U.S. Department of Education
Office of Inspector General

FY 2013 Management Challenges

Office of Inspector General
Kathleen S. Tighe
Inspector General

January 2013

Please Note:

The Inspector General's FY 2013 Management Challenges is available on the ED OIG Web site at http://www2.ed.gov/about/offices/list/oig.

UNITED STATES DEPARTMENT OF EDUCATION

The Inspector General

January 16, 2013

MEMORANDUM

TO: The Honorable Arne Duncan
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2013

The Reports Consolidation Act of 2000 requires the U.S. Department of Education (Department) Office of Inspector General (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. 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 four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. Although we noted some progress by the Department in addressing these areas, each remains as a management challenge for fiscal year (FY) 2013. We previously provided the executive summary of the FY 2013 management challenges for inclusion in the Department's Agency Financial Report.

The FY 2013 management challenges are:

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

We look forward to working with the Department to address the FY 2013 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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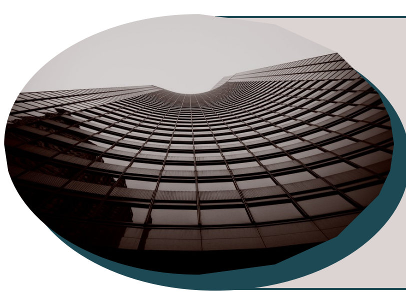


EXECUTIVE SUMMARY

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 four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. Although we noted some progress by the Department in addressing these areas, each remains as a management challenge for fiscal year (FY) 2013.

The FY 2013 management challenges are:

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

Improper Payments

In FY 2010, the President established a goal to avoid $50 billion in improper payments Government-wide by the end of FY 2012. Legislation was enacted and implementing guidance was issued to assist in meeting this goal. PaymentAccuracy.gov reported that the Federal Government avoided more than $20 billion in improper payments in FYs 2010 and 2011 combined, but Federal agencies still reported an estimated $115 billion in improper payments for FY 2011. The Department estimated its Federal Pell Grant (Pell) program had about $1 billion in improper payments in both FY 2010 and FY 2011. The Pell program was 1 of 14 programs that the Office of Management and Budget identified as "high-error" in FY 2010. In addition to the Pell program, the Department identified the William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan programs as susceptible to significant improper payments. A recent OIG audit identified weaknesses in the methodologies and data used to calculate the estimated improper payment rates for the Title I of the Elementary and Secondary Education Act of 1965, Pell, and Direct Loan programs.

In addition, OIG audit and investigative work over the past several years has identified improper payments in the Student Financial Assistance (SFA) programs, to or by State educational agencies (SEA) and local educational agencies (LEA), to other grantees, and to contractors. 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 meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments.

Information Technology Security

Recent audit work performed by the Department's financial statement auditor and OIG continued to identify control weaknesses within information technology security and systems that need to be addressed. The Department's financial statement auditor has identified information technology controls as a significant deficiency for the past 3 years based on weaknesses related to access controls, noncompliant passwords, configuration management, and administrator account monitoring. The OIG has found similar issues through its own work and identified additional weaknesses in operational, managerial, and technical security controls. Recent OIG reports identified weaknesses in compliance with configuration management, identity and access management, incident response and reporting, risk management, security training, remote access management, and contingency planning. Compromise of the Department's data or systems could cause substantial harm to the Department, negatively impact operations, and lead to identity theft or other fraudulent use of information. The Department provided corrective action plans to address the recommendations in our audits and has reported that some corrective actions are completed. However, vulnerabilities continue to exist, and the Department needs to effectively address and eliminate information technology security deficiencies where possible, continue to provide mitigating controls for vulnerabilities, and implement remaining planned actions to correct system weaknesses.

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, programs are achieving goals and objectives, and the Department is obtaining the products and level of services for which it has contracted. This is a significant responsibility for the Department given the numbers of 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. Four areas are included in this management challenge—SFA program participants, distance education, grantees, and contractors.

SFA Program Participants. 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, abuse, and mismanagement. The Department estimated that $193.5 billion will be used for SFA programs in FY 2013. This level of funding will provide more than 15 million students with assistance in paying the cost of their postsecondary education. Participants in the SFA programs include postsecondary institutions, lenders, guaranty agencies, and third-party servicers. Our work has identified weaknesses in the Department's oversight and monitoring of these participants, and our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. The Department needs to continue to assess and improve its oversight and monitoring of program participants and take effective actions when problems are identified.

Distance Education. Distance education refers to courses or programs offered through technology, such as the Internet, that supports regular and substantive interaction between postsecondary students and instructors, either synchronously or asynchronously. The flexibility offered is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment. Management of distance education programs presents a challenge for the Department and school officials because they have limited or no physical contact to verify the student's identity or attendance. OIG audit work has found that for distance education programs, schools face a challenge in determining when a student attends, withdraws from school, or drops a course. These factors are critical because they are used to determine the student's eligibility for Federal student aid and to calculate the return of funds if the student withdraws or drops out. Our investigative work has also identified numerous instances of fraud involving distance education programs. These cases involved the exploitation of vulnerabilities in distance education programs to fraudulently obtain Federal student aid. The OIG reported that the control weaknesses in distance education programs increase their susceptibility to "fraud rings"—large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. The Department has taken corrective actions to address many of the recommendations contained in our reports. However, the Department needs to increase its monitoring and oversight of schools providing distance education and develop requirements specifically to address potential problems inherent to distance education.

Grantees. Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary programs annually serve nearly 16,000 public school districts and 49 million students attending more than 98,000 public schools and 28,000 private schools. According to USASpending.gov,[1] the Department obligated more than $44 billion in grant awards in FY 2012. Our work on the American Recovery and Reinvestment Act of 2009 and other grant programs has identified a number of weaknesses in grantee oversight and monitoring. These include LEA and SEA fiscal control issues; internal control weaknesses in the Department's oversight processes; and fraud perpetrated by LEA, SEA, and charter school officials. 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 to address many of the recommendations contained in our reports. However, the Department needs to continue to assess

[1] USASpending.gov was established under the Federal Funding Accountability and Transparency Act to provide the public with information about how their tax dollars are spent.

and improve its oversight and monitoring of grantees and take effective actions when issues are identified.

Contractors. The Department relies heavily on contractor support to accomplish its mission and to ensure the effective operations of its many systems and activities. The value of the Department's active contracts as of April 2012 was about $6.3 billion. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. The OIG has identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance, primarily related to the appropriateness of contract prices and payments and the effectiveness of contract management. OIG investigations have noted inappropriate activities by contractor employees that resulted in improper billings and payments. The Department has taken action to address many of the issues noted. However, the Department still needs to work to ensure that it has an appropriately qualified staff in place and in sufficient numbers to provide effective oversight of its contracts.

Data Quality and Reporting

The Department, its grantees, and its subrecipients must have controls in place and effectively operating to ensure that accurate, reliable data are reported. The Department uses data to make funding decisions, evaluate program performance, and support a number of management decisions. SEAs annually collect data from LEAs and report various program data to the Department. 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. Ensuring that accurate and complete data are reported is critical to support effective management decisions.

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. In fiscal year (FY) 2010, the President established a goal to avoid $50 billion in improper payments Government-wide by the end of FY 2012. To meet these goals, legislation was enacted and implementing guidance was issued.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) and Office of Management and Budget (OMB) Circular A-123, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," require Federal agencies to implement plans to reduce improper payments. IPERA and OMB Circular A-123 requires the U.S. Department of Education (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.

PaymentAccuracy.gov[2] reported the Federal Government avoided more than $20 billion in improper payments in FYs 2010 and 2011 combined. However, Federal agencies still reported an estimated $115 billion in improper payments for FY 2011. The Department estimated its Federal Pell Grant (Pell) program had more than $1 billion in improper payments in FY 2010 and $993 million in improper payments in FY 2011. Although the Pell program was 1 of 14 programs that OMB designated as "high error" in 2010, the final FY 2010 improper payment rate estimate of 3.12 percent was lower than target rate of 3.5 percent reported in the FY 2009 Agency Financial Report. In addition to the Pell program, the Department identified the William D. Ford Federal Direct Loan (Direct Loan) program and Federal Family Education Loan (FFEL) programs as 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 meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments.

Background

The Department stated in its FY 2011 Agency Financial Report that it is enhancing its efforts for identifying and reducing the potential for improper payments to comply with IPERA. The FY 2011 Agency Financial Report further stated that there are still challenges within this area to overcome, but the Department is committed to ensuring the integrity of its programs and is focused on identifying

[2] PaymentAccuracy.gov was established under Executive Order 13520, "Reducing Improper Payments," to provide information about current and historical rates and amounts of improper payments, why improper payments occur, and what agencies are doing to reduce and recover improper payments.

and managing the risk of improper payments and mitigating the risk with adequate control activities.

The FY 2011 Agency Financial Report stated that OMB designated Pell a “high-priority” program per Executive Order 13520, “Reducing Improper Payments” and OMB Circular A-123, Appendix C, “Management’s Responsibility for Internal Controls” (as updated by OMB M-10-13) because estimated FY 2010 Pell improper payments of $1.0 billion exceeded the OMB FY 2010 high-priority program threshold of $750 million. As a result, the Department must establish semiannual or more frequent measurements for reducing improper payments in the program and prepare an Accountable Official’s Annual Report. In addition to the Pell program, the Department identified the Direct Loan and FFEL programs as susceptible to significant improper payments. For programs identified as susceptible to significant improper payments, agencies must report the annual amount of estimated improper payments and steps taken and actions planned to reduce them.

Results of Work Performed

The OIG’s work related to improper payments has evolved and increased over the years to include reviewing the Department’s improper payment reporting in the Agency Financial Report and accompanying materials to determine whether the Department is in compliance with IPERA; evaluating specific Departmental controls to prevent and detect improper payments; and reviewing, auditing, and investigating major recipients of Federal funds.

In March 2012, we issued an audit report that concluded the Department complied with IPERA for FY 2011. However, the report identified weaknesses in the methodologies used to calculate the estimated improper payment rates for the Title I of the Elementary and Secondary Education Act of 19965 (Title I), Pell, and Direct Loan programs. The audit also determined that certain numbers, amounts, and percentages reported for the Pell and Direct Loan programs were not always based on accurate or complete data. The report further stated that the Department needs to continue its efforts for reducing and recapturing improper payments.

In April 2012, we issued an inspection report on the Department’s process for identifying and reporting high-dollar overpayments in accordance with Executive Order 13250 and guidance issued by OMB. We found that the Department’s process could be strengthened, and during the course of our inspection, the Department began taking steps to improve its process.

In October 2012, we issued an audit report on our review of the Department’s FY 2011 Accountable Official’s report on the Pell high-priority program. We concluded the Department complied with applicable requirements contained in Executive Order 13250 and guidance issued by OMB, addressed improper payment risks, and described an adequate level of oversight to reduce and recapture improper payments. However, we recommended that the Department study a specific population of Pell recipients to determine whether it has adequate controls in place to mitigate the risk of improper payments to the specific population of recipients.

OIG audit and investigative work continues to identify various improper payments in the Student Financial Assistance (SFA) programs, to or by State educational agencies (SEA) and local educational agencies (LEA), to other grantees, and to contractors. Overall, our Semiannual Reports to Congress from October 1, 2009, through March 31, 2011, included audit reports with findings involving more than $203 million in questioned or unsupported costs.

Many of our reviews of SFA programs have disclosed improper payments. Our audits and investigations of postsecondary institutions routinely disclose payments resulting from ineligible students, ineligible programs, or other noncompliance. For example, the FY 2012 report "Saint Mary-of-the-Woods College's Administration of the Title IV Programs" found that the College was not eligible to participate in the Title IV of the Higher Education Act of 1965, as amended (Title IV), programs and had not been eligible since at least July 1, 2005, because it exceeded the statutory limitation on the percentage of students who can be enrolled in correspondence courses. The report concluded the College received nearly $42.4 million in Title IV funds from award years 2005–2006 through 2009–2010 that it was not eligible to receive.

In FY 2011, we issued an investigative program advisory report (IPAR) on distance education fraud rings. The information presented was based on our work involving "fraud rings"—large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. In the report, we point out that the number of complaints we receive regarding potential fraud rings has grown: in 2005, the OIG had opened 16 distance education fraud ring investigations; as of August 1, 2011, the OIG had opened 100.

In addition to work in the SFA programs, we have performed work identifying fiscal issues at SEAs and LEAs. The OIG initiated its second phase of American Recovery and Reinvestment Act of 2009 (Recovery Act) audit work in FY 2010 in 11 States, evaluating the use of funds and data quality for compliance with applicable laws, regulations, and guidance. These audits identified internal control weaknesses over the use of Recovery Act funds as well as several questioned cost findings related to unsupported and unallowable expenditures. These findings were typically small dollar amounts, but they represented weaknesses that States and LEAs have in accounting for and using funds appropriately.

We issued multiple audit reports relating to the Camden City Public School District that identified problems with its financial management. In June 2011, we issued our audit report on Camden's administration of Federal education funds that found about $4.5 million in contracts were missing or inadequately executed and more than $4 million in expenditures were inadequately supported. In January 2010, we issued an audit report on the Philadelphia School District, where we found that expenditures totaling more than $138 million were either unallowable or inadequately supported.

Our February 2010 audit report on the Colorado Department of Education's use of Federal funds for state employee personnel costs found that the Colorado Department of Education inappropriately charged employee personnel costs to

Federal education programs based on predetermined time and effort allocations instead of charging the programs based on the actual activity of each employee. Because the Colorado Department of Education could not provide documentation for employees' actual activities on Federal programs, we were unable to determine the allowability of nearly $24 million in personnel costs charged to Department grants for State FYs 2008 and 2009.

In May 2009, we issued our audit report on the National Assessment of Educational Progress contract which noted improper payments—the most significant of which were disclosed by the contractor during our audit work. The Department recovered nearly $3.2 million in improper payments and interest from the contractor. Further investigative work identified additional overbillings by this contractor on other contracts with the Department and on contracts with four other Federal agencies. In May 2011, the contractor entered into a civil fraud settlement with the Government for an additional $1.4 million payment to the Department and also repaid the other four Federal agencies a total of more than $135,000 in improper payments.

OIG work continues in this area as we monitor the Department's quarterly reports on high-dollar overpayments and evaluate actions being taken in response to improper payments noted. For all high-dollar overpayment amounts reported on the quarterly reports through June 30, 2012, the Department has reported that it has or will recover the funds, and that it has taken action or has plans to implement adequate control activities that will mitigate the risk of future improper payments. In FY 2013, we will review the Department's compliance with IPERA and performance in reducing and recapturing improper payments. We will also conduct a review of the Department's Accountable Official's report on the Pell high-priority program.

Department Actions and Plans

The Department's FY 2011 Agency Financial Report provided information on the annual review and assessment of programs and activities to identify those susceptible to significant improper payments. The report identified the Pell, Direct Loan, and the FFEL programs as potentially susceptible to the risk of significant improper payments based on OMB criteria. The report included the estimated improper payments for the Pell and Direct Loan programs for FY 2011, along with root causes and corrective actions taken and planned to reduce improper payments. However, it did not provide an estimate of FY 2011 FFEL improper payments, stating that Federal Student Aid (FSA) was in the process of reviewing the feasibility of new assessment methodologies and was developing a comprehensive plan for implementation in FY 2012 to develop an estimate of FFEL improper payments to be reported in the FY 2012 Agency Financial Report. The FY 2011 report also stated that the Department would continue to work with OMB and OIG during FY 2012 to explore additional opportunities for identifying and reducing potential improper payments and to ensure compliance with IPERA.

Root causes identified by the Department included verification (Pell) and administrative errors (Direct Loan and FFEL). Corrective actions the Department states that it has taken or has planned include implementing a data exchange program with the Internal Revenue Service (IRS). The IRS Data Retrieval Tool is intended to improve the accuracy of the student financial aid applicant financial income reported on the Free Application for Federal Student Aid (FAFSA). The tool enables student aid applicants and their parents, as needed, to transfer certain tax return information from an IRS site directly to their online FAFSA. The IRS Data Retrieval Tool was available for the 2011–2012 cycle on January 30, 2012, to coincide with the IRS's processing of tax returns. About 21 percent of applications submitted from January 30, 2011, through September 4, 2011, used the Data Retrieval Tool to minimize errors and provide additional assurance of accuracy of the data included on the application.

Other corrective actions identified by the Department included changes in verification regulations that increase the responsibilities of the schools in confirming specific information on the FAFSA reported by the applicant beginning in the 2012–2013 cycle; planned statistical studies to facilitate the detection of error; simplification of the application process; internal controls integrated into systems to prevent and detect errors; and use of programmatic reviews, independent audits, and OIG audits. The Department further stated that it has updated its analysis as to the cost-effectiveness of payment recapture audits and is revising and implementing payment recapture plans based on the updated analysis.

The Department is also performing various activities related to detecting, handling, and reclaiming improper payments within some of its offices. For example, in its quarterly high-dollar overpayment reports that OMB requires, the Department reported actions taken or planned that included recovering funds, automating manual certification processes such as validating payee codes, training, reviewing manual and change processes, reviewing refund processes, and potentially purchasing improper payment detection software.

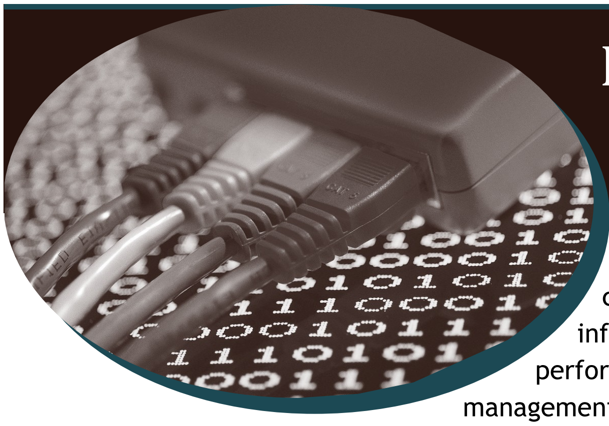
As required by OMB Memorandum M-11-04, "Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits," the Department also developed its Payment Recapture Audit Plan. The Department submitted the plan to OMB and the OIG in January 2011 and updated it in November 2011. It describes the Department's current and past recapture efforts, as well as planned recapture efforts for the future. Our audit of the Department's compliance with IPERA for FY 2011 found that the Department had made progress in certain areas of the Payment Recapture Audit Plan, including the following.

- The Department recently implemented continuous controls monitoring software to help detect anomalies and potential issues in agency payment-related data. This new automated tool is designed to examine payment records and identify problems such as duplicate payments, unduly large payments, overpayments, and potential fictitious vendors.

- The Department awarded a contract in September 2011 to recommend improvements in processes to estimate, track, and report improper payments; strategies for identifying and addressing root cause of improper payments; enhancements to the methodology for calculating statistically valid improper payment rates; and standard operating procedures for improper payment detection and incident reporting.

Further Actions Needed to Address the Challenge

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. Our audit of the Department's compliance with IPERA for FY 2011 found that the Department was in the process of implementing plans to reduce and recapture payments. The Department needs to study a specific population of Pell recipients to determine whether it has adequate controls in place to mitigate the risk of improper payments to the specific population of Pell recipients. The Department needs to effectively monitor SFA program recipients, SEAs, and LEAs to ensure Federal education funds are properly spent and accounted for. The Department further needs to effectively resolve related audits.



INFORMATION TECHNOLOGY SECURITY

Department systems contain or protect an enormous amount of confidential information (personal records, financial information, and other personally identifiable information) and perform vital organizational functions. Without adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability.

OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. For the last several years, OIG's IT audits and IPARs have identified security controls that need improvement to adequately protect the confidentiality, integrity, and availability of Department systems and data. We have also identified security weaknesses in the incident handling process and procedures, personnel security controls, and configuration management.

Background

The IT infrastructure for the Department is provided through the Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract. Services such as email, network, desktop, security, and printers are provided under this contract. Additionally, the Department has a large Virtual Data Center contract that provides IT support for FSA data processing. Specifically, the Virtual Data Center serves as the host facility for FSA systems that process student financial aid applications (grants, loans, and work study), provides schools and lenders with eligibility determinations, and supports payments from and repayment to lenders.

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

The Department has experienced sophisticated attacks to its IT systems, including hostile Internet browsing and phishing campaigns resulting in malware infections, as well as unauthorized accesses accomplished by credentials stolen through keystroke loggers. Many of the computers that are compromised are not Department systems but the home or work computers of its students, contractors, and program participants such as schools, lenders, guaranty agencies, and servicers. Although the Department can specify security controls for its contractors, it has little authority in the malware detection practices of these other parties.

Results of Work Performed

Recent audit work performed by the Department's independent public accountant (IPA) for its financial statement audits, the OIG, and a contractor for the OIG has identified control weaknesses within IT security and systems that need to be addressed. The IPA has identified IT controls as a significant deficiency for the past 3 years based on weaknesses related to access controls, noncompliant passwords, configuration management, and administrator account monitoring. The IPA's review of general IT controls in performing the audit of the Department's FY 2011 financial statements identified weaknesses that included monitoring activities of administrator and privileged user accounts, removing access for terminated users, revalidating user access, ensuring administrator level access was assigned only to individuals requiring elevated privileges, and applying change management controls. The IPA concluded that many of the deficiencies were repeat conditions, which indicated that the related control environment and monitoring components of internal controls at the Department require additional focus.

OIG has found similar issues in numerous other reports. During FYs 2011 and 2012, we issued audit reports for work independent auditors performed under contract. These reports covered the information and information systems security program controls over EDUCATE and the Education Central Automated Processing System information security. The reports concluded that the Department's controls needed improvement to address numerous operational, managerial, and technical security control weaknesses. Specific areas of weaknesses identified in these reports included security configuration management, risk management, security patch management, account and identity management, remote access, contingency planning, and separation of duties.

In October 2011, OIG issued an audit report on the Department's compliance with the Federal Information Security Management Act for FY 2011. The audit report identified findings in each of the 11 OMB reporting metrics or controls areas, including risk management, configuration management, incident response and reporting, security training, remote access management, identity and access management, contingency planning, and security capital planning. The report noted that 5 of the 11 control areas contained repeat findings from OIG reports issued during the prior 3 years.

In July 2011, we reported that investigations of potential computer crimes over the past 2 years identified problems with how the Department handled computer security incidents. Specifically, the Department did not detect, report, or respond to incidents in accordance with its internal guidance, which is based on Federal guidelines and industry best practices.

In September 2010, we issued an audit report on the security controls for data protection over the Virtual Data Center. We reported that FSA did not have adequate operational controls in place over configuration management, system and information integrity, contingency planning, media protection, and awareness and training. In addition, we reported that FSA needed to improve all four technical controls of access controls, systems and communications protection, identification and authentication, and audit and accountability.

In September 2010, we issued an audit report relating to the review of system application controls over the Financial Management System. The report found that FSA did not have adequate controls in place over personnel security and security and awareness training. The report also noted that FSA did not ensure adequate physical and environmental controls at a contractor facility.

OIG work continues in this area, with a primary focus on completing work to assess the Department's compliance with the Federal Information Security Management Act.

Department Actions and Plans

The Department provided corrective action plans to address the recommendations in our audits. As of September 2012, the Department has reported that some corrective actions are completed and work is in process to implement the remaining corrective actions. For example, the Department reported it has ensured software was updated, developed and implemented training, revised certain logging activities, requested additional funds to improve the quality and effectiveness of its risk management framework, and has or will update internal policy.

The Department has procured services to provide additional intrusion detection capabilities for its primary enterprise environment and related EDUCATE data center. The Department also awarded a contract for a continuous monitoring program of its enterprise infrastructure that will provide feedback of cyber activity to the Department's Cyber Security Operations team. The Department published guidance in February 2011 that generally requires multifactor authentication for all information systems processing sensitive data and for remote access to Department information systems.

Additionally, the Department has begun implementing two-factor authentication for Government and contractor employees in an effort to comply with requirements. The Department also stated that it is laying a foundation for increased security oversight and efficiency with an in-house Cyber Security Operations Center providing centralized command and control of security related events for the EDCUATE network, the FSA Virtual Data Center, and the external hosting contractors. The Department stated that initial operating capability was planned for late FY 2013 with full capacity by mid FY 2014.

Further Actions Needed to Address the Challenge

The Department needs to develop more effective capabilities to respond to potential IT security incidents. The current response process generally does not attempt to identify other systems impacted by an incident nor does it attempt to identify the damage done to the Department. Although the Department has some plans to implement an incident response team, to date, no such enhanced capability has emerged.

The Department also has not fully implemented and enforced the use of two-factor authentication when accessing its systems to comply with applicable guidance. Since the Department cannot control the security of computer systems used by outside entities, two-factor authentication should also be deployed to external business partners. While the Department is in the process of implementing and enforcing the use of two-factor authentication for all Federal employees, contractors, and other authorized users, allowing users to sign on without two-factor authentication could expose user accounts and lead to cyber attacks.

Vulnerabilities continue to exist in the programs intended to identify and protect critical technologies. We are still finding instances of the same deficiencies in our current audits. Security breaches have already permitted malware to be installed on end-users' computers, resulting in the compromise of usernames and passwords for Department systems. Because antivirus detection software often lags behind the most current sophisticated malware by some period of time, and malware code can be rapidly changed to prevent identification, the Department must have a robust capability to identify and respond to malware installations.

The Department needs to effectively address and eliminate IT security deficiencies where possible, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

OVERSIGHT AND MONITORING

SFA Program Participants

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, (HEA) to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. The Department's FY 2013 budget request dedicates $193.5 billion to Federal student aid in FY 2013, including $36.6 billion in Pell Grants and more than $154 billion in student loans. Over 15 million students would be assisted in paying the cost of their postsecondary education at this level of available aid. Participants in the SFA programs include postsecondary institutions, lenders, guaranty agencies, and third-party servicers. Our work has identified weaknesses in the Department's oversight and monitoring of these 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

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 Federal SFA programs collectively represent the nation's largest source of Federal financial aid for postsecondary students. In FY 2011, FSA processed more than 22 million FAFSAs, resulting in the delivery of about $157 billion in Title IV aid to more than 15 million postsecondary students and their families. These students attend about 6,300 active institutions of postsecondary education accredited by dozens of agencies.

The Student Aid and Fiscal Responsibility Act of 2010 (SAFRA) ended the origination of new FFEL program loans after June 30, 2010. New Stafford, PLUS, and Consolidation loans are originated under the Direct Loan program. 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. Although SAFRA ended the origination of FFEL program loans, lenders, guaranty agencies, and their third-party servicers will continue to service FFEL program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL program loan portfolio of about $451.7 billion as of September 30, 2012. FSA reported in its FY 2012 Annual Report that it oversees more than $948 billion in outstanding Direct, FFEL program, and Federal Perkins loans.

The continued poor economic situation may be limiting the ability of borrowers to repay their loans. In August 2012, the Federal Reserve Bank of New York reported that 8.9 percent of student loan balances were 90 or more days delinquent, up from about 6.1 percent in the first quarter of 2003.[3] By comparison, about 10.9 percent of credit card balances were delinquent—the highest percentage for any type of household debt and credit. The Federal Reserve Bank of New York further reported that since the peak in household debt in the third quarter of 2008, student loan debt has increased by $303 billion (49.6 percent), while other forms of debt fell a combined $1.6 trillion (13.2 percent). Also, as a result of the economic situation, the amount of time it takes to repay loans may increase, borrowers may use more deferments and forbearances, and more borrowers may default. These changes may increase the administrative and subsidy cost of operating the loan programs. We believe that the most significant financial risk to the Department is increasing loan volumes, increasing defaults, and the ability to effectively collect on loan defaults.

Results of Work Performed

Our audits and inspections continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. Issues noted in internal audits and inspections of FSA's oversight and monitoring of the SFA program participants have included the following.

We completed multiple audits in FY 2012 that identified weaknesses relating to FSA's monitoring activities. Our audit of FSA's oversight of foreign medical school pass rates found weaknesses that included a lack timely of actions against schools that failed to submit the required pass rate data or meet the pass rate threshold; inconsistent application of the methodology for calculating pass rates; and acceptance of incomplete data from schools. In addition, we completed an inspection at the request of Congress that found that FSA's oversight process did not provide assurance that institutions of higher education are in compliance with drug and alcohol abuse prevention requirements of the HEA.

Our FY 2011 inspection of FSA's monitoring of schools' financial responsibility found that FSA did not always take appropriate action when it identified that a school was potentially not in compliance with the financial responsibility requirements. Specifically, FSA's procedures did not define when the failure to submit financial statements and compliance audits would result in a determination that the school was not financially responsible. Also, FSA did not enforce the requirement that schools submit a letter of credit in order to continue participating in the SFA programs.

In FY 2011, the Government Accountability Office (GAO) reported that stronger oversight by the Department was needed to enforce the ban on incentive payments to school recruiters. Specifically, GAO found that while FSA has a process to monitor schools for violations, its methods to detect violations and track monitoring activities were limited, and FSA's policies and practices hindered its enforcement efforts. GAO also reported that FSA officials stated they did not have a plan on how they will use the new data in monitoring. In FY 2010, GAO found that FSA lacked policy and procedures to ensure receipt and review of audited financial statements from third-party servicers for FFEL program lenders. Without such reviews, FSA might not be informed of a third-party servicer's

[3] The Federal Reserve Bank of New York uses a data set that includes student loans provided by banks, credit unions, and other financial institutions, as well as Federal and State Governments.

unfavorable audit opinion or significant reported findings that could affect program operations. In FY 2009, GAO found that although students must meet certain eligibility requirements to demonstrate that they have the ability to succeed in school before they receive Federal loans, weaknesses in the Department's oversight of these requirements place students and Federal funds at risk of potential fraud and abuse at proprietary schools.

Additionally, our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. Issues noted in these audits have included the following.

Our FY 2012 audit of Metropolitan Community College identified instances of noncompliance across multiple areas that included disbursing Title IV funds to students who had not established eligibility, had not maintained satisfactory academic progress, had exceeded maximum number of remedial credit hours, and had enrolled in ineligible nondegree programs. The audit also reported that the institution did not administer its Federal Work Study Program in compliance with Federal regulations and did not properly identify students who never attended its courses and properly calculate related amounts to return to the Title IV programs.

Our FY 2011 audit of Ashford University found noncompliance with incentive compensation requirements as enrollment advisors were provided incentive payments based on success in securing enrollment. The audit further identified instances of improper return of Title IV aid calculations and noncompliance with Federal regulations and its internal policy with respect to Title IV disbursements.

Our FY 2011 audit of Educational Credit Management Corporation's[4] compliance with its agreement with the Department disclosed unallowable charges, an inadequate cost allocation plan, and cost allocation reports not provided to the Department.

OIG investigations have identified various schemes by SFA program participants to fraudulently obtain Federal funds. These included the following examples of theft, embezzlement, and fraud.

- In January 2012, a former Director of Financial Aid at Everglades University was sentenced to Federal prison and ordered to pay more than $92,000 in restitution for theft of student loan checks from October 2009 through March 2011.
- In July 2011, Kaplan Higher Education Corporation, a large proprietary school chain, entered into a civil fraud settlement agreeing to repay $1.6 million to the Government for failing to secure required training externships for students enrolled in a surgical technology program designed to prepare students to work in a surgical setting.
- In January 2011, the owner of Cannella School of Hair Design agreed to repay more than $4.9 million for enrolling students who were ineligible because they did not have a required high school diploma or General Equivalency Diploma.

[4] The Educational Credit Management Corporation is a nonprofit corporation operating as a guaranty agency designated by the Department.

- In FY 2010, proprietary school officials from Vatterott College provided false General Equivalency Diplomas and falsified financial aid forms to obtain Federal student grants and loans for ineligible students.
- During FY 2009, Alta Colleges, an organization managing a group of schools in one State, failed to meet State licensing requirements—a requirement for receiving Federal student aid. The organization entered into a civil fraud settlement agreeing to repay $7 million to the Government for funds it was not eligible to receive.

OIG work continues in this area, including reviews of FSA's oversight of schools participating in the Direct Loan program; not-for-profit student loan servicers; FSA's implementation of its new Debt Management and Collection System; the Department's oversight and effectiveness of institutional loan entrance and exit counseling practices; proprietary schools' participation in SFA programs; effectiveness of FSA's oversight of, and schools' compliance with, prohibitions against incentive compensation and misrepresentation; and institutions' use of servicer-supplied debit cards for Title IV payment processing.

Department Actions and Plans

FSA reported that it has taken multiple actions to improve its oversight of foreign medical school pass rates to include staff training, policy development, and completion of loss of eligibility actions. FSA further reported that it amended internal procedures and processes to strengthen its ability to address the weaknesses we identified in its monitoring of schools' financial responsibility and to ensure institutions of higher education comply with HEA requirements.

FSA stated that in January 2010, it changed leadership in its Enterprise Risk Management Group and hired a new chief risk officer. The chief risk officer is responsible for connecting the various existing and evolving internal oversight groups across FSA. The FY 2012 budget justification included an increase of 91 full-time employee equivalents across the Department for staff that work extensively on SFA programs. The Department reported that, as of September 2010, it had more than doubled (from 13 to 29) the number of staff responsible for conducting program reviews of guaranty agencies, lenders, and servicers. FSA reported it has also filled supervisory positions, established a mandatory training program for all program review staff, and implemented program review procedures that ensure proper supervision and consistency in decision making. FSA also reported that its increased onboard staff included specialists needed for project and risk management, acquisition, and IT.

FSA stated that it has numerous initiatives in progress or under consideration to ensure that SFA funds are delivered accurately and efficiently. These include an enhanced online origination tool, a streamlined and more efficient application process for campus-based funds, and an expanded Common Origination and Disbursement system to improve funds control. FSA's plans also include the Integrated Partner Management project with the goal of modernizing and integrating the partner management operations and improving interaction and support. The Integrated Partner Management Project is intended to replace five legacy applications, and FSA believes the implementation of modernized and scalable platforms will improve program integrity and efficiency.

FSA established a Customer Analytics Group to gather, analyze, and report on FSA customer behavior, issues, and feedback. The group is intended to ensure FSA's policies and programs are data driven, and FSA planned for the group to provide data to other FSA business units to ensure appropriate risk assessment and program management. In FY 2011, FSA created a Central Information Management office to increase the organization's capacity to manage and coordinate FSA data. The role of this office includes ensuring accurate, timely, and consistent data and providing insights about system improvements that can increase FSA's capacity to provide data and share knowledge to improve financial aid programs.

On October 29, 2010, the Department published final regulations to address program integrity issues. These regulations strengthen the requirements for the SFA programs. In three of the most substantive of these amendments, the Department (1) eliminated "safe harbor" provisions that had enabled schools to evade the consequences of the HEA's prohibition on incentive payments to school's recruiters for securing enrollments; (2) published new and more detailed requirements to prevent misrepresentation by schools to students; and (3) added a definition of "credit hour," providing a much-needed metric to ensure that students receive SFA funds in amounts appropriate for the courses they are attending. Under the HEA, programs offered by proprietary schools and nondegree-granting programs at public and nonprofit schools must prepare students for gainful employment in a recognized occupation. As part of its program integrity initiative, on June 13, 2011, the Department also published regulations to establish a process to identify the worst performing "gainful employment" programs and to terminate their eligibility for SFA funds. However, on June 30, 2012, the Department received a court ruling in which a Federal judge upheld the Department's broad authority to regulate on gainful employment but vacated most of the gainful employment regulations, effectively making the regulations unenforceable. The Department asked the Court to restore the gainful employment reporting regulations and is awaiting the Court's decision. Also, as mentioned under the Improper Payments challenge, in January 2010, the Department began offering applicants who complete their FAFSA online an IRS Data Retrieval Tool, which simplifies completion of the FAFSA. Using this tool, the applicant can securely transfer IRS information into the FAFSA, significantly increasing the accuracy of the data submitted.

FSA's FY 2011 Annual Report identified numerous areas that contributed to the development of its strategic goals. OIG's Management Challenges and the results of OIG and GAO audit reports were identified as a key strategic drivers that require FSA senior management's consideration for establishing priorities. FSA's strategic goals included ensuring program integrity and safeguarding the taxpayers' interests. FSA reported that as part of this goal, it would concentrate its limited resources on those areas that have been identified as having the greatest potential risk for fraud and abuse. In addition, FSA reported it would focus on data gathering and analysis to better understand and manage its growing student aid portfolio. FSA stated that through these efforts it would be able to better identify, understand, and mitigate enterprise risks.

Further Actions Needed to Address the Challenge

Our work continues to identify serious problems with the Department's oversight of participants in the SFA programs. The Department needs to continue to assess and improve its oversight and monitoring of postsecondary institutions; FFEL program guaranty agencies, lenders, and servicers; and other SFA program participants and to act effectively when issues are identified. As part of this effort, FSA must make certain it has knowledgeable staff on board to successfully monitor and oversee participants in the SFA programs.

FSA also needs to evaluate the risks within its programs and develop strategies to address risks identified to ensure effective operations. It further needs to assess its control environment, using information from OIG reviews, internal employee surveys, and other sources as appropriate, and implement actions for improvement.

Distance Education

Distance education refers to courses or programs offered through a technology, such as the Internet, that supports regular and substantive interaction between postsecondary students and instructors, either synchronously or asynchronously. The flexibility offered is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment. Management of distance education programs presents a challenge for the Department and school officials because of limited or no physical contact to verify the student's identity or attendance. OIG audit work has found that for distance education programs, schools face a challenge in determining when a student attends, withdraws from school, or drops a course. These factors are critical because they are used to determine the student's eligibility for Federal student aid and to calculate the return of funds if the student withdraws or drops out. Our investigative work has also identified numerous instances of fraud involving distance education programs. These cases involved the exploitation of vulnerabilities in distance education programs to fraudulently obtain Federal student aid. Also, some requirements for residential programs do not translate clearly for distance education programs, and guidance is not available to address these issues. The Department needs to develop requirements specific to distance education and to increase its oversight of schools providing programs through distance education.

Background

The Higher Education Reconciliation Act of 2005 amended the HEA to allow students to receive SFA program funds for programs offered entirely through telecommunication. Previously, a school was subject to a 50-percent limitation on distance education courses and distance education enrollment. The Department does not maintain data that identify which students receive Federal student aid to attend distance education programs. However, Departmental surveys of postsecondary institutions show the use of distance education significantly increasing. For example, FSA reported in its Strategic Plan FY 2012–2016 that nearly 30 percent of students took at least one online course in 2009. This was nearly three times greater than in 2002.

The growth in distance education highlights the need for greater oversight and statutory or regulatory change. The primary issue is determining whether students in distance education are "regular students" as defined by the HEA and are actually in attendance for Federal student aid purposes. Institutions are obligated to return any Federal student aid received if a student does not begin attendance during the period for which aid was awarded. Determining what constitutes attendance in the online environment is a challenge in the absence of defined class times or delivery of instruction by instructors. Online instruction typically consists of posted reading materials and assignments, chat-room and email exchanges, and posting of completed student work. The point at which a student progresses from online registration to actual online academic engagement or class attendance is often not defined by institutions and is not defined by Federal statute or regulation. While the Department has issued minimal guidance on this issue, it has not provided a comprehensive definition of attendance in an online environment. Without such definition or adequate controls at the institutions themselves, Federal student aid funds are at significant risk of being disbursed to ineligible students in online programs; funds are also at risk of being inadequately refunded when students stop attending these programs.

Another issue is the definition of a credit hour—a critically important issue in the SFA programs, as the amount of Federal aid a student receives is based on the number of credit hours in which the student is enrolled. This issue has become even more significant as online education has dramatically increased in recent years. The definition of a credit hour protects students and taxpayers from inflated credit hours, the improper designation of full-time student status, the overawarding of SFA program funds, and excessive borrowing by students—especially those enrolled in distance education programs.

In addition, students enrolled in distance education programs and residential programs may be eligible for the same amount of Federal student aid based on the same cost of attendance. The HEA limits the cost of attendance for students engaged in correspondence courses to tuition and fees, and, if required, books, supplies, and travel. However, students enrolled in distance education programs have no similar limitation; thus the cost of attendance for these students includes amounts for room and board, even though these costs may not be appropriate for these students. With the growth of distance education in recent years and the number of full-time working individuals who take these courses, a cost of attendance budget that includes an allowance for room and board for online learners may not be in the best interest of American taxpayers and may allow students to borrow more than is needed.

Results of Work Performed

The unique characteristics and growth of distance education pose significant challenges to the Department. Our audits and inspections have identified weaknesses in the oversight and monitoring of distance education program participants. In addition, through our investigative work, we have noted an increasing threat to fraudulently obtain Federal student aid from distance education programs.

As noted previously in the improper payment section, in FY 2012 we issued an IPAR based on our work involving "fraud rings." In the report, we point out that the number of complaints we receive regarding potential fraud rings has grown: in 2005, the OIG had opened 16 distance education fraud ring investigations; as of August 1, 2011, the OIG had opened 100. 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. We reported that nearly all the individuals identified as participants in fraud rings failed to meet the basic eligibility requirement of enrollment for the purpose of obtaining a degree, certificate, or other recognized credential. Many also did not have a high school diploma or its recognized equivalent. Lastly, some fraud rings have enrolled incarcerated inmates who are ineligible to receive Title IV funds. The report provided information on how fraud rings operate and offered nine recommendations that, if implemented, would help mitigate the risks inherent to distance education programs.

Also noted previously in the improper payment section, our FY 2012 audit of Saint Mary-of-the-Woods College's administration of the Title IV programs found that the College was not eligible to participate in the Title IV programs and had not been eligible since at least July 1, 2005. We found the school had inappropriately designated its programs as distance education programs, when, in fact, they were correspondence programs. As a result, the school exceeded the statutory limitation on the percentage of students who can be enrolled in correspondence courses. The report concluded the College received nearly $42.4 million in Title IV funds from award years 2005–2006 through 2009–2010 that it was not eligible to receive. We also reported that the College incorrectly calculated awards for students enrolled in correspondence courses, resulting in improper payments of nearly $390,000.

We conducted an audit to determine whether Colorado Technical University Online, which is Colorado Technical University's component that delivers educational programs entirely through the Internet, complied with selected provisions of Title IV and Federal regulations. We found that Colorado Technical University Online did not ensure students were eligible for Title IV funds at the time of disbursement, identify students who had unofficially withdrawn, or obtain proper authorizations to retain student credit balances.

OIG also identified institutions that did not have adequate procedures or information systems to capture actual evidence of attendance for online students because they improperly considered logins by themselves to be evidence of attendance. In some cases, the information captured did not represent academically related activities, such as exams, tutorials, computer-assisted instruction, or turning in assignments. As a result, the institutions could not correctly identify when the students began attendance to determine eligibility for Federal student aid. For students who did not officially withdraw from classes or the overall program, the institutions could not determine when the students stopped attending to calculate the amount of aid to be returned.

In addition to finding that Ashford University violated incentive compensation requirements, our FY 2011 report of Ashford University estimated the school improperly retained at least $1.1 million of SFA program funds for students who withdrew because it did not (1) revise the payment period end date for students who did not complete their credits according to schedule, (2) use the correct last date of attendance as the withdrawal date, and (3) correctly calculate tuition charges that would have been charged to the students if they had completed the semester. We also found that Ashford disbursed Federal student aid for students who were ineligible because the students had not yet completed the prior payment period. Seventy-five percent of the improper disbursements to students in our sample were made to students who never became eligible. For the 2006–2007 award year, we identified more than $89,000 disbursed to students in our sample who were not eligible to receive Federal student aid and estimated that the total amount of ineligible disbursements Ashford made during the award year to be between $3.7 and $8.9 million. Although in most cases Ashford identified and corrected improper disbursements after they were made, Ashford had use of the funds and may have earned interest it was not entitled to.

Our FY 2010 audit report of Baker College found that for distance education students who unofficially withdrew or dropped out, the college did not correctly identify when the students began and ceased attendance when it (1) determined students eligibility for Federal student aid disbursements and (2) performed return of Title IV aid calculations. The college did not maintain records that were adequate to support its determination of attendance for its distance education students during award year 2006–2007. In addition, the college incorrectly identified when distance education students who unofficially withdrew or dropped out began and ceased attendance during award year 2007–2008.

During FY 2010, we reported on the results of three inspections performed of regional accrediting agencies. These inspections found that none of the agencies defined a credit hour and none of the agencies provided guidance on the minimum requirements for the assignment of credit hours.

In FY 2012, GAO reported that the Department lacked data to adequately identify institutions' level of risk based on the extent to which they offered distance education and the amount of Federal student aid they received for those programs or courses. GAO further reported that the Department's Integrated Postsecondary Education Data System can show institutions that offer distance education, but it lacks information on the extent of a school's offerings and enrollment levels. The GAO report stated that the Department's National Center for Education Statistics will start collecting survey data on the extent to which schools offer distance education, as well as enrollment levels. However, FSA was not involved in the process of deciding what distance education information would be collected and therefore did not provide input on what types of data could be helpful in its program oversight.

OIG work continues in this area, including an audit to determine whether the Department adapted program requirements and guidance to mitigate unique risks inherent in distance education programs and adequately monitored other entities to attain reasonable assurance of their adherence to requirements unique to the distance education environment.

Department Actions and Plans

The Department has taken or plans to take numerous actions in response to our work in this challenge area. For example, the Department has developed a plan to implement a new verification selection process in the Central Processing System that will identify potential fraud ring participants for additional review by schools. In July 2012, the Department issued guidance that established new verification items for Federal student aid applicants. Certain applicants will be required to verify their identity and their high school or General Equivalency Diploma completion with their school before disbursing Title IV aid to them. The Department uses data-based statistical analysis to select for verification those applicants with the highest probability of error on their FAFSA submissions. The Department further plans to expand internal data analysis to identify applicants with suspicious enrollment and disbursement patterns.

In October 2011, the Department issued a Dear Colleague Letter to address potential fraud in the Federal student aid programs at institutions of higher education that offer distance education programs. The letter described actions that institutions can take and that the Federal Government is committed to taking to address the relevant issues. The Department also added sessions to its FSA conference held in November—December 2011 to discuss the OIG report on fraud rings and possible institutional responses. Other activities conducted by the Department included initiating contact with the Department of Justice to begin discussions exploring the feasibility of identifying incarcerated applicants.

In October 2010, the Department issued regulations to improve the integrity of the SFA programs. These regulations generally took effect on July 1, 2011. While not specific to distance education, the regulations provided a definition of a credit hour and clarified what constitutes attendance at an academically related activity for purposes of the return of SFA program funds when a student withdraws. We will monitor the Department's implementation of these new program integrity regulations.

Further Actions Needed to Address the Challenge

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs—and gather other information as needed—in order to analyze the differences between traditional education and distance education. Based on this analysis, the Department should develop requirements specifically to address potential problems inherent in distance education and publish those requirements. These requirements should include (1) definitions of instruction and attendance in an online environment; (2) verification of the identities of all students receiving Federal student aid for attendance in distance education courses, as well as their high school graduation status; and (3) clarification of the calculation of return of Federal student aid in a telecommunications environment.[5]

[5] In September 2012, the Department determined it would not propose a change in policy regarding cost of attendance and distance education until potential Congressional action under the FY 2013 appropriations bill concludes.

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. We have found pervasive fiscal control weaknesses at a number of grantees, weaknesses in a grant payback program, as well as fraud committed by LEA and charter school officials. 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 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 administration, oversight, and monitoring of more than 200 programs. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,000 public school districts and 49 million students attending more than 98,000 public schools and 28,000 private schools. The Department is responsible for ensuring that the 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 oversight and monitoring of the subrecipients' activities to ensure compliance with Federal requirements.

Results of Work Performed

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

- **LEA Fiscal Control Issues.** During FY 2009, we issued a management information report that summarized a series of LEA audits that reported fiscal control issues representing about $182 million in questioned costs and an additional $1.4 billion in funds determined to be at risk in 41 LEA reports. In 27 of these LEA audits, we found pervasive fiscal issues such as unallowable or inadequately documented expenditures. During FYs 2010, 2011, and 2012, we issued six audit reports on operations at four LEAs that identified fiscal control issues representing more than $18.3 million in questioned costs and more than $130.3 million in unsupported costs. We also issued an alert memorandum to the Department recommending that one LEA be considered high-risk and that special conditions be applied to its funding. During FY 2012, we issued an audit report that found one LEA's accounting system did not accurately and completely identify the source and use of all expenditures that were funded with Federal education funds.
- **SEA Control Issues.** Our FY 2012 audit of School Improvement Grants was conducted to identify monitoring plans related to School Improvement Grants funds at selected SEAs and determine whether selected SEAs used award processes that resulted in allocating funds to LEAs with schools

having the greatest need and strongest commitment to use funds to raise student achievement. We concluded that the SEAs we reviewed generally awarded funds to LEAs with schools having the greatest need. However, one SEA awarded funds to an LEA for uses that would not benefit the students who made the LEA eligible for funds. We also found one SEA awarded funds to LEAs that did not initially demonstrate commitment to required elements of the selected turnaround model.

Our audits of States' use of Recovery Act funds and data quality (reports issued from FY 2010 through FY 2012) found that most of the States and LEAs we reviewed generally used Recovery Act funds appropriately. However, we identified multiple instances in which State and local recipients and subrecipients made charges to Recovery Act funds that were improper, unallowable, or not appropriately documented. We also noted other weaknesses in selected States that included insufficient controls to ensure that a grant award selection process was fair and equitable, inadequately tracking of award and disbursement of Federal funds, and insufficient monitoring of subrecipients to ensure they complied with Federal fiscal requirements related to use of and accounting for Federal funds.

- **Internal Control Weaknesses in the Department's Oversight Processes.** We completed an audit of Office of Innovation and Improvement's oversight and monitoring of the Charter Schools Program's SEA and non-SEA Planning and Implementation Grants. The audit determined that the Office of Innovation and Improvement did not effectively oversee and monitor the grants and did not have an adequate process to ensure SEAs effectively oversaw and monitored their subgrantees. Specifically, it did not have an adequate corrective action plan process in place to ensure grantees corrected deficiencies noted in annual monitoring reports, did not have a risk-based approach for selecting non-SEA grantees for monitoring, and did not adequately review SEA and non-SEA grantees' fiscal activities. In addition, we found that the Office of Innovation and Improvement did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct in order to comply with applicable Federal laws and regulations. We also identified internal control deficiencies in the monitoring and oversight of charter schools that received the SEA grant at all three of the SEAs we reviewed.

  Our FY 2012 audit of the Department's implementation of the Teacher Incentive Fund grant program determined that improvements were needed in the Department's processes to oversee recipient performance. We found the Department did not always effectively ensure that recipients met applicable requirements before making continuation awards and implemented their programs consistently with major design elements of their approved proposals.

  Our FY 2012 audit of the Centers for Independent Living program found that the Department's Rehabilitation Services Administration had not provided adequate monitoring and oversight of the centers. We further identified issues that included incomplete documentation of program performance and unsupported use of grant funds. Weaknesses in the

Department oversight process included an inadequate number of onsite monitoring reviews; use of a judgmental sampling methodology for selection of Centers for Independent Living for site visits, which was inconsistent with legislative requirements; and using inconsistent methodologies to validate report data during site visits.

Another FY 2012 audit determined that the Department's audit resolution system for external OIG audits was not effective and audits were not resolved timely. We found that 90 percent of these audits issued from January 1, 2007, through December 31, 2010, had not been resolved within 6 months as required by OMB's Circular A-50, "Audit Followup." Weaknesses in the resolution process impacted the potential recovery of funds because of statute of limitations, likely created delays in the development and implementation of corrective actions by auditees, and may have a negative impact on the achievement of the Department's mission and the anticipated results of individual programs.

An FY 2012 inspection report found that the Department had not formalized processes for managing the designation and monitoring of high-risk formula grantees. In FY 2010, we found significant weaknesses with the Department's management and oversight of a payback grant program. This program required individuals who received funding for training under the program to perform work related to the training received (work payback) or repay all or a prorated part of the financial assistance received (cash payback). We found the program office did not maintain adequate records on students receiving assistance under the program and subsequently did not ensure these students fulfilled their payback obligations.

- **Fraud by SEA and LEA Officials.** Since FY 2008, we have opened 78 investigations of either SEA or LEA officials related to allegations of fraud and corruption in Department programs. These investigations have identified fraud schemes that included (1) bribery and kickbacks involving consultants, contractors, and employees; (2) use of fictitious vendors to generate payments; (3) false expenditure reports and checks; (4) use of dormant or unknown bank accounts; and (5) misuse of procurement credit cards. More effective internal control systems at the SEAs and LEAs could have mitigated the risk of these fraud schemes.

  For example, in August 2012, the former superintendent of the Ira Independent School District in Texas was sentenced to 14 months in Federal prison and ordered to pay $25,188 in restitution, following his guilty plea in May 2012 to one count of mail fraud. The former superintendent embezzled Federal funds, misusing school district credit cards issued in his name to purchase property for his personal benefit. In March 2012, the former superintendent of the El Centro Elementary School District in California pled guilty to mail fraud charges in two related cases alleging fraud in elementary school math and science grants. The former superintendent admitted to fraud causing losses of more than $325,000 that included receipt of payment from grant funds for positions he did not fill, payment to friends for work that was not completed, and receipt of duplicate payments for travel. In December 2011, four former employees of Jefferson Parish Public School System were sentenced for their participation in a $132,000 fraud scheme. Two of the individuals submitted fraudulent documents for themselves and the other co-conspirators in order to receive supplemental pay and stipends for various tutoring, testing, and remediation programs funded by Jefferson Parish Public School System, although none of them were certified teachers or qualified to perform those activities.

- **Fraud by Charter School Officials.** Charter schools generally operate as independent entities that fall under oversight of a LEA or authorizing chartering 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. In March 2010, we provided a management information report to the Department which highlighted vulnerabilities in this area. From January 2005 to August 2012, OIG has opened 55 charter school investigations. To date, these investigations have resulted in 33 indictments and 20 convictions of charter school officials. The cases that have been fully settled have resulted in more than $9.5 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. For example, the former chairman of the board of trustees of the Paideia Academy, a charter school in St. Louis, was indicted on charges that he allegedly diverted more than $257,000 of Paideia Academy funds for the purpose of developing and operating a daycare center in which he had ownership and financial interest. In another instance, the president and the chief executive officer of the New Media Technology Charter School in Philadelphia were sentenced to prison terms and ordered to pay $861,000 in restitution for their respective roles in a scheme to defraud the Philadelphia-based New Media Technology Charter School and the Wilmington Savings Fund Society.

GAO has also conducted work related to grantee oversight and monitoring. In February 2011, it reported that the Department improved its strategic workforce planning and performance management systems, but a lack of reliable data on workload limited its ability to accurately estimate resource needs and inform workforce planning efforts. In July 2011, GAO reported that the Department generally monitored State implementation of the Title I program and evaluated the extent that States ensure district and school compliance with Title I requirements. GAO reported that the Department covered two to three school districts in each State being reviewed. GAO also reported that the Department did not conduct detailed reviews of the districts' Title I expenditures to identify unallowable expenses, but primarily relied on other sources of oversight, such as OIG audits, for this purpose.

Ongoing work in this area includes reviews of Race to the Top recipient performance; compliance, measurement, and outcomes of the Vocational Rehabilitation State Grant Program; effectiveness and accountability of online charter schools; payback provisions of selected programs; and other selected grantees.

Department Actions and Plans

The Department has planned or completed numerous corrective actions in response to our audits. This includes enhancing guidance, providing training to Department staff, improving accountability through performance standards and reporting, and considering revisions in grant proposal scoring.

To enhance the knowledge and effectiveness of its staff, the Department offers a 4-day course on the fundamentals of monitoring grant financial performance for program staff members that is designed to complement other resources that the agency uses to provide financial monitoring. This course focuses on Department applications and is presented by Office of the Chief Financial Officer (OCFO) subject matter experts who have extensive experience in monitoring discretionary and formula grants, financial management, and training. Its objective is to have participants develop skills to plan, conduct, and document fiscal monitoring assignments and to recognize potential problems. The Department offers other training to include courses in reviews of applicants' budgets, assessing applicant and grantee risk, and a discretionary grant process overview.

The Department implemented the Decision Support System, a suite of software analysis tools that makes it possible to link disparate data sets and mine them for information. The Department's long-term goal for the use of the system is to formalize the processes the Department uses for (1) identifying areas of potential risk in the Department's grant portfolio; (2) determining whether special conditions should be placed on a grant in the preaward phase; and (3) developing appropriate monitoring, technical assistance, and oversight plans as a part of grants management. One of the principal components in the Decision Support System is the Entity Risk Review, which contains financial, administrative, and internal controls information on grant applicants. The data used in the system comes from several sources: proprietary financial information from Dun & Bradstreet, the Department's grant management system, the Federal Audit Clearinghouse, and the Adverse Accreditation Actions list distributed by the Office of Postsecondary Education.

The Department established a central location of tools and resources for grant monitoring and audit analysis. The Department implemented two Enterprise Business Collaboration sites to foster Department-wide collaboration. One site provides all Department offices with access to audit data and information on grantees. The other site allows program offices to access the Department's Risk Management Service data and information on grantees. It will also provide access to information on how other offices are using risk-related data and information and developing risk mitigation resources. The goals of these sites are to increase the Department's capacity to share important information and leverage the best practices of individual offices.

The Department implemented a new process for applying risk management principles to all key stages of the discretionary grant process, including the process for new and continuation awards. According to the new policy described in a May 16, 2011, Grant Bulletin, before making awards, program offices must assess an entity's risk by reviewing, at a minimum, prior and/or current financial and performance information, information on compliance with Federal audit requirements, relevant findings in audit reports and monitoring reports, and progress on corrective actions to resolve audit findings. Based on these reviews and in consultation with the Department’s Office of the General Counsel, program offices should determine whether any action needs to be taken at the time the award is made, such as designating the applicant as high-risk or imposing special conditions on the grantee. Program offices should continue to conduct risk assessments during the performance period.

Further Actions Needed to Address the Challenge

The Department should continue to improve its monitoring efforts for recipients of formula and discretionary grant funds. This includes pursuing efforts to enhance risk management, increasing financial expertise among its grants monitoring staff, and developing mechanisms to share information regarding risks and monitoring results.

The ESEA does not address minimum requirements for SEA monitoring of LEA administration of ESEA programs. The Education Department General Administrative Regulations (EDGAR) require grantees to monitor grant- and subgrant-supported activities to ensure compliance with applicable Federal requirements and achievement of performance goals; however, the regulations do not address minimum requirements for monitoring. The Individuals with Disabilities Education Act does address some minimum monitoring requirements and establishes requirements for SEA monitoring, enforcement, and annual reporting. The Department should consider adding language, similar to requirements under the Recovery Act, to its regulations so that prime recipients are fully cognizant of their responsibilities related to minimum requirements for monitoring subrecipients.

The Department should include a reporting requirement for fraud and criminal misconduct in connection with all ESEA-authorized programs when EDGAR is revised. Modeled on reporting requirements for programs administered by FSA, such a regulatory provision would require any government entity, grantee, or subgrantee participating in an ESEA program to refer to the OIG for investigation of any information related to fraud or other criminal misconduct.

Contractors

The Department relies heavily on contractor support to accomplish its mission and to ensure the effective operations of its many systems and activities. As of April 2012, the value for the Department's active contracts exceeded $6.3 billion. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. OIG reports have included numerous deficiencies in the area of contract monitoring, and we have made recommendations for corrective action. The Department has taken action to address many of the issues noted.

Background

Contract monitoring is an integral part of the Federal acquisition life cycle. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-on obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations. These services include systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations. Responsibility for oversight and monitoring of contracts and contractor performance at the Department is shared by staff in the program offices and the Department's Contracts and Acquisition Management, a component of the OCFO. The FSA program office has delegated authority for its own procurement function. FSA follows the policies and procedures established by OCFO as well as applicable Federal requirements in conducting their contracting operations. The Department's Chief Acquisition Officer is the Chief Financial Officer. The Chief Financial Officer is responsible for oversight management for all procurement activities at the Department.

Results of Work Performed

OIG has identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance, primarily related to the appropriateness of contract prices and payments and the effectiveness of contract management. OIG investigations have noted inappropriate activities by contractor employees that resulted in improper billings and payments.

- **Appropriateness of Contract Prices and Payments.** We have noted issues with respect to the prices paid under contracts and with the review of contractors' invoices for payment. In FY 2010, we reported that the Department may not have effectively assessed the reasonableness of the EDUCATE contractor's proposed prices over the life of the contract. This included concern with the Department's cost estimates, market research, and resolution of identified weaknesses in the proposed pricing. As a result, the prices charged under the contract may not be reasonable. Also in FY 2010, we reported that the Department did not act timely to resolve issues impacting performance validation and payment calculations after the execution of a contract modification. As a result, the Department may have paid the EDUCATE contractor money it was not entitled to receive under the terms of the contract.

Additional work related to the EDUCATE contract included a review of the Department's processes for validating contractor performance before invoice payment. We noted that the Department did not have adequate controls in place for validating contractor performance. Specifically, the Department did not have assurance that the EDUCATE contractor was performing as required, would improve performance when necessary, and was being paid appropriately for the level of service provided.

- **Contract Management.** In FY 2012, we reported that the Department needs to improve controls relating to cost management of the EDUCATE contract. We found that the Department did not establish a complete and accurate baseline of costs related to operations being transitioned to the EDCUATE contract, adequately document its calculations of anticipated cost savings over the life of the contract, or implement an oversight structure that emphasized cost control. As a result, the Department may not always identify opportunities to reduce costs, hold individuals accountable for cost performance in relation to initial expectations, and seek to assess and address cost performance variances where applicable. We also found that the Department's actual costs for four of the eight EDUCATE contract line items varied significantly from projected costs during the first 3 years of the contract, which may limit the Department's ability to meet projected savings.

  In FY 2012, we issued a consulting report prepared by an IPA to perform work related to the Title IV Additional Servicer (TIVAS) contracts. The objective of the review was to assess the current status of the TIVAS to handle the volume of servicing for all new Direct Loan program originations, consolidations, and Ensuring Continued Access to Student Loans Act of 2008 loan purchases. The IPA noted that although FSA has been able to successfully engage the services of the four TIVAS, FSA should develop more formal retention and management of documentation related to contract requirements and clarifications in order to allow FSA to better oversee the contract requirements.

  In FY 2011, we found that FSA needed to improve IT-related contracting processes and management. We found that 7 of the 38 IT support or service contracts reviewed did not contain any language to address IT security, 29 of the 38 contracts reviewed that were subject to the Certification and Accreditation process did not contain all of the documents required to support system Certification and Accreditation, and none of the agreements between FSA and 32 guaranty agencies contained any language that addressed IT security.

  In FY 2010, we reported the Department had not effectively implemented a contract to identify, respond, and report security incidents regarding the security processes related to the Department's IT infrastructure. Specifically, the Department terminated the initial contract because of contractor performance problems, and the subsequent contractor has been unable to provide the level of service required by the contract. As a result, the Department has paid for services it has not received and has still not ensured that its IT network is adequately protected.

OIG investigative work continues to result in recovery agreements with Department contractors. In FY 2011, Accenture, LLP, agreed to pay more than $63.6 million to resolve a whistleblower lawsuit. The lawsuit alleged that the contractor submitted or caused to be submitted false claims for payment under numerous contracts with Federal Government agencies for IT services, received kickbacks for its recommendations of hardware and software to the Government, that it fraudulently inflated prices, and that it rigged bids in connection with Federal IT contractors. The settlement includes $3 million in payments made to Accenture by the Department as a result of the contractor's alleged false claims. Other OIG investigative work resulted in a settlement of nearly $1 million in FY 2010 as a result of illegal actions taken by employees of NCO Financial Systems, Inc., a contractor involved in servicing loans. We found that the employees had fraudulently consolidated $3.8 million of Federal student loans. The contractor received a collection fee from the Department for the consolidations, and the employees earned bonuses from the contractor. Recoveries were also made from the guaranty agency for monies it received from the Department as a result of the unlawful consolidations.

OIG's work continues in this area. This includes an ongoing audit to evaluate the effectiveness of the Department's management of additional Title IV servicer contracts and a planned audit of the Department's contacting with not-for-profit student loan servicers.

Department Actions and Plans

The Department revised its Contracting Officer's Representative Training Program to incorporate more stringent certification, training, and record-keeping requirements. The Department implemented a procedure requiring that contract monitoring plans be developed for all new and existing contracts. It also developed a training program reinforcing the Department's contracting processes and applicable laws and regulations. Senior managers, contracting personnel, and relevant program office personnel were required to attend this training. Program offices were directed to implement immediate steps and take personal responsibility for ensuring that contracts are awarded properly and effectively monitored.

The Department has provided corrective action plans to address the issues noted in our audit work above. During FY 2012, the Department completed numerous corrective actions in response to weaknesses noted in controls relating to cost management of the EDUCATE contract. These included updating its Information Technology Information Management Process Guide, centralizing the location of all supporting documents, issuing procedures to ensure controls are in place regarding retention of IT costs for assessing anticipated savings, modifying a responsibilities manual to formally define cost savings and monitoring standards, and implementing processes to ensure the EDUCATE Analysis contract's planned objectives are effectively carried out. The Department also reported that FSA Acquisitions has worked with FSA's Technology Office to develop a Mandatory Contract Elements guide. The guide is intended to help address the inclusion of security requirements in future solicitations and contracts.

In FY 2011, the Department completed and documented analyses of EDUCATE desktop services pricing, clarified contract requirements related to IT network security services, considered alternatives, and subsequently procured applicable services. In FY 2010, the Department implemented training of all EDUCATE contract administration team members to address roles and responsibilities and to ensure understanding of contract deliverable processes. It also developed procedures documenting formal steps to be taken to timely address contract concerns relating to performance validation and payment calculations.

The Department also implemented actions designed to improve processes for validation of contractor performance and unit-based expenses on the EDUCATE contract. These include implementing procedures to periodically test underlying performance data in the contractor's system for accuracy; formally establishing and implementing validation procedures, to include the identifying appropriate supporting documentation to be used for validation; identifying the necessary knowledge, skills, and abilities required for performance oversight; and providing necessary training opportunities for staff assigned to oversight functions. In addition, incentives and disincentives have been modified to better encourage improvements in contractor performance. The Department has procured analytical services to evaluate the EDUCATE contract and provide strategies for achieving cost and operational efficiencies for IT and infrastructure services. This includes fully assessing the contract services provided, services required, and costs associated with those services, and comparing the costs and services to other available options, in terms of innovative technical solutions and contractual alternatives.

Further Actions Needed to Address the Challenge

Because the Department relies on its contractors to help run its various programs and operations, effective contract management is critical for ensuring effective performance by the contractors, that the Department receives the specified level and quality of products or services, and that payments made are appropriate. As reported in prior Management Challenges reports, the numbers of Department staff responsible for contract oversight and monitoring are limited. The Department still needs to work to ensure that it has an appropriately qualified staff in place and in sufficient numbers to provide effective oversight of its contracts.

DATA QUALITY AND REPORTING

The Department, its grantees, and its subrecipients must have controls in place and effectively operating to ensure that accurate, reliable data are reported. The Department uses data to make funding decisions, evaluate program performance, and support a number of management decisions. SEAs annually collect data from LEAs and report various program data to the Department.

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. For Recovery Act programs, our work noted weaknesses in controls over data quality and reporting, both externally at SEAs and LEAs, and internally at the Department.

Background

The Department operates systems to collect data regarding its programs. SEAs submit data from LEAs and SEA programs through the Education Data Exchange Network (EDEN) to the EDFacts system. EDFacts is a central repository that consolidates kindergarten through 12th grade education information collected from SEAs. This Internet-based collection process simplifies reporting and improves the timeliness of the kindergarten through 12th grade education information that is required for the Government Performance and Results Act of 2002, annual and final grant reporting, and specific program mandates. Some of the data included in Department systems involve the number of persistently dangerous schools, graduation and dropout rates, State academic assessments, and the number of schools identified in need of improvement. The Department has also collaborated with SEAs and other industry partners to centralize the SEA-reported data with other Department data, such as financial grant information. This collaboration enables better analysis and use of the data in policy development, planning, and program management at the Federal, State, and local levels.

The Department uses data in a number of other systems and from a number of other sources for funding allocation, performance evaluation, and other management decisions. States are required to implement a set of annual academic assessments. The assessments are used as the primary means of assessing the academic progress of the State and each of its LEAs and schools in enabling all children to meet the State's student academic achievement standards. Assessments are used to hold schools accountable for student achievement and, as such, must meet requirements for accuracy, reliability, and quality. Funding to SEAs and LEAs may be directly affected by the results of the scoring assessments. Funding for other programs, such as the Migrant Education Program, is allocated based on the numbers of students eligible for the programs.

Results of Work Performed

Work completed by OIG and GAO has identified weaknesses in controls over data accuracy and reliability, as well as inconsistent definition and application of data terminology. This includes the following.

- **Inadequate Controls Over Data Accuracy and Reliability.** In FY 2010, we reported that internal controls at the Georgia Department of Education were not always sufficient to ensure that accurate, reliable data are reported. The Georgia Department of Education underreported the numbers of dropouts and discipline incidents and did not have adequate controls to ensure the accuracy of data that LEAs reported. One LEA we reviewed provided inaccurate or unsupportable data, which the Georgia Department of Education then included in its reports to the Department.

- **Annual Academic Assessments.** During FY 2009, we issued reports regarding the quality of controls over the scoring of annual academic assessments in three States—Florida, Wyoming, and Tennessee. In each State, we found areas of concern regarding the reliability of the assessment data, including a lack of sufficient monitoring of contractor activities and insufficient written policies and procedures. In September 2009, GAO also issued a report on academic assessments that questioned the ability of States to ensure valid and reliable assessment data because of the capacity of staff to provide vendor oversight, the administration of alternate assessments, and gaps in assessment security.

We also conducted work to evaluate compliance with Recovery Act reporting requirements by the Department, SEAs, and LEAs. GAO has also performed work in this area. The following issues were noted related to data quality and reporting by recipients, disclosure of known data deficiencies, Department actions to ensure data quality, and guidance on data quality.

- **Data Quality and Reporting by Recipients.** Our work relating to the implementation of the Recovery Act included multiple phases that identified concerns with recipient data quality and reporting. The first phase of audit work evaluated internal control activities of prime recipients and subrecipients of Recovery Act education grants, including controls over data quality. Our work identified several data quality issues including lack of separate tracking of Recovery Act funds for reporting, lack of changes made to tracking and reporting systems to accommodate new reporting requirements, inadequate planning and guidance on the collection of data and systems to monitor data for accuracy and completeness, and lack of policies and procedures to ensure that known data deficiencies are disclosed to the Department. OIG's second phase of Recovery Act implementation audits included testing of the required data to see whether SEA and LEA data were accurate, reliable, and complete. The most common findings were related to the calculations of jobs funded and expenditures that were not reported as transparently as possible because of timing issues or challenges in tracking Recovery Act funds appropriately.

- **Department Actions to Ensure Data Quality.** In FY 2011, we performed an audit to determine the effectiveness of the Department's processes to ensure the accuracy and completeness of recipient-reported data under the Recovery Act. We found that the Department's processes to ensure the accuracy and completeness of recipient-reported data were generally effective. However, we also found recipient-reported data that were inconsistent with existing Department data or other recipient-reported data. We recommended that the Department ensure that the automated reports that are used for data validation are technically accurate and effectively used. Additionally, we recommended that the Department ensure that all applicable staff have access to the appropriate system to conduct necessary data validations.

OIG's work continues in this area. This includes an ongoing audit of controls over the integrity of the results of student's performance on statewide assessments and a review of the value of performance data the Department collects.

Department Actions and Plans

The Department requires management certifications regarding the accuracy of some SEA-submitted data. When SEAs submit data to the Department's EDEN system and for their annual Consolidated State Performance Report, the Department requires an authorized SEA official to certify that the reported data are accurate. For migrant child counts, the official must also certify that the data are true, reliable, and valid. The Department has also instituted data validation and verification steps and requires States to address their data issues before it will officially accept an SEA's data in the EDEN system.

To address concerns related to the accuracy of academic assessments, the Department has provided technical assistance through meetings, written guidance, user guides, and direct contact with Department staff. The Department also conducts an ongoing peer review process to evaluate State assessment systems, and it includes a review of test security practices during its scheduled program monitoring visits. In June 2011, the Secretary sent a letter to Chief State School Officers suggesting steps that could be taken to help ensure the integrity of the data used to measure student achievement.

The Department did establish a process to conduct data quality reviews of Recovery Act data. In addition to this ongoing process, the Department issued guidance to all recipients of Recovery Act education funds concerning issues relating to data quality, including the issue of full-time employee equivalents calculations identified in the GAO reports. This guidance answered questions and clarified issues that specifically pertain to Recovery Act education programs and the related required reports. The Department issued clarifying guidance on Recovery Act reporting requirements that instructed recipients to report any known data deficiencies to the Department along with actions being taken to correct the deficiencies. In July 2010, the Department issued policy regarding action on recipients that have failed to comply with reporting requirements.

The Department has taken steps toward enhancing its ability to provide more timely and consistent information to the public by improving its use of education data through a variety of electronic formats. The Department has implemented a data dashboard that contains high-level indicators of education outcomes, ranging from student participation in early learning through completion of postsecondary education. In addition to data provided on the dashboard, data.gov contains the

Education Data Community, which serves as a central guide for education data resources such as high-value data sets, data visualization tools, resources for the classroom, and applications created from open data.

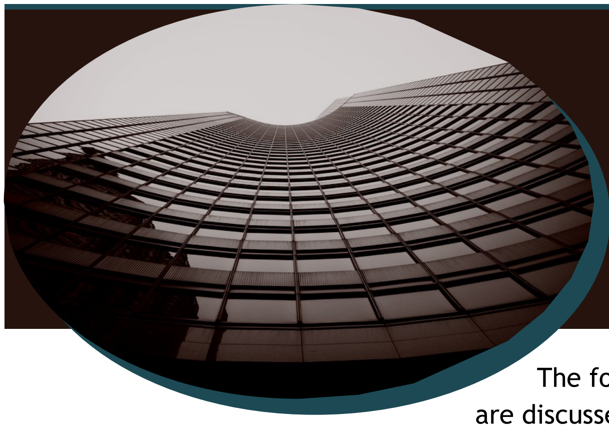
The Department's Data Quality Initiative, which began in 2006, is designed to improve the quality of the Department's program performance data and reporting. This initiative included working with the Department's program offices and grantees in reviewing grantee evaluation plans and reports, developing annual performance reporting methodologies, developing data collection and reporting guidance, reviewing and analyzing grantee annual performance data, and delivering grantee briefings and workshops focused on evaluation issues. The Department has contracted for assistance with the goal of promoting and improving the quality of data on outcomes and impacts of Department grant programs. The initial contract spanned FY 2006 through FY 2011 with the contractor providing technical assistance to Department program offices and their grantees on a number of activities to achieve this goal. A similar 2-year contract was awarded in September 2011 for technical assistance to improve the quality and reporting of outcomes and impact data from Department grant programs.

The Department has also established a Data Strategy Team to address the issue of inconsistent and uncoordinated data strategies among the various principal offices within the Department. The mission of the team is to coordinate the Department's public-facing data initiatives by building cohesiveness in internal processes and data policies and by improving transparency in all matters surrounding the Department's collection of data. The Data Strategy Team supports States' use of education data through data Web sites and technical assistance and identifies best practices for the use and promotion of data policy.

Further Actions Needed to Address the Challenge

As of September 2012, the Department has not yet resolved the audit related to the EDFacts program. The Department should issue its decision to the Georgia Department of Education on the corrective actions that will address deficiencies identified with respect to controls over data accuracy, reliability, and completeness.

The Department has not timely issued its decisions regarding corrective actions needed to address the external Recovery Act audits. As of September 2012, the Department had not issued its decision on 15 of 25 reports from our first and second phases of audits that were overdue for resolution. The Department needs to address OIG findings related to improvements in controls over the accuracy and reliability of data and reporting, and disclosing known deficiencies in data reported.



APPENDIX A. WORK DISCUSSED UNDER THE CHALLENGES

The following audits, inspections, investigative cases, and other work are discussed under the challenge areas.

Challenge: Improper Payments

OIG Internal Reports

"U.S. Department of Education's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2011," March 2012

"Review of the Department's Process for Identifying and Reporting High-Dollar Overpayments Required Under Executive Order 13520," April 2012

"U.S. Department of Education's Compliance With Executive Order 13520, 'Reducing Improper Payments' for Fiscal Year 2011," October 2012

Investigative Program Advisory Report (IPAR), "Distance Education Fraud Rings," September 2011

OIG External Reports

"Saint Mary-of-the-Woods College's Administration of the Title IV Programs," March 2012

Second Phase Recovery Act Work—Use of Funds and Data Quality

- Alabama, February 2012
- South Carolina Governor's Office, August 2011
- Virginia, June 2011
- Missouri, June 2011
- Illinois, June 2011
- Utah, May 2011
- California, April 2011
- Louisiana, April 2011
- South Carolina, April 2011

[6] OIG reports may be found on our Web site at http://www2.ed.gov/about/offices/list/oig/reports.html. Investigative press releases noted are available at http://www2.ed.gov/about/offices/list/oig/ireports.html. GAO reports may be found on GAO's Web site at www.gao.gov.

- Wisconsin, Milwaukee Public Schools, April 2011
- Oklahoma, February 2011
- Wisconsin, September 2010

"Camden City Public School District's Administration of Non-Salary Federal Education Funds," March 2012

"Camden City Public School District's Administration of Federal Education Funds," June 2011

"Camden City Public School District's Administration of its Supplemental Educational Services Program," May 2011

"Philadelphia School District's Controls Over Federal Expenditures," January 2010

"Colorado Department of Education's Use of Federal Funds for State Employee Personnel Costs," February 2010

"National Assessment of Educational Progress Contract," May 2009

Challenge: Information Technology Security

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

"Financial Statement Audits - Fiscal Years 2011 and 2010 - U.S. Department of Education," November 2011

"Financial Statement Audits - Fiscal Years 2010 and 2009 - U.S. Department of Education," November 2010

"Financial Statement Audits - Fiscal Years 2009 and 2008 - U.S. Department of Education," November 2009

"Education Central Automated Processing System (EDCAPS) Information Security Audit," September 2012

"Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) Information Security Audit," September 2011

"Audit of the U.S. Department of Education's Compliance with the Federal Information Security Management Act for Fiscal Year 2011," October 2011

IPAR, "Incident Response and Reporting Procedures," July 2011

IPAR, "Weaknesses in the Process for Handling Compromised Privileged Accounts," September 2010

"Security Controls for Data Protection over the Virtual Data Center (Plano, Texas)," September 2010

Challenge: Oversight and Monitoring—SFA Program Participants

OIG Internal Reports

"Federal Student Aid's Oversight of Foreign Medical School Pass Rates," January 2012

"The Department of Education's Process for Ensuring Compliance by Institutions of Higher Education With the Drug and Alcohol Abuse Prevention Program Requirements," March 2012

"Review of Federal Student Aid's Monitoring of Financial Responsibility," March 2011

OIG External Reports

"Metropolitan Community College's Administration of the Title IV Programs," May 2012

"Ashford University's Administration of the Title IV, Higher Education Act Programs," January 2011

"Educational Credit Management Corporation's 2006 Agreement with the United States Department of Education," March 2011

OIG Investigations

"Financial Aid Director Sentenced to Federal Prison," Press Release, January 2012

"$1.6 Million Settlement Agreement Announced with Chi Institute for Alleged Failures to Comply with Federal Student Aid Requirements," Press Release, July 2011

"Former Beauty School Owners Pay U.S. Nearly $5 Million to Settle Civil Claims," Press Release, January 2011

"Former Vatterott Director Sentenced For Financial Aid Fraud KC School Received $362,000 in Federal Aid for Ineligible Students," Press Release, April 2010

"Alta Colleges to Pay U.S. $7 Million to Resolve False Claims Act Allegations," Press Release, April 2009

GAO Reports

"Higher Education: Stronger Federal Oversight Needed to Enforce Ban on Incentive Payments to School Recruiters," October 2010

"Federal Student Loan Programs: Opportunities Exist to Improve Audit Requirements and Oversight Procedures," July 2010

"Proprietary Schools: Stronger Department of Education Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid," August 2009

Challenge: Oversight and Monitoring—Distance Education

OIG Internal Reports

IPAR, "Distance Education Fraud Rings," September 2011

OIG External Reports

"Saint Mary-of-the-Woods College's Administration of the Title IV Programs," March 2012

"Colorado Technical University's Administration of Title IV, Higher Education Act Student Financial Assistance Programs," September 2012

"Ashford University's Administration of the Title IV, Higher Education Act Programs," January 2011

"Baker College's Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations," August 2010

Management Information Report, "Review of The Higher Learning Commission of the North Central Association of Colleges and Schools' Standards for Program Length," May 2010

Management Information Report, "Review of the Middle States Commission on Higher Education's Standards for Program Length," December 2009

Management Information Report, "Review of the Southern Association of Colleges and Schools – Commission on Colleges' Standards for Program Length," November 2009

GAO Reports

"Higher Education: Use of New Data Could Help Improve Oversight of Distance Education," November 2011

Challenge: Oversight and Monitoring—Grantees

OIG Internal Reports

Management Information Report, "Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs," July 2009

Alert Memorandum, "Insufficient Controls for the Puerto Rico Department of Education's Use of Education Funds for Personal Services Contracts," March 2011

Alert Memorandum, "Philadelphia School District Designation as a High-Risk Grantee," April 2010

"School Improvement Grants: Selected States Generally Awarded Funds Only to Eligible Schools," March 2012

"The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants," September 2012

"Department's Implementation of the Teacher Incentive Fund Grant Program," December 2011

"Centers for Independent Living Compliance, Performance, Recovery Act Reporting, and Monitoring," September 2012

"The Department's External Audit Resolution Process," July 2012

“U.S. Department of Education’s Process to Identify and Monitor High-Risk Grantees,” March 2012

“Office of Indian Education’s Management of the Professional Development Grant Program,” February 2010

OIG External Reports

“Camden City Public School District’s Administration of Non-Salary Federal Education Funds,” March 2012

“Camden City Public School District’s Administration of Federal Education Funds,” June 2011

“Camden City Public School District’s Administration of its Supplemental Education Services Program,” May 2011

“Kiryas Joel United Free School District Title I, Part A of the Elementary and Secondary Education Act and Individuals with Disabilities Education Act, Part B Expenditures,” February 2011

“Puerto Rico Department of Education Award and Administration of Personal Services Contracts,” January 2011

“Philadelphia School District’s Controls Over Federal Expenditures,” January 2010

Second Phase Recovery Act Work—Use of Funds and Data Quality, see listing under Improper Payments Challenge, OIG External Reports

OIG Investigations

“Former Ira Independent School District Superintendent Sentenced to 14 Months in Federal Prison on Mail Fraud Conviction,” Press Release, August 2012

“Former El Centro School Superintendent Pleads Guilty To More Than $325,000 in Federal Grant Fraud,” Press Release, March 2012

“Four Former Jefferson Parish Public School Board Employees Sentenced For Embezzlement Scheme,” Press Release, December 2011

“Chairman of the Board for the Paideia Academy and Employee of St. Louis City Treasurer's Office Indicted on Fraud Charges,” September 2011

“Charter School's Former Board President and Former CEO are Sentenced for Fraud Scheme,” July 2012

GAO Reports

“Department of Education: Improved Oversight and Controls Could Help Education Better Respond to Evolving Priorities,” February 2011

“Disadvantaged Students: School Districts Have Used Title I Funds Primarily to Support Instruction,” July 2011

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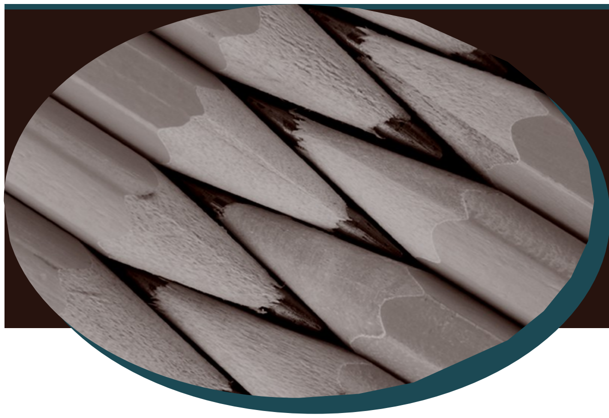

APPENDIX B. ACRONYMS AND ABBREVIATIONS

Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
EDEN	Education Data Exchange Network
EDGAR	Education Department General Administrative Regulations
EDUCATE	Education Department Utility for Communications, Applications, and Technology Environment
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
FY	Fiscal Year
GAO	Government Accountability Office
HEA	Higher Education Act of 1965, as Amended
IPA	Independent Public Accountant
IPAR	Investigative Program Advisory Report
IPERA	Improper Payments Elimination and Recovery Act of 2010
IRS	Internal Revenue Service
IT	Information Technology
LEA	Local Educational Agency
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant
Recovery Act	American Recovery and Reinvestment Act of 2009
SAFRA	Student Aid and Fiscal Responsibility Act of 2010
SEA	State Educational Agency
SFA	Student Financial Assistance
Title IV	Title IV of the Higher Education Act of 1965, as Amended

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