in the corresponding sections below.

OIG Audit Work Related to Information Technology Security Found Recurring Control Weaknesses

In November 2016, the OIG issued an audit report on the Department's compliance with the Federal Information Security Modernization Act of 2014 (FISMA) for FY 2016. For FY 2016, the FISMA metrics were grouped into eight "metric domains" and organized around the five Cybersecurity Framework Security Functions (security functions) outlined in the National Institute of Standards and Technology's Framework for Improving Critical Infrastructure Cybersecurity. Inspectors General were asked to assess the effectiveness of the each of the five security functions using a maturity level scoring distribution. As set forth in National Institute of Standards and Technology guidance, "effectiveness" addressed the extent to which security controls were implemented correctly, operated as intended, and produced the desired outcome.

We found that the Department's and FSA's overall information security programs were generally not effective. Specifically, we found the following.

- The Department and FSA were generally effective in two of the five security functions—Identify and Recover. Specifically, improvements were made with their respective risk management programs, contractor systems, and contingency planning programs.

- The Department and FSA were not generally effective in three security functions—Protect, Detect, and Respond. Specifically, we noted weaknesses in the areas of configuration management, identity access management, security and privacy training, information security continuous monitoring, and incident response. Contingency planning, identity and access management, and information security continuous monitoring contained repeat findings from our FY 2015 FISMA audit.

- Since our FY 2015 FISMA report, we found that the Department and FSA improved their information security continuous monitoring programs; however, processes, performance measures, policies, and procedures have not been implemented consistently across the organization. We also found that for incident response, the Department and FSA have not fully developed, implemented, or enforced policies and procedures to manage an effective incident response program.

In November 2015, the OIG issued an audit report on the Department's compliance with FISMA for FY 2015. We found that while the Department and FSA made progress in strengthening their information security programs, weaknesses remained and the Department-wide information systems continued to be vulnerable to security threats. Specifically, we found the following.

- The Department was not generally effective in four of the reporting metrics that we reviewed—continuous monitoring, configuration management, incident response and reporting, and remote access management.
- The Department's and FSA's information technology security programs were generally effective in key aspects of three other metric areas (risk management, security training, and contingency planning); however, improvements were still needed in these areas.
- The Department's and FSA's plan of action and milestones process should be effective if implemented as intended.
- The Department's identity and access management programs and practices would be generally effective if implemented properly, but the Department's controls over access to FSA's mainframe environment need improvement. For example, our vulnerability and penetration testing revealed a key weakness in the Department's ability to detect unauthorized activity inside its computer network. We also noted a significant issue related to third-party access to a contractor-operated critical business system, specifically the Department's and FSA's ability to adequately oversee its contractors and ensure that only people with appropriate permission have access to the Department's data.

The eight metric areas in which we had findings contained repeat findings from prior OIG reports.

OIG Investigative Work Related to Information Technology Security Identified Weaknesses

In September 2016, we issued a management information report that informed the Department of our concerns regarding how the FSA ID and the Personal Authentication Service were being misused by commercial third parties to take over borrower accounts. The OIG identified this problem through various investigations and developed recommendations to address the misuse. Our report recommended changes to strengthen the banner language for the FSA ID and Personal Authentication Service to enhance the OIG's ability to successfully investigate and prosecute third parties who improperly create, access, or make changes to FSA IDs and accounts. The report also recommended that FSA increase its proactive monitoring of FSA IDs and Personal Authentication Service audit logs and ensure that it proactively monitors the types of abuses identified.

Financial Statement Audits Continue to Highlight the Need to Improve Information System Controls

The audits performed by an independent public accountant with OIG oversight of the Department's FY 2016 financial statements identified the need to mitigate persistent information technology control deficiencies as a significant deficiency. The independent public accountant acknowledged that the Department had made progress in some areas to address information technology control deficiencies in recent years; however, the independent public accountant identified weaknesses in the Department's information security program relating to policies and procedures; compliance monitoring; personnel management; security incident response; and management of various application-level security, configuration, and access controls. The independent public accountant further reported that these deficiencies can increase the risk of unauthorized access to the Department and FSA's system used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information.

OIG work continues in this area, and our primary area of focus is completing work to determine whether the Department's and FSA's overall information technology security programs and practices were generally effective as they relate to Federal information security requirements.

Department Actions and Plans

The Department reported that it continued to make progress in implementing actions to mitigate risks associated with information technology security during FY 2017. The Department stated that it completed a cybersecurity workforce capability assessment to identify current gaps in the Department's cybersecurity workforce skills and certifications. In addition, the Department stated that it developed several guidance documents that included (1) "Cybersecurity Workforce Development Strategy and Program Plan," (2) "Cybersecurity Certification Program Guidance for Information Technology Professionals," and (3) "Information Technology Cyber Security Awareness and Training Program—Tactical Plan." The Department also noted that the Chief Information Security Officer is leading coordination efforts to meet deadlines for assigning new cybersecurity codes to positions with information technology, cybersecurity, and cyber-related functions.

The Department further responded that beginning in December 2016, the Chief Information Security Officer formally established and led a Cybersecurity Steering Committee to improve the Department's cybersecurity posture and communicate critical information. The Department stated that this committee serves as the primary group to coordinate and resolve issues that impact the quality and timely reporting of performance measures for the quarterly FISMA reports to OMB across all five National Institute of Standards and Technology Cybersecurity Framework categories. The Department noted that the Committee coordinated the required actions to complete reporting for the Department's high-value assets in accordance with OMB M-17-09. It further stated that monthly committee meetings were established to ensure timely completion of high-visibility, government-wide security operations directives. The Department also reported that the Chief Information Security Officer used the committee to complete risk assessment actions required by the President's Executive Order, "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure," and OMB M-17-25. Finally the Department stated that the committee also assessed the Department's use of Kaspersky products, in advance of the issuance of the Department of Homeland Security's Binding Operational Directive 17-01.

The Department reported that the Chief Information Security Officer led a number of cybersecurity policy updates that include improving the Department's overarching cybersecurity policy guidance, revising its "Handbook for Cybersecurity Incident Response and Reporting," and developing a "Cybersecurity Strategy and

Implementation Plan." The Department stated that its plan is directly aligned with the Federal Cybersecurity Strategy and Implementation Plan and includes a focused priority on the Department's high-value assets. According to the Department, its plan highlights Departmental cybersecurity initiatives, strategies, and action items that are directly mapped to the Cybersecurity Framework categories.

Finally, the Department stated that it completed numerous other actions that included the completion of risk assessments for all systems in the FISMA inventory and the formal designation of a Senior Accountable Official for cybersecurity risk.

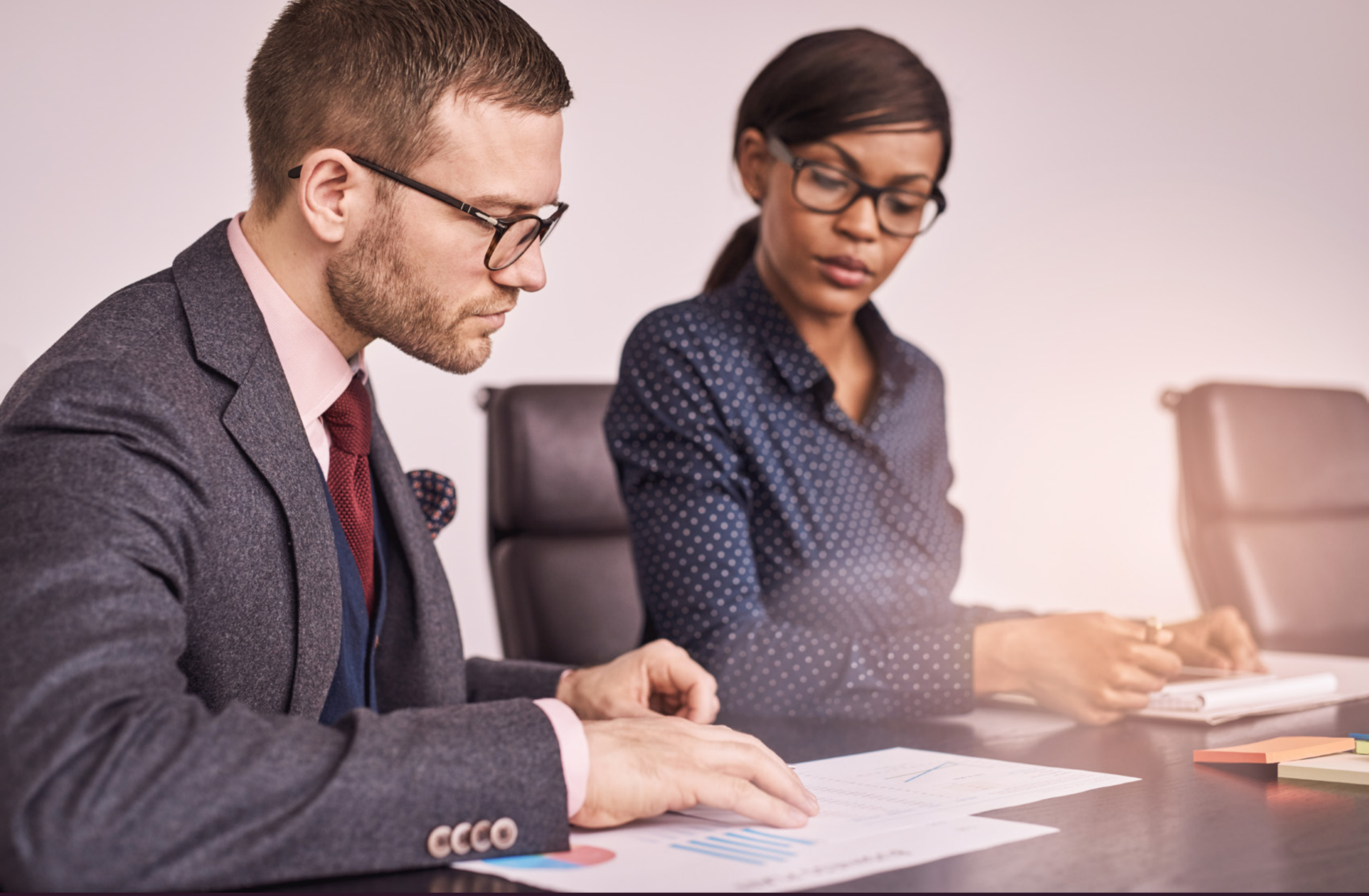
Further Actions Needed to Address the Challenge

The Department reported significant progress towards addressing longstanding information technology security weaknesses. However, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations.

While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of information technology security controls, particularly in the areas of configuration management and identity and access management. Within configuration management, we identified weaknesses where the Department (1) is not using appropriate application connection protocols; (2) is unable to protect against unauthorized devices connecting to its network; (3) is using unsupported operating systems, databases, and applications in its production environment; and (4) is not adequately protecting personally identifiable information. Within identity and access management, we identified weaknesses where the Department has not fully implemented its network access control solution or two-factor authentication.

We also reported that the Department and FSA did not adhere to the required Federal background investigation process for granting and monitoring access to its external users. We identified instances where contractors with privileged user access to Department and FSA systems did not have required background investigations. The Department's risk of compromise to its information technology resources is increased by allowing users without proper clearance to access its systems and data. In addition, we reported that FSA did not have an effective process for identifying, managing, or tracking activity of privileged user accounts. As a result, the Department did not have assurance that privileged user activity did not result in the compromise of its systems or data.

Our FISMA audits will continue to assess the Department's efforts, and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes. To that end, the Department needs to effectively address information technology security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.



Oversight and Monitoring

Student Financial Assistance Program Participants

The Department must provide effective oversight and monitoring of participants in the SFA programs under the HEA to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. The Department's FY 2018 budget request for postsecondary student aid includes $134.2 billion in new grants, loans, and work-study assistance to help an estimated 12.2 million students and their families pay for college. FSA reported that during FY 2016, it operated on an annual administrative budget of about $1.6 billion and was staffed by 1,369 full-time employees who were augmented by contractors who provided outsourced business operations.

The growth of distance education continues to add to the complexity of the Department's oversight of SFA program participants. The management of distance education programs presents challenges to the Department and school officials because of little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the Federal student aid law and regulations and creates new opportunities for fraud, abuse, and waste in the Title IV programs. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to fraudulently obtain Federal student aid.

For students to receive Federal student aid from the Department for postsecondary study, the institution or program must be accredited by an accrediting agency recognized by the Department. The goal of accreditation is to ensure that institutions of higher education meet acceptable levels of quality. Accreditors, which are private educational associations of regional or national scope, develop evaluation criteria and conduct peer evaluations to assess whether or not those criteria are met. Institutions and programs that request an accreditor's evaluation and that meet an accreditor's criteria are then "accredited."

Our work has identified weaknesses in the Department's oversight and monitoring SFA program participants. The Department has taken corrective actions to address many of the recommendations contained in our prior reports. However, the Department needs to continue to assess and improve its oversight and monitoring of program participants and take effective actions when problems are identified.

Background

FSA performs a vital service within the system of funding postsecondary education in the United States by ensuring that all eligible Americans have access to Federal financial assistance for education or training beyond high school. FSA is responsible for implementing and managing Federal student financial assistance programs authorized under the HEA. These programs provide grants, loans, and work-study funds to students attending colleges or career schools to assist with expenses such as tuition and fees, room and board, books and supplies, and transportation.

Stakeholders in the student aid delivery system include students and parents, lenders, guaranty agencies, postsecondary institutions, contracted servicers, and collection agencies. One of FSA's responsibilities is to coordinate and monitor the activity of the large number of 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.

The Department is not directly involved in the institutional or programmatic accrediting process. Under the HEA, the Department "recognizes" (approves) accreditors that the Secretary of Education determines to be reliable authorities as to the quality of education or training provided by institutions of higher education. The HEA requires accrediting agencies to meet certain statutory recognition criteria and have certain operating procedures in order to be recognized by the Secretary. The Accreditation Group within the Department's Office of Postsecondary Education has been established to address matters involving accreditation. This group's responsibilities include administering initial and renewed accreditor recognition processes; reviewing standards, policies, procedures relevant to the Department's accreditation responsibilities; and serving as Department's liaison with accreditors.

The Federal SFA programs collectively represent the nation's largest source of Federal financial aid for postsecondary students. To help ensure that students and their families benefit from its programs, FSA performs functions that include informing students and families of the availability of the Federal student aid programs and of the process of applying for and receiving aid from those programs; developing the FAFSA and processing FAFSA submissions; offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing the Federal student aid programs. In FY 2017, FSA processed more than 19.1 million FAFSAs, resulting in the delivery of about $122.5 billion in Title IV aid to more than 12.9 million postsecondary students and their families. These students attend about 6,000 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

In fulfilling its program responsibilities, FSA directly manages or oversees almost $1.4 trillion in outstanding loans—representing more than 203 million student loans to about 43 million borrowers. These loans were made primarily through the Direct Loan and Federal Family Education Loan (FFEL) programs.

- Under the Direct Loan program, the Federal Government provides funding through postsecondary institutions. Public and private entities under contract with the Department handle loan origination and servicing. As of September 30, 2017, FSA's portfolio of Direct Loans included $1,041.6 billion in credit program receivables, net.

- The Student Aid and Fiscal Responsibility Act of 2010 ended the origination of new FFEL program loans after June 30, 2010. However, lenders, guaranty agencies, and their third-party servicers continue to service FFEL program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL program loan portfolio of about $305.8 billion as of September 30, 2017.

The Federal Reserve Bank of New York reported that outstanding student loan balances, including data from banks, credit unions, other financial institutions, and Federal and State Governments, were $1.34 trillion as of June 2017. This represents an increase of more than $430 billion since the second quarter of 2012. In April 2017, the Federal Reserve reported that key factors contributing to rising student loan balances included more students were taking out loans, the loans were for larger amounts, and the speed with which borrowers repay their debts had slowed down. The Federal Reserve added that 2015 graduates with student loans left school with about $34,000 in debt compared to $20,000 ten years before. It further noted that only about 5 percent of student debt holders owed more than $100,000 in debt in 2016, but those borrowers accounted for nearly 30 percent of the total balances outstanding.

As of the second quarter of 2017, student loans made up 10.5 percent of aggregate consumer debt, compared to 8.0 percent in the second quarter of 2012. The Federal Reserve Bank also reported that 11.2 percent of student loan balances were 90 or more days delinquent as of the second quarter of 2017. While the delinquency rate has declined from its 2013 peak, it remains 25.8 percent higher than in the second quarter of 2012.

In July 2017, the Department reported that enrollment in income-driven repayment plans such as Income-Based Repayment, Pay As You Earn, and Revised Pay As You

Earn continued to increase. Under an one of these plans, a borrower's monthly payment is a percentage of their discretionary income, with the actual percentage differing depending on the plan. Under these plans, any remaining loan balance is forgiven if the borrower's Federal student loans are not fully repaid at the end of the repayment period and certain conditions are met. The Department reported that as of March 2017, more than 6.2 million Direct Loan borrowers were enrolled in income-driven repayment plans, a 33-percent increase from March 2016.

Overall the rise in student loan debt and increasing percentage of borrowers participating in income-driven repayment plans present significant financial risks to the Department. The amount of time it takes to repay loans may increase, borrowers may use more deferments and forbearances, and the Department may write off increasing loan balances associated with income-driven repayment plans in the future. These changes may also increase the administrative and subsidy cost of operating the loan programs.

Results of Work Performed

OIG work within this area includes activities relating to (1) audits and inspections of FSA's oversight and monitoring of SFA program participants, (2) audits and investigations of SFA program participants, (3) audits and investigations involving distance education programs, and (4) audits involving accrediting agencies. The results of our recent work are presented in the sections below.

Audits and Inspections Found That FSA's Oversight and Monitoring of SFA Program Participants Could be Improved

Our audits and inspections continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants.

In February 2017, we issued a report on FSA's processes for identifying at-risk Title IV schools and mitigating potential harm to students and taxpayers. We determined that FSA had adopted and implemented new tools and processes in this area in response to the April 2015 closure of one of the largest for-profit education companies in the United States, but further improvements were needed. We reported that FSA needed to improve its processes for reviewing a school's composite score calculation and any related composite score appeal made by a school. We further noted that FSA needed to implement controls to prevent schools from manipulating composite scores to avoid sanctions or increased oversight by FSA. We concluded that improvements in these areas could better protect students and taxpayers. Specifically, unexpected or abrupt school closures can have significant adverse effects on large numbers of students, including potentially being displaced from their educational program before completion, having credits that cannot transfer to another school, incurring significant student loan debt without obtaining a degree or certificate, and significantly diminished job prospects. Taxpayers are also adversely affected when those types of school closures result in significant volume of loan discharges. We pointed to the financial responsibility provisions that were to have gone into effect in July 2017 as part of the borrower defense regulation changes as including tools to improve the Department's oversight of schools.

In February 2016, we issued a letter in response to a Congressional request for an independent examination of the adequacy and accuracy of the Department's review of student loan servicers' compliance with the Servicemembers Civil Relief Act. The Congressional request raised specific concerns about the Department's May 2015 press release that concluded that borrowers were incorrectly denied a required interest rate cap less than 1 percent of the time. Our work identified flaws in the Department's sampling design that resulted in the Department testing few borrowers eligible for the Servicemembers Civil Relief Act benefit, errors in the program reviews it conducted, and inconsistent and inadequate corrective actions for errors it identified. We concluded that the sampling designs were not adequate to project the extent of Servicemembers Civil Relief Act compliance or noncompliance and that we could not render an opinion on the accuracy of the Department program reviews due to errors we identified. Additionally, the Department's press release was not supported by the work the Department performed and was inaccurate. To address the issues with servicemembers' benefits, the Department designed new procedures that, if properly implemented, should provide for all eligible borrowers to receive the Servicemembers Civil Relief Act benefit as of July 2014.

Our September 2015 report on FSA's oversight of schools participating in the Title IV programs found weaknesses in FSA's processes for performing program reviews and selecting schools for program reviews. We specifically noted that FSA's program review specialists did not always conduct program reviews in accordance with established procedures and that FSA's Program Compliance division managers did not consider high annual dropout rates when prioritizing schools for program reviews as required by the HEA. As a result of these weaknesses, FSA has limited assurance that program reviews are appropriately identifying and reporting all instances of noncompliance.

In March 2015, we issued an audit report on FSA's oversight of schools' compliance with the incentive compensation ban. We identified weaknesses in FSA's oversight that included monitoring, enforcement actions, and resolution of related findings. We noted that FSA's program review files contained insufficient evidence to show that institutional review specialists completed all required incentive compensation related testing procedures. We also found FSA had not developed effective procedures and guidance regarding the determination of appropriate enforcement action for incentive compensation violations. Finally, we found that FSA did not properly resolve incentive compensation ban findings. As a result of these weaknesses, FSA was less likely to detect incentive compensation violations and cannot ensure it took appropriate and consistent enforcement actions and corrective actions.

In December 2014, we issued an audit report on the Department's administration of student loan debt and repayment. We concluded that the Department does not have a comprehensive plan or strategy to prevent student loan defaults and thus cannot ensure that efforts by various offices involved in default prevention activities are coordinated and consistent. We further noted that the roles and responsibilities of the key offices and personnel tasked with preventing defaults or managing key default-related activities and performance measures to assess the effectiveness of the various default prevention activities are not well-defined. Without a coordinated plan or strategy, Department management may not be in a position to make strategic, informed decisions about the effectiveness of default prevention initiatives and activities. The Department may have missed opportunities to communicate and coordinate across offices, identify and rank risks, streamline activities, communicate with servicers, use data to manage and innovate, respond to changes, and provide greater transparency.

In August 2017, the Government Accountability Office (GAO) issued a report titled "Education Should Address Oversight and Communication Gaps in Its Monitoring of the Financial Condition of Schools." GAO reported that school closures are relatively rare, but limitations of the Department's composite score impacted its effectiveness in identifying at-risk schools. GAO added that the composite score had been an imprecise risk measure and reported that the composite score did not reflect updates in accounting practices, used outdated financial measures, and was subject to manipulation. GAO further reported that the Department had not updated the composite score since it was first established 20 years ago. It concluded that identifying and responding to risks is a key component of Federal internal control standards and it was more difficult for the Department to identify and manage schools that were at risk of closure because it had not updated this key financial measure.

In August 2015, GAO issued a report titled "Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options." GAO found that many eligible borrowers do not participate in the Department's Income-Based Repayment and Pay As You Earn repayment plans for Direct Loans, and the Department has not provided information about the plans to all borrowers in repayment.

Audits and Investigations of SFA Program Participants' Activities Identify Noncompliance and Fraud

Our external audits and investigations of individual SFA program participants continue to identify noncompliance, waste, and abuse of SFA program funds. In addition, FSA's Program Compliance office is responsible for administering a program of monitoring and oversight of the institutions (schools, guarantors, lenders, and servicers) participating in the Department's Federal student aid programs. The office establishes and maintains systems and procedures to support the eligibility, certification, and oversight of program participants. More effective monitoring and oversight by groups within the Program Compliance office could limit occurrences of noncompliance and fraud, while strengthening the accountability, success, and value of SFA programs.

As mentioned the "Improper Payments" section, we issued a report in September 2015 on SOLEX College's administration of selected aspects of the Title IV programs. We concluded that SOLEX College did not disburse Title IV funds only to eligible students enrolled in Title IV-eligible programs. Specifically, SOLEX College's two English as a second language programs were not Title IV-eligible programs because SOLEX College did not admit only students who needed English as second language instruction to use their already existing knowledge, training, or skills for gainful employment and did not document its determinations that the students needed the instruction for such purposes. For award years 2012–2013 and 2013–2014, SOLEX College disbursed $1,795,500 in Pell funds to students who were enrolled in ineligible English as second language programs.

OIG investigations have identified many instances where Federal SFA program participants fraudulently obtained Federal funds. This included instances where schools falsified documentation to enroll ineligible students who then received Federal student aid or implemented schemes to falsely remain eligibility to participate in the Federal SFA programs.

Schools Falsified Documentation to Enroll Ineligible Students Who Then Received Federal Student Financial Assistance

- In February 2017, more than $20 million in damages and civil penalties were awarded in a civil suit against FastTrain College and its owner for defrauding the Department by obtaining Federal student aid funds for ineligible students. Previously, in May 2016, the school's owner was convicted of conspiracy to steal government money and theft of government funds and was sentenced to 97 months incarceration and 3 years' probation and was ordered to pay a $15,000 fine and a $1,300 special assessment fee. The OIG investigation determined that the owner and others recruited ineligible students who did not have high school diplomas or their equivalents to submit over 1,300 allegedly fraudulent FAFSAs.

- In January 2017, the former owner of Masters of Cosmetology was sentenced to 24 months probation and ordered to pay $300,000 in restitution. Previously, in April 2016, the former owner pled guilty to one count of student financial aid fraud and signed a civil consent decree agreeing to pay the government more than $5.4 million resulting from fraudulently obtained Federal student loans. The owner and others obtained loans for ineligible students by providing falsified periods of enrollment, not determining students' eligibility for financial aid, exceeding loan amounts, forging student signatures, making misleading statements to students regarding financial aid repayment, and using financial aid funds for purposes other than specified in the regulations.

- In March 2015, the cofounders of Carnegie College were sentenced for conspiracy to commit mail fraud, wire fraud, and conspiracy to launder money. They were sentenced to prison time and to pay more than $2.3 million in restitution. From August 2007 through May 2012, the cofounders recruited students who had not earned a high school diploma or certificate of high school equivalency to attend Carnegie College and then obtained fraudulent high school diplomas and Federal student aid for these students.

Schools Implemented Schemes to Falsely Remain Eligible to Participate in Federal Student Financial Assistance Programs

- In April 2016, a former manager for the Loan Management Department for a for-profit school located in New York City pled guilty of conspiracy to commit Federal student financial aid fraud and making false statements. The former manager and others prepared and submitted fraudulent applications for deferment or forbearance of student loans in order to fraudulently lower the cohort default rate of the school so that the school would continue to be eligible to receive Federal student aid. The school has received about $93 million in SFA program disbursements from 2010 to 2014.

- In October 2014, American Commercial Colleges, Inc., and the school's president were sentenced in U.S. District Court for convictions related to a Title IV fraud scheme. American Commercial Colleges was ordered to pay more than $970,000 in restitution and a $1.2 million fine, and the school's president was sentenced to 24 months imprisonment and ordered to pay more than $970,000 in restitution. Our investigation found that the school fraudulently increased its non-Federal revenue by forcing students to obtain private loans only to repay them with Title IV funds. The school reported the fraudulent non-Federal revenue figures to the Department so it could maintain its Title IV eligibility.

Our investigative work has also resulted in numerous settlements in response to allegations of improper activities by Federal SFA program participants. These include the following examples.

- In March 2016, Bard College agreed to pay $4 million to resolve allegations that it received funds under the Teacher Quality Partnership Program despite failing to comply with the conditions of the grant. The allegations also stated that it awarded, disbursed, and received Federal student aid funds at campus locations before such locations were accredited or before notifying the Department. This violated regulations as well as the school's Program Participation Agreement.
- In November 2015, the U.S. Department of Justice reached a settlement with Education Management Corporation, the second largest for-profit educational company in the country. The $95 million settlement resolved allegations that Education Management Corporation unlawfully paid admissions personnel based on the number of students they recruited, in violation of the incentive compensation ban. The settlement also resolved three other False Claims Act claims filed against the corporation and a consumer fraud complaint filed by 40 State Attorneys General involving deceptive and misleading recruiting practices.
- In June 2015, Education Affiliates, Inc., a for-profit education company that operates 50 campuses under various names throughout the United States, agreed to pay $13 million to address civil false claims allegations. The Government had alleged that employees at the company altered admissions test results to admit unqualified students, created false or fraudulent high school diplomas, and falsified students' Federal aid applications.

Audits and Investigations Identify Noncompliance and Fraud Involving Distance Education Programs

The unique characteristics and growth of distance education pose significant challenges to the Department. OIG work within this area includes an audit that identified issues with school's distance education program's compliance with HEA and Title IV regulations applicable to distance education programs and investigative work that identified significant instances of individuals fraudulently obtaining Federal funds.

As mentioned in the "Improper Payments" section above, we issued a report in September 2017 on Western Governors University's compliance with the HEA and selected Title IV regulations. Western Governors University provides online access to higher education through competency-based bachelor's degree programs, master's degree programs, and teacher licensure programs. We concluded that Western Governors University became ineligible to participate in the Title IV programs as of June 30, 2014, because at least 62 percent of its regular students were enrolled in at least one correspondence course during award year 2013–2014. Western Governors University received a total of about $721 million in Title IV funds in award years 2014–2015 and 2015–2016.

The OIG has investigated 122 distance education fraud rings from FY 2011 through FY 2016, with these cases resulting in more than $16.7 million restitution, fines, forfeitures, and civil settlements. All aspects of distance education—admission, student financial aid, and course instruction—may take place through the Internet, so students may not be required to present themselves in person at any point. Because institutions offering distance education are not required to verify all prospective and enrolled students' identities, fraud ringleaders use the identities of others (with or without their consent) to target distance education programs. These fraud rings mainly target lower cost institutions because the Federal student aid awards are sufficient to satisfy institutional charges and result in disbursement of the balance of an award to the student for other educational expenses. Recent examples of our investigative work in this area include the following.

- In July 2017, a woman pled guilty to student aid fraud for her involvement in a distance education fraud scheme. The OIG investigation found that she and two of her children were leaders of a fraud ring that falsely obtained more than $400,000 in Federal student aid from LeTourneau University and Kilgore College. As of August 2017, a total of nine people had been charged in the case—with seven being convicted and two being sentenced.

- In July 2017, an individual was sentenced to 30 months incarceration and ordered to pay more than $103,000 in restitution to the Department and other victims. The OIG investigation found that the individual fraudulently obtained and used the personal identifiers of 17 victims to obtain Federal student loans and Pell grant funds from numerous colleges.

- In June 2017, two people were sentenced to prison time and periods of supervised release, and they were ordered to pay more than $398,000 in restitution for their roles in four separate fraud schemes. The OIG investigation found that they conspired to submit Federal financial aid applications for other people who were ineligible because they did not possess a high school diploma or its equivalent, had no intention of pursuing a college education, or had no intention of using the financial aid proceeds for educational purposes. The individuals obtained financial aid refund checks and used the proceeds for personal purposes.

- In February 2017, a woman was sentenced to 6 years and 7 months in Federal prison for wire fraud and aggravated identity theft. The woman used stolen identities from the patient database of a healthcare company where she briefly worked to file dozens of fraudulent Federal student aid applications and receive more than $200,000 in financial aid. She also admitted to forging a doctor's signature on a medical disability statement in order to get about $47,000 of her personal education debt discharged.

- In June 2016, a man pled guilty for his role in a $105,000 student aid fraud ring. The OIG investigation found that the man conspired with a fraud ringleader to profit from fraudulently applying for admission to and obtaining Federal student loans and grants from Jefferson College and several online universities. The two recruited people to act as "straw students," knowing that they had no intention of attending classes, for the sole purpose of obtaining student aid.

Audits Found Weaknesses in Accrediting Agencies' Evaluations of Nontraditional Educational Programs

Our audits identified concerns in accrediting agencies' processes to provide assurance that schools' classifications of delivery methods and measurements of student learning for competency-based education programs were sufficient and appropriate. A competency-based education program organizes academic content according to what a student knows and can do. These programs can be delivered on campuses, through distance education, or by correspondence and may measure student learning by clock hours, credit hours, or direct assessment. The delivery and learning measurement options present challenges in determining the Title IV eligibility of competency-based education programs.

In August 2016, we issued a report on the Western Association of Schools and Colleges Senior College and University Commission's processes for reviewing schools' proposed competency-based education programs. We found that the Commission's control activities did not provide reasonable assurance that schools properly classified the methods of delivery for competency-based education programs. As a result, the Commission's evaluations of the schools' classifications of the methods of delivery will not help the Department ensure that proposed competency-based education programs are properly classified for Title IV purposes. We specifically noted that the Commission did not evaluate whether proposed competency-based education programs were designed to ensure faculty-initiated, regular, and substantive interaction between faculty and students. Additionally, the Commission did not always ensure that the credit hours assigned to the programs from which schools derived competency-based education programs met the Federal definition of a credit hour. Finally, the Commission did not always follow its own policy relevant to the review of credit hours.

In September 2015, we issued a report on the Higher Learning Commission's evaluation of competency-based education programs. We concluded that the Higher Learning Commission did not establish a system of internal control that provided reasonable assurance that schools' classifications of delivery methods and measurements of student learning for competency-based education programs were sufficient and appropriate. We further reported that the Higher Learning Commission did not consistently apply its standards for reviewing competency-based education programs because its policies and procedures for substantive change applications needed strengthening. As a result of these weaknesses, the Department might not receive sufficient information about a school's proposed competency-based education programs to make fully informed decisions about the Title IV eligibility of the programs.

In December 2014, GAO issued a report titled "Education Should Strengthen Oversight of Schools and Accreditors" in response to a Congressional request. As part of this effort, GAO reported that the Department does not consistently use accreditor sanction information for oversight, to include reviewing accreditor sanction information and recording responses to the sanctions. GAO further determined that the Department does not systematically use sanction information to prioritize schools for in-depth review, as required by law, or make consistent use of the accreditor sanction information when deciding whether to rerecognize accreditors. GAO concluded that consistent use of accreditor sanction information could help the Department determine whether schools are complying with Federal financial aid requirements and oversee accreditors effectively.

OIG work continues in this area as our investigative activity continues to pursue instances of fraud in distance education programs. Our ongoing audit work includes reviews of the effectiveness of FSA's enterprise risk management program, the Department's monitoring of the total and permanent disability loan discharge process, due diligence in servicing Department loans, FSA's process to select FASFA data elements and students for verification, the Department's recognition and oversight of accrediting agencies, and FSA's use of heightened cash monitoring. Additional planned projects for FY 2018 include the FSA Ombudsman Group's processes to handle borrower complaints, and FSA's oversight of school compliance with satisfactory academic progress regulations.

Department Actions and Plans

The Department reported that its staff is committed to protecting both students and taxpayers and that it had implemented a number of actions in FY 2017 to improve its oversight and monitoring processes for schools, lenders, servicers, and guaranty agencies. The Department stated that it employs several oversight tools in its work to ensure program participants' compliance with statute and regulations and to mitigate the inherent risks associated with the administration of financial assistance programs. These include (1) program reviews, (2) review and resolution of program participant's annual compliance audits and financial statements to ensure administrative capability and financial responsibility, and (3) certification activities to ensure continued eligibility for participation in the Federal student aid programs.

In August 2017, the Department announced that FSA was transforming its oversight function—to include broadening its scope, increasing its capacity, and adopting a more sophisticated strategy—while adding several key senior executives to help lead and implement this approach. The Department also reported that under this process, FSA had begun establishing an integrated system of oversight functions that are intended to better ensure compliance by all participating parties. The Department noted that this approach intends for oversight to begin with proactive risk management that identifies and mitigates risks before they pose a threat. The Department stated that it intends to bolster these efforts though comprehensive communications and executive outreach to ensure parties and their leadership understand their responsibilities, the consequences of noncompliance, and appropriate remedies.

The Department reported that it is performing other activities to improve its oversight of SFA program participants that included the following.

- The Department incorporated issues presented in the management challenges report into a risk model as an indicator that could result in schools receiving a higher risk score by identifying the number of borrowers that were in nonadministrative forbearances during a cohort period and awarding points for accreditor sanctions.
- The FY 2018 Annual Risk Assessment was the first version of the system to be built on the Enterprise Data Warehouse and Analytics platform rather than being a stand-alone system. The Department stated that this allows risk assessments to be done more efficiently and accurately and allows for greater flexibility in scoring in future years, which will make it easier to respond to changing conditions. The Department further reported that it anticipates introducing new metrics and making enhancements to the current ones in future risk assessments.
- The Department is conducting a study to determine whether manipulation of financial statement composite scores is a widespread issue. The Department added that the results of the study will inform a decision on whether additional procedures are needed to obtain an accurate calculation of a school's composite score when reviewing a school's financial statement.
- FSA worked with OIG to update its audit guide for schools and third-party servicers that was last updated in 2000. The audit guide included enhancements for a number of areas including distance education, student eligibility, and third-party servicer contracts, and testing of functions performed by servicers through the use of sampling.
- FSA performed placement rate compliance assessments that compared a school's job placement rate claims to the results of actual student interviews. The Department reported that these reviews resulted in at least one school closure.
- FSA's Program Compliance completed several items to improve processes related to distance education. The Department reported that Program Compliance enhanced the Recipient Data Sheet that is used to determine which students are receiving a portion or all of their education via distance education. The Department added that Program Compliance also developed and delivered training programs for program reviewers on the process to evaluate distance education and worked with other parts of FSA to offer training to institutions on distance education requirements. Finally, the Department noted that work tool was created to assist reviewers in evaluating distance education courses.
- FSA's Program Compliance's annual managers meeting focused on aligning employee and organizational performance to improve the timely delivery of final determinations, quality of report writing, and

customer service. The Department reported that Program Compliance also revamped performance standards for its institutional reviewers, financial analysts, and institutional improvement specialists to reflect these goals.

- In response to concerns about third-party debt servicers abuse of borrowers, despite not having regulatory authority over third-party debt servicers, FSA initiated an organization-wide task force to identify what FSA was currently doing, what had worked and what had not, and what it could initiate to assist borrowers.
- FSA established an ongoing taskforce to address concerns on the consistency of its evaluation of financial responsibility and the impact of changes in financial accounting standards on the composite score.
- FSA has established a Senior Fraud Advisor who is developing an action plan to implement the GAO Fraud Framework.
- FSA continues to collaborate with the OIG to receive and analyze fraud referrals and to identify potential fraud indicators for suspicious student activity. The Department reported that FSA has established a fraud group and processes to support OIG fraud referral analysis and disposition that may include coordination with schools to affect recovery of any improper payments and adding individuals to the Suspect Identify File to prevent future aid. The Department added that FSA will continue to use this analysis to inform recommendations on data analytics and identify ways to improve controls.

The Department reported that is has also taken steps to strengthen its accreditation oversight. According to the Department, this includes improving data sharing, enhancing its processes to determine agency effectiveness, and improving its processes to assess whether agencies evaluate institutions in a manner consistent with the Secretary's Criteria for Recognition.

The Department stated that this management challenge reflects the inherent risks associated with Federal student aid and the ongoing challenge to mitigate these risk through oversight and monitoring.

Further Actions Needed to Address the Challenge

The Department continues to identify important accomplishments that are intended to improve its ability to provide effective oversight. We recognize the progress being made and the need to balance controls with both cost and the ability to effectively provide necessary services. However, our audits and investigations involving SFA programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to improve it processes.

The financial responsibility provisions that were planned to go into effect in July 2017 as part of the borrower defense regulation changes would have included tools to improve the Department's oversight of schools. Enforcement of such regulations could have improved FSA's processes for mitigating potential harm to students and taxpayers by giving FSA the ability to obtain financial protection from schools based on information that is broader and more current than information schools provide in their annual audited financial statements. The Department needs to implement provisions that will allow it to receive important, timely information from publicly traded, private for-profit, and private nonprofit schools that experience triggering events or conditions. Collecting and analyzing this information could improve FSA's processes for identifying Title IV schools at risk of unexpected or abrupt closure.

Overall, the Department needs to ensure that the activities of its new efforts to better coordinate oversight result in effective processes to monitor SFA program participants and reduce risk. It should work to ensure that its program review processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers. Finally, the Department could enhance its oversight of SFA programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

Grantees

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. Our work on numerous grant programs has identified a number of weaknesses in grantee oversight and monitoring. Our audits identified concerns with LEA fiscal controls, SEA controls, and the Department's oversight processes. In addition, our investigative work has identified fraud by officials at SEA, LEA, and charter schools.

The Department is responsible for monitoring the activities of grantees to ensure compliance with applicable Federal requirements and that performance goals are being achieved. The Department has taken corrective actions or overseen corrective actions by grantees to address many of the recommendations contained in our reports. However, the Department needs to continue to assess and improve its oversight and monitoring of grantees and take effective actions when issues are identified.

Background

The Department is responsible for administering education programs authorized by Congress and signed into law by the President. This responsibility includes developing policy guidance that determines exactly how programs are operated, determining how program funds are awarded to recipients, ensuring that programs are operated fairly and 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 Department is responsible for administering, overseeing, and monitoring more than 100 programs. The Department's early learning, elementary, and secondary education programs annually serve nearly 18,200 public school districts and 50 million students attending more than 98,000 public schools and 32,000 private schools. Key programs administered by the Department include the Title I program, which under the President's FY 2018 budget request would deliver $15.9 billion for local programs that provide extra academic support to help nearly 25 million students in high-poverty schools meet challenging State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide about $11.9 billion to help States and school districts meet the special educational needs of 6.8 million students with disabilities.

The Department is responsible for ensuring that grants are executed in compliance with requirements and that grantees are meeting program objectives. The funding for many grant programs flows through primary recipients, such as SEAs, to subrecipients, such as LEAs or other entities. The primary recipients are responsible for overseeing and monitoring the subrecipients' activities to ensure compliance with Federal requirements.

Results of Work Performed

OIG work has identified a number of weaknesses that could be limited through more effective oversight and monitoring. These involve SEA and LEA control issues; fraud relating to Supplemental Educational Services and other education programs; and fraud perpetrated by officials at SEAs, LEAs, and charter schools. We also noted internal control weaknesses with the Department's oversight processes through our audits.

SEA and LEA Control Issues

Our recent work at the SEA and LEA levels has focused on reviews of their efforts to (1) address prior audit findings, (2) protect personally identifiable information, (3) oversee single audit resolution, and (4) monitor SIG contractors. We identified control issues within each of these areas that could impact effectiveness of the entities reviewed and their ability to achieve intended programmatic results.

Auditee Response to Prior Audit Findings

In May 2017, we issued two reports on the status of corrective actions on previously reported Title I findings for two school districts—Harvey Public School District 152 and Wyandanch Union Free School District.

We reported that Harvey Public School District 152 had designed policies that should have been sufficient to remediate most of the findings relevant to Title I, Part A that were disclosed in audit and monitoring reports. We concluded that Harvey Public School District 152 implemented the policies, procedures, and practices that it designed to remediate findings in several areas. However, we found that the school district did not follow all of the policies that it designed to remediate inventory management findings and did not design procedures to provide reasonable assurance that it submits accurate periodic expenditure reports to the State. As a result, assets purchased with Title I funds might be lost or misused, and the Illinois State Board of Education might reimburse the Harvey Public School District 152 for more or fewer Title I expenditures than incurred.

We reported that Wyandanch took corrective actions that should be sufficient to remediate all previously reported Title I-relevant findings included in audit reports issued from July 1, 2005, through December 31, 2015.

Protection of Personally Identifiable Information

During FYs 2016 and 2017, we issued separate audit reports on the Indiana, Oregon, and Virginia Departments of Education protection of personally identifiable information in their respective Statewide Longitudinal Data Systems (SLDS).[1]

In July 2017, we reported that the Indiana Department of Education did not provide adequate oversight to ensure that its system met minimum security requirements that included a creating System Security Plan, completing a compliance audit and risk assessment, and classifying its security level. We also reported that the Indiana Department of Education lacked assurance that it could prevent and detect unauthorized system access and disclosure of information.

In September 2016, we reported that the Oregon Department of Education's lack of documented internal controls increased the risk that it would be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. We also found that the Oregon Department of Education did not ensure that its system met the minimum State security requirements to include developing and implementing an Information Security Plan, conducting annual risk assessments, and classifying security levels.

In July 2016, we identified internal control weaknesses that increased the risk that the Virginia Department of Education would be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. We noted that although the Virginia Department of Education classified a related system as sensitive, it did not ensure that the system met the minimum requirements identified in Virginia's Information Technology Resource Management Standards.

Single Audit Resolution

During FYs 2016 and 2017, we issued audit reports on oversight of LEA single audit resolution at the Illinois State Board of Education, North Carolina Department of Public Instruction, and Massachusetts Department of Elementary and Secondary Education.

In November 2016, we reported that the Illinois State Board of Education did not provide effective oversight to ensure that LEAs took timely and appropriate

[1] The SLDS grant program is intended to assist States in the successful design, development, implementation, and expansion of early learning through the workforce longitudinal data systems. These systems are intended to enhance the ability of States to efficiently and accurately manage, analyze, and use education data, including individual student records. The SLDSs should help States, districts, schools, educators, and other stakeholders make data-informed decisions to improve student learning and outcomes and facilitate research to increase student achievement and close achievement gaps.

corrective action on single audit findings. We noted that this occurred because it lacked an audit resolution process that effectively resolved findings; did not comply with Federal requirements; and lacked coordination, both among its divisions and between it and individual LEAs. We further noted that no one division within the Illinois State Board of Education was overseeing this function to ensure that findings were resolved and that the Illinois State Board of Education did not develop appropriate controls to identify weaknesses or areas of noncompliance. As a result, findings at numerous LEAs repeated for multiple years, putting Federal funds and program outcomes at risk.

In August 2016, we reported that the North Carolina Department of Public Instruction improved its oversight of LEA single audit resolution during the period covered by our review and noted that several aspects of its oversight were effective. However, we also identified specific aspects of the North Carolina Department of Public Instruction oversight that could be improved to correct control weaknesses and ensure compliance with regulatory requirements. We found that the North Carolina Department of Public Instruction did not have adequate written policies and procedures that described all aspects of its oversight of the LEA audit resolution process, an adequate system for tracking LEA findings across audit periods or across the State, or a quality assurance process for its oversight of LEA audit resolution. Finally, we noted that management decisions for LEA audit findings did not meet all Federal content requirements.

In January 2016, we noted that the Massachusetts Department of Elementary and Secondary Education oversight of LEA single audit resolution was not sufficient to ensure that LEAs took timely and appropriate corrective action. We found that in many cases, the Massachusetts Department of Elementary and Secondary Education did not identify and require appropriate corrective actions for LEAs to take to adequately resolve their findings. Additionally, the Massachusetts Department of Elementary and Secondary Education did not have a tracking process for individual LEA findings and did not follow up on the status of corrective actions for many of the repeat findings covered by our review. We also noted that the Massachusetts Department of Elementary and Secondary Education generally did not communicate effectively with LEA officials regarding audit resolution, and none of the Massachusetts Department of Elementary and Secondary Education's management decision letters that we reviewed met all Federal requirements for content.

SIG Contractor Monitoring

In March 2016, our audit of State and district monitoring of SIG contractors found that California did not adequately monitor LEAs to ensure that they had sufficient fiscal controls for obligating and paying Federal funds to SIG contractors. California's monitoring instrument did not specify the extent of testing that monitoring personnel should perform to ensure that the LEAs spent SIG funds properly, did not specify the types of documents that its monitoring personnel should review, and did not sufficiently describe the procedures that monitoring personnel should perform to determine whether LEAs have implemented appropriate fiscal control activities. We also found that the three LEAs included in our review did not have sufficient written policies and procedures for reviewing and approving certain fiscal documents, two of the LEAs did not adequately monitor fiscal transactions involving SIG contractors, and one LEA did not provide evidence that it routinely monitored its contractors' performance.

Fraud Involving Supplemental Educational Services

OIG investigations have continued to identify instances of fraud involving Supplemental Educational Services providers, including the following.

- In August 2017, a lead teacher for a Supplemental Educational Service provider pled guilty to one count of theft of government money. The OIG investigation revealed that the company and 30 of its employees billed the Puerto Rico Department of Education more than $954,000 for tutoring services that were never provided to students.
- In December 2015 and January 2016, former employees of a Supplemental Educational Service provider were sentenced to 3 years probation and ordered to pay more than $2 million in restitution. The employees conspired with others to submit false attendance records for tutoring that had not been provided. Our investigation also resulted in a $10 million settlement between the Supplemental Educational Service provider and the Federal Government in December 2012.
- In April 2015, two Dallas-area tutoring company owners were sentenced to 60 months incarceration and ordered to pay more than $1.6 million in restitution. The investigation found that the two owners and their employees falsified student sign-in sheets and invoices and improperly billed several Texas school districts for tutoring services that they did not provide. The companies also mass enrolled thousands of students for Supplemental Educational Services using several different Internet protocol addresses originating in Kenya and wired thousands of dollars overseas.

Fraud Involving Other Education Program Participants

OIG investigations have continued to identify instances of fraud involving other education program participants, including the following.

- In August 2017, the former finance director of a nonprofit entity that was a direct grant recipient under the Investment in Innovation Fund was sentenced to 33 months imprisonment, 3 years supervised release, and 300 hours of community service, and he was ordered to pay more than $630,000 in restitution. The former finance director converted Federal education funds and other grant funds to his own personal use by issuing and forging checks made payable to a company he owned. He deposited these checks and then used these funds to make personal credit card payments and ATM cash withdrawals at a casino.
- In February 2016, the owner of a for-profit organization was found guilty of theft. The owner embezzled more than $149,000 from 21st Century Community Learning Center funds that were awarded to the company to provide services to students at an Arkansas High School. He was sentenced to 24 months confinement and 36 months of supervised release and was ordered to pay $148,416 in restitution.

Fraud by SEA and LEA Officials

Since FY 2011, we have opened 49 investigations of either SEA or LEA officials related to allegations of fraud and corruption in Department programs. More effective internal control systems at the SEAs and LEAs could have mitigated the risk of these fraud schemes. These investigations have identified fraud schemes that included improper activities to (1) issue false checks, (2) embezzle cash, and (3) steer grant funds. Examples of our work include the following items.

- In June 2017, the former superintendent of Grant-Goodland Public Schools was charged with conspiracy, theft of government funds, and bank fraud. According to the indictment, the former superintendent and a co-conspirator created false invoices using names of legitimate district vendors, presented fraudulent checks to the board for approval, and negotiated the checks for their personal use. The fraud scheme resulted in losses to the Department of about $1.2 million.
- In April 2017, the former chief financial officer at Grand Prairie Independent School District pled guilty to Federal program theft. The former chief financial officer used her position to embezzle $600,000 in cash from the school district. She ordered unauthorized amounts of money to be withdrawn from district bank accounts and then delivered to her at the school district by armored car service.
- In January 2015, the former director of Federal programs for the Alabama State Department of Education and her husband were sentenced to 2 years in prison, and each was ordered to pay a $10,000 fine for ethics violations involving the award of Federal grants. An OIG review and investigation found that the former director, with her husband’s assistance, diverted more than $24 million in Federal education funds to LEAs doing business with her husband’s employer.

Fraud by Charter School Officials

Charter schools generally operate as independent entities that fall under oversight of a LEA or charter authorizing agency. Our investigations have found that LEAs or chartering agencies often fail to provide adequate oversight to ensure that Federal funds are properly used and accounted for. The OIG has opened 19 charter school investigations since 2011. To date, these investigations have resulted in 32 indictments and 24 convictions of charter school officials and returned more than $7.1 million in restitution, fines, forfeitures, and civil settlements.

The type of fraud identified generally involved some form of embezzlement of funds from the school by school officials, such as the following examples.

- In November 2016, the former director of finance for the Family Foundations Academy Charter School pled guilty to Federal program fraud for embezzling more than $160,000. The former director charged personal expenses to an unauthorized credit card he opened on behalf of the school and stole funds from the school’s fundraising and construction loan accounts. The money was spent on retail purchases, home improvement, electronics, auto loans, Federal tax payments, hotels, and entertainment.

- In February 2016, a former charter school administrator and a former charter school business manager were sentenced for obstructing justice in a Federal investigation. The individuals were previously indicted for their roles in a scheme to defraud several Pennsylvania charter schools of more than $5.6 million. The former charter school administrator admitted to fabricating documents and financial records that were submitted to Federal investigators.
- In August 2015, a former charter school director was sentenced to 42 months imprisonment and ordered to pay more than $1.5 million in restitution for embezzling government funds. Evidence presented during the trial and asset forfeiture phase of the case established that the former director embezzled more than a million dollars in Federal funds that were intended to be used for the charter school over 7 years.

Internal Control Weaknesses in the Department's Oversight Processes

In March 2017, we issued a management information report to the Department on State oversight of LEA single audit resolution. The report was based on audits we conducted in three States (see "SEA and LEA Control Issues" section above) and identified weaknesses that other SEAs may need to address. We recommended actions that the Department should take to improve SEA oversight of LEA single audit resolution and identified positive practices that SEAs could implement to enhance oversight effectiveness.

In September 2016, we issued an audit report on our review of charter and education management organizations. Overall, we determined that charter school relationships with charter management organizations posed a significant risk to Department program objectives. Specifically, we found that 22 of the 33 charter schools in our review had 36 examples of internal control weaknesses related to the charter schools' relationships with their charter management organizations. These included instances of financial risk, lack of accountability over Federal funds, and performance risk. We also found that the Department did not have effective internal controls to evaluate and mitigate the risk that charter school relationships with charter management organizations posed to Department program objectives.

In September 2016, we issued a report on the Department's oversight of the Rural Education Achievement Program. We found that improvements were needed in the Department's monitoring of Rural Education Achievement Program grantees' performance and use of funds. We specifically noted that the Department conducted limited monitoring to determine whether grantees were making progress toward program goals or spending grant funds in accordance with statutory and regulatory guidelines. Instead, we found that oversight efforts were primarily focused on ensuring grantees were obligating and spending funds by established deadlines. Although we concluded that the Department's program monitoring could be improved, we found that the Department's rural education coordination efforts appeared to be effective.

In July 2016, we issued an audit report on the Department's followup process for external audits. We found that the Department's audit followup process was not always effective and noted that the Department's accountable office did not fulfill its responsibilities to (1) ensure that action officials had systems to follow up on corrective actions, (2) monitor compliance with OMB Circular A-50, and (3) ensure the overall effectiveness of the audit resolution and followup system. We also found that the Department did not ensure timely audit closure and principal offices did not always adequately maintain documentation of audit followup activities. As a result, the Department did not have assurance that requested corrective actions were taken and that the issues noted in the OIG audits were corrected.

We also issued related reports to four offices within the Department from June 2015 through December 2015. We concluded that the audit followup processes within each of the four offices were not always effective. We further noted that none of the four offices closed audits timely and that three of the four offices did not maintain adequate documentation of audit followup activities.

In March 2016, we issued an audit report of the Small Business Innovation Research program regulations and operating procedures. We found that the Department had not developed required policies or established formal processes related to identifying and preventing fraud, waste, and abuse. We also found that the Department had not designated anyone to serve as the liaison for the Small Business Innovation Research program to ensure related inquiries were properly referred to the OIG and to the Suspension and Debarment Official. Additionally, we determined that the Department did not request all required certifications from awardees and did not have a formal process to ensure that duplicate awards were not made.

GAO has also conducted work related to grantee oversight and monitoring. In April 2017, GAO issued a report on the Department's oversight of grants monitoring. GAO found that the Department's grant staff did not consistently document required monitoring activities and 92 percent of the grant files it reviewed were incomplete with respect to certain key documents. As a result, about $21 million in discretionary grant funds lacked correct documentation of grantee performance. GAO further reported that the three principal offices it reviewed had not established detailed written procedures for the supervisory review of official grant files and the Department had not developed guidance for grant staff working across programs and offices to effectively use its grants management system to share grantee performance information.

In April 2017, GAO reported that the Department could take steps to ensure that 21st Century Community Learning Center data were more useful for program decision making. GAO found that the Department had developed performance measures to align with some program objectives—primarily student academic outcomes—but it had not aligned its measures with other program objectives related to key student behavioral and socio-emotional outcomes.

In May 2016, GAO issued a report on the use of information to identify disparities and address racial discrimination. GAO noted that the Department had taken a range of actions to identify and address racial discrimination against students to include investigating schools and analyzing data by student groups protected under Federal civil rights laws. However, GAO reported that it analyzed data among types of schools and found multiple disparities by percentage of racial minorities and poverty level, including access to academic courses. GAO noted that the Department did not routinely analyze its data in this way and concluded that conducting this type of analysis would enhance the Department's ability to target technical assistance and identify other disparities by school types and groups.

A July 2015 GAO report noted that the Department did not have mechanisms to promote regular, sustained information-sharing among its various program offices that support quality of the Teacher Preparation Programs. GAO concluded that the Department could not fully leverage information gathered by its various programs and may miss opportunities to support State efforts to improve program quality.

In February 2015, GAO issued a report on financial aid programs for teachers. GAO reported that about 36,000 of the more than 112,000 Teacher Education Assistance for College and Higher Education grant recipients had not fulfilled grant requirements and had their grants converted to loans. GAO noted that the Department did not collect information on why recipients did not meet requirements and as a result was hindered in taking steps to reduce grant-to-loan conversions and improve participant outcomes. GAO also concluded that the Department had erroneously converted 2,252 Teacher Education Assistance for College and Higher Education grants to loans, had not completed a systematic review of the cause of these errors, and lacked reasonable assurance that it had taken steps to minimize future erroneous conversions. GAO further noted the Department lacked clear, consistent guidance to help recipients understand the Teacher Education Assistance for College and Higher Education grant-to-loan conversion dispute process.

Ongoing work in this area includes a nationwide audit of the oversight of closed charter schools, the Department's oversight of the Indian Education Formula Grants to LEAs, and followup on previous Title I audits for Detroit Public Schools and Orleans Parrish. Planned projects for FY 2018 include work on the Department's State plan review process under the Every Student Succeeds Act, State and district oversight of schoolwide programs, and Charter School Program Grants for replication and expansion of high-quality charter schools.

Department Actions and Plans

In its response to our draft FY 2018 Management Challenges report, the Department noted that mitigating the risks associated with grants awarded to States, school districts, institutions of higher education, and other entities remains a significant challenge given the Department's relatively limited resources for oversight and monitoring. The Department stated that in response to this challenge, it initiated an enterprise approach to risk management in FY 2017 and implemented targeted actions to improve support for grant recipients. The Department added that these actions focused on increasing staff expertise and leveraging risk-based tools and approaches to provide improved technical assistance and oversight.

The Department also reported that it completed several activities that were intended to improve its monitoring skills and capacity across offices through a variety of collaborative training and development efforts. For example, the Department's Risk Management Service developed training that was targeted at staff managing portfolios for 2 years or less. The Department also noted that grant offices had collaborated in the development of a standard discretionary grant site visit monitoring tool and related training. The Department further stated that its Office of Special Education and Rehabilitative Services implemented a new guidance manual and its Office of Elementary and Secondary Education (OESE) developed and delivered a three-part training on technical assistance that included a module on the use of data to inform technical assistance.

The Department reported that these training efforts continue to be shared and implemented across Department offices and implemented into accountability mechanisms. It stated that as example, OESE included a "spotlight" on promising technical assistance practices that are now on the SharePoint portal. It also noted that the Office of Postsecondary Education included periodic random checks of grant files in managers' performance agreements that are intended to better ensure that its program specialists effectively and consistently maintain complete electronic grant files of all official grantee communications.

The Department also stated that it implemented a number of new risk-based monitoring tools and approaches. It reported that the Risk Management Service provided analyses of complex monitoring issues that are intended to support well-informed, timely decision-making and preparation for site monitoring visits. According to the Department, these issues included sufficiency of grantee procedures and controls; budget, expenditure, and reimbursement analysis; single audit results; and tribal entity matters. The Department also stated that Risk Management Service deployed two monitoring tools that were intended to (1) assist in analyzing risk and create risk-based monitoring plans and (2) centralize and automate key monitoring data while expanding the monitoring information into new areas.

The Department stated that the OESE's risk assessment process is intended to provide a consistent method for conducting regular, systematic reviews of program and grantee information to help its staff identify risks related to individual grant awards. The Department noted that this is part of a continuous improvement process designed to move from relying solely on program officer judgment to processes that look at risk in a more consistent way and that help the Department use relevant data in making these determinations.

The Department reported that the OESE started a pilot in FY 2016 to introduce more focused fiscal monitoring as a part of its overall grantee monitoring and risk mitigation efforts. According to the Department, the pilot focused on eight SEAs and resulted in findings in areas that included audit requirements, internal controls, risk assessment, comparability, and reservations and consolidation. The Department noted that the pilot was conducted as both on-site and desk reviews with the Office of State Support (Title I, Title II, Title III, and SIG programs) and the Office of Academic Improvement (21st Century Community Learning Center program).

The Department stated that the pilot was expanded during FY 2017 to include nine additional reviews. The Department noted that the OESE added offices and programs in these reviews to include the Office of Safe and Healthy Schools, the Office of Academic Instruction, and the Office of State Support. The Department also reported that the project also added integrated monitoring and joint reviews between the OESE programs. The Department stated that feedback from the

SEAs has been positive, with entities expressing appreciation for the efficiency of the process and the usefulness of the findings and recommendations. The Department also believed that this approach has better positioned it to work more proactively with SEAs and LEAs, identify issues of concern, and share best practices and lessons learned.

The Department also stated that the Office of Career, Technical, and Adult Education's Division of Academic and Technical Education had worked to focus its monitoring resources by choosing a risk-based monitoring strategy for each grantee. The Department noted that if a grantee appears to pose significant risk to other grant programs, the Division of Academic and Technical Education works closely with other program offices to ensure the proper use of program funds and that program outcomes are effectively assessed. Finally, the Department reported that the Division of Academic and Technical Education continues to improve its cloud-based comprehensive monitoring web portal and that improvements to the online monitoring process have enhanced its ability to retain monitoring and oversight documentation.

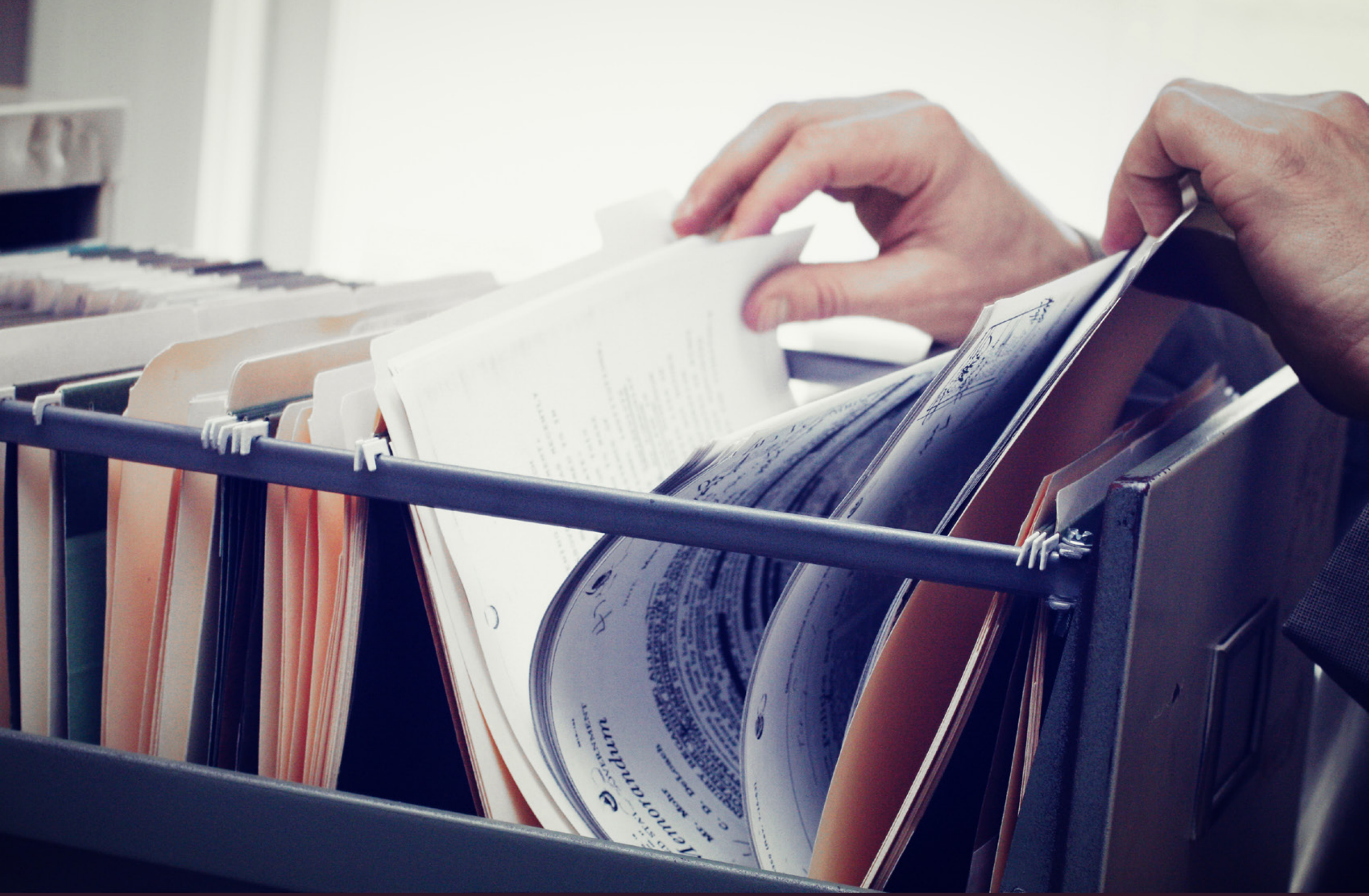
The Department stated that the Institute of Education Sciences is working with the Office of Chief Financial Officer to resolve the OIG's audits related to the protection of personally identifiable information in Statewide Longitudinal Grant Systems in Indiana, Oregon, and Virginia. The Department noted that the Institute of Education Sciences has amended its Annual Performance Report for all active SLDS grantees to ensure that they are aware of and complying with all applicable Federal and State privacy and information security requirements. The Department stated that the Institute of Education Sciences also added processes related to privacy and information security to its site visit protocols and provided additional training and technical assistance to grantees.

The Department also reported that the Institute of Education Sciences has completed corrective actions to address all findings in the OIG's report on the prevention of fraud, waste, and abuse in the Small Business Innovation Research program and the audit was closed in July 2016. The Department noted that corrective actions included development of policies and formal processes to address the requirements of the Small Business Administration's Policy Directive, the designation of an individual to serve as the liaison for the program with the OIG and the Suspension and Debarment Official. The Department also noted that it has a formal process to ensure that the Institute of Education Sciences does not award funding for projects already funded through Small Business Innovation Research programs administered by other Federal agencies.

Further Actions Needed to Address the Challenge

The Department acknowledges that this area is a major risk, and points out actions it has taken to address this challenge. In particular, its efforts to pilot joint program fiscal monitoring reviews appear to leverage its limited resources to focus on areas of risk. The Department should closely review the results of this pilot and look for ways to improve it and expand it into other areas. Also, the Department should continue to make use of risk-based information, develop common training and procedures and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs.

As various offices implement improvements to monitoring, such as those cited above, the Department should review their effectiveness and replicate effective practices to other program areas. Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. Another area where there is the potential to make use of limited resources to improve oversight is to review the results of single audits and program monitoring effort in order to revise the single audit process and updates to the OMB 2 C.F.R. 200, Subpart F—Compliance Supplement to improve program compliance and help mitigate fraud and abuse.



Data Quality and Reporting

The Department, its grantees, and its subrecipients must have controls in place and effectively operating to ensure that accurate, reliable, and complete data are reported. SEAs collect data from LEAs and report various program data to the Department. The Department evaluates program data to evaluate program performance and inform management decisions.

Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. Establishing more consistent definitions for data terms will enhance reporting accuracy and comparability.

Background

The Department operates systems to collect data regarding its programs. For example, SEAs submit data through the Education Data Exchange Network to the EDFacts system. EDFacts is a Department initiative to put performance data at the center of policy, management, and budget decisions for all K–12 educational programs. EDFacts centralizes performance data supplied by SEAs with other data assets, such as financial grant information, within the Department to enable better analysis and use in policy development, planning, and management. EDFacts contains data from multiple programs including Title I, Individuals with Disabilities Education Act, and migrant education. It also includes information on areas such as assessment participation, academic achievement, graduates and dropouts, and charter schools.

Other systems relied on by the Department include (1) a management information system that State vocational rehabilitation agencies use to report participant case service data, (2) the National Reporting System for Adult Education, (3) the Perkins Information Management System that States use to submit consolidated annual reports on career and technical education, and (4) the Migrant Student Information Exchange, which allows States to share educational and health information on migrant children who have student records in multiple State information systems.

Results of Work Performed

OIG work has identified weaknesses in controls over the accuracy and reliability of program performance and graduation rate information provided to the Department.

Program Performance Data

In December 2016, we reported on the Department's Rehabilitation Services Administration's (RSA) internal controls over case service report data quality. We found that RSA's monitoring procedures did not require program staff to determine whether State vocational rehabilitation agencies had established and implemented adequate internal controls that provided reasonable assurance that their data were accurate and complete, nor did the procedures require program staff to perform any testing of the data during monitoring visits. We also found that RSA did not require State vocational rehabilitation agencies to certify that the data submitted were accurate and complete. Lastly, we found that although RSA's edit check programs provided some level of assurance regarding the completeness of State vocational rehabilitation agency submitted data, RSA had not properly documented its procedures on the use of these programs.

In March 2016 and December 2015, we issued separate audit reports on case service report data quality at the Opportunities for Ohioans with Disabilities, Pennsylvania Office of Vocational Rehabilitation, and California Department of Rehabilitation. While we found that two of the three entities had adequate internal controls to ensure that the data they reported to RSA were complete, none had adequate internal controls to ensure that the data they reported were accurate and adequately supported. Our testing of the data that each entity reported to RSA found a significant number of incorrect and unverifiable data entries for data elements that RSA used to calculate performance indicator results.

Our March 2016 audit report on the Department's oversight of the Carl D. Perkins Career and Technical Education Improvement Act of 2006 (Perkins IV) program noted that the Department had developed and implemented control activities that provided reasonable assurance that States submitted reliable Perkins IV program performance data to the Department. We also reported that the Department had developed and implemented control activities that provided reasonable assurance that States and subrecipients took corrective action when the Department or others identified unreliable Perkins IV program performance data or inadequate Perkins IV program performance results. However, we also found that the Department could strengthen its control activities by ensuring that it adheres to Department policies and procedures for obtaining and retaining monitoring and oversight documentation.

In February 2016, our review of management certifications of data reliability found that the Department needs to improve its controls to support the accuracy of data that SEAs report. Specifically, the Department could provide better oversight, including both technical assistance and monitoring, of SEAs' controls over data quality for some of the elements reviewed and the verification and validation process for data it reports in its Annual Performance Report.

In March 2015, we issued an audit report on payback provisions of the Personnel Development to Improve Services and Results for Children with Disabilities Program. We identified limitations and quality issues with certain data the Department and its contractors used in compiling some of the performance data. The Department needed to improve its process for identifying and referring scholars for financial repayment. We found that a number of scholars funded under the program were not in a tracking system; therefore, the Department was not monitoring them to determine whether they were fulfilling their service obligations. Additionally, data that were entered into the tracking system were not verified to ensure the data were current, accurate, and complete. We also found that the Department did not always appropriately identify and refer for financial repayment scholars who were not fulfilling their service obligations.

Graduation Rate Data

In June 2017, we issued a report on calculating and reporting graduation rates in Alabama. We found that the Alabama State Department of Education's system of internal control did not provide reasonable assurance that reported graduation rates were accurate and complete during our audit period. Specifically, the Alabama State Department of Education did not oversee or monitor LEAs' internal controls over data reliability, have effective controls over its manual adjustment process, and always adequately account for students in the appropriate cohort. We also determined that the Alabama State Department of Education misreported Adjusted Cohort Graduation Rate data to the Department because the former State Superintendent decided to continue counting students who earned an alternative diploma after being advised by the Department that those students could not be included as graduates in the Adjusted Cohort Graduation Rate.

Ongoing work in this area includes audits of the calculation and reporting of graduation rates in selected States, the Department's and selected school's controls over Clery Act reporting, and the Department's financial statement.

Department Actions and Plans

The Department reported that it made progress in FY 2017 to implement actions that are intended to mitigate the inherent risks associated with data quality. The Department stated that it continued to build standardized procedures to evaluate the quality of SEA submitted data. As an example, the Department noted that two of its offices used a new tool to identify, follow up on, and track individual State data quality concerns after the submission of School Year 2015–2016 Consolidated State Performance Reports. The Department further noted that the focus was on tracking data quality issues in assessment data and graduation rate data and that the new tool was developed in response to concerns about the Department's follow-up on identified data quality concerns.

The Department stated that it developed a policy that promotes a comprehensive approach to active and strategic data management with clearly identified roles and responsibilities for data management work. The Department added that the EDFacts Data Governance Board continues to promote and support program office's stewardship of data through a unified Information Collection package, standardized technical reporting instructions, centralized data submission systems, and increasingly standardized post-submission data quality procedures. The Department also reported that it implemented a new certification for Consolidated State Performance Reports. The certification served as reminder that the person certifying the data was providing assurance, on behalf of the State, of the accuracy of the data submission to the Department.

The Department stated that the EDFacts Data Governance Board routinely meets to exchange best practices. As an example, the Department reported that board members shared strategies used with State grantees to document data review procedures, build repeatable processes, and generate meaningful and timely messages back to the grantees post-data submission. It further stated that the National Center for Education Statistics developed a basic Data Quality Summary Form that will be shared with the Department principal offices for use in their reviews of submitted data files.

The Department also reported that OESE initiated work to develop a plan to address issues of data quality, data security, data reporting, and overall data management. The Department stated that as part of the effort, OESE is using prior OIG data quality recommendations as areas for possible improvement. According to the Department, OESE considered options for additional resources related to data quality and has prioritized this topic and linked it to ongoing budget priorities for future funding opportunities. The Department stated that OESE has acquired visualization tools to help convey data more robustly. The Department anticipates that these tools will be useful in identifying or distinguishing key data for improved mitigation efforts and improve decision making, particularly with respect to program monitoring and resource allocation. In addition, the Department stated that OESE entered into a multiyear contract for its ED Data Express system that will modernize the system and convert it to a more secure platform. The Department believes that this effort will improve cybersecurity and enable it to leverage data in a more comprehensive and effective way.

Finally, the Department stated that the Office of Career, Technical, and Adult Education continues to offer several ongoing initiatives to help States develop and implement accountability systems that yield valid, reliable, and complete data on the progress of career and technical education students. The Department reported that these efforts included the following.

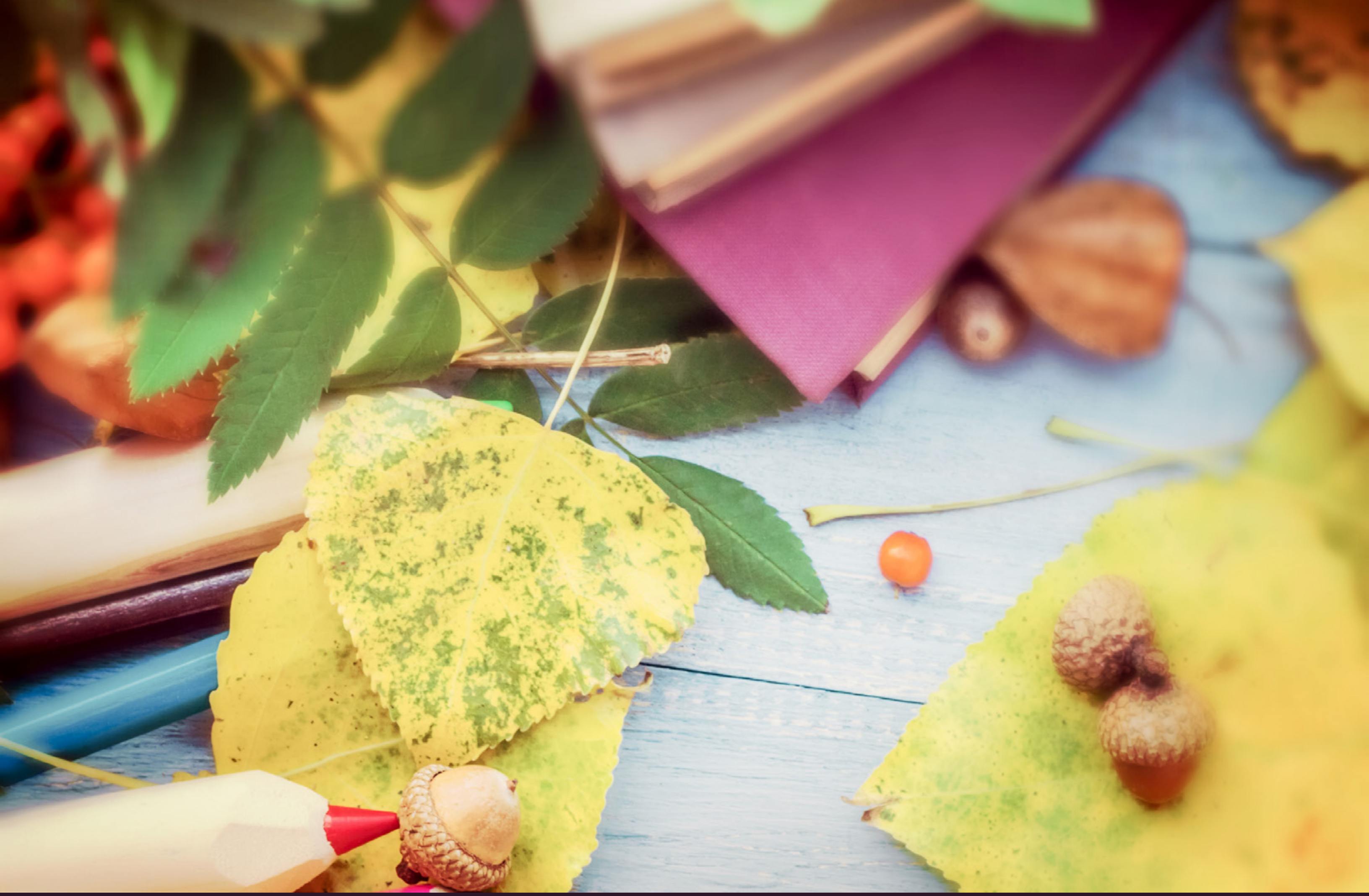
- Data Quality Institutes—These annual institutes bring together State teams composed of State career and technical education directors and their accountability staff to improve the quality and consistency of the definitions and measurement approaches that States use to report data on the Perkins IV core indicators of performance.

- Next Step Work Group Conference Calls—These monthly calls enable State career and technical education directors, secondary and postsecondary accountability staff, and other interested individuals to discuss emerging issues in Perkins IV accountability.
- Support to States—Up to eight States are selected each year, through an application process conducted each fall, to receive customized technical assistance to improve the validity, reliability, and completeness of their Perkins data.

Further Actions Needed to Address the Challenge

The Department continues to complete significant work that is intended to improve the overall quality of data that it collects and reports. This effort remains important, as data quality contributes to effective program management and helps ensure the credibility of information the Department publishes. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge. Our recent audits continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's efforts by the EDFacts Data Governance Board to promote common strong practices across its program offices is an important step to improving the quality of data the Department relies on. In addition, efforts to strengthen data certification statements and reach out to States and other entities that report data to the Department are important steps to reinforce the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should also make use of its current oversight mechanisms, such as single audits and program monitoring protocols, to ensure that program participants have strong controls to ensure the quality of data submitted to the Department and to ensure that they have good practices to support the data certifications they sign.



Appendix A. Work Discussed Under the Challenges

The following audits, inspections, and other work are discussed under the challenge areas.[2]

Challenge: Improper Payments

OIG Internal Reports

- "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2016," May 2017 (A04Q0011)

- "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2015," May 2016 (A03Q0001)

[2] OIG reports may be found on our website at http://www2.ed.gov/about/offices/list/oig/reports.html. GAO reports may be found on GAO's website, www.gao.gov.

- "U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2014," May 2015 (A03P0003)

OIG External Reports

- "Western Governors University Was Not Eligible to Participate in the Title IV Programs," September 2016 (A05M0009)
- "State and District Monitoring of School Improvement Grant Contractors in California," March 2016 (A09O0009)
- "SOLEX College's Administration of Selected Aspects of the Title IV Programs," September 2015 (A05O0007)

Challenge. Information Technology Security

OIG or Contractor Internal Reports

Because of the sensitivity of IT security issues, some OIG reports have been redacted.

- "The U.S. Department of Education's Federal Information Security Modernization Act of 2014 for Fiscal Year 2016," November 2016 (A11Q0001)
- "The U.S. Department of Education FY 2016 Agency Financial Report," November 2016 (A17Q0001)
- "Misuse of FSA ID and the Personal Authentication Service," September 2016 (X21Q0001)
- "The U.S. Department of Education's Federal Information Security Modernization Act of 2014 Report For Fiscal Year 2015," November 2015 (A11P0001)

Challenge. Oversight and Monitoring—SFA Program Participants

OIG Internal Reports

- "Federal Student Aid's Process for Identifying At-Risk Title IV Schools and Mitigating Potential Harm to Students and Taxpayers," February 2017 (A09Q0001)
- "Servicemembers Civil Relief Act," February 2016
- "Federal Student Aid's Oversight of Schools Participating in the Title IV Programs," September 2015 (A03L0001)

- "Federal Student Aid's Oversight of Schools' Compliance with the Incentive Compensation Ban," March 2015 (A05N0012)
- "The U.S. Department of Education's Administration of Student Loan Debt and Repayment," December 2014 (A09N0011)

OIG External Reports

- "Western Governors University Was Not Eligible to Participate in the Title IV Programs," September 2016 (A05M0009)
- "The Western Association of Schools and Colleges Senior College and University Commission Could Improve Its Evaluation of Competency-Based Education Programs to Help the Department Ensure Programs are Properly Classified for Title IV Purposes," August 2016 (A05P0013)
- "SOLEX College's Administration of Selected Aspects of the Title IV Programs," September 2015 (A05O0007)
- "The Higher Learning Commission Could Improve Its Evaluation of Competency-Based Education Programs to Help the Department Ensure the Programs Are Properly Classified for Title IV Purposes," September 2015 (A05O0010)

GAO Reports

- "Education Should Address Oversight and Communication Gaps in Its Monitoring of the Financial Condition of Schools," August 2017 (GAO-17-555)
- "Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options," August 2015 (GAO-15-663)
- "Education Should Strengthen Oversight of School and Accreditors," December 2014 (GAO-15-59)

Challenge. Oversight and Monitoring—Grantees

OIG Internal Reports

- "State Oversight of Local Educational Agency Single Audit Resolution," March 2017 (X09Q0006)
- "Nationwide Assessment of Charter and Education Management Organizations," September 2016 (A02M0012)
- "Audit of the Department's Oversight of the Rural Education Achievement Program," September 2016 (A19P0006)
- "Audit of the Department's Followup Process for External Audits," July 2016 (A19O0001)
- "Audit of the Small Business Innovation Research Program Regulations and Operating Procedures," March 2016 (A19P0007)

- "Audit of the Followup Process for External Audits in the Office of Elementary and Secondary Education," December 2016 (A19P0002)
- "Audit of the Followup Process for External Audits in the Office of the Chief Financial Officer," September 2015 (A19P0004)
- "Audit of the Followup Process for External Audits in the Office of Special Education and Rehabilitative Services," September 2015 (A19P0003)
- "Audit of the Followup Process for External Audits in Federal Student Aid," June 2015 (A19P0001)

OIG External Reports

- "Protection of Personally Identifiable Information in Indiana's Statewide Longitudinal Data System," July 2017 (A06Q0001)
- "Wyandanch Union Free School District: Status of Corrective Actions on Previously Reported Title I Findings," May 2017 (A05Q0005)
- "Harvey Public School District 152: Status of Corrective Actions on Previously Reported Title I-Relevant Control Weaknesses," May 2017 (A05Q0003)
- "Illinois State Board of Education's Oversight of Local Educational Agency Single Audit Resolution," November 2016 (A02P0008)
- "Protection of Personally Identifiable Information in Oregon's Statewide Longitudinal Data System," September 2016 (A02P0007)
- "Protection of Personally Identifiable Information in the Commonwealth of Virginia's Longitudinal Data System," July 2016 (A02P0006)
- "North Carolina Department of Public Instruction's Oversight of Local Educational Agency Single Audit Resolution," August 2016 (A09P0005)
- "State and District Monitoring of School Improvement Grant Contractors in California," March 2016 (A09O0009)
- "Massachusetts Department of Elementary and Secondary Education's Oversight of Local Educational Agency Single Audit Resolution," January 2016 (A09P0001)

GAO Reports

- "Education Needs to Improve Its Oversight of Grants Monitoring," April 2017 (GAO-17-266)
- "Education Needs to Improve Oversight of Its 21st Century Program," April 2017 (GAO-17-400)
- "Better Use of Information Could Help Agencies Identify Disparities and Address Racial Discrimination," May 2016 (GAO-16-345)
- "Teacher Preparation Programs, Education Should Ensure States Identify Low-Performing Programs and Improve Information-Sharing," July 2015 (GAO-15-598)

- "Better Management of Federal Grant and Loan Forgiveness Programs for Teachers Needed to Improve Participant Outcomes," February 2015 (GAO-15-314)

Challenge. Data Quality and Reporting

OIG Internal Reports

- "Rehabilitation Services Administration's Internal Controls Over Case Service Report Data Quality," December 2016 (A03N0006)
- "The U.S. Department of Education's Oversight of the Carl D. Perkins Career and Technical Education Improvement Act of 2006 Program," March 2016 (A05P0002)
- "Management Certifications of Data Reliability," February 2016 (A06O0001)
- "Payback Provisions of the Personnel Development to Improve Services and Results for Children with Disabilities Program," March 2015 (A19O0004)
- "Calculating and Reporting Graduation Rates in Alabama," June 2017 (A02P0010)

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- "Calculating and Reporting Graduation Rates in Alabama," June 2017 (A02P0010)
- "Opportunities for Ohioans with Disabilities' Case Service Report Data Quality," March 2016 (A03P0001)
- "Pennsylvania's Department of Labor and Industry, Office of Vocational Rehabilitation's Case Service Report Data Quality," March 2016 (A03P0002)
- "California Department of Rehabilitation Case Service Report Data Quality," December 2015 (A09O0008)

Appendix B. Acronyms and Abbreviations

AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
FAFSA	Free Application for Federal Student Aid
FFEL	Federal Family Education Loan
FISMA	Federal Information Security Modernization Act
FSA	Federal Student Aid
FY	fiscal year
GAO	Government Accountability Office
HEA	Higher Education Act of 1965, as amended
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
LEA	local educational agency
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant
Perkins IV	Carl D. Perkins Career and Technical Education Improvement Act of 2006
RSA	Rehabilitation Services Administration
SEA	State educational agency
SFA	Student Financial Assistance
SIG	School Improvement Grant
SLDS	Statewide Longitudinal Data Systems
Title IV	Title IV of the Higher Education Act of 1965, as amended

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