



U.S. Department of Education
Office of Inspector General

Semiannual Report to Congress, No. 68

October 1, 2013–
March 31, 2014



Office of Inspector General
Kathleen S. Tighe
Inspector General

May 2014

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Message to Congress

On behalf of the U.S. Department of Education (Department) Office of Inspector General (OIG), I present this Semiannual Report on the activities and accomplishments of this office from October 1, 2013, through March 31, 2014. The audits, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness in our oversight of the Department's programs and operations.

Over the last 6 months, we closed 73 investigations involving fraud or corruption related to the Department's programs and operations, securing more than \$18.7 million in settlements, fines, restitutions, recoveries, and savings. In addition, as a result of our investigative work, criminal actions were taken against a number of people, including school officials who cheated the students they were in positions to serve. We also issued 13 reports that included recommendations to improve program operations. For example, and as highlighted in this report:

- Our audit found that additional safeguards and stronger oversight were needed to help mitigate risks of fraud, abuse, and noncompliance in the distance education environment. Our report recommended actions that the Department and Congress can take to better protect Federal student aid dollars and the legitimate students who rely on them.
 - Our review determined that the Department should take action to better ensure that student interests are served when schools use servicers to deliver credit balances and that the Department and schools need to do a better job at monitoring debit card servicers to protect student interests, such as stopping servicers from charging fees and ensuring that they protect students' personally identifiable information.
 - Our management information report on fraud involving Supplemental Educational Services (SES) funds highlighted the increasing number of investigations we have conducted involving theft and abuse of these funds by unscrupulous SES tutoring providers and made a number of recommendations to mitigate the risks associated with SES-related vulnerabilities, including that the Department make regulatory changes to improve program monitoring.
 - Our audit found that the Department and the five State educational agencies we reviewed could improve their systems of internal controls to prevent, detect, and take corrective actions if they find indicators of inaccurate, unreliable, or incomplete Statewide test results.
 - The former president of Galiano Career Academy, a for-profit trade school in Florida, was sentenced to 4 years in prison and was ordered to pay more than \$2.1 million in restitution for student aid fraud. He used a diploma mill owned and operated by his wife to fraudulently apply for and receive Federal student aid on
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behalf of ineligible students. This action is a result of our investigation, which was initiated based on information provided by Department program review staff.

- Our investigations of nine student aid fraud rings resulted in guilty pleas and prison sentences for participants of rings that stole millions of Federal student aid funds.
- Our investigations led to indictments and sentencings for 12 high-ranking school officials, including the former superintendent of Mississippi's Greenville Public School District who was sentenced to prison for embezzlement and bribery, two officials from Texas' Beaumont Independent School District who were indicted for allegedly embezzling more than \$4 million from the district, and two former school board members from Louisiana's St. Landry Parish who were sentenced to prison and home confinement for soliciting bribes in exchange for their votes.
- A representative of a software company will join his former boss and a former El Paso Independent School District associate superintendent in prison for his role in a contracting scheme that bilked millions from the school district. With the help of the associate superintendent, the company received lucrative software contracts but never provided working software.
- EdChoices, an Oregon-based charter school management firm, its director, and its chief financial officer agreed to pay \$475,000 to settle allegations of racketeering, false claims, breach of contract, negligent misrepresentation, and other misuses of State and Federal charter school funds. The executives also agreed to a lifetime ban from operating, administering, or consulting with any public charter school for compensation in Oregon.

In this report, you will find more information on these efforts, as well as summaries of other reports issued and investigative actions taken over the last 6 months. I am proud of the results of this work and the recommendations we made to help the Department improve the management of its programs and operations and to help ensure the protection of Department funds. I am also pleased to report that we recently issued our new Five-Year Strategic Plan, which describes the focus and direction of our operations through fiscal year 2018, establishes our organizational goals, and outlines the strategies we will employ to reach those goals and the measures we will use to evaluate our performance. In developing the plan, we considered the Department's mission, strategic plan, and management challenges; major educational program development and initiatives; and our own statutory responsibilities. It also allows for flexibility so my office has the ability to assess, anticipate, and respond to new challenges that may arise. Our Strategic Plan is available on our Web site at www.ed.gov/offices/oig.

I greatly appreciate the interest and support of this Congress, Secretary Duncan, and Deputy Secretary Shelton in our efforts. I look forward to working with you in meeting the challenges and opportunities that lay ahead.



Kathleen S. Tighe
Inspector General

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Goal 1:
Improve the
Department's ability
to effectively and
efficiently implement
its programs to promote
educational excellence and
opportunity for all.

Our first strategic goal reflects our mission to promote the efficiency and effectiveness of the U.S. Department of Education’s (Department) programs and operations. To achieve this goal, we conduct audits, investigations, and other activities. In our audit and inspection work, the Office of Inspector General (OIG) evaluates program results compared to program objectives, assesses internal controls, identifies systemic weaknesses, identifies financial recoveries, and makes recommendations to improve the Department’s programs and operations. In our investigative work, we focus on serious allegations of fraud and corruption and work with prosecutors to hold accountable those who steal, abuse, or misuse education funds.

Audits and Reviews

We issued three audits related to this goal over the last 6 months. The first audit involved the Department’s and State educational agencies’ (SEAs) system of internal controls over Statewide test results. As required by the Elementary and Secondary Education Act of 1965, as amended, States must have high-quality, yearly student academic tests that measure the proficiency of students in math, reading or language arts, and science and establish a single minimum percentage of students who are required to meet or exceed the proficient level on these tests. States use these tests to determine the yearly performance of the SEAs, each local educational agency (LEA), and each school in the State. The audit sought to determine whether those controls prevent and require corrective action if SEAs or LEAs found indicators of inaccurate, unreliable, or incomplete test results. This audit came about as a result of our concerns with cases and allegations of cheating on Statewide tests and the need for a better understanding of SEA controls over test administration and security. The second audit focused on the Race to the Top Program (RTT), a multibillion dollar discretionary grant program authorized under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The audit assessed RTT recipient timelines and performance measures and goals and evaluated the effectiveness of the Department’s program oversight to ensure that RTT funds were used as intended and achieved programmatic goals. The third audit focused on the Department’s implementation of the Government Performance and Results Act Modernization Act of 2010 (GPRA Modernization Act). This audit sought to determine whether the Department had implemented provisions of the GPRA Modernization Act as required. You will find the results of these audits below. During this reporting period, we also continued to compile and analyze data for our Recovery Act “lessons learned” report. The goal of that report is to provide insights into the key challenges associated with implementing the Recovery Act and the Department’s and its grantees’ responses to those challenges. We will report the findings of this effort once the report is completed.

Department's and SEAs' Internal Controls Over State Assessments

Our audit found that the Department and the five SEAs reviewed had systems of internal control designed to prevent and detect inaccurate, unreliable, or incomplete Statewide test results; however, these systems did not always require corrective action if indicators of inaccurate, unreliable, or incomplete test results were found. Furthermore, our audit found that the Department and the SEAs could take steps to improve the effectiveness of the systems. Specifically, we found the following:

- **Department:** Although the Department monitored Statewide test results and test administration procedures by using validation checks on data that SEAs submitted and by following up on flagged results, it did not always require SEAs to explain data flagged as either incorrect or outside anticipated ranges. In addition, the Department suspended its reviews of SEAs' test administration procedures during its onsite monitoring visits in 2011 because of other programmatic priorities. We recommended that the Department improve its monitoring of States' test results by requiring SEAs to explain data flagged as either incorrect or outside an anticipated range, that it resume its reviews of test administration procedures during onsite monitoring visits, and that it have SEAs' systems of internal control over Statewide test results evaluated during standards and assessment peer reviews.
- **States:** Although all five SEAs monitored schools for possible test administration irregularities by conducting onsite monitoring visits at LEAs and schools or following up on irregularities that LEAs reported to the SEA, four of the five either did not incorporate or incorporated only limited forensic analysis in their risk assessment. In addition, although all five SEAs imposed sanctions for test administration irregularities to help prevent them from happening in the future, there was room for improvement. One SEA did not timely resolve potential test administration irregularities, and another SEA did not always document the corrective actions that it required LEAs to take to address the irregularities or whether the LEA implemented the corrective actions. Further, although all five SEAs had procedures in place to promote secure test administration environments, we identified a number of weaknesses at some of the SEAs. The weaknesses included unsecured databases, missing test materials, and lapses in building security allowing for potential unauthorized access to test materials. We noted that SEAs could improve their systems of internal control by (1) incorporating forensic analysis into their risk assessments to more effectively identify LEAs and schools with possible test administration irregularities, (2) strengthening their monitoring of LEAs' and schools' administration of Statewide tests, (3) improving follow-up and resolution of test administration irregularities to prevent them from happening in the future, and (4) strengthening test security environments and test administration practices put in place by LEAs and schools.

In addition, the Department could help SEAs improve their systems of internal control by emphasizing, during its reviews of SEAs, the importance of using forensic analyses to more effectively identify schools with possible test administration irregularities. The Department agreed with our findings and all but two of our recommendations.

Department's Monitoring of Race to the Top Recipient Performance

Our audit examined the extent to which RTT grantees adhered to timelines established in their applications and related scopes of work and achieved project performance measures and goals, and the effectiveness of the Department's oversight of RTT grantees to ensure that funds were used as intended and anticipated recipient performance was achieved in support of overall programmatic goals. The findings and recommendations of our review follow.

- **States:** All five States reviewed had varying degrees of success in adhering to timelines and in achieving performance measures and goals. In some cases, certain activities and deliverables within projects were delayed, while in other cases, entire projects were delayed. These delays ranged from months to years, and their overall effect on States' plans varied. We also noted that States' adherence to timelines generally improved in Year 2 of the grant, although some projects continued to experience significant delays. Regarding performance measures, we found that results varied in terms of States' success in achieving annual Year 1 and Year 2 targets for the student outcome measures we reviewed. However, we noted that in many cases, the trend from baseline to Year 2 actual data was positive, regardless of whether or not the performance measure targets were met. As a result of initial capacity issues and other challenges, many States were still in the planning phase for several reform areas when implementation activities were already supposed to be taking place. We noted that it was too early in the grant period to conclude whether the timeline delays States experienced would affect the chances of successful outcomes for grant projects and goals. We also found no specific evidence to suggest that States with delayed timelines would not complete projects or miss goals, although Department officials did acknowledge that in a few cases, the possibility existed that States might not be able to meet all of the commitments outlined in their applications and scopes of work.
- **Department:** We found the Department established and implemented an extensive and effective process for monitoring RTT program recipients, and we recommended that it continue to maintain its robust monitoring efforts and take appropriate action if States continually fail to meet project timelines or performance measures and goals. We also noted that the Department had not yet issued a Comprehensive RTT Annual Report—an overview of RTT efforts across all grantees, to include trends and statistics across all States, successes and accomplishments, common challenges, and lessons learned, as discussed in its RTT Program Review Guide. We recommended that they do so, as by not issuing this report, the

Department is missing the opportunity to provide valuable information, increase transparency, and offer stakeholders greater insight into the RTT program, to include lessons learned from implementation. The Department generally concurred with our findings regarding the States, and it agreed with our recommendations that it continue to maintain its robust monitoring effort. It did not, however, concur with our recommendation that it produce a Comprehensive RTT Annual Report.

Department Implementation of the Government Performance and Results Act Modernization Act

Overall, we found that the Department had generally implemented the GPRA Modernization Act as required, but it could improve its disclosures related to congressional input and data verification and validation. Specifically, the Department did not identify on Performance.gov how congressional views were incorporated into the establishment of its agency priority goals. Also, although the Department established processes for ensuring the accuracy and reliability of data used to measure progress towards its agency priority goals, it had not accurately or adequately disclosed relevant information in its Annual Performance Plan or Annual Performance Report as required. As a result, the public may have less confidence that Congress and the Department are in agreement on the immediate priorities of the agency and that the data presented in performance reports is credible, and the public may be unaware of any limitations of the data that would provide important context for understanding it. To correct the weaknesses identified, we recommended that the Department develop and implement formal written internal procedures related to the GPRA process, to include applicable policy on congressional consultations and that it clearly describe in all applicable performance reports and plans the Department's data verification and validation process for each agency priority goal and include complete and accurate disclosures related to data limitations and sources in accordance with GPRA requirements. The Department generally concurred with our findings and provided information on progress made related to our recommendations.

Investigations

During this reporting period, OIG continued to investigate allegations of fraud and corruption involving Recovery Act funds. Since the enactment of the Recovery Act, OIG has initiated 218 criminal investigations of various schemes involving improper uses of Recovery Act funds. To date, our Recovery Act-related investigations have resulted in more than 265 criminal convictions and more than \$1.1 million in recoveries.

Whistleblower Investigations

During this reporting period, our investigations did not sustain the allegations made in any of the whistleblower complaints that we received. We discontinued investigations of eight whistleblower complaints made in Colorado (two complaints), Florida (three complaints), Georgia, Illinois, and Oklahoma. We

discontinued the investigations after our work determined that the employers did not repress against the complainants or that the complaints did not relate to Recovery Act funds. We did not receive any extensions for whistleblower investigations during this reporting period.



Other Activities

Participation on Committees, Work Groups, and Task Forces

Inspector General Community

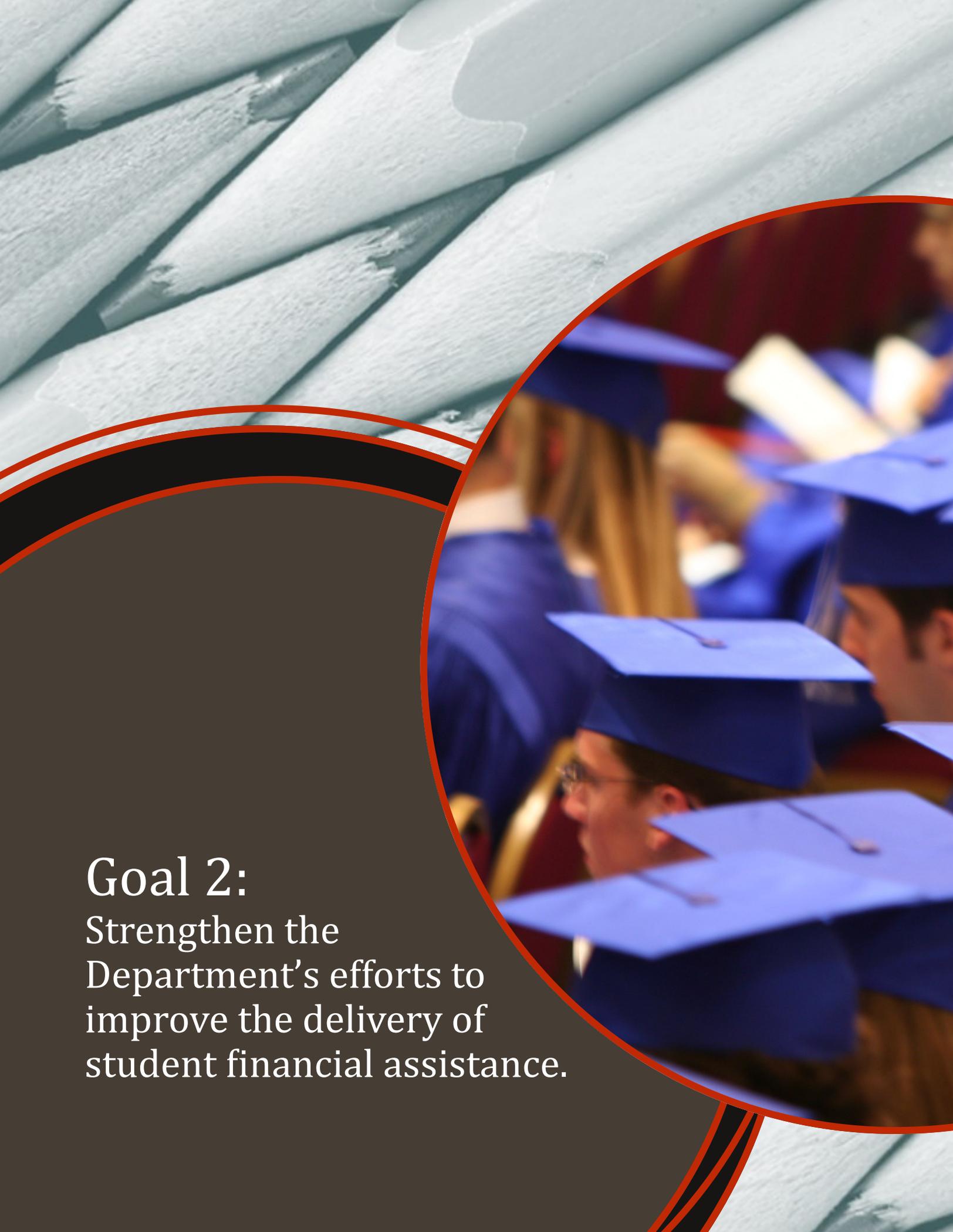
- *Recovery Accountability and Transparency Board (Recovery Board).* Inspector General Tighe is the Chair of the Recovery Board.

Federal and State Law Enforcement-Related Groups

- *U.S. Department of Justice's Financial Fraud Enforcement Task Force.* The Department and OIG are charter members of this task force, established by executive order in November 2009. The OIG also participated in the following working group.
 - *Recovery Act, Procurement, and Grant Fraud Working Group.* The Inspector General cochairs and the OIG participates in this working group focused on improving efforts across the Government to investigate and prosecute significant financial crimes involving Recovery Act funds.

Review of Legislation, Regulations, Directives, and Memoranda

- *Strong Start for America's Children Act of 2013 (HR 3461).* OIG provided comments on this bill, noting our support for the bill's strategic approach to coordinating Federal, State, and local programs and resources for early childhood services and the opportunities to provide more comprehensive and effective services and avoid duplication. We suggested that it include a report back measure to help overcome potential fiscal or programmatic barriers and that States be required to certify that the data submitted in its reports are accurate, reliable, fully disclose any issues with the reported data, and any remedies that the State is taking to resolve those issues.
- *Department Directive on Freedom of Information Act and Privacy Act Requests.* OIG provided technical comments noting OIG independence.
- *Department Grants Bulletin on Achieving Transparency in the Discretionary Grant Application and Award Process.* OIG suggested that if the Department had not done so, that it review the draft of the Office of Management and Budget "Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards" to make sure that its policy is consistent.
- *Department Grant Bulletin on Policy and Guidance for Principal Office Monitoring Frameworks for Formula Grant Programs.* OIG suggested that the policy and guidance include leveraging audits, coordinating oversight resources, and following up on findings identified in OIG audits, single audits, and other audits.



Goal 2:
Strengthen the
Department's efforts to
improve the delivery of
student financial assistance.

This goal addresses an area that has long been a major focus of our audit and investigative work—the Federal student financial aid programs. These programs are inherently risky because of their complexity, the amount of funds involved, the number of program participants, and the characteristics of student populations. Our efforts in this area seek not only to protect Federal student aid funds from waste, fraud, and abuse, but also to protect the interests of the next generation of our nation’s leaders—America’s students.

Audits and Reviews

The Department disburses about \$140 billion in student aid annually and manages an outstanding loan portfolio of \$1 trillion. This makes it one of the largest financial institutions in the country. As such, effective oversight and monitoring of its programs, operations, and program participants are critical. Within the Department, the Office of Postsecondary Education (OPE) and Federal Student Aid (FSA) are responsible for administering and overseeing the student aid programs. OPE develops Federal postsecondary education policies, oversees the accrediting agency recognition process, and provides guidance to schools. FSA disburses student aid, authorizes schools to participate in the student aid programs, works with other participants to deliver services that help students and families finance education beyond high school, and enforces compliance with program requirements. During this reporting period, OIG work identified actions OPE and FSA should take to better protect the interest of students. Summaries of these reports follow.

Additional Safeguards Are Needed to Help Mitigate the Risks That Are Unique to the Distance Education Environment

Our audit found that additional safeguards and improvements were needed for the Department’s adaptation of Federal student aid (Title IV) requirements and guidance to mitigate the unique risks inherent in distance education and for the Department’s, accrediting agencies’, and State agencies’ oversight of schools to provide assurance of their compliance with Title IV requirements unique to distance education. As part of this audit, we interviewed officials and reviewed records from OPE and FSA, nine accrediting agencies, and two schools from each of four categories: 4-year public schools, 2-year public schools, private nonprofit schools, and proprietary schools. For the time period of our review, the eight schools reviewed disbursed nearly \$222 million in Federal student aid to more than 42,000 distance education students who did not earn any credits during a payment period.

Although we found that the Department issued regulations and provided guidance to accrediting agencies and schools to address distance education issues associated with verification of student identity and attendance to decrease the likelihood of fraud, the regulations and guidance did not sufficiently mitigate the

risks of fraud, abuse, and noncompliance. We also found that the collective oversight provided by the Department, accrediting agencies, and States did not ensure compliance with requirements unique to distance education. Further, although both OPE and FSA officials acknowledged that high-risk areas existed in the distance education environment, the Department was not collecting data or other information that could help it identify additional risks. Based on our findings, we recommended that the Department do the following.

- Develop regulations to require schools offering distance education to have a process in place to verify a student’s identity and educational credentials during the enrollment process.
- Amend regulations to require more frequent disbursements of Title IV funds, which could coincide with school charges and living expenses, such as monthly child/dependent care and Internet expenses.
- Amend regulations to specify that attendance at an academically related activity is a student eligibility and disbursement requirement, not just a requirement limited to return of Title IV aid calculations, and to more fully explain what can be considered “attendance at an academically related activity” for a distance education student.
- Collect and analyze data to help it better understand the distance education environment, assess risks specific to distance education, and formulate policies to address those risks

We also recommended that FSA improve its monitoring of schools’ compliance with Title IV requirements by having program reviews include testing of samples of students in distance education. Such improvements would better position FSA to identify and correct the issues found during our reviews of schools and other issues unique to the distance education environment. The Department agreed with these recommendations.

Lastly, we reiterated a recommendation that we have made in previous OIG reports and in Congressional testimony since 2005: that the Department work with Congress to amend Title IV to specify that a school’s cost of attendance budget for a student include only those costs that reflect actual educational expenses. Doing so would reduce the amount of Title IV funds for unnecessary expenses, such as funds for room and board that distance education students do not need. That reduction would both decrease a student’s loan debt and combat student aid fraud rings that target distance education programs, thereby protecting the integrity of the Title IV programs. The Department agreed with this recommendation.

Third-Party Servicer Use of Debit Cards to Deliver Federal Student Aid Funds

In response to Congressional requests and media reports about whether the terms and conditions of the debit cards that servicers use to deliver Title IV credit balances to students were in the best interest of students, we conducted a review that determined that FSA should take action to better ensure that student interests are served. Specifically, we found the following.

- Schools that outsourced credit balance delivery gave servicers significant control over the Title IV funds delivery process and relied on them to comply with Title IV regulations but did not routinely monitor servicers' Title IV compliance or their handling of student complaints.
- Schools did not prevent their servicers from using marketing and other strategies to persuade students to select their debit card over other available options.
- The schools' servicers appeared to deliver Title IV funds to students without charging fees. However, students who chose a servicer's debit card option could incur fees after the servicer deposited the funds into the students' accounts. In some cases, those fees appeared to be unique or higher than those of alternative financial service providers.
- Schools had financial incentives in their contracts with servicers that created the potential for conflicts of interest that could influence school officials' decisions and actions at the expense of student interests.
- Schools that contracted with servicer Higher One Holdings, Inc., had fee-free ATMs on campus, but one school that contracted with another servicer, Sallie Mae, Inc., did not.
- Schools provided, or servicers collected, student information that was not needed to deliver credit balances. In addition, schools did not monitor servicer activities for compliance with Federal requirements for handling personally identifiable information.

We made a number of suggestions, including that OPE amend regulations to require schools to monitor whether the debit card servicers they hire are following all applicable rules and have a process to resolve student complaints. We also suggested that it develop regulations that require debit card servicers to provide students with objective and neutral information about their products, ensure that servicers do not charge transaction or administrative fees to access Title IV funds, and address the conflicts of interest and financial incentives that may exist between colleges and the debit card servicers. Further, we suggested that both FSA and OPE specify what additional actions are required to ensure schools using third-party servicers for credit balance delivery comply with Federal privacy protections, and that OPE develop regulations to require schools to ensure that third-party servicers do not collect information from students that is not necessary to perform the contracted Title IV function. OPE and FSA generally concurred with our suggestions.

FSA's Plans for School Closures by a For-Profit Entity

Over the past 2 years, a number of postsecondary schools operated by for-profit entities have closed, and other for-profit schools may be at risk of closure due to decreased enrollment and revenue, challenges from increased oversight, negative publicity, or business-related decisions. Because of the large size of many for-profit schools, a significant number of students receiving Title IV funding could be impacted if a school closes. We conducted an inspection to determine the adequacy of FSA's risk assessment and contingency planning for the closure of

schools or locations by a for-profit entity and its procedures in the event of a closure. We determined that FSA had performed risk assessments and developed strategies to mitigate identified risks associated with for-profit schools; however, it did not fully incorporate into its work processes and implement some of its risk mitigation strategy action items. We also found that although FSA had contingency plans in place in the event of a school closure, the information posted on its Web site was not as comprehensive as it could be and was located in multiple places, making relevant information difficult to find. Additionally, we noted that FSA had developed procedures that described the steps it would take when it was notified or otherwise became aware that a school or school location had closed or would close; however, the procedures did not provide clear guidance on how student outreach should be performed or provide a process that should be followed in the event of a precipitous school closure. Among other things, we recommended that FSA ensure that its risk mitigation strategy action items are incorporated into work processes and implemented to strengthen awareness of and preparation for potential precipitous school closures and that it ensure that the information on closed schools is comprehensive and easy for students to locate on the FSA Web site. FSA agreed in part with our recommendations and described its planned corrective actions.

Investigations of Schools and School Officials

Identifying and investigating fraud in the Federal student financial assistance programs has always been a top OIG priority. The results of our efforts have led to prison sentences for unscrupulous school officials and others who stole or criminally misused Title IV funds, significant civil fraud actions against entities participating in the Title IV programs, and hundreds of millions of dollars returned to the Federal Government in fines, restitutions, and civil settlements.

Cofounders of Carnegie College Indicted in \$2.3 Million Fraud (Ohio)

The cofounders and an employee of Carnegie College, a private, not-for-profit school, were indicted on charges related to a multimillion dollar Federal student aid scam. The three school officials allegedly recruited students who had not earned high school diplomas or GED certificates by telling them that they would earn a valid high school diploma at the same time that they attended the college courses. Instead, the school officials allegedly obtained fake high school diplomas for those students, which they used to fraudulently apply for and receive financial aid on their behalf. As of result of their alleged actions, Carnegie College fraudulently received more than \$2.3 million in Federal student aid, which the three allegedly used as their own personal slush fund for purchasing jewelry, lingerie, cruises, and a vacation to Las Vegas.

Former President of Galiano Career Academy Sentenced (Florida)

The former president of Galiano Career Academy, a for-profit trade school based in Florida, was sentenced to serve 4 years in prison and was ordered to pay more

than \$2.1 million in restitution for theft and fraud. The former president admitted that he knowingly used a high school diploma mill—owned and operated by his wife—to fraudulently qualify students for Federal student aid. He also admitted that he secretly made audio and video recordings of Department program review staff as they conducted an on-site review at his school and tampered with student records during the review. From July 2007 through July 2010, the school received nearly \$2 million in Federal student aid for students who were ineligible to receive it. We conducted this investigation based on information provided by Department program review staff.

Former Admissions Director and Admissions Representative of South Vocational Technical Institute Pled Guilty (Texas)

The former admissions director and a former admissions representative of the South Vocational Technical Institute, an ATI Enterprises proprietary school, pled guilty to fraud. The two officials told students to provide false information on their Free Applications for Federal Student Aid to qualify for student loans and grants that they were not otherwise eligible to receive. As a result of their actions, the school fraudulently received more than \$486,000 in Federal student aid.

Investigations of Fraud Rings

Below are summaries of actions taken over the last 6 months against people who participated in Federal student aid fraud rings. Fraud rings are large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. The cases below are just a sample of actions taken against fraud ring participants during this reporting period. As of March 31, 2014, OIG has opened 132 fraud ring investigations, secured more than 478 indictments of fraud ring participants, and recovered over \$20 million.

In addition, we continued with our proactive investigative project to identify student aid fraud rings. The project uses the E-Fraud Query System risk model, as well as other investigative and analytical tools and data sources, to identify the full scope of each fraud ring, determine the total potential fraud, and establish grounds for initiating criminal investigations. We also began referring suspicious activity indicative of student aid fraud rings, but not warranting further criminal investigation, to FSA for evaluation. If FSA determines payments are improper, it can move to stop disbursements.

Last Four Members of \$1.1 Million Fraud Ring Sentenced (Alabama)

During this reporting period, the last 4 people of a 13-person student aid fraud ring were sentenced for their roles in the scam. The participants recruited people to participate in the scam, most of whom did not possess a high school diploma or GED and thus were ineligible to receive Federal student aid. The

recruits knowingly provided their personally identifiable information to the ringleaders who enrolled them in distance education programs at various educational institutions for the purpose of fraudulently applying for financial aid and converting the funds to their own use. As a result of their criminal actions, more than \$1.1 million in Federal student aid was disbursed to ineligible recipients. The four fraud ring members received sentences ranging from 3 years of probation to 2 years in prison and were ordered to pay restitution ranging from about \$10,800 to nearly \$398,000.

Actions Taken in Two Fraud Ring Cases (Arizona)

- An Arizona woman was sentenced to 3 years of probation and was ordered to pay nearly \$265,000 in restitution for her role in a fraud ring that targeted Rio Salado College. Along with her coconspirators, the woman submitted admission forms and student aid applications that contained false information to obtain Federal student aid. The woman falsely posed as other students and submitted course work in their names to make it appear as though the students were attending the school. Once she received the student aid award balance, she cashed the checks and sometimes would share the profits with her coconspirators. As a result of their criminal efforts, the ring fraudulently obtained more than \$270,700 in Federal student aid.
- In a separate Arizona-based fraud ring case, a woman pled guilty to orchestrating a ring that fraudulently obtained more than \$513,000 in Federal student aid. Along with other coconspirators, the ringleader prepared and submitted false and fraudulent student admission and loan applications to Rio Salado College on behalf of people who never intended to attend the school and then falsely presented herself as the individual straw student participating in online courses. She then took a cut from the fraudulently obtained student loans and grants.

Actions Taken Against Leaders, Participants of Four Fraud Rings (California)

- In our last Semiannual Report, we noted that four people were convicted and two of them were sentenced to prison for participating in a fraud ring that stole more than \$200,000 in Federal student aid. During this reporting period, the woman who orchestrated the scam was sentenced to serve 3 years in prison and was ordered to pay nearly \$130,000 in restitution. She and her coconspirators recruited straw students to sign up for online classes at Axia College and Capella University for the purpose of receiving financial aid funds. Some of the straw students agreed to have their identities used to commit fraud; others had their personal information used without their consent to commit fraud.
- The leader of another fraud ring was sentenced to serve more than 2 years in prison and was ordered to pay nearly \$20,000 in restitution. Along with his coconspirators, the ringleader recruited more than 50 straw students to participate in the scam and submitted false admissions and financial aid applications on their behalf to American River College, Sacramento City College, and Cosumnes River College. Almost all of these students

withdrew from classes shortly after receiving the Federal student aid refund check, a portion of which they kicked back to the ringleader.

- Three members of an Oakland-based fraud ring pled guilty and await sentencing for stealing more than \$1 million in Federal student aid. The three recruited straw students to participate in the scam and assisted them in preparing, signing, and transmitting fraudulent admissions and student aid applications, knowing that many of the straw students were not eligible to receive student aid because they did not have a high school diploma or GED and had no intention of attending classes or using the funds for educational purposes. After receiving the student aid refund balances, the three would share the proceeds with one another and sometimes with the straw students. In pleading guilty, one defendant admitted to fraudulently receiving more than \$114,700 in Federal student aid; a second, \$136,000; and the third, more than \$771,200.
- The leader of fraud ring pled guilty to using the identities of people, with and without their consent, to apply for admission and financial aid for purported on-line attendance at Rio Salado College in Arizona. Information included in the financial aid applications included false information on the number of claimed dependents to increase the potential financial aid award. The woman would take the online classes for the straw students until the student aid refund checks were disbursed. She would then take all or a portion of the funds received, sometimes sharing the proceeds with the straw student or other co-conspirators. As a result of her scheme, more than \$461,000 in Federal student aid was disbursed to the straw students.

Actions Taken Against Leader, Participants in Two Fraud Rings That Scammed More Than \$1 Million (Michigan)

In 2013, the U.S. Attorney for the Eastern District of Michigan and Inspector General Tighe issued a joint press release highlighting the indictments of 11 people for their roles in Michigan-based fraud rings that scammed more than \$1 million in Federal student aid. During this reporting period, the leader of one ring and three members of another ring were sentenced for their criminal actions. The first ringleader recruited about 40 people to participate in the ring, most of whom did not have a high school diploma or GED. As a result of her fraudulent actions, the straw students received more than \$665,600 in Federal student aid. The ringleader was sentenced to serve 1 day in prison and 2 years of supervised release and was ordered to pay more than \$665,600 in restitution. The other ring operated in the same manner and fraudulently obtained more than \$400,000 in Federal student aid. The three participants received sentences ranging from 60 days to 4 months in prison and were ordered to pay restitution ranging from \$22,500 to \$107,900.

Ring Leader and Five Members of Fraud Ring Pled Guilty (Mississippi)

In our last Semiannual Report, we noted that 8 people were indicted for participating in a fraud ring that scammed more than \$156,000 in Federal student aid. During this reporting period, the ringleader and 5 coconspirators pled guilty

for their roles in the scheme. The ringleader recruited people to act as straw students at the online Phoenix College and submitted false admissions and financial aid applications to the school on behalf of those straw students, knowing that they had no intention of attending classes. The ringleader paid a portion of the award to the straw students for use of their identities and kept the rest.

Investigations of Other Student Aid Fraud Cases

The following are summaries of the results of additional OIG investigations into allegations of abuse or misuse of Federal student aid by individuals.

Woman Sentenced for Stealing More Than \$632,000 in Student Aid (Pennsylvania)

A woman who scammed more than a half a million dollars in Federal student aid was sentenced to serve 15 months in prison and 5 years of supervised release and was ordered to pay more than \$632,000 in restitution for her criminal actions. From 2004 through 2010, the woman obtained student loans using her own identity and those of her parents and forged her parents' signatures on the applications and the student aid refund checks.

Woman Sentenced in \$57,200 Fraud Scheme (Arizona)

A woman was sentenced to serve 5 years of probation and was ordered to pay more than \$57,200 in restitution for student aid fraud. The woman fraudulently applied for admission and student financial aid for her son, her mother-in-law, her husband, who was incarcerated at the time, as well as another inmate, at several colleges in Arizona. None were eligible for student aid because they did not have a high school diploma or GED, or they were incarcerated. When they received their student aid refund checks, the woman would take a portion of the proceeds.

Inspector General Testimony

In a previous Semiannual Report to Congress, we reported that FSA's system for managing defaulted student loans, Debt Management Collection System 2 or DMCS2, was unable to accept the transfer of certain defaulted student loans from FSA's Title IV servicers, which resulted in those servicers accumulating more than \$1.1 billion in defaulted student loans that should have been transferred to the Department for management and collection. During this reporting period, Inspector General Tighe testified on this work before the House of Representatives Committee on Education Subcommittee on Higher Education and Workforce Training. The Inspector General provided the Subcommittee with background on the DCMS2 system and a timeline of the problems we identified. She summarized the findings of a number of reports that the OIG or its financial statement auditors had issued since 2012 related to DMCS2, noting our concerns and recommendations, and provided the Subcommittee with an update on the Department's progress in addressing those recommendations. Inspector General Tighe stated that she remains very concerned with the problems posed by DMCS2 and the Department's ineffective oversight and monitoring of DMCS2. She told the

Subcommittee that the OIG has initiated an evaluation of DMCS2's functionality to determine whether FSA accurately assessed the operating status of the DMCS2 functions that it indicated to be fully or partially functioning, including workaround procedures, and to look more broadly at FSA's oversight, management, and monitoring of its data systems. Inspector General Tighe also noted that she highlighted the problems with the DMCS2 in the FY 2014 Management Challenges Report and added a new management challenge related to the Department's information technology system development and implementation.



Other Activities

Participation on Committees, Work Groups, and Task Forces

- *Department of Education Policy Committees.* OIG staff participate in an advisory capacity on these committees, which were established to discuss policy issues related to negotiated rulemaking for student loan regulations and for teacher preparation regulations.

Review of Legislation, Regulations, Directives, and Memoranda

- *Improving Postsecondary Education Data for Students Act (H.R. 1949).* OIG provided comments that the bill include a mechanism to ensure that the advisory committee is independent of both Congress and the Department of Education so that the advisory committee's report is accepted by all.
- *Student Loan Borrowers' Bill of Rights Act of 2013 (H.R. 3892).* OIG provided comments, noting our concern that the bill could greatly increase the cost of the Federal Student Loan Programs.
- *Supporting Academic Freedom Through Regulatory Relief Act (H.R. 2637).* OIG provided comments noting our concerns with the bill. A copy of those comments can be found here: <http://www2.ed.gov/about/offices/list/oig/misc/georgemillersept092013.pdf>.

Goal 3:
Protect the integrity of the Department's programs and operations by detecting and preventing vulnerabilities to fraud, waste, and abuse.



Our third strategic goal focuses on our commitment to protect the integrity of the Department's programs and operations. Through our audit and inspection work, we identify problems and propose solutions to help ensure that programs and operations are meeting the requirements established by law and that federally funded education services are reaching the intended recipients—America's students. Through our criminal investigations, we help protect public education funds for eligible students by identifying those who abuse or misuse Department funds and holding them accountable for their unlawful actions.

Audits and Reviews

OIG audits and other reviews provide information on the effectiveness of internal controls, evaluate the appropriateness of Federal funds usage, and identify weaknesses and deficiencies in Departmental programs and operations that could leave programs vulnerable to waste, fraud, and abuse. The results of our work can assist the Department as well as grantees and program participants in improving operations, strategic planning, and risk management. During this reporting period, we issued a special report on fraud vulnerabilities involving Supplemental Educational Services (SES) program funding. Results of this work follow.

Fraud Vulnerabilities Involving Supplemental Educational Services

We issued a management information report to alert the Department to serious fraud and corruption in Elementary and Secondary Education Act of 1965, as amended, Title I-funded SES tutoring programs. As noted in the report, OIG has experienced a significant increase in the number of investigations involving fraud and corruption among SES providers, increasing from 1 case in 2009 to more than 30 cases in 2013. The cases have involved falsification of billing and attendance records, corruption by public officials, conflicts of interest related to recruiting students, conflicts of interest related to public school officials who are employed by an SES provider in noninstructional positions, and the use of improper financial incentives to enroll students into the programs. These investigations, combined with OIG audit work conducted over the last decade, have identified a lack of oversight and monitoring of SES providers by SEAs that leaves SES programs vulnerable to waste, fraud, and abuse. We made a number of recommendations that, if implemented, would mitigate the risk of fraud and corruption in SES or similar programs involving services provided by third parties who bill on a per-child basis. These included making regulatory changes to improve program monitoring, establishing a reporting requirement for Title I fraud, establishing certifications to deter fraud and conflicts, implementing student verification procedures, prohibiting improper financial incentives, and extending record retention requirements to match applicable statutes of limitations for prosecutions. Some of these recommendations were recommendations and suggestions made in previous OIG reports that the Department had not yet implemented. The Department generally concurred with our findings and recommendations.

Investigations of Schools and School Officials

OIG investigations include criminal investigations involving bribery, embezzlement, and other criminal activity, often involving State and local education officials who have abused their positions of trust for personal gain. Examples of some of these investigations follow.

Millcreek Township School District Agreed to \$350,000 Civil Settlement (Pennsylvania)

The Millcreek Township School District agreed to pay \$350,000 to resolve allegations that it improperly submitted claims to the Pennsylvania School-Based Access Program, a program that provides Federal reimbursement to schools for health-related services provided to special needs students. The school district allegedly submitted claims for payment that did not satisfy program requirements. This includes the absence of recipients on dates billed for services, claims for noncompensable services, lack of adequate documentation, and claims for unlisted services.

Former Superintendent of Greenville Public School District Sentenced; Contractor Pled Guilty (Mississippi)

In a previous Semiannual Report, we reported that the former superintendent of Greenville Public Schools pled guilty to charges of bribery, kickbacks, and embezzlement. While he was superintendent, he conspired with the owner of Teach Them To Read, Inc., a company that provided reading services for at-risk youth, to award \$1.4 million in district contracts in exchange for monetary kickbacks. During this reporting period, the former superintendent was sentenced and the owner of the company pled guilty for their roles in this scam. The former superintendent was sentenced to 76 months in prison and 3 years of supervised release, and he was ordered to pay more than \$1.2 million in restitution.

Two Beaumont Independent School District Officials Indicted (Texas)

The Director of Finance and the Comptroller of the Beaumont Independent School District were indicted on charges of conspiracy and fraud. Beginning in 2010, the two allegedly embezzled more than \$4 million from the school's coffers, money that should have gone to the educational development of students.

Two Former Louisiana State University Officials Sentenced (Louisiana)

The former director and assistant director of the Office of Academic Assistance at Louisiana State University at Eunice were sentenced to prison and ordered to pay more than \$159,100 in restitution for theft of government funds. Between 2008 and 2012, the two used their positions to steal Federal funds meant for Upward Bound and Student Support Services projects. They used the funds for personal items, such as clothing, jewelry, and cosmetics. They also allowed and encouraged coworkers to make personal purchases with these funds as well.

Former Santiago Canyon College Director Sentenced (California)

The former director of special programs at Santiago Canyon College was sentenced to 27 months in prison and 2 years of supervised release and was ordered to pay more than \$89,000 in restitution for defrauding the College Assistance Migrant Program. From 2008 through 2011, the former director devised a scheme to defraud the program of about \$90,000 by awarding grant funds to students who were not eligible to receive them and by converting stipend checks of College Assistance Migrant Program students for her personal use.

Two St. Landry Parish School Board Members Sentenced (Louisiana)

Two St. Landry Parrish School Board members were sentenced for taking bribes in exchange for votes in favor of a candidate for school board superintendent. The two board members approached the candidate and solicited and accepted \$5,000 each in exchange for their favorable votes. The candidate reported this to law enforcement and cooperated with the investigation. One of the board members was sentenced to serve 33 months in prison and 3 years of supervised release and was ordered to pay a \$10,000 fine. The other board member was sentenced to 10 months of home confinement and was ordered to pay a \$15,000 fine.

Former Puerto Rico Department of Education Payment Officer Sentenced (Puerto Rico)

In a previous Semiannual Report, we noted that criminal actions had been taken against the Puerto Rico Department of Education's former chief procurement officer, five other employees, and officials from three vendors for their roles in a procurement scam involving more than \$7 million in contract awards. During this reporting period, a former Puerto Rico Department of Education payment officer was sentenced to one year of probation and was ordered to forfeit \$11,000 for his role in the scheme. From 2008 through 2010, the vendors conspired to reward the Puerto Rico Department of Education employees in exchange for their support on lucrative contracts. Criminal actions have been taken against other scam participants, including a prison sentence for the former chief procurement officer.

Former El Monte Union High School District Director Pled Guilty (California)

The former director of maintenance, operations, and transportation for the El Monte Union High School District pled guilty to theft of Federal program funds. Between 2006 and 2010, the former director accepted kickbacks and other rewards from a school district construction vendor in exchange for contracts and work for the vendor.

Investigations of Charter Schools

OIG has conducted a significant amount of investigative work involving charter schools. From January 2005 through March 31, 2014, OIG has opened 63 charter school investigations. To date, these investigations have resulted in 40 indictments and 30 convictions of charter school officials. The cases that have been fully settled resulted in nearly \$10.8 million in restitution, fines, forfeitures, and civil settlements.

Charter School Management Company and Two Executives Reached Civil Settlement (Oregon)

EdChoices, a charter school management firm that operated 18 charter schools, its director, and its chief financial officer agreed to pay \$475,000 to settle allegations of racketeering, false claims, breach of contract, negligent misrepresentation, and other misuses of State and Federal charter school funds. The two executives also agreed to a 4-year ban on soliciting, managing, or administering State public funds for educational purposes and teaching or obtaining an educational license in Oregon and to never operate, administer, or consult with any public charter school in Oregon ever again. They also agreed to dissolve EdChoices.

Former Chief Executive Officer of Harambee Institute, Inc., and Harambee Institute of Science and Technology Charter School Sentenced (Pennsylvania)

The former chief executive officer of Harambee Institute, Inc. and Harambee Institute of Science and Technology Charter School was sentenced to 36 months in prison for abusing his leadership position to enrich himself. He improperly withdrew \$9,000 from a private scholarship fund set up by the school in order to purchase a house for himself in Philadelphia. He also improperly withdrew about \$79,000 from the Institute's bank accounts for his personal use. He attempted to cover up his illegal activities by mischaracterizing a significant portion of the cash withdrawals as labor costs and directed employees to lie for him to Federal agents and a Federal grand jury. In addition to the prison sentence, the former official was ordered to pay \$88,000 in restitution and was prohibited from working in an administrative capacity at any school or in any capacity at Harambee Institute and the Harambee Institute of Science and Technology.

Former Chief Executive Officer of Planet Abacus Charter School Pled Guilty (Pennsylvania)

The former chief executive officer of the Planet Abacus Charter School pled guilty to conspiring with the founder of four charter schools in the Philadelphia area to defraud three of those schools of more than \$6.5 million. The former official created, altered, and falsified contracts, financial records, board meeting minutes, board resolutions, and other records to cover up the fraud.

Cofounder and Former Executive Director of Nia Community Public Charter School Pled Guilty (Washington, D.C.)

The cofounder and former executive director of Nia Community Public Charter School pled guilty to charges related to embezzlement of more than \$29,000 in school funds. She also admitted making unauthorized purchases with a government-issued purchase card while she worked for another employer in Virginia. From March 2008 through August 2008, the former official signed five checks on the charter school's account for her own personal use. After leaving the charter school, she was hired as an assistant director at the Cody Development Center in Virginia, where she was provided with a government purchase card for buying work-related items. In her guilty plea, she admitted that she used that card to make nearly \$12,000 in unauthorized gift card purchases.

Investigations of Supplemental Education Service Providers

OIG audit work conducted over the last decade noted a lack of oversight and monitoring of SES providers by SEAs, which may leave programs vulnerable to waste, fraud, and abuse. Recent OIG investigative work has proven this point, uncovering cases involving fraud and corruption perpetrated by SES providers and school district officials.

Owner of WAISS Network Technologies Pled Guilty (Ohio)

The owner of WAISS Network Technologies, a SES provider in Ohio, pled guilty to billing two area school districts more than \$100,000 for tutoring sessions that were never provided. He created fraudulent forms using forged tutor, student, and parent names and other information. He billed Columbus City Schools and was paid for tutoring 51 students who either never attended tutoring or were tutored very few times. He used the same method to defraud Southwestern City Schools out of about \$20,000 in the 2010–2011 school year.

Owner of Sham Tutoring Company Indicted (Georgia)

The Fulton County, Georgia Grand Jury indicted the owner of A Love of Learning Tutoring on charges of forgery and false statements. The owner allegedly scammed multiple school districts in Georgia out of SES funding. She allegedly falsified the financial assets and liabilities of her company, making it appear as if it were thriving when, in fact, it existed only on paper. She provided a false balance sheet, a false statement of net income, a program summary showing a false start date for the company, and a forged letter from a fictitious financial institution representing a nonexistent line of credit.

Another Action Taken in TestQuest Investigation (New York)

In our last Semiannual Report, we reported that TestQuest agreed to pay \$1.725 million to settle allegations that it engaged in fraudulent conduct involving

SES funds and that a former TestQuest manager/New York City school teacher who carried out the fraud pled guilty, agreed to \$2.3 million civil judgment, and awaited sentencing. We also reported that an additional TestQuest employee/New York City teacher was criminally charged for her role in the scheme. During this reporting period, that employee pled guilty, admitting to directing four high school students to advise other students who did not receive any after-school tutoring to sign daily attendance sheets falsely claiming that they had received tutoring. In her plea agreement, she agreed to a civil forfeiture of more than \$32,200.

Actions Taken Against Two Academic Advantage Site Managers (New York)

A former site manager for Academic Advantage pled guilty and another was arrested on charges related to SES fraud. The former manager admitted to submitting false attendance records when no SES tutoring had been provided. As part of the plea agreement, the former manager agreed to pay more than \$61,800 in restitution.

Investigations of School Vendors and Contractors

Our investigations into suspected fraudulent activity by Federal education grantees and others have led to the arrest and conviction of school vendors, contractors, and other people for theft or misuse of Federal funds.

Owner of Joyce Thomas Children Services, Once a Former District of Columbia Public Schools Employee, Pled Guilty (Washington, D.C.)

The owner of Joyce Thomas Children Services, a private transportation company, who was also a former compliance officer for District of Columbia Public Schools, pled guilty to charges in a scheme involving more than \$460,000 in fraudulent payments made to his company.

While still employed at District of Columbia Public Schools, he directed students who were in need of interstate transportation to his company, where he improperly earned more than \$163,000. After being terminated from his position in 2010 as a part of an overall reduction in the workforce, he schemed to obtain nonpublic lists of students needing transportation services from his former colleagues at District of Columbia Public Schools and later used these lists to create false invoices and supporting documentation for payments to his company in the names of the students. He created 60 false invoices and supporting documentation through this scheme, causing the District of Columbia Office of the State Superintendent of Education to pay his company \$300,000 for transportation services that were never provided.

Another Former El Paso Independent School District Contractor Sentenced (Texas)

In our last Semiannual Report, we noted that the former owner of Strategic Governmental Solutions, Inc., was sentenced to prison and ordered to pay nearly

\$3 million in restitution for scheming to defraud El Paso Independent School District. During this reporting period, a representative of Strategic Government Solutions who conspired in the scheme was sentenced to 24 months in prison and was ordered to pay nearly \$2.9 million. The man conspired with the owner of the company, a former El Paso Independent School District associate superintendent, and a former El Paso Independent School District trustee to fraudulently obtain a software contract with the school district worth several million dollars. The company failed to provide working software and submitted improper claims for reimbursement. The former associate superintendent was sentenced to prison in 2012 for his role in the scheme.

Former Detroit Public Schools Contract Accountant Sentenced (Michigan)

A former Detroit Public Schools contract accountant, who was also once a school board candidate, was sentenced to 70 months in prison and 2 years of supervised release and was ordered to pay more than \$530,000 in restitution for fraud. Between 2004 and 2008, the woman and her daughter, a Detroit Public Schools teacher, obtained more than \$530,000 from the school district when a sham company they controlled placed orders for books and educational materials that were never provided.

Progreso Independent School District Contractor Indicted (Texas)

In our last Semiannual Report, we noted that the mayor of Progreso, his father, the director of maintenance and transportation for Progreso Independent School District, and his brother, Progreso Independent School District school board president, were indicted on charges that included conspiracy, theft, and bribery. The three allegedly used their positions to extract bribes and kickbacks from service providers to the district and the city of Progreso. During this reporting period, the owner of IDEA Group, LLC, an architectural firm that provided architectural and project management services to the district and the city of Progreso, was indicted for paying bribes to those officials in exchange for construction projects for his firm.

Owner of Bilingual SEIT Pled guilty (New York)

The owner of Bilingual SEIT, Inc., a government-funded provider of special education services and preschool programs to New York City children, pled guilty for his role in defrauding the Federal, State, and local governments out of millions of dollars. Between 2005 and 2012, the owner inflated costs incurred by Bilingual SEIT, deliberately overpaid certain employees in order to receive portions of the overpayment, and used company funds for his personal benefit. From 2005 through 2012, Bilingual SEIT received about \$94 million in Federal, State, and local funds.



Other Activities

Participation on Committees, Work Groups, and Task Forces

Federal and State Law Enforcement-Related Groups

- *U.S. Department of Justice’s Financial Fraud Enforcement Task Force—Consumer Protection Working Group.* OIG participates in this working group composed of Federal law enforcement and regulatory agencies that works to strengthen efforts to address consumer-related fraud.
- *U.S. Department of Justice’s Financial Fraud Enforcement Task Force—Grant Fraud Committee.* OIG participates in this group composed of Federal law enforcement agencies seeking to enforce and prevent grant and procurement fraud.
- *Northern Virginia Cyber Crime Working Group.* OIG participates in this workgroup of Federal, State, and local law enforcement agencies conducting cybercrime investigations in northern Virginia. The purpose is to share intelligence and collaborate on matters affecting multiple agencies.

Federal and State Audit-Related Groups

- *Association of Government Accountants Partnership for Management and Accountability.* OIG participates in this partnership that works to open lines of communication among Federal, State, and local governmental organizations with the goal of improving performance and accountability.

Review of Legislation, Regulations, Directives, and Memoranda

- *Department Dear Colleague Letter Regarding Fraud in Title I-Funded Tutoring Programs.* OIG provided technical comments.

Goal 4:
Contribute to
improvements in
Department business
operations.



Effective and efficient business operations are critical to ensure the Department effectively manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. Our reviews of the Department’s information technology security and financial management seek to help the Department accomplish its objectives by ensuring the reliability, integrity, and security of its data; its compliance with applicable policies and regulations; and the effective, efficient, and fair use of taxpayer dollars with which it has been entrusted.

Audits and Reviews

OIG audits and reviews completed over the last 6 months that contributed to this goal have focused on statutory audits and reviews in the following areas.

- **Information Technology Security.** The E-Government Act of 2002 recognized the importance of information security to the economic and national security interests of the United States. Title III of the E-Government Act, the Federal Information Security Management Act of 2002 (FISMA), requires each Federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. It also requires inspectors general to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of agency compliance with FISMA.
- **Financial Management.** One of the purposes of the Chief Financial Officers Act of 1990 is to improve agency systems of accounting, financial management, and internal controls to ensure the reporting of reliable financial information and to deter fraud, waste, and abuse of Government resources. The Act requires an annual audit of agency financial statements, which is intended to help improve an agency’s financial management and controls over financial reporting.

Information Technology Security

FISMA Review

Our FY 2013 FISMA review found that the Department had made progress in remediating issues identified in previous FISMA reviews. Specifically, it complied with 4 of the 11 reporting metrics: continuous monitoring, plan of action and milestones, contractor systems, and security capital planning. However, we found deficiencies with the remaining seven reporting metrics—configuration management, identity and access management, incident response and reporting, risk management, security training, remote access management, and contingency planning—many of which were repeat or modified findings from OIG reports issued over the last several years. Without adequate management, operational,

and technical security controls in place, the Department's systems and information are vulnerable to attacks that could lead to a loss of confidentiality and to a loss of integrity resulting from data modification or limited availability of systems. In addition to reiterating recommendations made in our FY 2012 FISMA report, we made 23 new recommendations to help the Department establish and sustain an effective information security program that complies with FISMA, Office of Management and Budget, and National Institute of Science and Technology requirements. The Department concurred with most of our recommendations.

Financial Management

Financial Statements Audits

In our Semiannual Report to Congress No. 66, we noted that although the Department and FSA received unqualified (clean) opinions on their FY 2012 financial statements, the audit reports noted a material weakness in internal control surrounding DMCS2. For FY 2013, both the Department and FSA received unmodified opinions on their financial statements. Although it no longer noted a material weakness, the FY 2013 audit reports noted a significant deficiency in internal controls over financial reporting surrounding some loan servicing systems, including DMCS2, and found persistent deficiencies in controls surrounding information systems. The report on the Department's financial statements also noted that its financial management systems did not substantially comply with certain systems requirements of the Federal Financial Management Improvement Act because of the control weaknesses surrounding information systems. A number of recommendations were made to address the weaknesses identified. The Department concurred with the findings and recommendations in the reports.

Closing Package Financial Statements

The Department received an unmodified opinion on its FY 2013 closing package financial statements. No material weaknesses in internal control over financial reporting were identified, nor were there instances of reportable noncompliance with selected provisions of laws or regulations. The closing package financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Department's Detailed Accounting of FY 2013 Drug Control Funds and Related Performance

In accordance with the Office of National Drug Control Policy Circular "Accounting of Drug Control Funding and Performance Summary," we authenticated the Department's accounting of FY 2013 drug control funds and performance measures for key drug control programs by expressing a conclusion about the reliability of each assertion made in the Department's accounting report and performance report. Based on our review, nothing came to our attention that caused us to believe that management's assertions contained in the Department's detailed accounting report and performance summary report are not fairly stated in all material respects.

Investigations

The following is a summary of two cases involving unauthorized access to and abuse of financial aid databases.

Former Florida A&M Student Sentenced (Florida)

In our last Semiannual Report, we noted that a former Florida A&M University student pled guilty to charges involving aggravated identify theft and access device fraud arising from a scheme to steal Federal student aid from students attending the university. During this reporting period, the former student was sentenced to serve 2 years in prison. He and two coconspirators accessed other students' financial aid accounts in the school's computer system. They obtained user names, passwords, and other student personally identifiable information by obtaining discarded paperwork from trash bins located near the school's computer help desk, gathering information off the Internet, and tricking school employees and the students themselves into providing information. They used the personally identifiable information to log into students' financial aid accounts and change bank account and routing information so that student aid award checks were routed to the defendants' accounts. The two coconspirators pled guilty and were sentenced for their roles in the scheme in 2013.

Former University of Nebraska Student Pled Guilty (Nebraska)

A former University of Nebraska-Lincoln student pled guilty to accessing and causing damage to a protected computer without authorization. The former student unlawfully accessed a system that administers Federal student aid for the entire Nebraska State college and university network and exposed the personally identifiable information and financial aid data of over 650,000 students. As a result of his unauthorized intrusion into the network system, he impaired the integrity of the protected computer system and caused damages of more than \$5,000.

Non-Federal Audit Activities

The Inspector General Act of 1978, as amended, requires that inspectors general take appropriate steps to ensure that any work performed by non-Federal auditors complies with Government Auditing Standards. To fulfill these requirements, we perform a number of activities, including conducting quality control reviews of non-Federal audits, providing technical assistance, and issuing audit guides to help independent public accountants performing audits of participants in the Department's programs.

Quality Control Reviews

Through 2013, Office of Management and Budget Circular A-133 required entities such as State and local governments, universities, and nonprofit organizations that spend \$500,000 or more in Federal funds in 1 year to obtain an audit,

referred to as a “single audit.” The Office of Management and Budget’s new “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (known as the “Super Circular”) has since increased the single audit threshold to \$750,000. Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in specific Federal student aid programs are required to undergo annual audits performed by independent public accountants in accordance with audit guides issued by the OIG. These audits assure the Federal Government that recipients of Federal funds comply with laws, regulations, and other requirements that are material to Federal awards. To help assess the quality of the thousands of single audits performed each year, we conduct quality control reviews of a sample of audits. During this reporting period, we completed 17 quality control reviews of audits conducted by 15 different IPAs or offices of firms with multiple offices. We concluded that 10 (59 percent) were acceptable or acceptable with minor issues and 7 (41 percent) were technically deficient.



Other Activities

Participation on Committees, Work Groups, and Task Forces

Department

- *Department of Education Senior Assessment Team.* OIG participates in an advisory capacity on this team. The team provides oversight of the Department's assessment of internal controls and related reports and provides input to the Department's Senior Management Council concerning the overall assessment of the Department's internal control structure, as required by the Federal Managers' Financial Integrity Act of 1982 and Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."
- *Department of Education Investment Review Board and Planning and Investment Review Working Group.* OIG participates in an advisory capacity in these groups that review technology investments and the strategic direction of the information technology portfolio.
- *Department Human Capital Policy Working Group.* OIG participates in this group that meets monthly to discuss issues, proposals, and plans related to human capital management.

Inspector General Community

- *Council of the Inspectors General on Integrity and Efficiency (CIGIE).* OIG staff play an active role in CIGIE efforts. Inspector General Tighe is Chair of the Information Technology Committee and a member of CIGIE's Audit Committee, and the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee. OIG staff chair the Investigations Subcommittee of the Informational Technology Committee, and are members of CIGIE's Assistant Inspector General for Investigations Subcommittee, the Cyber Security Working Group, the Grant Reform Working Group, the Inspections and Evaluations Working Group, the Council of Counsels to the Inspectors General, and the New Media Working Group.
 - *Financial Statement Audit Network.* OIG staff have a leading role in this Government-wide working group that identifies and resolves key issues concerning audits of agency financial statements and provides a forum for coordination with the Government Accountability Office and the Treasury on the annual audit of the Government's financial statements.
 - *CIGIE/Government Accountability Office Annual Financial Statement Audit Conference.* OIG staff work on the Planning Committee for the annual conference that covers current issues related to financial statement audits and standards.
 - *CIGIE Grant Reform Working Group.* OIG staff participate in this IG-community group.
 - *Cloud Computing Working Group.* OIG participated in this IG-community group that developed cloud computing contract clauses to ensure that OIGs have adequate data access for the purposes of audits and criminal investigations.

Participation on Committees, Work Groups, and Task Forces (continued)

Federal and State Audit-Related Groups and Entities

- *Intergovernmental Audit Forums.* OIG staff chair and serve as officers of a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work to improve audit education and training and exchange information and ideas regarding the full range of professional activities undertaken by government audit officials. During this reporting period, OIG staff chaired the Midwestern Forum and served as officers of the Southeastern Forum, the Southwestern Forum, and the New York/New Jersey Forum.
- *Interagency Working Group for Certification and Accreditation.* OIG participates in this group that exchanges information relating to Federal forensic science programs that share intergovernmental responsibilities to support the mission of the National Science and Technology Council's Subcommittee on Forensic Science.
- *Interagency Fraud and Risk Data Mining Group.* OIG participates in this group that shares best practices in data mining and evaluates data mining and risk modeling tools and techniques to detect patterns indicating possible fraud and emerging risks.
- *AICPA Government Audit Quality Center's Single Audit Roundtable.* OIG staff participate in this group, which meets semiannually and consists of Federal, State, and local government auditors and accountants who perform single audits. The participants discuss recent or anticipated changes in single audit policy, such as the Compliance Supplement to Office of Management and Budget Circular A-133, new auditing standards, and issues of audit quality found in recent quality control reviews.

Review of Legislation, Regulations, Directives, and Memoranda

- *DATA Act (S.944).* OIG provided comments, suggesting that S.944 include H.R. 2061's government-wide role for the Recovery Board and its Recovery Operations Center.

Annexes and Required Tables



Annex A. Contract-Related Audit Products With Significant Findings

Section 845 of the National Defense Authorization Act for Fiscal Year 2008 requires each Inspector General to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings.

No contract-related audit products with significant findings were issued during this reporting period.

Annex B. Peer Review Results

Title IX, Subtitle I, Sec. 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203) requires the Inspectors General to disclose the results of their peer reviews in their Semiannual Reports to Congress.

No peer reviews were completed during this reporting period.

Required Tables

The following provides acronyms, definitions, and other information relevant to Tables 1–6.

Acronyms and Abbreviations Used in the Required Tables

ASA	Arkansas State University
FSA	Federal Student Aid
IES	Institute of Education Sciences
IG Act	Inspector General Act of 1978
ISU	Implementation and Support Unit
MOE	Maintenance of Effort
NCES	National Center for Education Statistics
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
ODS	Office of the Deputy Secretary
OESE	Office of Elementary and Secondary Education
OGC	Office of the General Counsel
OII	Office of Innovation and Improvement
OPEPD	Office of Planning, Evaluation and Policy Development
OS	Office of the Secretary
OSDFS	Office of Safe and Drug Free Schools
OSEP	Office of Special Education Programs
OSERS	Office of Special Education and Rehabilitative Services
PAG	Post Audit Group
PDL	Program Determination Letter
Recs	Recommendations

Definitions

Alert Memoranda. Alert memoranda are used to communicate to the Department significant matters that require the attention of the Department when the identified matters are not related to the objectives of an ongoing assignment or are otherwise outside the scope of the ongoing assignment. The matter may have been identified during an audit, attestation, inspection, data analysis, or other activity.

Attestation Reports. Attestation reports convey the results of attestation engagements performed within the context of their stated scope and objectives. Attestation engagements can cover a broad range of financial and nonfinancial subjects and can be part of a financial audit or a performance audit. Attestation engagements are conducted in accordance with American Institute of Certified Public Accountants attestation standards, as well as the related Statements on Standards for Attestation Engagements.

Inspections. Inspections are analyses, evaluations, reviews, or studies of the Department's programs. The purpose of an inspection is to provide Department decision makers with factual and analytical information, which may include an assessment of the efficiency and effectiveness of their operations and vulnerabilities created by their existing policies or procedures. Inspections may be conducted on any Department program, policy, activity, or operation. Typically, an inspection results in a written report containing findings and related recommendations. Inspections are performed in accordance with quality standards for inspections approved by the Council of Inspectors General for Integrity and Efficiency.

Management Information Reports. Management information reports are used to provide the Department with information and suggestions when a process other than an audit, attestation, or inspection is used to develop the report. For example, OIG staff may compile information from previous OIG audits and other activities to identify overarching issues related to a program or operational area and use a management information report to communicate the issues and suggested actions to the Department.

Questioned Costs. As defined by the Inspector General Act of 1978 (IG Act), as amended, questioned costs are identified during an audit, inspection, or evaluation because of (1) an alleged violation of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) such cost not being supported by adequate documentation; or (3) the expenditure of funds for the intended purpose being unnecessary or unreasonable. OIG considers that category (3) of this definition would include other recommended recoveries of funds, such as recovery of outstanding funds or revenue earned on Federal funds or interest due the Department.

Unsupported Costs. As defined by the IG Act, as amended, unsupported costs are costs that, at the time of the audit, inspection, or evaluation, were not supported by adequate documentation. These amounts are also included as questioned costs.

OIG Product Web Site Availability Policy

OIG final issued products are generally considered to be public documents, accessible on OIG's Web site unless sensitive in nature or otherwise subject to Freedom of Information Act exemption. Consistent with the Freedom of Information Act, and to the extent practical, OIG redacts exempt information from the product so that nonexempt information contained in the product may be made available on the OIG Web site.

Reporting Requirements of the Inspector General Act, as Amended

Section	<i>Requirement (Table Title)</i>	Table Number
5(a)(1) and 5(a)(2)	<i>Significant Problems, Abuses, and Deficiencies</i>	N/A
5(a)(3)	<i>Uncompleted Corrective Actions</i> Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed	1
5(a)(4)	<i>Matters Referred to Prosecutive Authorities</i> Statistical Profile for October 1, 2013, through March 31, 2014	6
5(a)(5) and 6(b)(2)	<i>Summary of Instances Where Information was Refused or Not Provided</i>	N/A
5(a)(6)	<i>Listing of Reports</i> Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (October 1, 2013, through March 31, 2014)	2
5(a)(7)	<i>Summary of Significant Audits</i>	N/A
5(a)(8)	<i>Questioned Costs</i> Audit, Inspection, and Evaluation Reports With Questioned or Unsupported Costs	3
5(a)(9)	<i>Better Use of Funds</i> Audit, Inspection, and Evaluation Reports With Recommendations for Better Use of Funds	4
5(a)(10)	<i>Unresolved Reports</i> Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to October 1, 2013	5-A
	Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5-B
5(a)(11)	<i>Significant Revised Management Decisions</i>	N/A
5(a)(12)	<i>Significant Management Decisions With Which OIG Disagreed</i>	N/A
5(a)(13)	<i>Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996</i>	N/A

Table 1. Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed (October 1, 2013, through March 31, 2014)

Section 5(a)(3) of the IG Act, as amended, requires identification of significant recommendations described in previous Semiannual Reports on which management has not completed corrective action.

This table is limited to OIG internal audit reports of Departmental operations because that is the only type of audit in which the Department tracks each related recommendation through completion of corrective action.

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Date of Management Decision	Number of Significant Recs Open	Number of Significant Recs Closed	Projected Action Date
FSA	Audit A17M0002	Financial Statement Audits Fiscal Years 2012 and 2011, Federal Student Aid (OCFO is also copied on the report) (SAR 66, page 39)	11/16/12	1/24/13	1	18	9/30/14
OCFO	Audit A17M0001	Financial Statement Audits Fiscal Years 2012 and 2011 U.S. Department of Education (FSA is also copied on the report) (SAR 66, page 39)	11/16/12	3/15/13	1	18	9/30/14
OCIO	Audit A11M0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2012 (FSA is also designated as an action official) (SAR 66, page 39)	11/7/12	1/8/13	4	14	9/30/14
OCIO	Audit A11L0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act for Fiscal Year 2011 (FSA is also designated as an action official) (SAR 64, page 36)	10/18/2011	1/3/2012	5	13	3/31/2015

Table 2. Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (October 1, 2013, through March 31, 2014)

Section 5(a)(6) of the IG Act, as amended, requires a listing of each report completed by OIG during the reporting period.

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
FSA	Audit A17N0002	Fiscal Year 2013 Financial Statements Federal Student Aid (OCFO is copied on the report)	12/11/13	-	-	10
FSA	Inspection I13N0001	Review of Federal Student Aid's Plans for School Closures by a For-Profit Entity	2/28/14	-	-	3
FSA	Management Information Report X09N0003	Third-Party Servicer Use of Debit Cards to Deliver Title IV Funds (OPE is also designated as an action official)	3/10/14	-	-	11 ¹
OCFO	Audit A17N0001	Fiscal Year 2013 Financial Statements U.S. Department of Education (FSA is copied on the report)	12/11/13	-	-	10
OCFO	Audit A17N0003	Fiscal Year 2013 Closing Package Financial Statements, U.S. Department of Education	12/16/13	-	-	-
OCIO	Audit A11N0001	The U.S. Department of Education's Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2013 (FSA is also designated as an action official)	11/13/13	-	-	21
ODS	Audit A19M0003	The Department's Monitoring of Race to the Top Program Recipient Performance	1/3/14	-	-	2
ODS	Audit A19M0005	The Department's Implementation of the Government Performance and Results Act Modernization Act	1/27/14	-	-	3
OESE	Management Information Report X42N0001	Fraud in Title I-Funded Tutoring Programs	10/31/13	-	-	9

¹ Management Information Report X09N0003 contained 11 suggestions.

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
OESE	Attestation Report B19O0003a	Office of Inspector General's Independent Report on the U.S. Department of Education's Performance Summary Report for Fiscal Year 2013, dated February 25, 2014	2/25/14	-	-	-
OESE	Audit A07M0001	The U.S. Department of Education's and Five State Educational Agencies' Systems of Internal Control Over Statewide Test Results (Report is addressed to the Deputy Secretary)	3/31/14	-	-	9
OPE	Audit A07L0001	Title IV of the Higher Education Act Programs: Additional Safeguards Are Needed to Help Mitigate the Risks That Are Unique to the Distance Education Environment (Report is addressed to the Acting Under Secretary and recommendations are directed to both OPE and FSA)	2/21/14	-	-	11
OPEPD	Attestation Report B19O0003	Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2013 Drug Control Funds, dated January 29, 2014	1/31/14	-	-	-
Total				\$0	\$0	89

Table 3. Audit, Inspection, and Evaluation Reports With Questioned or Unsupported Costs

Section 5(a)(8) of the IG Act, as amended, requires for each reporting period a statistical table showing the total number of audit and inspection reports, the total dollar value of questioned and unsupported costs, and responding management decision.

None of the products reported in this table were performed by the Defense Contract Audit Agency.

Requirement	Number	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs
A. For which no management decision has been made before the commencement of the reporting period	15	\$206,201,829	\$139,777,294
B. Which were issued during the reporting period	0	\$0	\$0
Subtotals (A + B)	15	\$206,201,829	\$139,777,294
C. For which a management decision was made during the reporting period	2	\$139,007,200	\$121,091,819
(i) Dollar value of disallowed costs		\$117,805,176	\$110,210,114
(ii) Dollar value of costs not disallowed		\$21,202,024	\$10,881,705
D. For which no management decision was made by the end of the reporting period	13	\$67,194,629	\$18,685,475

Table 4. Audit, Inspection, and Evaluation Reports With Recommendations for Better Use of Funds

Section 5(a)(9) of the IG Act, as amended, requires for each reporting period a statistical table showing the total number of audit, inspection, and evaluation reports and the total dollar value of recommendations that funds be put to better use by management.

None of the products reported in this table were performed by the Defense Contract Audit Agency. The OIG did not issue any inspection or evaluation reports identifying better use of funds during this reporting period.

Requirement	Number	Dollar Value
A. For which no management decision has been made before the commencement of the reporting period	1	\$13,00,000
B. Which were issued during the reporting period	0	\$0
Subtotals (A + B)	1	\$13,00,000
C. For which a management decision was made during the reporting period		
(i) Dollar value of recommendations that were agreed to by management	0	\$0
(ii) Dollar value of recommendations that were not agreed to by management	0	\$0
D. For which no management decision was made by the end of the reporting period	1	\$13,000,000

Table 5-A. Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to September 30, 2013

Section 5(a)(10) of the IG Act, as amended, requires a listing of each report issued before the commencement of the reporting period for which no management decision had been made by the end of the reporting period. Summaries of the audit and inspection reports issued during the previous SAR period follow in Table 5-B.

Reports that are new since the last reporting period are labeled “New” after the report number. All other reports were reported in a previous SAR.

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recs
FSA	Audit A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown (SAR 49, page 14) Current Status: FFSA informed us that it is currently working to resolve this audit.	9/23/04	\$2,458,347	7
FSA	Audit A06D0018	Audit of Saint Louis University’s Use of Professional Judgment from July 2000 through June 2002 (SAR 50, page 21) Current Status: FSA informed us that it is currently working to resolve this audit.	2/10/05	\$1,458,584	6
FSA	Audit A05G0017	Capella University’s Compliance with Selected Provisions of the HEA and Corresponding Regulations (SAR 56, page 25) Current Status: FSA informed us that it is currently working to resolve this audit.	3/7/08	\$589,892	9
FSA	Audit A05I0014	Ashford University’s Administration of the Title IV HEA Programs (SAR 62, page 24) Current Status: FSA informed us that it is currently working to resolve this audit.	1/21/11	\$29,036	13
FSA	Audit A05K0012	Saint Mary-of-the-Woods College’s Administration of the Title IV Programs (SAR 64, page 36) Current Status: FSA informed us that it is currently working to resolve this audit.	3/29/12	\$42,362,291	19
FSA	Audit A07K0003	Metropolitan Community College’s Administration of Title IV Programs (SAR 65, page 40) Current Status: FSA informed us that it is currently working to resolve this audit.	5/15/12	\$232,918	22

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recs
FSA	Audit A09K0008	Colorado Technical University's Administration of Title IV Programs (SAR 65, page 40) Current Status: FSA informed us that it is currently working to resolve this audit.	9/21/12	\$173,164	8
FSA	Audit A06M0013	Arkansas State University's Administration of Selected Aspects of the Title IV Programs (SAR 67, page 43) Current Status: FSA informed us that it is currently working on a final audit determination.	9/26/13	-	3
OCFO	Audit A09H0020	California Department of Education Advances of Federal Funding to LEAs (SAR 58, page 31) Current Status: OCFO/PAG informed us that it is currently working to resolve this audit.	3/9/09	\$728,651	10
ODS	Audit A06K0002	Oklahoma: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) (SAR 62, page 25) Current Status: OSERS/OSEP informed us that it is revising the draft PDL. OCFO/PAG PDL was issued on 9/21/2012. OESE PDL was issued on 9/25/2012. ODS/ISU PDL was issued on 1/8/2013.	2/18/11	\$16,150,803	10
OESE	Audit A03K0009	Maryland: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs (ODS, OSERS, and OCFO are also designated as action officials) (SAR 66, page 40) Current Status: OCFO/ICG issued a PDL on 7/31/2013. OESE and OSERS/OSEP issued a joint PDL on 3/31/2014; however, other requirements must be met before audit is resolved in the Department's Audit Accountability and Resolution Tracking System.	1/3/13	\$736,582	8
OESE	Audit A04M0014	Puerto Rico: Final Recovery Act Expenditures Supplemental Report (OSERS is also designated as an action official) (SAR 66, page 40) Current Status: OESE and OSERS informed us that they are currently working to resolve this audit.	2/20/13	\$14,303 ²	8
OESE	Audit A04L0004	U.S. Department of Education's and Selected States' Oversight of the 21st Century Community Learning Centers Program (SAR 67, page 43) Current Status: OESE informed us that it is currently working to resolve this audit.	6/21/13	-	7

² Audit report A04M00014 figure includes \$7,303 of questioned costs and \$7,000 of cost recovery during the audit.

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recs
OII	Audit A02L0002	The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants (SAR 65, page 40) Current Status: OII informed us that it is currently working to resolve this audit.	9/25/12	-	7
OPEPD	Audit A04J0003	Georgia Department of Education's Controls Over Performance Data Entered in ED Facts (SAR 61, page 34) Current Status: Because NCES/IES now houses ED Facts, OPEPD has requested to have this audit reassigned to NCES/IES.	4/7/10	-	9
OSERS	Audit A04K0001	Systems of Internal Controls over Selected Recovery Act Funds in Puerto Rico (OCFO, OESE, and OSERS are also designated as action officials) (SAR 62, page 25) Current Status: OSERS informed us that it is revising its draft PDL.	12/16/10	\$2,051,000	16
OSERS	Audit A06K0003	Louisiana: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and ODS are also designated as action officials) (SAR 63, page 37) Current Status: OSERS informed us that it is finalizing a draft PDL.	4/11/11	\$209,058	5
OSERS	Audit A09L0011	Local Educational Agency Maintenance of Effort Flexibility Due to Recovery Act IDEA, Part B Funds (SAR 67, page 44) Current Status: OSERS informed us that it is currently working to resolve this audit.	7/25/13	-	12
Total				\$67,194,629	179

Table 5-B. Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Where Management Decision Has Not Yet Been Made

Section 5(a)10) of the IG Act, as amended, requires a summary of each audit, inspection, or evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. These are the narratives for new entries. Details on previously issued reports can be found in Table 5-A of this Semiannual Report.

Office	Report Title, Number, and Date Issued	Summary and Current Status
FSA	<p>Arkansas State University's Administration of Selected Aspects of the Title IV Programs (SAR 67, page 43)</p> <p>Audit A06M0013</p> <p>9/26/13</p>	<p>We determined that Arkansas State University's (ASU) default prevention and management to address its rising cohort default rate was reasonable, selected information it reported to the Integrated Postsecondary Data System was accurate, and that it properly measured quantitative satisfactory academic progress for students. We did, however, find that ASU did not provide employment and continuing education data of students graduating from 6 of its 10 colleges in the 2008–2009 academic year and did not provide employment and continuing education data of students graduating from 8 of its 10 colleges in the 2009–2010 academic year. In addition, ASU provided unsupported job placement rates for four colleges for the 2008–2009 academic year and for two colleges for the 2009–2010 academic year on its Web site. Although ASU reported its graduation data accurately through Integrated Postsecondary Data System, we found that ASU reported inaccurate graduation data on its Web site for undergraduate students who received degrees in academic year 2008–2009 for 4 of its 10 colleges. We recommended that FSA require ASU to establish policy and procedures to make available employment and continuing education data to enrolled or prospective students for all colleges, collect, maintain, and verify the accuracy of documentation to support required disclosures of employment and continuing education data, job placement rates, and graduation data reported on its Web site or by other means of dissemination, and ensure that any required job placement rate disclosures include the required disclosures of the source, time frames, and methodology associated with job placement rate.</p> <p>Current Status: FSA informed us that it is currently working on a final audit determination.</p>
OESE	<p>U.S. Department of Education's and Selected States' Oversight of the 21st Century Community Learning Centers Program (SAR 67, page 43)</p> <p>Audit A04L0004</p> <p>6/21/13</p>	<p>We found that although the Department tracked program performance measures at the four SEAs reviewed, neither the Department nor three of the SEAs validated the performance data that the subgrantees submitted. As a result, the Department was unable to ensure that grantees met program objectives. We also found that although the Department monitored the SEAs' processes to award and monitor subgrants and reported some deficiencies it identified, it did not identify the internal control weaknesses that we found at the selected SEAs. We made a number of recommendations, including that the Department ensure that SEAs implement written policies, procedures, and monitoring instruments to sufficiently test 21st CCLC performance data and provide reasonable assurance of the accuracy, reliability, and completeness of data reported to the Department. We also recommended that the Department provide sufficient monitoring and oversight of SEAs' processes to award and monitor 21st CCLC grants to subgrantees.</p> <p>Current Status: OESE informed us that it is working to resolve this audit.</p>

Office	Report Title, Number, and Date Issued	Summary and Current Status
OSERS	<p>Local Educational Agency Maintenance of Effort Flexibility Due to Recovery Act IDEA, Part B Funds (SAR 67, page 43)</p> <p>Audit A09L0011</p> <p>7/25/13</p>	<p>We found that the 17 LEAs and 6 SEAs reviewed did not always comply with applicable laws and regulations associated with exercising maintenance of effort (MOE) flexibility or properly use and account for freed-up funds resulting from exercising MOE flexibility. The following summarizes the findings of our audit:</p> <ul style="list-style-type: none"> ● Eligibility to Exercise MOE Flexibility. Two of the six SEAs reviewed (Maine and Ohio) did not have an adequate system for determining LEA eligibility for MOE flexibility. Further, based on the information that Maine provided during the audit, we concluded that the State exercised MOE flexibility at the SEA level even though it did not meet the eligibility requirements. Another SEA (California) miscalculated the overall determinations for 25 LEAs and incorrectly determined they were eligible for MOE flexibility. Another SEA (Louisiana) provided LEAs with incomplete information regarding the amount of MOE reductions they could take. None of the 14 eligible LEAs in Louisiana exercised MOE flexibility, but they may have chosen to if the SEA had provided complete information. ● Use of and Accounting for Freed-Up Funds. Some LEAs in our review that exercised MOE flexibility did not account for the freed-up funds in accordance with applicable laws, regulations, and guidance. The two LEAs we reviewed in both Illinois and Ohio did not track how they used freed-up funds. As a result, we could not determine whether the LEAs used the funds appropriately. Additionally, one LEA in California exercised MOE flexibility by more than the maximum allowed, and at least one LEA in California, Illinois, Ohio, and Texas used IDEA funds for coordinated early intervening services in amounts that exceeded the maximum available. Furthermore, SEAs in California, Illinois, and Ohio did not properly monitor LEAs' use of freed-up funds. ● Impacts to Special Education Services Resulting from Spending Reductions Under the Flexibility Provision. SEA program and fiscal officials from four SEAs (California, Illinois, Ohio, and Texas) whose LEAs exercised MOE flexibility did not have information about LEAs in their States experiencing adverse impacts to special education. The supplemental Recovery Act IDEA funds increased the amount of funding available and may have masked impacts in the short term. As a result, we did not identify evidence of actual or potential adverse impacts. <p>Current Status: OSERS informed us that it is currently working to resolve this audit.</p>

Table 6. Statistical Profile for October 1, 2013, through March 31, 2014

Audits, Inspections, Other Products	October 1, 2013– March 31, 2014
Audit Reports Issued	8
Inspection Reports Issued	1
Questioned Costs (Including Unsupported Costs)	\$0
Recommendations for Better Use of Funds	\$0
Other Products Issued	4
Reports Resolved By Program Managers	17
Questioned Costs (Including Unsupported Costs) Sustained	\$117,805,176
Unsupported Costs Sustained	\$110,210,114
Additional Disallowances Identified by Program Managers	\$4,006
Management Commitment to the Better Use of Funds	\$0
Investigative Cases Opened	34
Investigative Cases Closed	73
Cases Active at the End of the Reporting Period	316
Prosecutorial Decisions Accepted	56
Prosecutorial Decisions Declined	78
Indictments/Informations	32
Convictions/Pleas	59
Fines Ordered	\$41,740
Restitution Payments Ordered	\$13,495,671
Civil Settlements/Judgments (number)	5
Civil Settlements/Judgments (amount)	\$874,999
Recoveries	\$499,127
Forfeitures/Seizures	\$2,965,371
Estimated Savings	\$1,000,000
Suspensions Referred to Department	19
Debarments Referred to Department	21
Debarments Imposed by OIG	1



Acronyms and Abbreviations

Acronyms and Abbreviations Used in This Report

CIGIE	Council of Inspectors General on Integrity and Efficiency
Department	U.S. Department of Education
DMCS2	Debt Management Collection System 2
FISMA	Federal Information Security Management Act of 2002
FSA	Federal Student Aid
FY	Fiscal Year
GPRA	Government Performance and Results Act
IDEA	Individuals with Disabilities Education Act, Part B
LEA	Local Educational Agency
OIG	Office of Inspector General
OPE	Office of Postsecondary Education
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
RTT	Race to the Top Program
SEA	State Educational Agency
SES	Supplemental Educational Services
Title I	Elementary and Secondary Education Act, Title I
Title IV	Higher Education Act of 1965, Title IV

For acronyms and abbreviations used in the required tables, see [page 39](#).



FY 2014 Management Challenges

The Reports Consolidation Act of 2000 requires the OIG to identify and summarize the most significant management challenges facing the Department each year. Below are the management challenges OIG identified for FY 2014.

1. Improper Payments, meeting requirements and intensifying efforts to prevent, identify, and recapture improper payments.
2. Information Technology Security, including management, operational, and technical security controls to adequately protect the confidentiality, integrity, and availability of its systems and data.
3. Oversight and Monitoring, including Federal student aid program participants, distance education, grantees, and contractors.
4. Data Quality and Reporting, specifically program data reporting requirements to ensure that accurate, reliable, and complete data are reported.
5. Information Technology System Development and Implementation, specifically processes related to oversight and monitoring of information technology system development and implementation.

For a copy of our FY 2014 Management Challenges report, visit our Web site at www.ed.gov/oig.



Anyone knowing of fraud, waste, or abuse involving U.S. Department of Education funds or programs should contact the Office of Inspector General Hotline:

<http://www2.ed.gov/about/offices/list/oig/hotline.html>

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(1-800-647-8733)

Your report may be made anonymously.

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