



U.S. Department of Education
Office of Inspector General

FY 2014 Management Challenges

November 2013

Office of Inspector General

Kathleen S. Tighe

Inspector General

November 2013

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Please Note:

The Inspector General's FY 2014 Management Challenges is available on the ED OIG Web site at <http://www2.ed.gov/about/offices/list/oig/reports.html>.



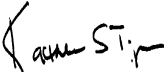
UNITED STATES DEPARTMENT OF EDUCATION

The Inspector General

November 12, 2013

MEMORANDUM

TO: The Honorable Arne Duncan
Secretary of Education

FROM: Kathleen S. Tighe 
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2014

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

Last year, we presented four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. While the Department remains committed to addressing these areas and has taken or plans action to correct many of their underlying causes, each remains as a management challenge for fiscal year (FY) 2014. We also added a new challenge related to the Department's information technology system development and implementation.

The FY 2014 management challenges are:

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

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2014 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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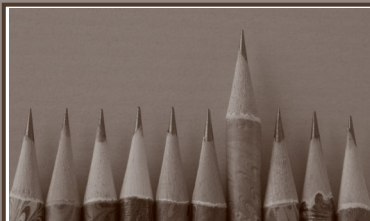
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EXECUTIVE SUMMARY

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. While we noted some progress by the Department in addressing these areas, each remains as a management challenge for fiscal year (FY) 2014. We also added a new challenge related to the Department's information technology system development and implementation.

The FY 2014 management challenges are:

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

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows.

Management Challenge 1: Improper Payments

Why This Is a Challenge

The Federal Pell Grant (Pell) program is 1 of 13 programs the Office of Management and Budget designated as "high-priority." In addition to the Pell program, the Department identified the William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) programs as susceptible to significant improper payments. The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients.

Our recent work has demonstrated that the Department remains challenged to meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments. We have identified concerns in

numerous areas relating to improper payments, including calculation of the estimated improper payment rate for the Pell, FFEL, and Direct Loan programs and improper payments involving grantees and contractors. Our Semiannual Reports to Congress from April 1, 2010, through March 31, 2013, included audit reports with findings involving more than \$88 million in questioned or unsupported costs.

Progress in Meeting the Challenge

The Department has revised its estimation methodologies for each of its risk-susceptible programs (Pell, Direct Loan, and FFEL); however, the Department was working to obtain Office of Management and Budget approval of the new methodologies as of September 2013.

The Department has identified root causes for improper payments in its risk-susceptible programs that included documentation, administrative, and verification errors. In response, the Department planned or completed numerous corrective actions. These actions included a voluntary data exchange program with the Internal Revenue Service that is intended to improve the accuracy of financial aid applicant's income data reported on the online Free Application for Federal Student Aid (FAFSA), enhanced system edits within the National Student Loan Data System to flag students with unusual enrollment history to assist in identifying applications for verification, and various internal controls to prevent and detect errors integrated into its Direct Loan systems and activities.

What Needs to Be Done

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. The Department should continue to work with the Office of Management and Budget to ensure its improper payment estimation methodologies and reporting are reasonable.

Management Challenge 2: Information Technology Security

Why This Is a Challenge

Department systems contain or protect an enormous amount of confidential information such as personal records, financial information, and other personally identifiable information. 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 losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

The OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. Over the last several years, IT security audits have identified controls that need improvement to adequately protect the Department's systems and data. This included weaknesses in configuration management, identity and access management, incident response and reporting, risk management, security training, plan of action and milestones, remote access management, and contingency planning. In addition, investigative work performed by the OIG has identified IT security control concerns in areas such as the Federal Student Aid (FSA) PIN system, mobile IT devices, malware, incident response, email spear phishing, and the Department's external email interface.

Progress in Meeting the Challenge

The Department provided corrective action plans to address the recommendations in our audits and has procured services to provide additional intrusion detection capabilities for its primary enterprise environment and related data center. The Department also awarded a contract for a continuous monitoring program of its enterprise infrastructure. It has nearly completed the requirement of implementing two-factor authentication for Government and contractor employees and is well into the process of supplying and implementing multifactor authentication for its external business partners.

The Department also stated that it is laying a foundation for increased security oversight and efficiency with an in-house Cyber Security Operations Center, with initial operating capability planned for late FY 2013 and full capacity planned by the middle of FY 2014.

What Needs to Be Done

The Department needs to continue its efforts to develop more effective capabilities to respond to potential IT security incidents. It also should continue its progress towards fully implementing and enforcing the use of two-factor authentication when accessing its system. The Department should strive towards a robust capability to identify and respond to malware installations.

Management Challenge 3: Oversight and Monitoring

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended, 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 different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Four subareas are included in this management challenge—Student Financial Assistance (SFA) program participants, distance education, grantees, and contractors.

Oversight and Monitoring—SFA Program Participants

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the Higher Education Act of 1965, as amended, to ensure that the programs are not subject to fraud, waste, and abuse. In FY 2013, the Federal Government planned to provide \$170.3 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2014 budget request outlines \$182.9 billion to Federal student aid, including \$35.3 billion in Pell Grants and more than \$145 billion in student loans. Nearly 14.7 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

Our audits and inspections and work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. In addition, our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. OIG investigations have also identified various schemes by SFA program participants to fraudulently obtain Federal funds.

Progress in Meeting the Challenge

FSA identified numerous initiatives that were completed, in progress, or under consideration to help ensure that SFA funds are delivered accurately and efficiently. For example, FSA provides training opportunities to financial aid professionals that are intended to enhance their ability to effectively implement the Department's student aid programs. Other planned actions include the use of automation to improve various aspects of operations. This includes projects such as an enhanced online origination tool to improve the application process; an expanded Common Origination and Disbursement system to improve funds control; and the Integrated Partner Management initiative to improve management of partner entities, ranging from schools to third party servicers, as they administer Title IV Financial Aid for Students.

What Needs to Be Done

Overall, FSA 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. It further needs to act effectively when issues are identified in its oversight and monitoring processes. 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 and other sources as appropriate, and implement actions for improvement.

Oversight and Monitoring—Distance Education

Why This Is a Challenge

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 few or no in-person interactions to verify the student's identity or attendance. In addition, laws and regulations are generally modeled after the campus-based classroom environment, which does not always fit delivering education through distance education. Our investigative work has noted an increasing risk of people attempting to fraudulently obtain Federal student aid from distance education programs. Our audits have identified noncompliance by distance education program participants that could be reduced through more effective oversight and monitoring.

Progress in Meeting the Challenge

The Department has taken or plans to take numerous actions in response to our work in this challenge area. For example, starting in the January 2013 FAFSA cycle (for the 2013–2014 award year), applicants selected for verification who are in a distance education program must provide a notarized copy of a government-issued identification to the school. For the same FAFSA cycle, the Department began screening applicants for unusual attendance, such as a pattern of enrolling at several schools, receiving aid, and then withdrawing. Schools will follow up

with these applicants to ensure they are attending school with an educational purpose, or the Department cannot disburse aid. The Department has also begun tracking applicants who use the same e-mail and IP address and will consider implementing new controls for the January 2014 FAFSA cycle (for the 2014–2015 school year).

What Needs to Be Done

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should also 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 campus-based education and distance education. Based on this analysis, the Department should develop and implement requirements to specifically address potential problems inherent in distance education.

Oversight and Monitoring—Grantees

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,000 public school districts and 49 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include Title I of the Elementary and Secondary Education Act (ESEA), which under the President's 2014 request would deliver \$14.5 billion to help 23 million students in high-poverty schools make progress toward State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide \$11.6 billion to help States and school districts meet the special educational needs of 6.5 million students with disabilities.

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

Progress in Meeting the Challenge

The Department has planned or completed numerous corrective actions in response to our audits. This includes enhancing guidance to applicants and reviewers, updating and clarifying internal guidance and policy, developing formal monitoring plans, and developing training to grantees and Department staff. The Department has also developed and implemented a software analysis tool that is intended to help identify areas of potential risk in the Department's grant portfolio and develop appropriate monitoring, technical assistance, and oversight plans as a part of grants management.

What Needs to Be Done

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, increase financial expertise among its grants

monitoring staff, and develop mechanisms to share information regarding risks and monitoring results. The Department also should consider adding language 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 the Education Department General Administrative Regulations are revised.

Oversight and Monitoring—Contractors

Why This Is a Challenge

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. As of May 2013, the value of the Department's active contracts exceeded \$5.5 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 audits have identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance. This is primarily related to the appropriateness of contract payments and the effectiveness of contract management. In addition, OIG investigations have noted contractor activities, such as false claims, that resulted in improper billings and payments.

Progress in Meeting the Challenge

The Department has provided corrective action plans to address the issues noted in our audit work. It has also developed and implemented several training programs and procedures within this area.

What Needs to Be Done

The Department needs to ensure that it has an appropriately qualified staff in place and in sufficient numbers to provide effective oversight of its contracts.

Management Challenge 4: Data Quality and Reporting

Why This Is a Challenge

Data are used by the Department 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. The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data is accurate and reliable.

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. This includes weaknesses in controls over the accuracy and reliability of program performance, academic assessments, and American Recovery and Reinvestment Act of 2009 recipient data.

**Management
Challenge 5:
Information
Technology System
Development and
Implementation**

Progress in Meeting the Challenge

To address concerns related to one program's performance data, the Department plans to provide training to staff around assessing the SEA's efforts to sufficiently test performance data and provide reasonable assurance that the data are valid and complete. It also plans to revise its site visit monitoring instrument to ensure staff sufficiently evaluate SEA monitoring activities related to the reliability of program performance data.

The Department requires management certifications regarding the accuracy of some SEA-submitted data. The Department also conducts an ongoing peer review process to evaluate State assessment systems, and it currently 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 they could take to help ensure the integrity of the data used to measure student achievement. The Department also has a contract to provide technical assistance to improve the quality and reporting of outcomes and impact data from Department grant programs that runs through 2015.

What Needs to Be Done

While the Department identified its commitment to work to improve staff and internal system capabilities for analyzing data and using it to improve programs, it must continue to work to ensure that effective controls are in place at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data is reported.

Why This Is a Challenge

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with consistent staffing levels. The Department reported that its inflation adjusted administrative budget is about the same as it was 10 years ago while its FTE has declined by 6 percent. This makes effective information systems development and implementation, and the greater efficiencies such investments can provide, critical to the success of its activities and the achievement of its mission.

Data from the Federal IT Dashboard reported the Department's total IT spending for FY 2013 as \$622.5 million. The Department identified 30 major IT investments accounting for \$506.5 million of its total IT spending. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development that have negatively impacted operations and may have resulted in improper payments. In addition, the Department self-reported two material weaknesses relating to financial reporting of Federal student aid data and operations of the Direct Loan and FFEL programs that resulted from system functionality issues occurring after large-scale system conversions in October 2011.

Progress in Meeting the Challenge

The Department reported it has taken action to correct the financial reporting deficiencies associated with the system conversions. It also reported that FSA implemented other internal control improvements that resulted in system fixes and restored system functionality.

The Department further reported that actions to correct the root causes of the internal control deficiencies impacting operation of Direct Loan and FFEL programs are ongoing. Actions include research into borrower balances and root cause analysis of system limitations to inform recommendations on system and process fixes.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that system deficiencies are corrected and that system performance fully supports the Department's financial reporting and operations. Further action needed to address this challenge include improving management and oversight of system development and life cycle management (to include system modifications and enhancements) and ensuring that appropriate expertise to managing system contracts (to include acceptance of deliverables) is obtained.



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. The Administration later announced that the government-wide error rate has declined from 5.42 percent in FY 2009 to 4.35 percent in FY 2012, reducing improper payments over the 3 years by \$47 billion.

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

The Federal Pell Grant (Pell) program is 1 of 13 programs OMB designated as “high-priority.” The high-priority programs are those that reported \$750 million or more in improper payments in a given year or were specified as high priority by OMB. In addition to the Pell program, the Department identified the William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) programs as susceptible to significant improper payments.

The U.S. Department of Education (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.

Our work in this area has identified concerns with the completeness of the Department’s improper payment rate calculation for the Pell program and with the Department’s methodologies for estimating improper payment rates for the Pell, Direct Loan, and FFEL programs as part of its compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). We have also recommended potential enhancements to the Department’s compliance with guidance issued by OMB and alerted the Department to a serious fraud vulnerability in distance education programs. Additionally, we identified improper payments in the Student Financial Assistance (SFA) programs, to or by State educational agencies (SEAs) and local educational agencies (LEAs), to other grantees, and to contractors.

Background

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

The Department's FY 2012 Agency Financial Report (AFR) stated that OMB designated Pell a high priority because estimated FY 2011 Pell improper payments of \$1.0 billion exceeded the high-priority program threshold of \$750 million. As a result, the Department coordinated with OMB to establish and execute a plan to implement applicable high-priority program requirements including the designation of accountable officials and the establishment of supplemental measures to be reported.

The Pell program provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. In its FY 2012 AFR, the Department reported a preliminary FY 2012 improper payment rate estimate of 2.5 percent for the Pell program, which resulted in an estimated improper payment value of \$829 million. The Department further reported that a new estimated improper payment rate calculation was completed for the Pell program to quantify precision of the estimate and to consider additional root causes and corrective actions. This estimation methodology was based on onsite reviews conducted at a sample of schools but was pending OMB approval when the FY 2012 AFR was published. Under the proposed methodology, the Pell program error rate was calculated as 2.10 percent, or \$699 million, at a 90 percent confidence level and 1.26 percent precision.

The Department also 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 corrective actions taken or planned to reduce them.

Under the Direct Loan program, the Department provides low-interest loans for students and parents to help pay for the cost of a student's education after high school. The Direct Loan program includes Direct Subsidized and Unsubsidized Loans for students, PLUS Loans for parents and graduate or professional students, and Direct Consolidation Loans for both students and parents. The Department's FY 2012 AFR reported an overall Direct Loan improper payment rate of 0.22 percent for FY 2011 but did not report an approved estimate for FY 2012. A new estimated improper payment rate calculation was completed for the Direct Loan program in FY 2012, but the new methodology was pending OMB approval when the FY 2012 AFR was published. The Department's new improper payment rate calculation estimated an overall Direct Loan improper payment rate of 0.58 percent, or \$614 million, at a 90 percent confidence level and 0.63 percent precision.

Under the FFEL program, private lenders made Federal student loans to students, and guaranty agencies insured these funds, which in turn were reinsured by the Federal Government. As a result of the Student and Aid and Fiscal Responsibility Act, no new FFEL program loans were made beginning July 1, 2010. The Department reported in its FY 2012 AFR that it did not calculate an estimate of

improper FFEL improper payments for FY 2011 and that a new methodology to calculate an estimated improper payment rate for the FFEL program was pending OMB approval. While no approved rate for FY 2012 was reported, the Department's new improper payment rate calculation estimated an overall FFEL improper payment rate of 1.93 percent, or \$552 million, at a 90 percent confidence level and 0.53 percent precision.

The Department stated in its FY 2012 AFR that it is enhancing its efforts for identifying and reducing the potential for improper payments to comply with IPERA.

Results of Work Performed

OIG work related to improper payments has evolved and increased over the years to include (1) conducting reviews required under statute and guidance and (2) reviewing, auditing, and investigating major recipients of Federal funds. The results of this work are presented in the corresponding sections below.

Required Reviews Found That Issues Remain With the Completeness of Certain Improper Payment Rate Calculations and New Methodologies for Estimating Improper Payment Rates

In March 2013, we issued an audit report on the Department's compliance with IPERA for FY 2012. We found that the Department complied with IPERA for FY 2012; however, issues remained with the completeness of the calculation of the estimated improper payment rate for the Pell program. We noted that the Department's proposed methodologies for estimating improper payment rates for the Pell, Direct Loan, and FFEL programs were flawed. For example, to arrive at the published estimate of improper payments for the Pell program, the Department's contractor computed a point estimate (3.36 percent), and using a 90 percent confidence level, calculated the upper bound (4.62 percent) and the lower bound (2.10 percent) of the estimate's confidence interval. Subsequently, the Department reported that the estimated improper payment rate was 2.10 percent (the lower bound of the estimate) and did not report either the point estimate (3.36 percent) or the estimate's upper bound (4.62 percent) in the AFR. We also found that the Department used new methodologies for estimating improper payment rates that were not approved by OMB and that the Department did not follow OMB guidance for reporting of payment recapture audit programs.¹

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 OMB guidance, 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.

¹ A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities .

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 areas where the Department's process could be strengthened. For example, the Department's use of the accounts receivable amounts understated some overpayments identified through audits and program reviews. We informed the Department of an additional data source that could provide more accurate information on overpayments than accounts receivable alone. We also found that FSA had not determined whether Title IV overpayments should be analyzed at the entity level or at the individual level, impacting its ability to determine whether Title IV overpayments meet the high-dollar threshold.

In March 2012, we issued an audit report that concluded the Department complied with IPERA for FY 2011. However, we 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 1965 (Title I), Pell, and Direct Loan programs. We 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.

Audits and Investigations of Recipients of Federal Funds Identified Significant Improper Payments

OIG audit and investigative work continues to identify various improper payments in the SFA programs, to or by SEAs and LEAs, to other grantees, and to contractors. Overall, our Semiannual Reports to Congress from April 1, 2010, through March 31, 2013, included audit reports with findings involving more than \$88 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 on 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 addition to work in the SFA programs, we have performed work identifying fiscal issues at SEAs and LEAs. In July 2013, we issued an audit report relating to our review of final expenditures under the American Recovery and Reinvestment Act of 2009 (Recovery Act) for selected educational agencies. We found that the LEAs generally obligated and spent Recovery Act funds we reviewed in accordance with applicable laws, regulations, guidance, and program requirements. However, we identified instances in which LEAs paid for obligations they made after the obligation deadline, unallowable expenditures at three LEAs, fiscal and management control issues at another LEA, and internal control weaknesses at

two LEAs. We identified more than \$292,000 in questioned costs and issued separate reports to four SEAs providing details on these items and specific recommendations.

In January 2013, we issued an audit report on Maryland's use of funds and data quality for selected Recovery Act programs. We found that expenditures we reviewed were generally allowable, reasonable, and accounted for in accordance with the recipients' plans, approved applications, and other applicable laws and regulations. However, we identified more than \$700,000 in unallowable, unsupported, or inadequately supported expenditures. These included expenditures for items such as travel, entertainment events, awards, professional services, utility payments, items for personal use, food, and giveaway items for noneducational events.

In June 2011, we issued an audit report on Camden's administration of Federal education funds. We found about \$4.5 million in contracts were missing or inadequately executed and more than \$4 million in expenditures were inadequately supported.

Our January 2011 report on the Puerto Rico Department of Education's award and administration of personal services contracts stated that the Puerto Rico Department of Education lacked sufficient controls to ensure compliance with State and Federal laws in awarding personal services contracts and in ensuring that those services were allowable and adequately supported. We identified a \$15 million discrepancy between personal services contracts expenditure data paid with Department funds between Puerto Rico Department of Education's financial accounting system and its paper-based payment system and system for part-time and irregular employees. We also identified \$164,914 in questioned costs that included instances where supporting documentation for services provided was lacking, payment for services was made before contact approval, and payment was made for hours in excess of the contracted hours.

In FY 2011, we issued an investigative program advisory report (IPAR) to alert the Department of serious fraud vulnerability in distance education programs and make recommendations to mitigate future additional risk of fraud in the Title IV programs. 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. Since 2005, OIG fraud ring investigations resulted in 359 convictions, more than \$11 million in administrative recoveries or savings, and about \$13.0 million in restitution and fines.

In January 2013, we completed a risk analysis that demonstrated that student aid fraud ring activity is a rapidly growing problem. Using our E-Fraud Data Analytical System, we determined that the population of recipients considered as potentially participating in fraud activity had increased 82 percent from award year 2009 (18,719 students) to award year 2012 (34,007 students). We identified more than 85,000 recipients who may have participated in student aid fraud ring activity and who received more than \$874 million in Federal student aid from award year 2009 through award year 2012. Further, applying a statistical model to these results, we estimated a probable fraud loss of \$187 million of the \$874 million as a result of these criminal enterprises.

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, 2013, the Department has reported that it has or will take actions to recover the funds. The Department has also reported that it has taken action or has plans to implement adequate control activities that will mitigate the risk of future improper payments. In FY 2014, we will review the Department's compliance with IPERA and performance in reducing and recapturing improper payments. We will also conduct reviews of the Department's Accountable Official's report on the Pell high-priority program, lifetime Pell limits, and selected State agencies' monitoring of indirect costs.

Department Actions and Plans

The Department's FY 2012 AFR provided information on the annual review and assessment of programs and activities to identify those susceptible to significant improper payments. The FY 2012 AFR reported that FSA implemented new estimation methodologies for all risk-susceptible programs reported (Pell, Direct Loan, and FFEL); however, these new methodologies had not been approved by OMB, as required. The AFR stated that the new estimation methodologies would produce statistically valid estimates with a higher level of confidence than the prior methodologies. As of September 2013, the Department was working with OMB to obtain approval of the new estimation methodologies.

The Department identified root causes for improper payments that included documentation and administrative errors (Pell, Direct Loan, and FFEL) and verification errors (Pell and Direct Loan). Documentation and administrative errors identified as contributing to improper payments included items such as incorrect awards based student financial data, account data changes not applied or processed correctly, duplicate processing, and incorrect calculations due to erroneous manual entries or software formula errors. Verification errors that were identified as contributing to improper payments included ineligibility for Pell or Direct Loan, failure to achieve Satisfactory Academic Progress, and incorrect calculations or returns.

The Department identified numerous corrective actions that were planned or completed. With respect to the Pell program, FSA continues to employ a voluntary data exchange program with the Internal Revenue Service that allows the transfer of certain tax return information from an Internal Revenue Service Web site directly to an online Free Application for Federal Student Aid (FAFSA) via a Data Retrieval Tool. This process is intended to improve the accuracy of the financial aid applicant's income data reported on the FAFSA. The Department reported that about 26 percent of FAFSAs submitted between February 5, 2012, and September 24, 2012, included Internal Revenue Service data. By comparison, the Department previously reported that about 21 percent of applications submitted from January 30, 2011, through September 4, 2011, used the optional Internal Revenue Service Data Retrieval Tool.

The Department also reported that it planned to transition to a customized selection approach for application verification where students are selected based on data analysis and schools are required to confirm the specific data that caused the applicant's selection. The Department further reported that enhanced system edits within the National Student Loan Data System were implemented to

flag students with unusual enrollment history to help identify applications for verification.

With respect to the Direct Loan program, the Department reported that FSA would work to reevaluate procedures for processing Loan Verification Certificates and would consider improvements in system edits to prevent duplicate processing and ineligible loans. The Department noted that FSA has a number of existing internal controls integrated into its Direct Loan systems and activities to prevent and detect errors that include system edits; data matches with external sources; oversight of Title IV servicers; internal reporting to identify causes of improper payments, track their resolution, and make necessary adjustments; and program reviews of institutions administering the Direct Loan program.

With respect to the FFEL program, the Department reported numerous internal controls were integrated into its system and activities. These included system edits to prevent erroneous data entry and improper payments, analysis to evaluate the reasonability of changes in payment levels and activity, targeted monitoring and oversight of specific areas of FFEL payment processing that at increased risk of improper payments, and program reviews of institutions administering the FFEL program.

Other corrective actions identified by the Department included the use of A-133 compliance audits, OIG audits, and other activities intended to make information, resources, and tools available to institutions in order to facilitate their efforts to improve processing related controls.

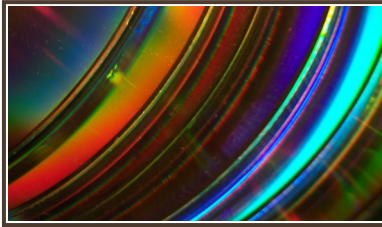
The Department identified more than \$167 million in its quarterly high-dollar overpayment reports from March 31, 2010, through June 30, 2013. The Department further reported that it has, or is in the process of, completing both recovery actions and activities to mitigate the risk of future improper payments. The Department reported corrective actions taken or planned that included recovering funds, updating certification processes, completing system enhancements, conducting training, reviewing quality control procedures, and implementing new procedures.

Further Actions Needed to Address the Challenge

The Department needs to continue to explore additional opportunities for preventing improper payments.

The Department should continue to work with OMB to ensure its estimation methodologies and reporting are reasonable. This includes obtaining approval for the proposed estimation methodologies for the Pell, Direct Loan, and FFEL programs that will meet IPERA requirements and ensuring that the Department's proposed estimation methodologies use appropriate point estimates and that the upper and lower confidence limits are disclosed in the AFR.

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. The OIG issued 25 audits that identified questioned or unsupported costs between April 1, 2010, and March 31, 2013. As of September 2013, 12 of the 25 audits (48 percent) were reported as unresolved within the Department's audit tracking system. Each of these audits was overdue for resolution with respect to the OMB A-50 requirement that audits are resolved within of 6 months of final report issuance.



INFORMATION TECHNOLOGY SECURITY

Department systems contain or protect an enormous amount of confidential information such as personal records, financial information, and other personally identifiable information. 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 losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

The 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, IT security audits performed by the OIG with contractor assistance, OIG investigative work, and audits performed by the Department's independent public accountant for its financial statement audits have identified security controls that need improvement to adequately protect the Department's systems and data.

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 employees entering their credentials on fake sites or 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

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

OIG IT Security Related Audit Work Found Recurring IT Control Weaknesses

In November 2012, the OIG issued an audit report on the Department's compliance with the Federal Information Security Management Act for FY 2012 (FISMA). The audit report identified findings in 8 of the 11 OMB reporting metrics or control areas, including configuration management, identity and access management, incident response and reporting, risk management, security training, plan of action and milestones, remote access management, and contingency planning. With the exception of incident response and plan of action and milestones, the other control areas contained repeat findings from OIG reports issued during the prior 3 years.

Similarly, our audit of the Department's compliance with FISMA for FY 2011 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.

During FY 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.

OIG IT Security Related Investigative Work Identified IT Security Weaknesses in Areas Such as Authentication, Mobile Devices, and Incident Response

Investigative work performed by the OIG has identified additional IT security control weaknesses. In September 2013, we informed the Department of vulnerabilities in the FSA PIN system. The security measures used are old and inadequate for the current environment. The authentication system can sometimes be easily defeated, and users frequently share their credentials since there are no easy alternatives for what the users want to accomplish. This has resulted in a number of unauthorized accesses to private information and, in one case, the denial of aid.

In March 2013, we informed the Department of an incident involving mobile IT devices. This incident could have been avoided if some of the defensive measures outlined in an earlier OIG report had been implemented and Department employees were better informed of existing policy designed to prevent such an incident from occurring.

In September 2012, we informed the Department that an investigation earlier that year determined that malware was successfully installed on a Department server because the system was running software that had not been patched in more than 2 years. Additionally, our investigation discovered that the Department's incident response procedures were not followed. Specifically, the lack of analysis of the incident resulted in the issue not being properly remediated, leaving the agency vulnerable to additional infections from the original malicious email.

In June 2012, we provided the Department with a report analyzing data from a computer crime investigation conducted the previous year. In the report, we discussed the targeting of senior Department personnel in email spear phishing and the broader threat against the Department IT infrastructure.

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 June 2011, the Department advised the OIG that unauthorized individuals were using the Department's external email interface to send spam email to millions of individuals worldwide. The perpetrators have been able to continue these actions, off and on, due to a lack of two-factor authentication on the Outlook Web Access interface and compromised user credentials. Since the original incident, more than 68 users' credentials have been compromised.

IPA Performed Financial Statement Audit Work Continues to Highlight the Need to Improve Information System Controls

The Department's IPA for its financial statement audits identified the need to enhance controls surrounding information systems as a significant deficiency for the past 4 years. The independent public accountant's review of general IT controls in performing the audit of the Department's FY 2012 financial statements identified weaknesses that included controls over terminated users' access, revalidation of users' rights, documentation and approvals of user access, sharing of accounts with elevated administrative access, and IT general control issues. Prior reports cited weaknesses in areas such as activity monitoring, access termination, revalidations, password configuration, and change management. The independent public accountant concluded that several 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 work continues in this area with primary area of focus on completion of work to assess the Department's compliance with the FISMA.

Department Actions and Plans

The Department provided corrective action plans to address the recommendations in our audits. As of September 2013, the Department reported that some corrective actions are completed and work is in process to implement the remaining activities. For example, the Department reported it has or will complete actions such as awarding a contract task order to complete log reviews for all compromised privileged user account incidents, updating internal policy, validating inactivity settings, distributing dual-authentication tokens to all guaranty agency users and all other external business partners with privileged accounts, implementing a solution for remote email access to require dual-authentication, reviewing and updating information system contingency plans for systems that have missing elements, and taking steps to ensure that annual contingency plan testing and documenting of test results is completed.

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.

The Department has nearly completed the requirement of implementing two-factor authentication for Government and contractor employees. Additionally they are well into the process of supplying and implementing multifactor authentication for their external business partners. 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 EDUCATE 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 the middle of 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 and FSA have begun to implement their own incident response teams and establish Security Operations Centers, this capability is still being developed.

The Department also has not fully implemented or enforced the use of two-factor authentication when accessing its systems to comply with applicable guidance. 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 to web email 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 user names and

passwords for Department systems. The Department must strive towards a robust capability to identify and respond to malware installations 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 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. In FY 2013, the Federal Government will provide \$170.3 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2014 budget request dedicates \$182.9 billion to Federal student aid, including \$35.3 billion in Pell Grants and more than \$145 billion in student loans. Nearly 14.7 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

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

Stakeholders in the student aid delivery system include students and parents, lenders, guaranty agencies, postsecondary institutions, contracted servicers, and collection agencies. One of FSA's responsibilities is to coordinate and monitor the activity of the large number of Federal, State, nonprofit, and private entities involved in Federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department.

The Federal student financial assistance programs collectively represent the nation's largest source of Federal financial aid for postsecondary students. In FY 2012, FSA processed almost 22 million FAFSAs, resulting in the delivery of \$141.9 billion in Title IV aid to approximately 15 million postsecondary students and their families. These students attend more than 6,200 active institutions of postsecondary education that participate in student aid programs and are 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.

Both the student debt level and payment delinquency rate continue to generally trend upward. The Federal Reserve Bank of New York reported that outstanding student loan balances were \$994 billion as of June 30, 2013, an increase of \$753 billion since the first quarter of 2003. The Federal Reserve Bank's data showed that while many forms of consumer debt declined over the past 3 years, to include mortgage (-8.8 percent), home equity (-19.5 percent), and credit card (-8.5) debt, student loan debt had increased by 28.3 percent over that time. As of the second quarter of 2013, student loans made up 8.9 percent of aggregate consumer debt, compared to 3.3 percent in the first quarter of 2003.

The Federal Reserve Bank reported that 10.9 percent of student loan balances were 90 or more days delinquent as of the second quarter of 2013. While this was the lowest rate reported in the four most recent quarters, it was up from about 6.1 percent in the first quarter of 2003 and 9.0 percent in the first quarter of 2011.² The Federal Reserve Bank further reported that the cited delinquency rate for student loans is likely to be understated because almost half of these loans are currently in grace periods, in deferment, or in forbearance and therefore temporarily not in the repayment cycle.

Given the rise in student loan debt, 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 an increase in loan volumes and defaults affecting the Department's ability to effectively collect on loan defaults. FSA needs to effectively oversee and monitor participants in the Title IV programs to ensure funds are disbursed for only eligible students and to effectively manage the performance of the Federal student loan portfolio.

Results of Work Performed

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

² 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.

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

Our audits and inspections and work conducted by the Government Accountability Office (GAO) continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. In July 2013, we issued an audit report on the transparency of proprietary schools' financial statement data for FSA programmatic decision making. We determined that the presentation of instruction and marketing expenses in the audited financial statements was not consistent and did not allow for comparison across schools. The ability to identify the amount spent on instruction is an important measure because this activity represents the primary mission of all schools. The amount spent on marketing is important because proprietary schools may devote significant resources to recruiting and enrolling students and can be indicative of a school's focus. We determined that the financial statements submitted by 78 percent of publicly traded schools and an estimated 58 percent of privately held schools did not present the amounts spent on instruction and marketing.

Our FY 2012 audit of FSA's oversight of foreign medical school pass rates found weaknesses that included a lack of timely 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. We also completed an inspection report during FY 2012 at the request of Congress that found that FSA's oversight process did not provide assurance that institutes 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, 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.

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

Our external audits and investigations of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. This included instances where institutions did not comply with Title IV provisions, a guaranty agency did not comply with all terms of an agreement with the Department, and multiple instances where individuals fraudulently obtained Federal funds. While not the subject of these reviews, FSA's Program Compliance

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

Our FY 2012 audit of Metropolitan Community College identified instances of noncompliance across multiple areas that included disbursing Title IV funds to students that 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. We further identified instances of improper return of Title IV aid calculations and noncompliance with Federal regulations and Department internal policy with respect to Title IV disbursements.

In our FY 2011 audit of Educational Credit Management Corporation's³ compliance with its agreement with the Department to perform various functions as a guaranty agency, we 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. This included the following examples.

- In June 2013, the former president of Galiano Career Academy pled guilty to charges of theft of government property, obstruction of a Federal audit, and aggravated identity theft. The former academy president admitted that he knowingly used a high school "diploma mill" owned and operated by his wife to make students eligible for financial aid when they otherwise would not have been eligible. He also admitted that he secretly made audio and video recordings of FSA staff as they conducted a program review at his school, tampered with student records during the review, used the name and Social Security number of a student to illegally obtain student aid. Galiano Career Academy received more than \$1.9 million in U.S. Department of Education Federal student aid funds for students who were ineligible to receive them.
- In August 2013, ATI Enterprises, Inc., agreed to pay the Government \$3.7 million to resolve False Claims Act allegations that it falsely certified compliance with Federal student aid programs' eligibility requirements and submitted claims for ineligible students.

³ The Educational Credit Management Corporation is a nonprofit corporation operating as a guaranty agency designated by the Department.

- In May 2013, American Commercial Colleges, Inc., agreed to pay the United States up to \$2.5 million, plus interest, to resolve allegations that it violated the civil False Claims Act by falsely certifying that it complied with certain eligibility requirements of the Federal student aid programs. The civil settlement resolves allegations that the entity orchestrated certain short-term private student loans that it repaid with Federal Title IV funds to artificially inflate the amount of private funding counted for purposes of the 90/10 Rule.
- In April 2013, United States University agreed to pay a civil settlement in the amount of \$686,720 and the school's former financial aid director pled guilty to financial aid fraud. This resolved allegations that between December 2008 and February 2011, the school submitted falsified financial aid applications to the Department to obtain Pell Grant funds for ineligible students.
- In March 2013, the vice president of Prism Education Group, Inc., was sentenced in the District of New Jersey to serve 24 months in prison and ordered to pay more than \$550,000 in restitution. From January 2008 through on or about March 30, 2011, she misused her position of trust and diverted between \$400,000 and \$1,000,000 by submitting fraudulent reimbursement requests for purchases of supplies, furniture, equipment, and other items that were never received by the school. She created false invoices to generate checks using the chief executive officer's forged signature which were payable to herself and deposited into her personal bank account.
- In January 2013, a Florida man was sentenced to 9 years in Federal prison for conspiring to commit student loan fraud, committing student loan fraud, and aggravated identity theft. In addition, he was ordered to pay \$464,269 in restitution to the Department. He carried out a student loan fraud scheme with a co-conspirator by helping people fraudulently enroll for admission and apply for Federal student financial aid.
- In December 2012, the New York Institute of Technology and Cardean Learning Group, LLC, settled a civil fraud lawsuit and agreed to pay a combined \$4 million to the Government for submitting false claims in connection with Federal student loans and grants.
- 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 certificate of high school equivalency.

OIG work continues in this area, including reviews of oversight of schools participating in the Direct Loan program, student loan debt and repayment,

guaranty agency health, institutions' use of servicer-supplied debit cards for Title IV payment processing, and enforcement of the incentive compensation ban. Additional planned work for FY 2014 includes projects relating to the oversight of institutions participating in the Federal Perkins Loan program and accrediting agencies' evaluation of direct assessment programs.⁴

Department Actions and Plans

FSA reported numerous initiatives that were completed, in progress, or under consideration to assist in ensuring that SFA funds are delivered accurately and efficiently. FSA provides training opportunities to financial aid professionals that are intended to enhance their ability to effectively implement the Department's student aid programs. For example, in June 2013, FSA announced the launch of a new training resource for the financial aid community. Federal Student Aid E-Training is a Web-based training delivery platform that will provide a variety of training services, including interactive online courses and access to archived training modules. In the future, Federal Student Aid E-Training will host live webinars and provide a registration system for other instructor-led training events sponsored by the Department. FSA also conducted numerous live webinars and a 4-day training conference for financial aid professionals. The conference sessions focused on items such as changes in Title IV regulations and legislation, how to prevent fraud, and protecting students' privacy and loan data.

Other planned actions include the use of automation to improve various aspects of operations. This includes projects such as an enhanced online origination tool to improve the application process; an expanded Common Origination and Disbursement system to improve funds control; and the Integrated Partner Management initiative to improve management of partner entities, ranging from schools to third-party servicers, as they administer Title IV financial aid for students.

FSA reported that it 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.

As mentioned under the Improper Payments challenge, the Department offers the Internal Revenue Service Data Retrieval Tool to applicants who complete their FAFSA online. The applicant can use this tool to securely transfer Internal Revenue Service information into the FAFSA, significantly increasing the accuracy of the data submitted.

FSA's FY 2012 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 key strategic drivers that require Department and FSA senior management's consideration for establishing priorities. In its FY 2012 Annual Report, FSA identified ensuring program integrity and safeguarding the taxpayers' interests as one of its strategic goals.

⁴ A direct assessment program is an instructional program that, in lieu of credit hours or clock hours as a measure of student learning, uses direct assessment of student learning or recognizes the direct assessment of student learning by others.

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.

FSA also needs to evaluate the risks within its programs, develop strategies to address risks identified, and implement those strategies to ensure effective operations. It further needs to assess its control environment, using information from OIG reviews 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 few or no in-person interaction 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 increase its oversight of schools providing programs through distance education.

Background

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 regulation 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 for 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 that 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 they need.

Results of Work Performed

OIG work within this area include investigative work that informed the Department of the increasing risk in distance education programs and identified significant instances of individuals fraudulently obtaining Federal funds. We have also completed audits that identified issues with noncompliance in distance education programs. The results of our recent work are presented in the sections below.

Investigations Identify an Increasing Risk of Fraud Involving Distance Education Programs

The unique characteristics and growth of distance education pose significant challenges to the Department. Through our investigative work, we have noted an increasing risk of people attempting 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 September 30, 2013, the OIG had opened 127. 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.

OIG investigations have identified numerous other activities involving fraud in distance education programs where participants fraudulently obtained Federal funds. These included the following examples.

- In August 2013, two people pled guilty to mail fraud for their roles in a distance education scheme to defraud various educational institutions. They did not possess a high school diploma or certificate of high school equivalency and knowingly provided their personal information to one of the ring leaders to apply for Federal student aid at various postsecondary institutions. The total estimated loss from this fraud scheme exceeds \$500,000.
- In July 2013, two people were sentenced for their jury trial convictions on charges of conspiracy, embezzlement, and aggravated identity theft relating to their participation in distance education fraud and U.S. Treasury check schemes. They were each sentenced to 133 months incarceration and 3 years supervised release and were ordered to pay \$713,000 in restitution. Overall, this fraudulent activity caused Federal student aid to be awarded in an amount in excess of \$335,000.
- In June 2013, a woman and seven other co-conspirators were indicted for conspiracy, mail fraud, student loan fraud, and aggravated identity theft. She allegedly submitted false FAFSAs and other loan applications on behalf of her co-conspirators for online courses. The conspirators allegedly had no intention of attending the college. The woman and her co-conspirators caused more than \$753,000 in Federal student aid to be disbursed.
- In April 2013, an individual pled guilty plea to one count of student financial aid fraud. Between 2006 and 2010, the individual recruited about 40 people to apply for Federal student aid funds for purported attendance at two online schools and caused the disbursement of about \$650,000 in Federal student aid. The recruited people were not students and did not intend to complete their online courses. Some of people did not possess a high school diploma or certificate of high school equivalency.

Audits Find Noncompliance in Distance Education Programs

Our audits have identified weaknesses in the oversight and monitoring of distance education program participants. As 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 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. Our September 2012 audit 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.

Our FY 2011 report of Ashford University estimated the school improperly retained at least \$1.1 million of SFA program funds for distance education 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 distance education 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. We estimated that the total amount of ineligible disbursements Ashford made during the 2006–2007 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.

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, starting in the January 2013 FAFSA cycle (for the 2013–2014 award year), applicants selected for verification that are in a distance education program must produce a copy of a government-issued identification, copied and notarized and sent to the schools. For the same FAFSA cycle, the Department began screening applicants for unusual attendance, such as enrolling at several schools, receiving aid, and withdrawing. Schools will follow up with these applicants to ensure they are attending school with an educational purpose, or the Department cannot disburse aid. In response to our IPAR on e-fraud rings, the Department has begun tracking applicants using the same e-mail and IP addresses. The Department will consider implementing new controls for the January 2014 FAFSA cycle (for the 2014–2015 school year).

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 diploma or certificate of high school equivalency 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.

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. Other Department activities 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—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 a distance education environment, (2) verification of the identities and high school graduation status of all students receiving Federal student aid for attendance in distance education courses, and (3) clarification of the calculation of return of Federal student aid in a distance education environment.

Grantees

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

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

Background

The Department is responsible for administering education programs authorized by Congress and signed into law by the President. This responsibility involves developing regulations and policy guidance that determine exactly how programs are operated, determining how program funds are awarded to recipients, ensuring that programs are operated fairly and in conformance with both authorizing statutes and laws prohibiting discrimination in Federally funded activities, collecting data and conducting research on education, and helping to focus attention on education issues of national importance.

The Department is responsible for administering, overseeing, and monitoring more than 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. Key programs administered by the Department include the Title I program, which under the President's FY 2014 budget request would deliver \$14.5 billion to help 23 million students in high-poverty schools make progress toward State academic standards. Another key program is the Individuals with Disabilities Education Act (IDEA), Part B Grants to States, which would provide \$11.6 billion to help States and school districts meet the special educational needs of 6.5 million students with disabilities.

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

Results of Work Performed

OIG work has identified a number of weaknesses that could be limited through more effective oversight and monitoring. These involve LEA fiscal control issues, SEA control issues, and fraud perpetrated by officials at SEAs, LEAs, and charter schools. We also noted internal control weaknesses the Department's oversight processes through our audits and inspections.

LEA Fiscal Control Issues

As noted in the Improper Payments section above, we issued multiple reports providing additional details and recommendations relating to our work performed at LEAs as part of the review of final expenditures under the Recovery Act for selected educational agencies. This included the following.

- **Florida: Final Recovery Act Expenditures Supplemental Report (June 2013).** We reported that an LEA did not perform due diligence when reviewing and approving a transaction, which resulted in an improperly classified Title I expenditure in excess of \$400,000. We also found that the LEA could not reconcile the Recovery Act Title I and IDEA grants for our audit period.
- **Puerto Rico: Final Recovery Act Expenditures Supplemental Report (February 2013).** We found that \$3.5 million in computer equipment was not used as intended because the required software had not been installed and that the Puerto Rico Department of Education overpaid \$7,000 of its Title I Recovery Act funds for professional services not rendered. We further identified control weaknesses in the Puerto Rico Department of Education's procurement process for equipment purchases using Recovery Act funds that totaled more than \$3.4 million.
- **Arkansas: Final Recovery Act Expenditures Supplemental Report (December 2012).** We questioned one LEA's use of \$237,302 for a purpose prohibited by the Recovery Act. The LEA spent this money to repair the roof on a former high school building that was being converted for other uses and was no longer being used to educate students. We also identified control weaknesses in a second LEA's asset inventory system that resulted in the district not properly accounting for and safeguarding equipment purchased with Recovery Act funds (and potentially other Federal funds) in a timely manner.
- **Delaware: Final Recovery Act Expenditures Supplemental Report (December 2012).** We identified an internal control weakness in an LEA's payroll adjustment process that resulted in the LEA obligating Recovery Act funds for personnel services that occurred after the September 30, 2011, obligation deadline.

During FY 2012, we issued an audit report stating that we found the Camden City Public School District's accounting system did not accurately reflect its expenditures under the Elementary and Secondary Education Act of 1965, as amended (ESEA). We further reported that the LEA did not have an adequate equipment inventory system to ensure proper control over equipment purchased with ESEA funds and that it did not always adhere to State law requirements in its procurement of goods and services for purchases that exceeded the statutory bid threshold.

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, we noted 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 2013) 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.

Fraud by SEA and LEA Officials

Since FY 2008, we have opened 93 investigations of either SEA or LEA officials related to allegations of fraud and corruption in Department programs. More effective internal control systems at the SEAs and LEAs could have mitigated the risk of these fraud schemes. These investigations have identified fraud schemes that included (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. The following are some examples of these investigations.

- In August 2013, former Detroit Public Schools accountant and teacher were convicted on charges of program fraud conspiracy, money laundering conspiracy, and tax charges. Between 2004 and 2008, they obtained more than \$530,000 from the Detroit Public Schools through a fraudulent scheme in which orders were placed with a sham company for books and educational materials never provided to the schools.
- In May 2013, an employee of the Shorewood School District pled guilty to theft concerning programs receiving public funds. Over a 13-year period, the employee, an administrative assistant who handled purchasing for her department, created bogus purchase orders to use school district funds for vacations and household items. She converted more than \$300,000 in school district funds for personal use.
- In April 2013, a former associate superintendent and acting chief financial officer of Pontiac Schools was sentenced to 12 months in Federal prison and ordered to pay \$336,000 in restitution to Pontiac Schools after having been convicted of one count of defrauding a program receiving Federal funding. The former associate superintendent directed a subordinate to issue a check for \$236,000 to his "International Leadership Academy" that

he in turn used to finance luxury vehicles, travel, and other personal items.

- In March 2012, the former superintendent of the El Centro Elementary School District 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, which 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.

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. From January 2005 through July 2013, OIG has opened 60 charter school investigations. To date, these investigations have resulted in 40 indictments and 26 convictions of charter school officials. The cases that have been fully settled have resulted in over \$10.7 million in restitution, fines, forfeitures, and civil settlements.

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

- In August 2013, the former chief executive officer of Harambee Institute of Science and Technology Charter School pled guilty to two counts of wire fraud. The former chief executive officer admitted to improperly obtaining funds from a scholarship fund and Harambee Institute. The former chief executive officer improperly withdrew \$9,000 from the scholarship fund to purchase a house for himself in Philadelphia and converted about \$79,000 from Harambee Institute for his own personal use.
- In June 2013, a woman pled guilty to a Federal charge stemming from the theft of more than \$75,000 from a charter school where she worked as a temporary accounting employee. She accessed the school's accounting system, changed names of legitimate vendors on pending checks to those of fictitious vendors, and then forged the signature of the director of finance on the checks. These checks were then cashed and used for personal benefit.

Also within this area, the Department faces the emerging challenge of fraud involving cyber charter schools.

- In August 2013, the founder and chief executive officer of the Pennsylvania Cyber Charter School was indicted on three counts of mail fraud, two counts of theft concerning programs receiving Federal funds, one count of conspiracy, and five counts of fraud and false statements on a tax return. The individual's accountant was also indicted on one count of conspiracy. The school's chief executive officer allegedly created a series of connected for-profit and not-for-profit entities to siphon taxpayer funds out of the school and to avoid Federal income tax liabilities. From 2006 through 2012, he and the accountant allegedly shifted more than

\$8,000,000 in income attributable to chief executive officer to the Federal income tax returns of other persons so that the chief executive officer's true income was concealed from legitimate taxing authorities.

- In March 2013, the former business manager of Agora Cyber Charter School, Ad Prima Charter School, Planet Abacus Charter School, and Laboratory Charter School pled guilty to charges of conspiracy to obstruct justice and obstruction of justice in a Federal investigation. The former business manager and four co-conspirators were indicted in July 2012 for allegedly falsifying documents such as board meeting minutes, board resolutions, financial records, and contracts that resulted in \$5.6 million in fraudulent payments to one of co-conspirator's private management companies.

Internal Control Weaknesses in the Department's Oversight Processes

In August 2013, we issued an audit report on the Office of Elementary and Secondary Education's process of awarding discretionary grants. We concluded that for the grant programs in our review, the Office of Elementary and Secondary Education complied with applicable laws, regulations, and guidance when selecting recipients to be awarded discretionary grants. We found no significant deviations in the award process from the procedures detailed in Department policy; however, we noted some discrepancies in the retention of required documentation in the competition files. We concluded that the Office of Elementary and Secondary Education's internal controls were sufficient to ensure a fair and objective competition; however, we noted the absence of additional documentation in the competition file that would demonstrate transparency and fully document the required steps of the award process.

Our February 2013 audit report on the Teacher Incentive Fund stakeholder support and planning period oversight found weaknesses in the Department's process for monitoring Teacher Incentive Fund planning period grantees. We concluded that monitoring activities were inadequate for 13 of 14 (93 percent) Teacher Incentive Fund planning period grantees randomly selected for review. The Department did not begin to monitor grantees' progress toward the development of lacking core elements until almost 6 months after awards were made, and subsequent monitoring activities were both insufficient and inconsistent.

In October 2012, we issued an audit report on the Department's management of the Federal Real Property Assistance Program. We conducted the audit in part to evaluate the Department's monitoring processes for this program. We identified weaknesses in the monitoring process that included grantees not consistently submitting required reports when due, the Department not always documenting or completing follow up activities in a timely manner, and incomplete file documentation.

In September 2012, 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. We found 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 risk-based approach 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.

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; lessons learned from Recovery Act implementation; compliance, measurement, and outcomes of the Vocational Rehabilitation State Grant Program; and effectiveness and accountability of online charter schools. Planned projects for FY 2014 include work relating to the Department's capacity to monitor selected programs, oversight of SEA's use of adult education State grant program funds and the reliability of the program's performance data, and selected State agencies' monitoring of indirect costs.

Department Actions and Plans

The Department has planned or completed numerous corrective actions in response to our audits. This includes multiple items intended to improve direction in various programs such as enhancing guidance to applicants and reviewers, updating and clarifying internal guidance and policy, and developing formal monitoring plans and review checklists as control mechanisms.

The Department also identified several items intended to enhance the effectiveness of its programmatic monitoring in certain programs to include strengthening its standardized sampling and analysis methodologies for onsite reviews, conducting supervisory review of site visits to ensure consistency, and developing and implementing a plan to ensure grantees develop corrective action plans to address monitoring issues and deficiencies identified in monitoring reports.

In addition, the Department cited ongoing or planned training efforts to improve the effectiveness of operations in this area. For example, it intends to develop training for SEA grantees on effective monitoring and fiscal controls for tracking funds. To enhance the knowledge and effectiveness of its staff, the Department offers several grant oversight and monitoring training opportunities. This includes individual courses in areas such as cost analysis and budget review, administration of discretionary and formula grants, internal controls, monitoring grant financial performance, and assessing applicant and grantee risk.

The Department implemented the Decision Support System, a suite of software analysis tools that make it possible to link disparate data sets and mine them for information. The Department's long-term goal for the use of the Decision Support 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. The data used in the Decision Support 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.

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 objectives of the Entity Risk Review include

facilitating program offices' efforts to analyze grantee risk before making awards and during the life of a grant project.

The Department continues to operate an Enterprise Business Collaboration site that is intended to foster Department-wide collaboration on grant risk management and mitigation strategies. The site allows program offices to access risk-related data and information on grantees that is produced by the Department's Risk Management Services. It provides access to information on how other offices are using risk-related data and information and developing risk mitigation resources. The goal of the site is to increase the Department's capacity to share important information and leverage the best practices of individual offices.

The Department implemented a 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 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. Program offices, on the basis of these reviews and in consultation with the Department's Office of the General Counsel, 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.

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, increase financial expertise among its grants monitoring staff, and develop mechanisms to share information regarding risks and monitoring results.

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 achievement of performance goals; however, the regulations do not address minimum requirements for monitoring. IDEA does address some minimum monitoring requirements and establishes requirements for SEA monitoring, enforcement, and annual reporting. Similar to requirements under the Recovery Act, the Department should consider adding language 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 May 2013, the value for the Department's active contracts exceeded \$5.5 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 Office of the Chief Financial Officer. The FSA program office has delegated authority for its own procurement function. FSA follows the policies and procedures established by Contracts and Acquisition Management 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 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 Payments

We have noted issues with respect to the prices paid under contracts and with the review of contractors' invoices for payment. Our August 2013 audit report on FSA's award and administration of Title IV additional servicers (TIVAS) contracts found that FSA appears to have negotiated the most efficient and cost-effective servicing rates for loan servicing under the base contract, but we could not determine whether FSA selected the most efficient and cost-effective prices for changes to the contracts. Although the final awarded contracts included negotiated rates that were generally lower than the lowest proposed bid, we could not determine whether FSA selected the most efficient and cost-effective prices for changes made to the contracts for several reasons. FSA modified the TIVAS contracts to include a requirement for cohort default rate challenges that

should have been included in the base contracts. This modification resulted in a separate cost of more than \$600,000 from June 17, 2009, the start of the contracts, through December 31, 2012, that was possibly more than it would have been if the requirement was included initially. Also, FSA officials did not properly document their decisions for 18 of 21 changes to the prices or terms of the TIVAS contracts; these 18 changes cost more than \$1.2 million.

Contract Management

The audit on FSA's award and administration of TIVAS contracts also determined that FSA did not adequately monitor TIVAS compliance with the contract requirements because the contracting officer's representatives did not sufficiently validate TIVAS invoices and confirm the timeliness and adequacy of deliverables. Additionally, we found that FSA used inadequate criteria in its monitoring of the TIVAS contracts.

In May 2013, we reported on the Department's lack of enforcement of a contract requirement that Private Collection Agencies (PCAs) report verbal complaints from borrowers to FSA. Because none of the PCAs included in our review tracked or reported verbal complaints, FSA was not notified of the complaints or whether they were resolved unless the borrower followed up by submitting a written complaint. As a result, FSA is unaware of the number or severity of verbal complaints that are filed by borrowers against PCAs and how these complaints are resolved.

In FY 2012, we reported that improvements are needed in the Department's 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 EDUCATE 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 EDUCATE contract, which may limit the Department's ability to meet projected savings.

In FY 2012, we issued a consulting reporting prepared by an IPA to perform work related to the TIVAS contracts. The objective of the review was to assess the current status of the TIVAS servicers 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 to allow FSA improved oversight of the contract requirements.

In FY 2011, we found that improvements were needed in FSA's 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.

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.

OIG 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 planned audits of the Department's contracting with not-for-profit student loan servicers, monitoring of school turnaround contractors, and an evaluation of FSA's policies and procedures for contract oversight and monitoring.

Department Actions and Plans

The Department revised its contracting officer's representative training program to incorporate more stringent certification, training, and recordkeeping 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, and modifying a responsibilities manual to formally define cost savings and monitoring standards.

The Department also reported that FSA Acquisitions has worked with FSA's Technology Office to develop an Information Resource Program Elements Guide. The guide is intended to help address the inclusion of security requirements in future solicitations and contracts.

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, and complete data are reported. Data are used by the Department 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. The Department evaluates program data to make critical funding and other management decisions.

Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. Establishing more consistent definitions for data terms will enhance reporting accuracy and comparability. 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 through the Education Data Exchange Network 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. For example, 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 impacted 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 has identified weaknesses in controls over the accuracy and reliability of program performance, student testing, and Recovery Act recipient data.

Program Performance Data

Our June 2013 audit report on the Department's and selected States' oversight of the 21st Century Community Learning Centers (21st CCLC) program noted that the Department could more effectively monitor and track SEAs' 21st CCLC program performance measures by ensuring that SEAs develop processes sufficient to provide reasonable assurances of the accuracy, reliability, and completeness of the performance information provided. We found that neither the Department nor three of the four SEAs we reviewed validated the performance data that the subgrantees submit. As a result, the Department is unable to ensure grantees have met program objectives because it cannot be sure of the accuracy, reliability, and completeness of the performance data reported by SEAs. In addition, although the Department monitored the SEAs' processes to award and monitor subgrants, the Department did not identify internal control weaknesses we found at the selected SEAs. We also identified areas in which the Department can improve its oversight of the SEAs' award and monitoring processes.

Student Testing Data

In FY 2013, we issued audit reports on both the Texas Education Agency's and the Michigan Department of Education's systems of internal control over statewide test results. We performed this work as part of a nationwide audit of the systems of internal control over Statewide test results put in place by the Department and five SEAs.

The reports noted that the two SEAs could improve their systems of internal control designed to prevent, detect, and require corrective action if they find indicators of inaccurate, unreliable, or incomplete statewide test results. For example, we noted the Texas Education Agency could improve controls by using reviews of test results and analyses of erasure data to identify LEAs and schools to monitor. The Michigan Department of Education could improve controls by placing schools that it identifies as high-risk for possible violations of test administration procedures on the next year's targeted monitoring list.

In June 2013, we issued an audit report on the El Paso Independent School District's compliance with the accountability and academic assessment requirements of the Elementary and Secondary Education Act of 1965. The report noted that adequate yearly progress results for 2009, 2010, and 2011 cannot be relied on because all required students did not take the 10th grade Texas Assessment of Knowledge and Skills test. In addition, the graduation rate data for the 2012 AYP calculation cannot be relied on because student files contained incomplete or no withdrawal documentation.

Also, in June 2012, former superintendent of the El Paso Independent School District pled guilty to Federal charges in connection with schemes to defraud the school district and the Federal Government. One of the charges alleged that the former superintendent directed staffers to manipulate State and Federal mandated annual reporting statistics to keep the school district compliant with

requirements of the No Children Left Behind Act. By pleading guilty, the former superintendent admitted that to achieve his contractual bonuses, he caused material, fraudulent misrepresentations regarding the school district's performance to be submitted to the Texas Education Agency and the U.S. Department of Education to make it appear as though the district was meeting and exceeding adequate yearly progress.

Recovery Act Recipient Data

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. Our second phase of Recovery Act implementation audits included testing of the required data to see whether the SEAs' and LEAs' 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.

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. This audit found that the Department's processes to ensure the accuracy and completeness of recipient-reported data were generally effective. However, the audit 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 the necessary data validations.

OIG work continues in this area. This includes ongoing work on the compliance, measurements, and outcomes of the Vocational Rehabilitation State Grant program. Additional planned work for FY 2014 includes audits of the Department oversight of SEAs' use of Adult Education State Grant Program funds and the reliability of the program's performance data, as well as of management certifications of data reliability.

Department Actions and Plans

To address concerns related to 21st CCLC performance data, the Department plans to provide training to staff around assessing the SEA's efforts in implementing written policies, procedures, and monitoring instruments to sufficiently test 21st CCLC performance data and provide reasonable assurance of its validity and completeness. It also plans to revise its SEA site visit monitoring instrument to ensure staff sufficiently evaluate SEA monitoring activities related to the reliability of performance data.

The Department requires management certifications regarding the accuracy of some SEA-submitted data. When SEAs submit data to the Department's Education Data Exchange Network system and for their annual Consolidated State Performance Report, the Department requires an authorized SEA official to certify that the reported data are accurate. 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 Education Data Exchange Network system. 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 several guidance documents 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. These guidance documents 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.

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 that 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 also has a contract to provide technical assistance to improve the quality and reporting of outcomes and impact data from Department grant programs that runs through 2015.

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

Data quality will continue to have a significant and far-reaching impact on the efficiency of various Department operations and in the Department's assessments of the performance of its programs and activities. As part of its reporting on FY 2012–2013 Priority Performance Goals, the Department established a guiding principal of using of evidence to drive improvements in policies and programs. The Department further identified that effective implementation of its goals will

depend, in part, on the effective use of high-quality and timely data, including evaluations and performance measures, throughout the lifecycle of policies and programs.

While the Department identified its commitment to work to improve staff and internal system capabilities for analyzing data and using it to improve programs, it must continue to work to ensure that effective controls are in place at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data are reported.



INFORMATION TECHNOLOGY SYSTEMS DEVELOPMENT AND IMPLEMENTATION

The Department's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department's activities in relation to this mission include executing administrative responsibilities related to Federal education funding, including the distribution of funds and monitoring their use. With respect to these activities, America's elementary, secondary, and postsecondary schools are serving a growing number of students as the population increases and enrollment rates rise. As of the fall of 2012, more than 49.8 million students attend public elementary and secondary schools and a record 21.6 million students attend the nation's 2-year and 4-year institutions of higher education. The Department identified that between 2002 and 2012, its total loan originations increased by 119 percent and the number of FAFSA applications increased by 79 percent.

In addition to the increasing number of students and associated workload, the Department reported that certain responsibilities have grown substantially over the past decade. This includes legislation impacting its activities and services such as the Recovery Act, the Ensuring Continued Access to Student Loans Act of 2008, and SAFRA legislation of 2010 as well as expanded administrative requirements relating to information security, financial management, and information technology management.

Overall, the Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with declining staffing levels. The Department reported that its overall administrative budget is about the same as it was 10 years ago while its full time equivalents have declined by 6 percent. This makes effective information systems development and implementation and the greater efficiencies such investments can provide critical to the success of its activities and the achievement of its mission. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development that have negatively impacted operations and may have resulted in improper payments.

Background

The Department's current IT investments include systems that support business process such as student application processing and eligibility determination for Federal student financial assistance; grant and loan award processing; procurement and acquisition; and the collection, storage and reporting on Title IV aid disbursements and aid recipients. Data from the Federal IT Dashboard⁵ reported the Department's total IT spending for FY 2013 was \$622.5 million, with

⁵ The IT Dashboard is a Web site enabling Federal agencies, industry, the general public, and other stakeholders to view details of Federal information technology investments. The IT Dashboard provides information on the effectiveness of government IT programs and supports decisions regarding the investment and management of resources.

FSA's IT spending accounting for \$413.2 million of the total. FSA reported that over the next few years, it will be recompeting contracts associated with many of its major business processes, including processing financial aid applications, originating and disbursing financial aid, consolidating loans, collecting defaulted debt, as well as major infrastructure functions. FSA further reported that it has experienced significant deficiencies in the conversion to a new debt management and collection system and a new direct loan servicing system.

Results of Work Performed

Recent work performed by the Department's financial statement auditor and the OIG have identified weaknesses in the Department's processes to oversee and monitor IT system development and implementation. In addition, the Department self-reported two material weaknesses with Federal student aid servicing systems. These weaknesses reflect, in aggregate, a number of internal control deficiencies that resulted from system functionality issues occurring after large-scale system conversions in October 2011.

The Department's independent public accountant for its financial statement audits identified controls surrounding the Department's Debt Management Collection System 2 (DMCS2) and ACS, Inc., Education Servicing System (ACES) as a material weakness in its November 2012 report. Additional details within area are identified below.

- **DMCS2.** FSA uses a debt management collection system to manage defaulted student loans and grant overpayments that require reimbursement. The system facilitates the storage, retrieval, and editing of debtor information and uses this information to help collect defaulted loans and grant overpayments. The Department began transitioning from its legacy debt collection system to DMCS2 in late FY 2011, with the system conversion largely occurring in October 2011.

The independent public accountant IPA reported that FSA experienced significant difficulties with DMCS2 during FY 2012, including the inability of the system to process certain types of transactions, the untimely preparation of certain reconciliations, inadequate transaction processing related to reporting of Fund Balance with Treasury, untimely reporting of transactions from DMCS2 to the Financial Management System, and ineffective oversight of the Department's contractors responsible for the servicing system. In addition, IT general controls and business process controls were considered ineffective.

- **ACES.** The Department's legacy direct loan servicer transitioned from its legacy servicing system to a new loan servicing system, ACES, at the beginning of FY 2012. The independent public accountant reported that Department has experienced difficulties with the transition to ACES during FY 2012, including incorrect processing of certain types of transactions, untimely preparation of certain reconciliations, and inadequate transaction processing related to the reporting of Fund Balance with Treasury.

In May 2013, we issued an alert memorandum regarding the Department's payment of estimated commissions and bonuses to PCAs because of system modification delays with DMCS2. Because FSA was unable to calculate the actual

commissions and bonuses earned by PCAs, it paid an estimated \$448 million in commissions without reviewing supporting documentation and an estimated \$8.3 million in bonuses based on a revised methodology. FSA's revised methods for paying commissions and bonuses may have resulted in overpayments or underpayments to the PCAs.

In December 2012, we reported concerns with issues surrounding the inability of DMCS2 to accept transfer of defaulted student loans from FSA loan servicers. We found that DMCS2 was unable to accept transfer of more than \$1.1 billion in defaulted student loans to the Department for management and collection. As a result, the Department was not applying all collection tools and borrowers were unable to take some steps to remove their loans from default status.

OIG work continues in this area. This includes ongoing audits of DMCS2 implementation and FSA's evaluation of DMCS2 functionality. OIG also plans to initiate a review of FSA's oversight of the development and enhancement of IT products in FY 2014.

Department Actions and Plans

The Department reported it has taken action to correct the financial reporting deficiencies associated with the DMCS2 and ACES system conversions. To correct inaccurate loan balances, FSA implemented a number of system fixes and researched and corrected borrower balances. FSA conducted and eliminated a backlog of portfolio and cash reconciliations and evaluated and corrected suspense account balances by adjusting the matching process. FSA also implemented other internal control improvements that resulted in system fixes, restored system functionality, and reduced backlogs.

The Department further reported that actions to correct the root causes of internal control deficiencies impacting operation of Direct Loan and FFEL programs are ongoing. Actions include research into borrower balances and root cause analysis of system limitations to inform recommendations on system and process fixes.

The Department reported it has completed other corrective actions to include correcting balances on active accounts on the ACES system, defining the various roles in DMCS2 contract monitoring and establishing a process to document roles and responsibilities and capture the outcomes of contract monitoring activities across business units in a central location, executing bilateral contract modifications regarding performance payment calculations, and identifying and documenting each problem related to DMCS2 loan transfers and the populations affected by those problems.

In May 2013, the Department issued its Enterprise Modernization Roadmap. The document is a tool used for sequencing Department modernization initiatives to support organizational transformation. It documents the Department's current state, future state, and steps to achieve the future state. It further outlines the alignment of strategic goals to business services and how technology solutions are integrated across all of the Department's lines of business.

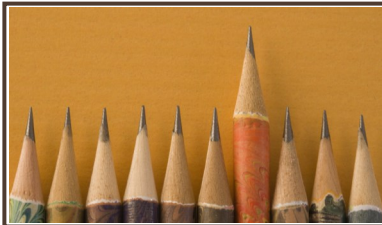
The Department's IT Investment Management Guide is intended to provide a systematic investment management process to manage the risks and returns for IT initiatives in support of the Department's strategic goals and objectives. It is

designed to provide guidance on how various aspects of IT Investment Management function within the Department and seeks to provide managers and staff with the information needed to better understand, participate in, and implement IT Investment Management processes, requirements, and guidance.

Further Actions Needed to Address the Challenge

The Department needs to continue to monitor contractor performance to ensure that system deficiencies are corrected and that system performance fully supports the Department's financial reporting and operations. The Department also needs to work to resolve one of the two OIG alert memorandum that was overdue for resolution as of September 2013. Similarly, the Department should ensure that all agreed-on corrective actions are completed timely.

Further action needed to address this challenge includes improving management and oversight of system development and life cycle management (to include system modifications and enhancements) and ensuring that appropriate expertise to managing system contracts (to include acceptance of deliverables) is obtained.



APPENDICES

Appendix A. Work Discussed Under the Challenges

The following audits, inspections, investigative cases and other work are discussed under the challenge areas.⁶

Challenge: Improper Payments

OIG Internal Reports

“Review of Final Expenditures Under the American Recovery and Reinvestment Act for Selected Educational Agencies,” July 2013 (A04M0001)

“U.S. Department of Education’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2012,” March 2013 (A03N0001)

“U.S. Department of Education’s Compliance With Executive Order 13520, “Reducing Improper Payments” for Fiscal Year 2011,” October 2012 (A03M0004)

“U.S. Department of Education’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2011,” March 2012 (A03M0001)

“Review of the Department’s Process for Identifying and Reporting High-Dollar Overpayments Required Under Executive Order 13520,” April 2012 (I13L0003)

Investigative Program Advisory Report (IPAR), “Distance Education Fraud Rings,” September 2011 (I42L0001)

OIG External Reports

“Maryland: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs,” January 2013 (A03K0009)

“Saint Mary-of-the-Woods College’s Administration of the Title IV Programs,” March 2012 (A05K0012)

“Camden City Public School District’s Administration of Federal Education Funds,” June 2011 (A02J0002)

“Puerto Rico Department of Education Award and Administration of Personal Services Contracts,” January 2011 (A04J0005)

⁶ OIG reports may be found on our Web site at <http://www2.ed.gov/about/offices/list/oig/reports.html>. Unless otherwise noted, dates referenced for investigative activities relate to the ending period for the OIG Semiannual Reports to Congress where the activities are discussed: <http://www2.ed.gov/about/offices/list/oig/sarpages.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.

Challenge: Information Technology Security

OIG or Contractor Internal Reports

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

“Audit of the U.S. Department of Education’s Compliance with the Federal Information Security Management Act for Fiscal Year 2012,” November 2012 (A11M0003)

“Financial Statement Audits - Fiscal Years 2012 and 2011 - U.S. Department of Education,” November 2012 (A17M0001)

“Education Central Automated Processing System (EDCAPS) Information Security Audit,” September 2012 (A11M0002)

“Financial Statement Audits - Fiscal Years 2011 and 2010 - U.S. Department of Education,” November 2011 (A17L0001)

“Audit of the U.S. Department of Education’s Compliance with the Federal Information Security Management Act for Fiscal Year 2011,” October 2011 (A11L0003)

“Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) Information Security Audit,” September 2011 (A11L0001)

“Financial Statement Audits - Fiscal Years 2010 and 2009 - U.S. Department of Education,” November 2010 (A17K0001)

Challenge: Oversight and Monitoring—SFA Program Participants

OIG Internal Reports

“Transparency of Proprietary Schools’ Financial Statement Data for Federal Student Aid Programmatic Decisionmaking,” July 2013 (A09L0001)

“Federal Student Aid’s Oversight of Foreign Medical School Pass Rates,” January 2012 (A19L0004)

“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 (I13L0002)

OIG External Reports

“Metropolitan Community College’s Administration of the Title IV Programs,” May 2012 (A07K0003)

“Ashford University’s Administration of the Title IV, Higher Education Act Programs,” January 2011 (A05I0014)

“Educational Credit Management Corporation’s 2006 Agreement with the United States Department of Education,” March 2011 (A05K0001)

OIG Investigations

“Former President of Galiano Career Academy Agrees to Plead Guilty to Theft of Federal Funds, Obstruction, and Aggravated Identity Theft,” Press Release, June 2013

“Texas-Based School Chain to Pay Government \$3.7 Million for Submitting False Claims for Federal Student Financial Aid,” Press Release, August 2013

“For-Profit School in Texas to Pay United States up to \$2.5 Million for Allegedly Submitting False Claims for Federal Student Financial Aid,” Press Release, May 2013

“San Diego College Pays \$700,000 and Former Financial Aid Director Pleads Guilty to Resolve Allegations of Financial Aid Fraud,” Press Release, April 2013

“Pinellas County Man Sentenced to Nine Years in Federal Prison for Student Loan Fraud,” Press Release, January 2013

“Manhattan U.S. Attorney Announces \$4 Million Fraud Settlement With New York Institute of Technology and Cardean Learning Group, LLC,” Press Release, December 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

Challenge: Oversight and Monitoring— Distance Education

OIG Internal Report

IPAR, “Distance Education Fraud Rings,” September 2011 (I42L0001)

OIG External Reports

“Saint Mary-of-the-Woods College’s Administration of the Title IV Programs,” March 2012 (A05K0012)

“Colorado Technical University’s Administration of Title IV, Higher Education Act Student financial Assistance Programs,” September 2012 (A09K0008)

“Ashford University’s Administration of the Title IV, Higher Education Act Programs,” January 2011 (A05I0014)

GAO Report

“Higher Education: Use of New Data Could Help Improve Oversight of Distance Education,” November 2011 (GAO-12-39)

Challenge: Oversight and Monitoring— Grantees

OIG Internal Reports

“The Office of Elementary and Secondary Education’s Process of Awarding Discretionary Grants,” August 2013 (A03M0002)

“Teacher Incentive Fund Stakeholder Support and Planning Period Oversight,” February 2013 (A19L0005)

“School Improvement Grants: Selected States Generally Awarded Funds Only to Eligible Schools,” March 2012 (A05L0002)

“The Department’s Management of the Federal Real Property Assistance Program,” December 2012 (A19L0006)

“The Office of Innovation and Improvement’s Oversight and Monitoring of the Charter Schools Program’s Planning and Implementation Grants,” September 2012 (A02L0002)

“Department’s Implementation of the Teacher Incentive Fund Grant Program,” December 2011 (A19I0007)

“Centers for Independent Living Compliance, Performance, Recovery Act Reporting, and Monitoring,” September 2012 (A06K0011)

“The Department’s External Audit Resolution Process,” July 2012 (A19K0009)

“U.S. Department of Education’s Process to Identify and Monitor High-Risk Grantees,” March 2012 (I13K0002)

OIG External Reports

“Florida: Final Recovery Act Expenditures Supplemental Report,” June 2013 (A02M0009)

“Puerto Rico: Final Recovery Act Expenditures Supplemental Report,” February 2013 (A04M0014)

“Arkansas: Final Recovery Act Expenditures Supplemental Report,” December 2012 (A09M0003)

“Delaware: Final Recovery Act Expenditures Supplemental Report,” December 2012 (A03M0005)

“Camden City Public School District’s Administration of Non-Salary Federal Education Funds,” March 2012 (A02K0014)

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

- Maryland, January 2013 (A03K0009)
- Alabama, February 2012 (A04K0007)
- South Carolina Governor’s Office, August 2011 (A04K0006)
- Virginia, June 2011 (A03K0008)
- Missouri, June 2011 (A07K0002)
- Illinois, June 2011 (A05K00005)
- Utah, May 2011 (A09K0001)
- California, April 2011 (A09K0002)
- Louisiana, April 2011 (A06K0003)
- South Carolina, April 2011 (A04K0005)
- Wisconsin, Milwaukee Public Schools, April 2011 (A02K0009)

- Oklahoma, February 2011 (A06K0002)
- Wisconsin, September 2010 (A02K0005)

GAO Reports

“Improved Oversight and Controls Could Help Education Better Respond to Evolving Priorities,” February 2011 (GAO-11-194)

“Disadvantaged Students: School Districts Have Used Title I Funds Primarily to Support Instruction,” July 2011 (GAO-11-595)

OIG Investigations

“Former Detroit Public Schools Accountant, Teacher Found Guilty of Fraud and Money Laundering Charges,” Press Release, August 2013

“Former Pontiac Schools Associate Superintendent and Chief Financial Officer Sentenced to 12 Months in Federal Prison,” Press Release, April 2013

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

“Head of Charter School Pleads Guilty to Fraud,” Press Release, August 2013

“Former Accounting Employee Pleads Guilty To Stealing More Than \$75,000 From Charter School,” June 2013

“Former CEO of PA Cyber and CPA Charged in Elaborate Fraud Scheme,” Press Release, August 2013

Challenge: Oversight and Monitoring—Contractors

OIG Internal Reports

“Federal Student Aid’s Award and Administration of Title IV Additional Servicers Contracts,” August 2013 (A02L0006)

“Verbal Complaints Against Private Collection Agencies,” May 2013 (L06M0012)

“Department’s Controls Over EDUCATE Contract Costs,” March 2012 (A19L0003)

Consulting Report, “Title IV Additional Servicers Capacity Assessment,” December 2011 (S15L0001)

Management Information Report, “Survey of Federal Student Aid Contracts and Guaranty Agency Agreements that Provide Information Technology Support or Services,” September 2011 (X11L0002)

OIG Investigations

“Accenture Pays U.S. \$63.675 Million to Settle False Claims Act Allegations,” Press Release, September 2011

Challenge: Data Quality and Reporting

OIG Internal Reports

“U.S. Department of Education’s and Selected States’ Oversight of the 21st Century Community Learning Centers Program,” June 2013 (A04L0004)

“The Effectiveness of the Department’s Data Quality Review Processes,” August 2011 (A19K0010)

OIG External Reports

“The Texas Education Agency’s System of Internal Control Over Statewide Test Results,” September 2013 (A05N0006)

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“Financial Statement Audits - Fiscal Years 2012 and 2011 - U.S. Department of Education,” November 2012 (A17M0001)

“Debt Management Collection System 2,” December 2012 (L02M0008)

Appendix B. Acronyms and abbreviations

21st CCLC	21st Century Community Learning Centers
ACES	ACS, Inc. Education Servicing System
AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DMCS2	Debt Management Collection System 2
EDGAR	Education Department General Administrative Regulations
EDUCATE	Education Department Utility for Communications, Applications, and Technology Environment
ESEA	Elementary and Secondary Education Act of 1965, as Amended
FAFSA	Free Application for Federal Student Aid
FFEL	Federal Family Education Loan
FSA	Federal Student Aid
FY	Fiscal Year
GAO	Government Accountability Office
HEA	Higher Education Act of 1965, as Amended
IPAR	Investigative Program Advisory Report
IPERA	Improper Payments Elimination and Recovery Act of 2010
IT	Information Technology
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCA	Private Collection Agency
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 I	Title I of the ESEA
Title IV	Title IV of the Higher Education Act of 1965, as Amended
TIVAS	Title IV Additional Servicer



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