



# Semiannual Report to Congress, No. 73

April 1, 2016–September 30, 2016

U.S. Department of Education  
Office of Inspector General

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Office of Inspector General  
Kathleen S. Tighe  
Inspector General

November 2016

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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 April 1, 2016, through September 30, 2016. The audits, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness through our oversight of the Department's programs and operations.

Over the last 6 months, we completed 35 investigations involving fraud or corruption related to the Department's programs and operations, securing more than \$27 million in settlements, fines, recoveries, forfeitures, and savings. In addition, as a result of our investigative work, criminal actions were taken against a number of people, including school officials and service providers who cheated the students they were in positions to serve. We also issued 11 audit and other reports that contained recommendations to improve program operations. The following are some examples of the results of our audits and investigations over the last 6 months.

- For the second year in a row, our audit determined that the Department did not comply with the Improper Payments Elimination and Recovery Act because it did not meet the reduction target for the William D. Ford Direct Loan program, its reported improper payment estimates for both the Direct Loan and the Pell grant programs were inaccurate and unreliable, and its improper payment estimation methodologies for these programs were flawed.
- We issued a management information report to share our concerns regarding how commercial third parties are misusing the FSA ID and the Personal Authentication Service to take over borrower accounts. Our report recommended changes to strengthen language on FSA's Web site to enhance our ability to successfully investigate and prosecute bad actors who prey on borrowers and illegally create, access, or make changes to their accounts.
- Our audit determined that charter school relationships with charter management

organizations and education management organizations poses three significant risks to Department program objectives (1) financial risk, (2) risks associated with a lack of accountability over Federal funds, and (3) performance risk. We also found that the Department did not have effective internal controls to evaluate and mitigate the risk that charter school relationships with charter management and education management organizations pose to Department program objectives.

- The insurance carrier for a now-defunct chain of for-profit cosmetology schools agreed to pay more than \$8.63 million to settle claims that the schools obtained Federal student aid for ineligible students who received bogus high school diplomas. The settlement was with the insurance carrier because B&H Education, which operated the schools, went out of business earlier this year.
- Our audit found that the Western Association of Schools and Colleges Senior College and University Commission did not have internal controls in its accreditation process that could provide reasonable assurance that it properly classified (for Federal student aid purposes) the methods of delivery of student learning for competency-based education programs.
- In two separate investigations—one in California and one in Minnesota—two men were found guilty of conspiring to provide material support to the Islamic State in Iraq and Syria and using or attempting to use Federal student aid to provide such support.
- The owner of ED4MIL was charged for allegedly conspiring with university officials to defraud veterans and Federal agencies of millions of dollars in tuition benefits under the Post 9/11 GI bill.
- The Allen School of Health Sciences and its former chief operating officer agreed to pay more than \$4.25 million to settle allegations that they violated the incentive compensation ban by providing improper incentives to the

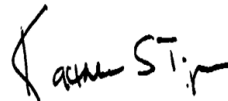
schools' enrollment personnel and provided false or misleading job placement information to prospective students.

- Our audits found internal control weaknesses in the Oregon Department of Education's and the Virginia Department of Education's longitudinal data systems that house personally identifiable information of K-12 students. These weaknesses increase the risk that these State educational agencies will be unable to prevent or detect unauthorized access and disclosure of that information.
- Our investigations led to criminal actions against a number of school officials, vendors, and service providers, including the former chief financial officer of the Grand Prairie Independent School District in Texas who allegedly stole approximately \$600,000 from the school district; the president of the Philuvine Development Center who pled guilty to obstructing a Federal audit in an attempt to conceal her theft of more than \$261,000 in Migrant Education program funds; and the owners the Brilliance Academy and Babbage Net School who pled guilty to charges related to a multimillion dollar Supplemental Educational Services fraud scam. Actions were also taken against the former Director of Migrant Education for New Mexico and two high school Supplemental Educational Services coordinators in Texas for participating in the scam.
- We determined that improvements were needed within the Department's Office of School Support and Rural Programs' monitoring of Rural Education Achievement Program grantees' performance and use of funds. Despite the need for improvements in monitoring, we concluded that the Department's rural education coordination efforts appear to be effective.

In this report, you will find more information on these efforts, as well as summaries of other audits issued and investigative actions taken over the last 6 months. I am very proud of the results of this work, that criminals are behind bars, and that the Department has before it recommendations for improvements from our reports. Our recommendations, when implemented, will help

prevent fraud and abuse, protect student interests, improve oversight and monitoring, and recoup taxpayer dollars.

In closing, I want to thank you for your support of inspectors general. I look forward to continuing to work with you, the Department, and my colleagues in the inspector general community to provide our nation's taxpayers with assurance that the Federal Government is using their hard-earned money effectively and efficiently.



Kathleen S. Tighe  
Inspector General

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Goal 1





Improve the Department's ability to effectively and efficiently implement its programs.





Our first strategic goal reflects our mission to promote the efficiency and effectiveness of the U.S. Department of Education’s (Department) programs. To achieve this goal, we conduct audits, investigations, and other activities that examine Department programs impacting its mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. In our audit 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. Investigative work that contributed to this goal over the last 6 months includes cases involving American Recovery and Reinvestment Act (Recovery Act) funding and charter schools. Below are summaries of our audits and investigations related to this goal.

## Audits

During this reporting period, we issued two audits specific to this goal. The first audit is our nationwide assessment of charter school management organizations and education management organizations. This multi-State audit assessed the current and emerging risk that charter school relationships with charter management organizations and education management organizations pose to Department program objectives and the effectiveness of the Department’s internal controls to mitigate the risk. The audit focused on internal controls, which are integral to the operations of any organization, as they are a means of identifying and managing risks associated with Federal programs and a key component in preventing and detecting fraud, waste, and abuse. The second audit report involved the Rural Education Achievement Program, which provides more than \$169 million each year to rural school districts that may lack the personnel and resources to compete effectively for Federal competitive grants and that often receive grant allocations in amounts that are too small to be effective in meeting their intended purposes. Our audit sought to determine whether the Department adequately monitored the program’s grantees’ performance and use of funds, and to assess the effectiveness of coordination efforts both within the Department and with other Federal agencies involved in rural education. Summaries of these audits follow.

### Nationwide Assessment of Charter Management and Education Management Organizations

In conducting this audit, we assessed the current and emerging risk that charter school relationships with charter management organizations and educational management organizations (both referred to as charter management organizations in our audit) pose to Department through (1) reviews we performed at selected

charter schools with charter management organizations, (2) the body of investigative work the OIG performed regarding charter schools with charter management organizations, and (3) State and local audit reports pertaining to charter schools with charter management organizations. We judgmentally selected 6 States and 33 charter schools with charter management organizations as case studies and reviewed the State educational agencies' (SEAs) and authorizers oversight related to those charter schools. We also reviewed internal controls and monitoring performed at the Department. Based on our extensive review, we determined that charter school relationships with charter management organizations pose a significant risk. Specifically, we found that 22 of the 33 charter schools reviewed had 36 internal control weaknesses related to the charter schools' relationships with their charter management organizations concerning conflicts of interest, related-party transactions, and insufficient segregation of duties. These weaknesses represent significant risks to the Department's program objectives, including (1) financial risk, which is the risk of waste, fraud, and abuse; (2) lack of accountability over Federal funds, which is the risk that, as a result of charter school boards ceding fiscal authority to charter management organizations, charter school stakeholders (the authorizer, SEA, and Department) may not have accountability over Federal funds sufficient to ensure compliance with Federal requirements; and (3) performance risk, which is the risk that the charter school stakeholders may not have sufficient assurance that charter schools are implementing Federal programs in accordance with Federal requirements.

We also found that the Department did not have effective internal controls to evaluate and mitigate those risks, nor did it implement adequate monitoring procedures that would provide sufficient assurance that it could identify and mitigate the risks specific to charter school relationships with charter management organizations. In addition, the Department did not ensure that SEAs monitored the relationships between charter schools and charter management organizations in a manner that would have addressed financial risk, lack of accountability, and program performance risk. This occurred in part because the Department did not collect and analyze information needed to perform a risk assessment and then tailor its monitoring procedures accordingly. Without performing a risk assessment, the Department did not provide guidance to SEAs related to the potential risks posed by charter schools with charter management organizations.

We made a number of recommendations and suggestions to the Department to address the weaknesses identified including that it convene a formal oversight group to determine the most appropriate manner to conduct an analysis and assessment of the risks to its programs posed by charter schools with charter management organizations. We also suggested that the Department propose legislative changes for Congress to consider that would clearly identify the governance responsibilities of

“These weaknesses represent significant risks to the Department's program objectives, including financial risk, lack of accountability over Federal funds, and performance risk.”

the Department and SEAs with respect to the roles, responsibilities, and expectations of the administration and oversight over grants provided to charter schools and require the Department to ensure the integrity of the grants provided to charter schools, specifically with regard to the risks associated with charter management organizations. Further, we suggested that the Department propose legislative changes for Congress to consider that would clearly identify the governance responsibility of authorizing entities with respect to the roles, responsibilities, and expectations of the approval, renewal, and revocation of charters at a nationwide level and ensure that either SEAs or the Department adequately oversee authorizing entities. The Department agreed that there may be increased risk to Federal programs by charter schools that are affiliated with certain management organizations and noted actions it has taken or plans to take to address the risks. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a02m0012.pdf>

## Department's Oversight of the Rural Education Achievement Program

Our audit found that improvements were needed in the Department's Office of School Support and Rural Programs' (SSRP)—the Departmental unit responsible for administering and overseeing the Rural Education Achievement Program—monitoring of Rural Education Achievement Program grantees' performance and use of funds. Despite the need to improve SSRP's monitoring, we concluded that the Department's rural education coordination efforts appear to be effective.

First, we found that SSRP had conducted very limited monitoring to determine whether Rural Education Achievement Program grantees were making progress toward program goals or spending grant funds in accordance with statutory and regulatory guidelines. Instead, SSRP efforts were focused more on ensuring grantees were obligating and spending funds by established deadlines. Of the nearly 4,300 local educational agencies (LEA) that received grants each year from fiscal year (FY) 2011 through FY 2014, SSRP produced only 18 desk monitoring reports of 16 grantees. Over the same time period, SSRP conducted no monitoring of the 44 SEAs that received Rural and Low-Income Schools program grants each year. We also found that while SSRP developed plans to monitor Rural Education Achievement Program grantees' performance and use of funds for FY 2011 and FY 2012, these monitoring plans were left in draft form and went largely unimplemented. SSRP did not develop monitoring plans for subsequent years. Additionally, we noted that although SSRP collected some data on grantees' performance and use of funds, we found little evidence that SSRP used any of that data to inform its monitoring efforts or provide assistance to grantees in meeting program goals, even though grantees appeared to be having difficulty meeting established performance targets. Without adequate monitoring of grantee progress and use of funds, SSRP has little assurance as to whether Rural Education Achievement Program grantees are making progress toward program goals and objectives and little to no insight regarding what grantees are using grant funds for, thereby significantly decreasing the likelihood that it will be able to detect any instances where grantees are using funds for unallowable purposes. Further, with regard to the Rural and Low-Income Schools program, SSRP lacked assurance that its grantees—the SEAs—were conducting required monitoring of their subgrantees to ensure compliance with applicable Federal requirements,



including that grantees were using funds only for allowable purposes and that grantees were achieving performance goals.

Second, we determined that the Department was involved in various internal and external rural education coordination efforts and that these efforts appeared to be effective, as the Department had placed a greater emphasis on internal and external rural coordination activities in the last several years. With effective coordination, the Department has more assurance that it is maximizing its resources and efforts in the area of rural education and may be able to produce a greater benefit to the public than it could otherwise achieve on its own.

To help address the weaknesses identified, we made nine recommendations, including that the Department ensure that SSRP staff develop, finalize, and implement adequate plans to monitor Rural Education Achievement Program grantee performance and use of funds and to implement a risk assessment process that it can use to select grantees for monitoring. The Department noted the actions it was taking or that it planned to take to address the recommendations. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a19p0006.pdf>

## Recovery Act Investigations

Since the enactment of the Recovery Act, the OIG has initiated 227 criminal investigations of various schemes involving improper use of Recovery Act funds. These investigations have resulted in more than 400 criminal convictions and more than \$1.3 million in recoveries. Below is an example of one of our Recovery Act investigations.

### Civil Judgments Filed, Civil Settlement Reached With Sendero Academy Charter School and its Former Superintendent (Texas)

The former superintendent of Sendero Academy, a prekindergarten through 12th grade charter school with two campuses in Texas, agreed to pay the government \$236,000 to settle claims that he and the school violated the False Claims Act. The former superintendent and the school submitted a fraudulent voucher for payment of Recovery Act funds to a bogus vendor to cover the cost of playground equipment that the superintendent purchased separately at auction. The former superintendent and the school also failed to disclose his felony conviction on its charter school application and governance forms. During the time period of the complaint, Sendero Academy received more than \$117,200 in Recovery Act funds. The U.S. Attorney's Office for the Western District of Texas also ordered a default judgment of more than \$351,600 against Sendero Academy.



## Investigations of Charter Schools

From January 2005 through September 30, 2016, the OIG opened 74 charter school investigations. To date, these investigations have resulted in 47 indictments and 39 convictions of charter school officials. The cases that have been fully settled

have resulted in more than \$13.5 million in restitution, fines, forfeitures, and civil settlements. Below is an example of one of our charter school investigations.

### Former Chief Executive Officer of Pennsylvania Cyber Charter School Pled Guilty in \$8 Million Tax Fraud Scam (Pennsylvania)

The former chief executive officer of the Pennsylvania Cyber Charter School pled guilty to tax fraud charges. The former chief executive officer founded a series of connected for-profit and not-for-profit entities to siphon taxpayer funds out of the school to avoid Federal income tax liabilities. For more than 6 years, the former chief executive officer and his accountant falsified corporate books and records and shifted more than \$8 million in income attributable to the chief executive officer to the Federal income tax returns of other people to conceal the income from the Internal Revenue Service. The accountant currently awaits prosecution.

## OTHER ACTIVITIES

### Participation on Committees, Work Groups, and Task Forces

#### *Inspector General Community*

- **Data Act Interagency Advisory Committee.** Inspector General Tighe is a member of this committee that provides strategic direction in support of the implementation of the Digital Accountability and Transparency Act of 2014.

### Review of Legislation, Regulations, Directives, and Memoranda

- **Department Draft Q&A, Rights of Children with Disabilities in Charter Schools Under the Individual with Disabilities Education Act.** The OIG provided clarifying and technical suggestions.
- **Department Draft FAQs, OSEP Confidentiality for IDEA Early Childhood.** The OIG provided clarifying suggestions.

# 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 fraud, waste, 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 more than \$150 billion in student aid annually and manages an outstanding loan portfolio of \$1.2 trillion. This makes the Department 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 and the office of Federal Student Aid (FSA) are responsible for administering and overseeing the student aid programs. The Office of Postsecondary Education 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’s work identified actions that the Office of Postsecondary Education and FSA should take to better protect the interests of students. Summaries of these reports follow.

### The Western Association of Schools and Colleges Senior College and University Commission’s Classification of Competency-Based Education Programs

Our audit found that the Western Association of Schools and Colleges Senior College and University Commission’s (Commission)—a regional academic body responsible for the accreditation of public and private universities and colleges in California, Hawaii, Guam, American Samoa, the Northern Mariana Islands, Micronesia, and Palau—control activities over reviewing schools’ proposed competency-based education programs did not provide reasonable assurance that schools properly



classified the methods of delivery for competency-based education programs. As a result, the Commission's evaluations of the schools' classifications of the methods of delivery will not help the Department ensure that proposed competency-based education programs are properly classified for Federal student aid purposes. We found that the Commission did not evaluate whether proposed competency-based education programs were designed to ensure faculty-initiated, regular, and substantive interaction between faculty and students. According to Federal student aid regulations, programs that are not designed to ensure such interaction should be classified as programs delivered via correspondence, not distance education. Classification as a correspondence program significantly impacts both students' and schools' eligibility for Federal student aid. Students enrolled in correspondence courses may receive only a half-time Federal Pell grant award. Schools may not award Federal student aid to any students if, during the school's latest complete award year, more than 50 percent of the school's courses were correspondence courses or 50 percent or more of the school's regular students were enrolled in correspondence courses.

When schools it accredited proposed new competency-based education programs, the Commission did not apply substantive change review procedures that provided reasonable assurance that the schools properly classified competency-based education programs' methods of delivery. The Commission did not implement procedures to provide reasonable assurance that schools properly classified competency-based education programs' methods of delivery because correspondence education was not within its scope of recognition by the Secretary. Therefore, the Commission did not require peer reviewers, who reviewed the schools' proposed competency-based education programs, to determine whether proposed programs should be more appropriately considered correspondence education. In addition, although we did not identify any significant weaknesses in the Commission's control activities over ensuring that proposed programs' measurements of student learning were properly identified as clock hours, credit hours, or direct assessment, we did identify a deficiency in the Commission's processes for evaluating the accuracy and reliability of schools' credit-hour assignments. We found that during substantive change reviews, the Commission did not always ensure that the credit hours assigned to the programs from which schools derived competency-based education programs met the Federal definition of a credit hour (effective July 1, 2011). The Commission's substantive change review policies and procedures did not require either a thorough review of a school's assignment of credit hours to existing programs or a confirmation that such a review had taken place since July 1, 2011. We also found that the Commission did not always follow its own policy relevant to the review of credit hours. The Commission's policy required peer reviewers to review a school's credit-hour policy as part of the substantive

“The Commission's evaluations will not help the Department ensure that proposed competency-based education programs are properly classified for Federal student aid purposes.”

change review process. However, the Commission approved one school's proposed programs without reviewing the school's credit-hour policy.

To address the issues identified, we made a number of recommendations, including that the Commission revise its policies and procedures for performing substantive change reviews to ensure that it obtains sufficient information to determine whether the interaction between faculty and students will be faculty-initiated, regular, and substantive. If substantive change reviews find that the proposed programs are not designed to ensure faculty-initiated, regular, and substantive interaction, the Commission should notify the schools that the Commission is not authorized to approve the programs for Federal student aid purposes because correspondence education is not within the Commission's scope of recognition. We also recommended that the Commission develop procedures that will ensure it has reviewed, since July 1, 2011, a school's assignment of credit hours for compliance with the Federal definition before approving a substantive change for competency-based education programs. The Commission did not explicitly agree or disagree with our findings; however, it stated that it has taken or plans to take action to correct the issues identified. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a05p0013.pdf>

### Misuse of FSA ID and the Personal Authentication Service

Based on the findings of recent investigative work, we issued a management information report to inform FSA of our concerns regarding how commercial third parties are misusing the FSA ID and the Personal Authentication Service to take over borrower accounts. Our report recommended changes to strengthen language and instructions on FSA Web sites using FSA ID to enhance our ability to successfully investigate and prosecute third parties—particularly predatory loan consolidators—who improperly create, access, or make changes to FSA IDs and accounts. Our report also recommended that FSA increase its proactive monitoring of FSA IDs and Personal Authentication Service audit logs, that it report any suspicious activity to the Department's Computer Incident and Response Capability unit and the OIG, and that it take appropriate administrative action against companies or people that misuse or abuse the system.

As detailed in the report, the OIG has investigated several loan consolidation companies that accessed borrower accounts to consolidate loans or enroll borrowers, including those who were not eligible, in debt forgiveness or reduction programs and charging borrowers unnecessary fees for such services. In 2015, the OIG investigated whether one or more U.S.-based entities were perpetrating a possible fraud scheme by offering questionable student loan consolidation or forgiveness services to borrowers and aggressively trying to get the borrowers to provide their account and loan information. Although we substantiated the allegation, we could not successfully pursue the matter criminally because FSA's Web site instructions for creating an FSA ID do not explicitly prohibit third-party access to borrower accounts—especially in cases where the third party accessed the borrower's account for the purposes of commercial advantage or financial gain.

In December 2015, the OIG suggested that the Department add banner language to its Web sites to specifically address unauthorized third-party users to better protect borrowers and enable the OIG to successfully pursue criminal prosecution against bad actors. The OIG provided the banner language. The Department,

however, declined to take this action; it favored alternative remedies such as issuing cease and desist letters to third-party violators. As stated in our report, this is an ineffective remedy, as such letters serve only to attempt to prevent future access, do not allow the potential criminal prosecution of past illegal use of the system, and prohibit the Department from obtaining any restitution or fines for potential illegal activity.

The report recommended three actions for FSA to take to better protect borrowers from predatory third parties and support criminal investigations and prosecutions of these third parties, and three actions it could take to proactively monitor its systems, take administrative action against predatory third parties, and strengthen Personal Authentication Service audit logs. FSA did not explicitly agree or disagree with the issues identified or our recommendations. FSA proposed corrective actions that we found to be responsive to many of our recommendations; however, it did not provide complete information on some planned corrective actions, and some of the proposed actions are contingent on the results of FSA's further research. <http://www2.ed.gov/about/offices/list/oig/alternativeproducts/x21q0001.pdf>

## 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 Federal student aid funds, significant civil fraud actions against entities participating in the Federal student aid programs, and hundreds of millions of dollars returned to the Federal Government in fines, restitutions, and civil settlements.

### Insurer for the B&H Education Agrees to \$8.6 Million Settlement (California)

The insurance carrier for a now-defunct chain of for-profit cosmetology schools, agreed to pay more than \$8.6 million to resolve civil allegations that the school obtained Federal student aid for ineligible students who received bogus high school diplomas. B&H Education, which operated the now-defunct Marinello Schools of Beauty, was accused of improperly assisting adult students who did not have high school diplomas to obtain bogus high school diplomas. B&H allegedly allowed students seeking high school diplomas to take their tests without proctors, to use their phones and workbooks to look up answers during tests, and to repeat the same tests until they passed. Many of the students that received their high school diplomas through this program then enrolled at B&H, and, with B&H's assistance, applied for and received Federal student aid for which they were not eligible.

### Former President and Chief Executive Officer of Masters of Cosmetology College Agreed to Pay \$5.8 Million (Indiana)

The former president and chief executive officer of the for-profit Masters of Cosmetology College pled guilty to charges related to Federal student aid fraud and agreed to pay more than \$5.8 million in restitution. The former president falsified information in order to obtain student aid that far exceeded loan limits or on behalf of students who were ineligible to receive the aid, forged student signatures on student aid application forms, made misleading statements to students regarding financial aid repayment, and transferred Federal student aid into her personal investment account.

### Allen School of Health Sciences and its Former Chief Operating Officer Agreed to Pay Nearly \$4.3 Million (New York)

The Allen School of Health Sciences, a for-profit school with campuses in Brooklyn and Queens, New York, and its former chief operating officer agreed to pay nearly \$4.3 million to settle allegations that they violated the incentive compensation ban by providing improper incentives to the schools' enrollment personnel and provided false or misleading job placement information to prospective students. The school agreed to pay \$4.25 million and its former chief operating officer agreed to pay \$40,000.

### Owner of FastTrain College Sentenced to Prison (Florida)

The owner of the now-defunct FastTrain College was sentenced to 8 years in prison for orchestrating a massive fraud scheme. The former owner directed FastTrain employees to recruit students who had not earned a valid high school diploma or its equivalent, obtained fake high school diplomas for them, and falsified their Federal student aid applications and related information to make it appear that the students were eligible to attend the school and receive Federal student aid when in fact they were not. Further, the school used exotic dancers as admissions officers in an effort to lure young male students to the school. As a result of their fraudulent recruiting practices, more than 1,300 Federal student aid applications containing falsified information were submitted to the Department, which yielded some \$4.1 million in Federal student aid, a good portion of which the owner used to fund a lavish lifestyle.

### Civil Settlement of \$510,000 Reached With Four For-Profit Schools (Texas)

Empowerment Schools Healthcare, Texas Medical Careers, Empowerment Schools, and Med-Teach agreed to pay \$510,000 to settle claims that they knowingly violated the incentive compensation ban. The settlement resolved claims that the schools made employment offers and offered paid time off and other rewards to admissions representatives that were contingent on achieving a specific number of student enrollments or starts within a certain time frame.



### Former Owner of Alden's School of Cosmetology Indicted in Federal Student Aid Scheme (Louisiana)

The former owner and chief executive officer of Alden's School of Cosmetology and Alden's School of Barbering was indicted on charges that included theft of government funds, fraudulently obtaining financial assistance funds, aggravated identity theft, misrepresentation, and money laundering. The indictment claims that the former chief executive officer misrepresented that certain students attending the schools were enrolled in Federal student aid-eligible programs when in fact they were not, certified hours for students that were never completed, and transferred criminally derived property between numerous bank accounts. As a result of these alleged criminal actions, the former chief executive officer and the schools received more than \$100,000 in Federal student aid.

### Former Suffolk University Employee Pled Guilty to Student Loan Fraud (Massachusetts)

A former Suffolk University employee pled guilty to stealing more than \$40,000 in Federal student aid by falsifying her own student records. While employed in the registrar's office, the employee enrolled in the school's MBA program but failed to attend class or complete required course work. Instead, the employee used her position and access to the school's computer system to assign herself passing grades for classes she never attended. By maintaining the appearance of being a graduate student, the employee was able to obtain more than \$40,000 in Federal student aid, which she spent on vacations and other personal expenses.

### Former Wilson Community College TRIO Program Director Sentenced for Theft (North Carolina)

The former TRIO programs director at Wilson College was sentenced on charges related to theft and fraud. The former director concocted false requisitions forms, vouchers, and contracts; made payments to her boyfriend for financial literacy workshops and services that he never provided; and submitted reimbursement forms for work-related travel to events that she never attended. She also assisted her boyfriend in stealing eight computers from the school's TRIO offices, several of the computers were pawned and others were found in the home the couple shared. The former program director was sentenced to 4 years of probation and was ordered to pay more than \$27,250 in restitution.

### Former Unitech Training Academy Financial Aid Officer Pled Guilty to Fraud (Louisiana)

A former financial aid officer at Unitech Training Academy pled guilty to charges related to student aid fraud. The former officer scammed unwitting students who had received Federal student aid award balances by telling them that they owed the school additional money for school fees including graduation fees, promissory note fees, or out of pocket expenses. She then instructed them to cash their award refund checks and pay the fees in cash to her. The former officer did not apply student cash payments to their accounts and kept the money for her own personal benefit.

### Former For-Profit School Employee Pled Guilty in Default Rate Scam (New York)

A former employee in the loan management department of a for-profit school pled guilty to charges related to student aid fraud. The former employee prepared and submitted fraudulent applications for deferment or forbearance for student loans administered by the Department. She did this to fraudulently lower the school's cohort default rate so that it would maintain its eligibility to participate in the Federal student aid programs. From 2010 to 2014, the time period of this scam, the school received about \$93 million in Federal student aid.

### Criminal Complaint Filed Against Former Official of Coral Ridge Training School for Fraud and Identity Theft (Florida)

A criminal complaint was filed against a former financial aid official at the now-defunct Coral Ridge Training School on charges of fraud and identity theft. The former director allegedly used her position to apply for and receive more than \$80,000 in Federal student aid on behalf of students who did not want aid and were not informed that someone had obtained the aid on their behalf.

## 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 the large number of actions taken against fraud ring participants during this reporting period.

We also continued with a proactive investigative project to identify student aid fraud rings. The project uses an E-Fraud Query System risk model that we developed, as well as other investigative and analytical tools and data sources, to identify the scope of each fraud ring, estimate the total potential fraud, and establish grounds for initiating criminal investigations. To date, this project has identified more than \$31 million in potential fraud.

### Action Taken Against Member of \$1.9 Million Fraud Ring (Florida)

In previous issues of our Semiannual Reports, we highlighted actions taken against 21 people, some of whom were Miami Dade Community College students, for their roles in a fraud ring. During this reporting period, another participant was sentenced to prison for his role in the scam. The ring obtained Higher One Financial Services account information of more than 1,000 students and then used that information to file fraudulent tax refunds to the Internal Revenue Service, directing the resulting refunds—totaling some \$1.9 million—to be deposited into bank accounts that they controlled. The ring member was sentenced to serve 30 months in prison and 3 years of supervised release and was ordered to pay more than \$98,400 in restitution.

### Leader of \$250,000 Fraud Ring Pled Guilty (Colorado)

The leader of a ring that targeted online courses and Federal student aid at various community colleges in Colorado and New Mexico pled guilty to charges related to student aid fraud. From 2007 through 2012, the woman recruited people to act as “straw students,” completed admissions and Federal student aid application forms often containing false information on their behalf, and took a portion of the student aid award balance once received. As a result of her criminal efforts, the ring fraudulently obtained more than \$250,000 in student aid.

### Repeat Student Aid Fraud Offender Sentenced (Florida)

A man who was sentenced to prison for student aid fraud in 2004 was sentenced in August for another fraud scheme. The man and an accomplice used the identities of numerous people, some without knowledge or permission, to fraudulently apply for admission to attend online classes and receive Federal student aid from American Public University, Art Institute of Pittsburgh, Colorado Technical University, Full Sail University, Grand Canyon University, Liberty University, and Westwood College. The repeat offender was sentenced to serve 17 months in prison and 36 months supervised release and was ordered to pay more than \$111,000 in restitution.

### Participant in \$105,000 Fraud Ring Sentenced (Missouri)

A man was sentenced for participating in a fraud ring that targeted online courses and Federal student aid at Jefferson College. The man willfully provided his personally identifiable information to the fraud ringleader who then used that information to apply for admissions and Federal student aid from the school knowing that the man had no intention of attending classes. The ringleader obtained nearly \$15,000 in Federal student aid using the man’s identity. The fraud ring participant was sentenced to serve 7 months of home confinement and 3 years of supervised release and was ordered to pay nearly \$15,000 in restitution.

### Final Member of \$121,000 Fraud Ring Sentenced (Virginia)

In our last Semiannual Report, we shared that criminal actions were taken against three women for their roles in a student aid and insurance company fraud scheme. During this reporting period, the third and final member of the ring was sentenced for her role in the scam. Between 2011 and 2014, the women submitted fraudulent admissions and student aid applications to schools, including Liberty University, to obtain Federal student aid funds for online classes they never intended to take. Two of the women were also involved in a scheme to defraud insurance companies by submitting insurance claims for fictitious car accidents. The woman was sentenced to serve 24 months in prison and 3 years of supervisory release and was ordered to pay more than \$121,200 in restitution. Her two conspirators were each sentenced to prison earlier this year for their roles in the ring.

### Wife of Imprisoned Fraudster Sentenced (California)

The wife of a man who was sentenced to prison in 2014 for orchestrating a student aid fraud ring scam was sentenced for her role in the scam. The OIG investigation found that from 2009 through 2011, the couple targeted online classes and Federal student aid at Cosumnes River College, American River College, and Solano Community College. The two recruited people to act as straw students, completed

school admissions and student aid forms on their behalf, and took a portion of the student aid once received. The woman was sentenced to serve 6 months of home confinement followed by 12 months of probation and was ordered to pay more than \$66,700 in restitution.

### Leaders of \$140,900 Fraud Ring Pled Guilty (Virginia)

Two people with criminal histories in multiple States pled guilty in Virginia to charges related to student aid fraud. The two used the identities of others—including relatives, friends, prison inmates, and a veteran convalescing in a military hospital—to fraudulently apply for more than \$140,900 in Federal student aid from multiple schools, including Northern Virginia Community College.

### Leader of \$17,400 Fraud Ring Sentenced (California)

The leader of a fraud ring that targeted online courses and Federal student aid at San Diego College was sentenced to serve 12 months of home confinement and 5 years of probation and was ordered to pay more than \$17,400 in restitution. The ring leader recruited people to act as straw students and completed and submitted admissions forms and student aid applications on their behalf, knowing that the straw students were not academically qualified to attend the school and had no intention of attending classes.

## Investigations of Other Student Aid Fraud Cases

The following are summaries of the results of additional OIG investigations into abuse or misuse of Federal student aid. Although some of these cases involve criminals who used the identities of others (with and without consent) to exploit distance education programs in order to obtain Federal student aid, they are not fraud rings because they do not involve multiple fraud perpetrators.

### Men Found Guilty of Using Federal Student Aid to Support the Islamic State in Iraq and Syria (Minnesota, California)

In previous Semiannual Reports, we highlighted actions against men for using or attempting to use Federal student aid to provide material support to the Islamic State in Iraq and Syria (ISIS). During this reporting period, more actions were taken in two separate cases. In the first case, three men were found guilty in Minnesota of conspiring to commit murder and provide material support to ISIS; one of them

“ Three men were found guilty in Minnesota of conspiring to commit murder and provide material support to ISIS.

was convicted for attempting to use Federal student aid to do so. The man used \$2,400 in Federal student aid to purchase a round-trip airline ticket to Greece with the intention of traveling to Syria to fight for ISIS. In the second case, two men were found guilty in California for conspiring to provide material support to ISIS. One of the men was also convicted of attempting to use Federal student aid to do so. The student used



more than \$671 in Federal student aid to purchase a plane ticket for another man to travel to Turkey and eventually to Syria to join ISIS.

### Owner of ED4MIL Charged in \$35 Million GI Bill Fraud Scheme (New Jersey)

The owner of the ED4MIL was charged with allegedly conspiring to defraud about \$35 million in tuition benefits under the Post 9/11 GI Bill. From 2009 through 2013, the owner partnered with a New Jersey-based university to offer online, noncredit training and certifications for veterans. The courses, however, were not approved by the U.S. Department of Veterans Affairs nor were they being developed, taught, or administered by the university. Instead, they were allegedly developed, taught, and administered by an unapproved subcontractor and online correspondence school that ED4MIL hired. Even though the university contributed no content or value to the courses whatsoever, it charged the Post 9/11 GI Bill between 10 and 30 times the price that the online correspondence school charged.

### New York University Graduate Student Sentenced in Million Dollar Student Aid Fraud Scheme (New York)

A New York University graduate student was sentenced to prison for defrauding the Department of more than \$1 million by submitting false documents in connection with his request for financial aid. From 2008 through 2013, the graduate student submitted documentation to New York University to obtain additional financial aid that was above the standard cost of attendance. The student submitted false letters and documents purporting to be from doctors, his landlord, and a University professor, which allowed him to receive more than \$1 million in Federal student aid. The graduate student was sentenced to serve 18 months in prison and 3 years of supervised release and was ordered to pay more than \$1.1 million in restitution.

### Man Who Stole Identity of Military Veteran Sentenced to Prison (Missouri)

A man was sentenced to prison for using the stolen identity of a military veteran to apply for and receive Federal grants and benefits, including nearly \$15,000 in student aid. From 2012 through 2014, the man used the stolen identity of a U.S. Navy veteran to apply for and receive Federal Pell grant funds and student loans, as well as health care benefits and retraining assistance from the U.S. Department of Veterans Affairs. The man was sentenced to serve 51 months in prison and 3 years of supervised release and was ordered to pay more than \$234,400 in restitution.

### Woman Sentenced for Using Multiple Social Security Numbers to Obtain \$108,000 in Student Aid (Texas)

A woman was sentenced to prison for obtaining three Social Security numbers in her own name and using those as well as the identity of her mother and her ex-boyfriend to apply for and receive nearly \$100,000 in Federal student aid. From 2006 through 2014, the woman applied for multiple sources of financial aid at multiple schools, funds that she did not use for educational purposes. She was sentenced to serve

12 months in prison and 2 years of supervised release and was ordered to pay more than \$108,000 in restitution.

### Brother and Sister Sentenced to Prison for Roles in \$300,000 Fraud Scam (Nevada)

A brother and sister were sentenced to prison for using false identities to steal almost \$300,000 in Federal funds, including Federal student aid. The two falsely claimed to be U.S. citizens when in fact they were citizens of Belize, and they used false identities to apply for and receive the aid. The brother was sentenced to serve 87 months in prison and 3 years of supervised release and was ordered to pay about \$297,000 in restitution. His sister was sentenced to serve 65 months in prison and 3 years of supervised release and was ordered to pay \$218,000 in restitution.

### Former Store Owner Sentenced for Theft From Multiple Federal Agencies (Michigan)

The former owner of the Detroit Fish Express Store was sentenced to prison for theft. The store owner and his spouse completed and submitted applications for Federal program funds that underreported or omitted the ownership of his business and his true income. As a result, the man received more than \$204,000 in Federal funds to which he was not entitled, including more than \$57,100 in Federal student aid. He was sentenced to serve 6 months in prison and 2 years of supervised release and was ordered to pay more than \$204,200 in restitution, including more than \$57,000 to the Department.

## Noteworthy News

### New Audit Guide for Proprietary Schools

In September, the OIG issued the Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs (Guide), providing instructions for how independent auditors should evaluate for-profit colleges' compliance with Federal student aid regulations. Federal law and regulations require all schools participating in the Federal student aid programs to have an annual financial and compliance audit performed by an independent auditor. The regulations also require the OIG to produce a guide to assist the schools and the auditors in meeting this requirement. The Guide has been revised to require the auditor to perform a compliance audit of proprietary schools, not an examination-level attestation engagement relative to the school's management's assertions about compliance, as previously required. The Guide continues to require compliance attestation engagements of third-party servicers. The Guide changes the audit/attest procedures to presumptively mandatory, identified by the term "should." This is a change from the previous guide, which described the procedures as "suggested." The Guide reflects a significant number of statutory and regulatory changes that were made since the previous guide was issued in 2000. Some of these changes include instructions on gainful employment reporting, subsidized loan eligibility time limit (also known as the 150-percent limit), and the debit card

provisions. In addition, the Guide includes improved testing requirements for the 90/10 revenue test, incentive compensation, and comprehensive reporting of related-party transactions. These updates should result in more consistent auditing and more accurate reporting. The Guide also gives detailed requirements for identifying covered individuals or entities, reviewing and assessing relevant documentation, and reviewing a sample of salary adjustments for covered individuals. Furthermore, it puts an increased focus on the completeness and accuracy of information reported to the Department and disclosed to students. Auditors are required to determine the completeness and accuracy of gainful employment reporting and disclosures; completion, graduation, and transfer-out rates; and job placement rates. The Guide also requires testing of attendance for distance education programs. Finally, the Guide provides for expanded testing for third-party servicers' compliance with the requirements applicable to the contracted Federal student aid services or functions, regardless of whether the contracted services or functions are provided by the servicer or by a subcontractor. A copy of the Guide and related materials can be found on our Web site at <http://www2.ed.gov/about/offices/list/oig/nonfed/sfa.html>.

# 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, including issues related to negotiated rulemaking for student loan regulations and for teacher preparation regulations.

## Review of Legislation, Regulations, Directives, and Memoranda

- **Department's draft Letter to Accrediting Agency Directors Regarding Educational Quality through Innovative Partnerships.** The OIG offered a clarifying suggestion.
- **Department's draft Dear Colleague Letter on Third-Party Servicer Questions and Answers.** The OIG provided technical comments.
- **Department's draft Dear Colleague Letter Providing Guidance to Institutions on the Identification & Resolution of Possible Conflicting Information Resulting from the Use of 2015 Income & Tax Info for Both 2016-17 & 2017-18 Free Application Of Federal Student Aid.** The IG provided comments to improve the quality and integrity of the document.
- **Department's draft Notice of Proposed Rulemaking and draft Final Rule for Borrower Defense to Repayment regulations.** The OIG provided technical and qualitative comments to improve the quality and integrity of the documents.



Goal 3



Protect the integrity of the  
Department's programs and operations.



Our third strategic goal focuses on our commitment to protect the integrity of the Department's programs and operations. Through our audit 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 to protect public education funds for eligible students by identifying those who abuse or misuse Department funds and helping hold them accountable for their unlawful actions.

## Audits

In support of this goal, the OIG issued three audits. The first two audits examined the internal controls two SEAs—the Oregon Department of Education and the Virginia Department of Education—have to prevent, detect, report, and respond to unauthorized access and disclosure of personally identifiable information of its K–12 students contained in their Statewide Longitudinal Data Systems (SLDS). These are the first two audits in our series of State reports on this issue. We will share the findings of our additional work once completed. The third audit related to this goal is an audit of the North Carolina Department of Instruction's efforts to ensure that LEAs took timely and appropriate action to correct single audit findings. The North Carolina Department of Public Instruction is responsible for advising LEAs of the requirements associated with the use of Federal funds and ensuring that they comply with those requirements. As single audits are often the only on-site review of how LEAs spend Federal dollars, correcting any findings identified in single audits is a critical tool in protecting Federal funds from waste, fraud, and abuse. This was the second report in our series on this issue; the first report involving the Massachusetts Department of Elementary and Secondary Education was highlighted in our last Semiannual Report. Below you will find summaries of the three reports.

### Protection of Personally Identifiable Information in Statewide Longitudinal Data Systems

The Department's Institute for Educational Sciences provides grants to SEAs to develop SLDSs that collect and maintain detailed, high-quality, student- and staff-level data that are linked across entities and provide a complete academic and performance history for each student. The grants also provide money for making these data accessible through report and analysis tools. Due to the sheer volume



of personally identifiable information included in these systems, it is critical that SEAs have established and implemented internal controls to protect these vital data. Below are summaries of our audits of the Oregon Department of Education and the Virginia Department of Education on this subject.

### *Oregon*

Our audit found that the Oregon Department of Education (Oregon) Consolidated Collection System, Oregon's SLDS, had a lack of documented internal controls in the system that increases the risk that Oregon will be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. Specifically, we found that Oregon did not ensure that the Consolidated Collection System met the minimum requirements in Oregon's Department of Administrative Services State Standards, which require the system controls and documentation of those controls. Since Oregon did not meet the minimum State requirements, it was not in compliance with the Institute of Education Sciences SLDS grant requirements. In addition, Oregon had policies and procedures that address reporting and responding to unauthorized access and disclosure of personally identifiable information in its data system. However, we could not determine whether the procedures were effective because Oregon had not reported any system breaches in the Consolidated Collection System. We recommended that the Director of the Institute of Education Sciences work with Oregon to ensure system controls identified in Oregon's Information Security Plan are implemented, the Consolidated Collection System meets minimum State security standards, and determine whether a breach has occurred in the system and report as necessary. Oregon did not agree with our finding but agreed with our recommendations and identified actions it has taken or plans to take to address them. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a02p0007.pdf>

### *Virginia*

Our audit found that the Virginia Department of Education (Virginia) used grant funds to develop the Virginia Longitudinal Data System, a system that queries other State systems to obtain longitudinal data for research purposes, and its Single Sign-on Web System, which contains K-12 student data that Virginia Longitudinal Data System queries. We focused our audit efforts on the Single Sign-on Web System because it contains students' personally identifiable information. We identified internal control weaknesses in the system that increase the risk that Virginia will be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. Specifically, we found that although Virginia classified the Single Sign-on Web System as a sensitive system, it did not ensure that it met the minimum State requirements for a system classified as sensitive. This meant that Virginia also was not in compliance with the Institute of Education Sciences SLDS grant requirements. We determined that Virginia has policies and procedures that address reporting and responding to unauthorized access and disclosure of data, but we could not determine whether Virginia effectively implemented the procedures because Virginia has not reported any system breaches in the Virginia Longitudinal Data System or the Single Sign-on Web System. Based on this finding, we made several recommendations including that Virginia implement required system controls to ensure the prevention and detection of unauthorized access and disclosure of information contained in the Single Sign-on Web System. We also recommended that it take appropriate action to determine whether a breach has occurred and, if so,

report and respond in accordance with established policies and procedures. Finally, we recommended that Virginia address all outstanding recommendations related to system security, as our audit determined that previous findings by the Virginia Auditor of Public Accounts noted system control weaknesses that Virginia had not adequately addressed. Virginia did not agree with our finding or recommendations. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a02p0006.pdf>

### North Carolina Department of Public Instruction's Oversight of Local Educational Agency Single Audit Resolution

Our audit determined that the North Carolina Department of Public Instruction (North Carolina) improved its oversight of LEA single audit resolution in recent years, but further improvements were needed. Specifically, we found that North Carolina implemented several effective oversight practices, including requiring LEAs to take appropriate corrective actions to resolve audit findings, placing extra emphasis on repeat findings to ensure they are resolved promptly, engaging in proactive communication with LEAs related to audit resolution, issuing management decisions for both Federal program findings and financial statement findings, and enhancing management oversight over the audit resolution process. North Carolina was also able to expedite the audit resolution process as a result of another North Carolina State agency's requirement that LEAs submit single audit reports 5 months before the deadline specified in Office of Management and Budget policies. Despite these effective practices, however, we found that North Carolina should take additional action in several areas to ensure its oversight processes and practices meet all Federal requirements and function effectively. For example, North Carolina did not have adequate written policies and procedures describing all aspects of its oversight of



the LEA audit resolution process. North Carolina also did not have an adequate system for tracking LEA findings across audit periods or across the State, nor did it have a quality assurance process for its oversight of LEA audit resolution. Finally, even though North Carolina issued management decisions for all LEA audit findings in the last year of our audit period, its management decisions did not meet all Federal content requirements. Based on our finding, we recommended that North Carolina finish developing and implementing written policies and procedures for overseeing LEA single audit resolution, establish an integrated tracking system for individual LEA findings across the State, implement a periodic quality assurance process to assess North Carolina's effectiveness in this area of oversight responsibility, and ensure that North Carolina's management decisions meet Federal content requirements. North Carolina agreed with three

of the four recommendations and described steps it had taken or planned to take to implement associated corrective actions. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a09p0005.pdf>

# Investigations of School Officials, Vendors, and Contractors

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

## Former Grand Prairie Independent School District CFO Indicted for Theft (Texas)

The former chief financial officer of the Grand Prairie Independent School District was indicted on charges of program theft. The former chief financial officer, currently the director of finance for the International Leadership of Texas organization, allegedly stole about \$600,000 from the Grand Prairie Independent School District.

## Actions Taken Against El Paso Independent School District Officials on Conspiracy Charges (Texas)

In 2012, the former superintendent of the El Paso Independent School District (El Paso) was sentenced to prison for steering school contracts to his girlfriend and for directing school district employees to change student records, reclassify student grade levels, and take other actions to make it appear that the school district was meeting or exceeding Adequate Yearly Progress standards in order to receive financial bonuses. During this reporting period, actions were taken against seven current and former El Paso employees for their roles in the scam. Two employees—a former El Paso associate superintendent and a former director of priority schools—pled guilty to conspiring with the former superintendent. Three others—another former El Paso associate superintendent, a former principal of Austin High School, and a former assistant principal at Austin High School—were indicted for their roles in the conspiracy. In addition, two former Austin High School assistant principals were charged for allegedly retaliating against school district employees whom they thought had cooperated with Federal investigators during the course of the investigation.

## Former Beaumont Independent School District Assistant Superintendent and Former Teacher Sentenced (Texas)

In our last Semiannual Report, we noted that a former Beaumont Independent School District assistant superintendent pled guilty to theft and conspiracy, and a former Beaumont Independent School District teacher pled guilty to conspiracy. During this reporting period, the two were sentenced for their crimes. The former assistant superintendent admitted to embezzling money from the school district, including stealing money from a high school booster club and steering contracts to family members totaling \$480,000 for services that were never provided. This included contracts to her son for printing services, which her son contracted out

and then billed the district at an exorbitant price. The former teacher was sentenced for conspiring with the former assistant superintendent to increase standardized test scores by providing teachers with test answer keys and by changing answers on student test booklets. The former assistant superintendent was sentenced to serve 40 months in prison and 3 years of supervised release and was ordered to pay more than \$500,000 in restitution. The former teacher was sentenced to serve 3 years of probation and was ordered to perform 300 hours of community service.

### Owner of School Bus Company Charged With Federal Tax Violations (Illinois)

The owner and president of the Jewel Bus Company, a company contracted to provide bus services to Chicago Public School children, was charged with Federal tax violations for allegedly spending the company's money to purchase and renovate a home and illegally deducting the funds in U.S. tax filings. From 2009 through 2011, the owner allegedly transferred money from the bus company to another company controlled by a relative who used it to purchase a \$500,000 home. The owner also spent more than \$600,000 of the company's money to renovate the house. The owner allegedly concealed the scheme by telling the company's tax preparers that the transferred funds and the renovation costs were tax-deductible corporate expenses. She also lied to an Internal Revenue Service officer during an interview about her company's failure to remit all required employment taxes.

### President of Philuvine Development Center Pled Guilty to Obstruction (Florida)

The president of Philuvine Development Center—a Migrant Education High School Equivalency program grantee—pled guilty to obstructing a Federal audit. During the course of a Department onsite review, the president provided doctored bank records and other false documents to the auditors in an attempt to conceal the fact that she used more than \$261,000 in program funds on personal items such as jewelry, clothing, and a matchmaking service.

### School Principal Sentenced for Embezzlement (Puerto Rico)

The former principal of the Manuel Mediavilla-Negron Vocational Technological Public High School was sentenced for embezzling more than \$67,000 in school funds. The former principal cashed checks written to him from the school bank account to pay for various personal bills, his fitness club membership, and online shopping. The former principal was sentenced to serve 3 years of supervised release and was ordered to pay more than \$67,200 in restitution.

### Former Buffalo School District Official Pled Guilty to Fraud (New York)

The former supervisor of Title I programs for the Buffalo School District pled guilty to stealing funds from Buffalo schools. The former supervisor awarded a fraudulent school district contract to her son for computer and tutoring services that were never provided. Her son submitted invoices to the school district seeking payment

for his ghost services, which his mother approved and paid on behalf of the school district. As a result of their fraudulent efforts, the school district paid her son more than \$15,100 for services that were never provided.

## Investigations of Supplemental Educational Services Providers

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

### Brilliance Academy/BabbageNet School Executives, Others Pled Guilty to Fraud (Illinois)

A father and son team who controlled the Brilliance Academy and its wholly owned subsidiary Babbage Net School—tutoring companies that received Supplemental Educational Services funds from some 200 schools in 19 States across the country—pled guilty to charges of fraud. The two misrepresented the tutoring services that their companies provided, gave substandard educational materials to students, falsely inflated invoices for tutoring services, and distributed false student programs and improvement reports to the schools that paid the companies. In addition, the father and son paid bribes to school officials and others in Texas and New Mexico in exchange for their participation in the scam. One of these participants, the former Director of Migrant Education for the State of New Mexico who also oversaw the State's Supplemental Educational Services programs, pled guilty to his role in the scam; 2 other participants, a Supplemental Educational Services coordinator at Sam Houston High School in San Antonio, and a Supplemental Educational Services coordinator at Miller High School in Corpus Christi, entered into a pretrial diversion, agreeing to pay \$5,500 and \$10,000 in restitution respectively and to perform 100 hours of community service.

### Former Chief Financial Officer of American Tutor Pled Guilty to \$1.4 Million Tax Fraud Scheme (New Jersey)

The former chief financial officer of American Tutor pled guilty to charges of corporate tax evasion and aiding and assisting in the filing of a false tax return. The former chief financial officer, who is also a certified public accountant, filed a tax return on behalf of the company that contained materially false information to reduce the company's tax liability. He also prepared and filed fraudulent tax returns that excluded significant income for tax year 2010. He admitted that his fraudulent actions resulted in a tax loss of more than \$1.4 million to the Internal Revenue Service.



# OTHER ACTIVITIES

## Participation on Committees, Work Groups, and Task Forces

### *Federal and State Law Enforcement-Related Groups*

- **Northern Virginia Cyber Crime Working Group.** The OIG participates in this working group 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.** The 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.
- **Government Accountability Office's Domestic Working Group.** Inspector General Tighe serves on this working group focused on advancing accountability in Federal, State, and local government.

## Review of Legislation, Regulations, Directives, and Memoranda

- **Department Draft Dear Colleague Letter, Restraint and Seclusion in Public K-12 Education, Discrimination against Students with Disabilities, and Violations of Section 504 of Rehabilitation Act.** The OIG made a clarifying suggestion.
- **Department Draft Notice Inviting Applications, Teacher and School Leader Incentive Fund Program.** The OIG made clarifying suggestions.

# Goal 4

Contribute to improvements in  
Department business operations.





Effective and efficient business operations are critical to ensure that the Department effectively manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. Our reviews in this area seek to help the Department accomplish its objectives by ensuring its compliance with applicable laws, policies, and regulations and the effective, efficient, and fair use of taxpayer dollars with which it has been entrusted.

## Audits and Reviews

OIG work completed over the last 6 months that contributed to this goal includes our statutory audit involving the Department's compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), which requires Federal agencies to conduct annual risk assessments to determine which programs are susceptible to significant improper payments and to estimate, reduce, and recover improper payments. We also issued a summary report presenting the overall results of our series of audits involving external audit followup processes by four Department offices—FSA, the Office of Elementary and Secondary Education, the Office of Special Education and Rehabilitative Services, and the Office of the Chief Financial Officer. We also issued an audit related to FSA's oversight of information technology projects, and a report of the results of our statutory Cybersecurity Act review. Summaries of these reports follow.

### Compliance With the Improper Payments Elimination and Recovery Act for FY 2015

We found that the Department did not comply with the Improper Payments Elimination and Recovery Act because its FY 2015 improper payment rate did not meet the reduction target for the William D. Ford Federal Direct Loan (Direct Loan) program. The Department established an FY 2015 reduction target of 1.49 percent for the Direct Loan program; however the improper payment rate for the program was 2.63 percent after the Department recalculated this rate to correct for the formula execution errors we identified during our audit. Therefore, the Department failed to meet one of IPERA's six compliance requirements.





Similar to our previous IPERA audits, we found that the Department's improper payment methodologies for the Federal Pell Grant and Direct Loan programs were flawed, as its estimation methodologies did not include all program reviews that could identify improper payments. We also found the estimation methodology for the Pell program excluded sources of improper payments, such as the Free Application for Federal Student Aid/Internal Revenue Service Data Statistical Study, and fraud. The estimation methodologies resulted in volatile improper payment estimates

that could be significantly influenced by a single program review. Further, the estimation methodologies did not include all improper payments from ineligible programs or locations identified in program reviews. In addition, we found that Department's reported improper payment estimates for both the Pell Grant and Direct Loan programs were inaccurate and unreliable because spreadsheet formulas used in the calculations were incorrect and the calculations deviated from the Office of Management and Budget-approved methodologies.

We made nine recommendations to address the issues identified, including that the Department analyze all available sources that identified improper payments for root causes of such improper payments and evaluate FSA's existing controls to determine whether additional controls can be implemented, intensified, or expanded to reduce improper payments. We also recommended that the Department revise the improper payment estimation methodologies to include all improper payments in the calculation of the improper payment estimates, such as improper payments resulting from recipients submitting inaccurate self-reported income on the Free Application for Federal Student Aid, all improper payments resulting from schools disbursing Pell and Direct Loan funds to students enrolled in ineligible programs or students attending ineligible locations, and other improper payments not identified in program reviews. The Department agreed with our findings and agreed or partially agreed with all of our recommendations. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a02p0006.pdf>

### The Department's Followup Process for External Audits

In previous Semiannual Reports, we summarized the findings of our series of audits assessing the effectiveness of the Department in ensuring that external auditees implement corrective actions made in OIG audit reports. This is an important issue because not ensuring that auditees quickly take corrective actions allows identified deficiencies to continue to exist, and the risk remains that auditees will not effectively manage related programs and use funds as intended. We examined these processes in the Department's Office of Elementary and Secondary Education, the Office of the Chief Financial Officer, the Office of Special Education and Rehabilitative Services, and FSA. All of these reports found that the offices needed to improve their external audit followup process. During this reporting

period, we issued our summary report highlighting the combined results from these four audits. We noted that the Post Audit Group within the Office of the Chief Financial Officer did not fulfill its responsibilities to ensure that action officials had systems to follow up on corrective actions, monitor the Department's compliance with Office of Management and Budget Circular A-50, and ensure the overall effectiveness of the Department's audit resolution and followup system. We noted that the Department closed 241 OIG external audits between October 1, 2008, and September 30, 2015. During this period, 169 cumulative (70 percent) were closed more than 2 years after resolution; 93 cumulative (39 percent) were closed more than 5 years after resolution; and 29 cumulative (12 percent) were closed more than 7 years after resolution. In addition, adequate documentation was not maintained for 75 out of 126 recommendations (60 percent) in the closed audits we reviewed, including for monetary corrective actions totaling more than \$8.4 million. As a result of our findings, we determined that the Department did not have assurance that requested corrective actions were taken and that the issues noted in the OIG audits were corrected. Based on our findings, we made seven recommendations, including that the Department develop and implement a process to periodically evaluate the appropriateness of its program offices' followup systems for external OIG audits, to include tracking timeliness of closure. The Department agreed with all but one of our recommendations. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a19o0001.pdf>

## Oversight of the Development and Enhancement of Information Technology Products

Our audit to determine whether FSA's oversight of information technology (IT) projects ensures that lifecycle management methodology was appropriately implemented, found that FSA's oversight was not sufficient.. This occurred because no specific office or official had been designated overall responsibility to ensure the enforcement of lifecycle management methodology for all IT projects.

FSA's stated purpose for lifecycle management methodology is to create an environment in which staff involved in IT project identify risks and mitigate them early in the project lifecycle. According to its lifecycle management methodology, FSA's executives have important roles and responsibilities in implementing lifecycle management methodology, as all projects with an IT component were expected to adhere to the applicable elements and requirements of the lifecycle management methodology. Despite this requirement in its own policy, we found that FSA did not have an accountability mechanism and sufficient oversight of IT projects to provide assurance that project teams appropriately implemented its lifecycle management methodology process. Specifically, we found that FSA did not always conduct required technical and management reviews in accordance with the lifecycle management methodology criteria, did not always update project tailoring plans as projects progressed through their lifecycle, and did not maintain a complete and reliable inventory of IT projects and did not track the progress of all IT projects in its Enterprise Project Portfolio Management system. By not having an accountability mechanism, FSA increases the likelihood of unnecessary risk and costly delays. To address the issues identified, we recommended five specific actions FSA should take, including that it establish accountability mechanisms, such as assigning a specific office or official to ensure FSA follows lifecycle management methodology for all

IT projects, and that it conduct an inventory of IT projects across FSA to establish a complete universe of projects. FSA did not explicitly agree with our finding but proposed actions to address all of our recommendations. <http://www2.ed.gov/about/offices/list/oig/auditreports/fy2016/a04o0014.pdf>

## Cybersecurity Act Report

As required by the Cybersecurity Act of 2015, the OIG reported to Congress on the Department's logical access controls, information security management practices, and policies and procedures it employs to ensure the security of its systems that provide access to personally identifiable information. The OIG report provided Congress with the following.

- Information that showed that although the Department established logical access policies and procedures consistent with Federal government standards, it does not always follow those standards.
- A description and list of the logical access control and multifactor authentication the Department uses to govern access to its systems.
- A description of the information security management practices the Department uses, including (1) inventories of software and software licenses and (2) capabilities to monitor and detect data exfiltration and other threats, including data loss prevention capabilities, forensic and visibility capabilities, and digital rights management capabilities.
- A description of the policies and procedures the Department uses to ensure that entities that provide services to the Department, including contractors, are implementing established information security management practices.

In compiling the requested information for the report, the OIG relied on information collected in its work in this area, including recent Federal Information Security Modernization Act audits.

## Investigations

The following is a summary of an OIG investigation related to our fourth goal.

### Information Technology Companies Agree to \$5.8 Million Settlement

En Pointe Gov, En Pointe Technologies, En Pointe Technologies Sales, Dominguez East Holdings, and Din Global Corporation agreed to pay more than \$5.8 million to settle claims that they violated the False Claims Act. The settlement is a result of a multiagency investigation that found that from 2010 through 2014, the companies falsely certified that En Pointe Gov—a Federal Government contractor to whom the Department awarded more than \$2.1 million for IT services—qualified as a small business in order to obtain contracts set aside for small businesses. En Pointe Gov also substantially underreported its General Services Administration schedule sales to the General Services Administration to reduce the amount of industrial funding fees it was required to pay.

## 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

The Office of Management and Budget's "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" requires entities such as State and local governments, universities, and nonprofit organizations that spend \$750,000 or more in Federal funds in one year to obtain an audit, referred to as a "single audit" (through 2014, the threshold to trigger a single audit was \$500,000 or more of Federal expenditures). 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 that the OIG issues. 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. The Council of Inspectors General on Integrity and Efficiency (CIGIE) issues guidance regarding the classification of quality control review results. CIGIE's classifications of quality control review results are as follows.

- Pass—audit documentation contains no quality deficiencies or only minor quality deficiencies that do not require corrective action for the audit under review or future audits.
- Pass with Deficiencies—audit documentation contains quality deficiencies that should be brought to the attention of the auditor (and auditee, as appropriate) for correction in future audits.
- Fail—audit documentation contains quality deficiencies that affect the reliability of the audit results or audit documentation does not support the opinions contained in the audit report and require correction for the audit under review.

During this reporting period, we completed 24 quality control reviews of engagements conducted by 23 independent public auditors or offices of firms with multiple offices. We concluded that 7 (29 percent) were Pass, 4 (17 percent) were Pass with Deficiencies, and 13 (54 percent) were Fail. In addition, we referred one independent public auditor to the American Institute of Certified Public Accountants and the independent public auditor's State Board of Accountancy for possible disciplinary actions. We made this referral due to the independent public auditor's unacceptable work.

## Noteworthy News

### New Policy Authorizes Full and Timely Access to Contractor Systems

The OIG conducts audits, inspections, and other reviews related to the protection of privacy and the safeguarding of Department IT systems, which are often provided or supported by contractors. In performing this work, the OIG has encountered obstacles to full and timely access to contractor-provided IT systems. Based on feedback from the OIG, the Department initiated a process that led to the issuance of a class deviation from standard Federal Acquisition Regulation provisions to reflect the Department's policy of ensuring access to contractor-provided IT systems. The class deviation authorizes the Department to incorporate an access clause into all solicitations and contracts for IT. The clause requires contractors and subcontractors at all tiers to provide the Department, other Federal agencies, and the U.S. Comptroller General full and timely access to contractor information systems and related resources to perform privacy and information security investigations, audits, and other reviews. This access clause will better ensure the OIG has full and timely access to contractor and subcontractor IT systems as needed for security reviews and investigations of cyber incidents. The class deviation will remain in effect until the audit access clause is incorporated into the Federal Acquisition Regulation or the Education Department Acquisition Regulations.



# OTHER ACTIVITIES

## Participation on Committees, Work Groups, and Task Forces

### *Department*

- **Department of Education Senior Assessment Team.** The OIG participates in an advisory capacity on this team that provides oversight of the Department's assessment of internal controls and related reports. The team also 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.** The 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.** The 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.** OIG staff play an active role in CIGIE efforts. Inspector General Tighe is Chair of the Information Technology Committee. Inspector General Tighe is also a member of CIGIE's Audit Committee and the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee.
- OIG staff also serve as chair of the Council of Counsels to the Inspectors General and vice chair of the CIGIE Data Analytics Working Group of the Information Technology Committee. OIG staff are also members of CIGIE's Assistant Inspector General for Investigations Subcommittee, the Cyber Security Working Group, the Grant Reform Working Group, the OIG Human Resources Directors' Roundtable, and the New Media Working Group. OIG staff also participate in the following.
  - **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.

*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 served as the Federal representative for the National Forum, vice chair of the Southwestern Forum, and officers of the Southeastern Forum, the Southwestern Forum, and the New York/New Jersey Forum.
- **Interagency Working Group for Certification and Accreditation.** The 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.** The OIG participates in this group that shares best practices in data mining and evaluates data mining and risk modeling tools and techniques that detect patterns indicating possible fraud and emerging risks.

**Reviews of Legislation, Regulations, Directives, and Memorandum**

- **S. 2972, the Grant Reform and New Transparency Act of 2016.** The OIG provided comments to CIGIE and to the Office of Management and Budget noting that regulations should not mandate that peer reviewers review grant applications to find conflicts of interest. Our comments were based on our prior reviews of the same that had no findings; such reviews should be up to individual offices of inspectors general if they consider this an area of risk in their agency.
- **Inspector General Mandates.** The OIG provided comments to the U.S. House of Representatives Committee on Government Oversight on statutorily mandated reports or work that Inspectors General perform that can be eliminated or modified to better make use of IG resources. We identified two statutes that could be modified: IPERA and the Office of National Drug Control Policy Reauthorization Act of 1998. IPERA requires IGs to submit an annual report determining whether their respective agencies are in compliance with IPERA. We recommended that the IG's review should be more substantive and useful by (1) examining whether the agency's methodology for its improper payment estimate is appropriate and consistent (not changing from year to year), (2) determining whether the agency is meeting reduction targets, and (3) conducting a root cause analysis regarding improper payments and agency failure to meet reduction targets. In addition, we recommend that the IG report be every 3 years rather than annually to provide the agency more time to devise an appropriate methodology and carry out its improper payment reduction efforts. The Office of National Drug Control Policy Reauthorization Act requires IGs to annually authenticate agencies' accounting of drug control funds. Rather than require an annual authentication, we recommend that IGs instead be required to conduct periodic risk assessments of agencies' compliance with this statute, and provide authentication as needed as determined by the risk assessment.

- **Draft Department Handbook, Information Assurance Cybersecurity Policy.** The OIG made technical comments.
- **Draft Department Directive, Freedom of Information and Privacy Act Requests.** The OIG made technical comments.
- **Draft Department Directive, Transit Benefits Program.** The OIG made technical comments.
- **Draft Department Human Capital Policy, Reemployment Rights.** The OIG made technical comments.
- **Draft Department Human Capital Policy, Reduction in Grade and Removal Based on Performance.** The OIG made technical comments.
- **Draft Department Human Capital Policy, Drug-Free Workplace and Alcohol Testing Policy.** The OIG made technical comments.





# Annexes and Required Tables



## Annex A. Contract-Related Audit Products with Significant Findings

*We are providing the following in accordance with Section 845 of the National Defense Authorization Act for Fiscal Year 2008 (Public Law No. 110-181), which requires each Inspector General to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings.*

We did not issue any contract-related audit products with significant findings during this reporting period.

## Annex B. Peer Review Results

*We are providing the following in accordance with Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203), which requires Inspectors General to disclose the results of its peer reviews in its 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

FSA	Federal Student Aid
IES	Institute of Education Sciences
IG Act	Inspector General Act of 1978
OCFO	Office of the Chief Financial Officer
OCO	Office of Communications and Outreach
ODS	Office of the Deputy Secretary
OESE	Office of Elementary and Secondary Education
OPE	Office of Postsecondary Education
Title IV	Title IV of the Higher Education Act of 1965, as Amended
Recs	Recommendations

## Definitions

**Audit Closure Memoranda/Letters.** These are used to notify the audited entity of OIG's decision to terminate the audit without issuing an audit report.

**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	Requirement (Table Title)	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 (April 1, 2016, Through September 30, 2016)	1
5(a)(4)	<i>Matters Referred to Prosecutive Authorities</i> Statistical Profile for FY 2016 (October 1, 2015, Through September 30, 2016)	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 and Other Reports on Department Programs and Activities (April 1, 2016, Through September 30, 2016)	2
5(a)(7)	<i>Summary of Significant Audits</i>	N/A
5(a)(8)	<i>Questioned Costs</i> Audit and Other Reports With Questioned or Unsupported Costs	3
5(a)(9)	<i>Better Use of Funds</i> Audit and Other Reports With Recommendations for Better Use of Funds	4
5(a)(10)	<i>Unresolved Reports</i> Unresolved Audit and Other Reports Issued Before April 1, 2016 Summary of Audit and Other Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5A 5B
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 (April 1, 2016, Through September 30, 2016)

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 Completed	Projected Action Date
FSA	Audit A17O0002	Fiscal Years 2014 and 2013 Financial Statements Federal Student Aid (OCFO is also designated as an action official) (SAR 70, page 41)	11/14/14	1/29/15	1	3	7/31/17
FSA	Audit A06M0012	Handling of Borrow Complaints Against Private Collection Agencies (SAR 69, page 45)	7/11/14	9/9/14	2	9	6/30/17
OCFO	Audit A17O0001	Fiscal Years 2014 and 2013 Financial Statements U.S. Department of Education (FSA is also designated as an action official) (SAR 70, page 41)	11/14/14	2/26/15	2	2	9/30/17
OSERS	Audit A19M0004	Payback Provisions of the Rehabilitation Long-Term Training Program (SAR 69, page 46)	4/25/14	6/3/14	2	13	12/30/16

## Table 2. Audit and Other Reports on Department Programs and Activities (April 1, 2016, Through September 30, 2016)

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 Closure Letter A03P0005	Closure of OIG Audit of Federal Student Aid's Monitoring and Enforcement of Compliance with the Misrepresentation Regulations	4/28/16	-	-	-
FSA	Audit A04O0014	FSA Oversight of the Development and Enhancement of Information Technology Products	6/30/16	-	-	5
FSA	Management Information Report X21Q0001	Misuse of FSA ID and the Personal Authentication Service	9/26/16	-	-	6
IES	Audit A02P0006	Protection of Personally Identifiable Information in the Commonwealth of Virginia's Longitudinal Data System	7/12/16	-	-	3
IES	Audit A02P0007	Protection of Personally Identifiable Information in Oregon's Statewide Longitudinal Data System	9/27/16	-	-	3
OCFO	Audit A03Q0001	U.S. Department of Education's Compliance With Improper Payment Reporting Requirements for Fiscal Year 2015 (FSA is also designated as an action official)	5/10/16	-	-	9
OCFO	Audit A09P0005	North Carolina Department of Public Instruction's Oversight of Local Educational Agency Single Audit Resolution	8/26/16	-	-	4
OCFO	Audit A19O0001	Audit of the Department's Followup Process for External Audits	7/1/16	-	-	7
ODS	Audit A02M0012	Nationwide Assessment of Charter and Education Management Organizations	9/29/16	-	-	5
OESE	Audit A19P0006	Audit of the Department's Oversight of the Rural Education Achievement Program (OCO is also designated as an action official)	9/12/16	-	-	10
OPE	Audit A05P0013	The Western Association of Schools and Colleges Senior College and University Commission Could Improve Its Evaluation of Competency-Based Education Programs to Help the Department Ensure Programs Are Properly Classified for Title IV Purposes	8/2/16	-	-	6
<b>Total</b>				<b>-</b>	<b>-</b>	<b>58</b>



## Table 3. Audit and Other 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 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	9	\$45,736,535	\$156,287
B. Which were issued during the reporting period	0	\$0	\$0
Subtotals (A + B)	9	\$45,736,535	\$156,287
C. For which a management decision was made during the reporting period	3	\$44,205,299	\$34,976
(i) Dollar value of disallowed costs		\$44,205,299	\$34,976
(ii) Dollar value of costs not disallowed		\$0	\$0
D. For which no management decision was made by the end of the reporting period	6	\$1,531,236	\$121,311

## Table 4. Audit and Other 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 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 was made before the commencement of the reporting period	0	\$0
B. Which were issued during the reporting period	0	\$0
Subtotals (A + B)	0	\$0
C. For which a management decision was made during the reporting period:		
Dollar value of recommendations that management agreed to	0	\$0
Dollar value of recommendations that management did not agreed to	0	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0

## Table 5A. Unresolved Audit Reports Issued Before April 1, 2016

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 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 A05G0017	Capella University’s Compliance with Selected Provisions of the HEA and Corresponding Regulations (SAR 56, page 25)  <b>Current Status:</b> FSA is currently working with us 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)  <b>Current Status:</b> FSA is currently working with us to resolve this audit.	1/21/11	\$29,036	13
FSA	Audit A07K0003	Metropolitan Community College’s Administration of Title IV Programs (SAR 65, page 40)  <b>Current Status:</b> FSA is currently working to resolve this audit.	5/15/12	\$232,918	22
FSA	Audit A09K0008	Colorado Technical University’s Administration of Title IV Programs (SAR 65, page 40)  <b>Current Status:</b> FSA is currently working to resolve this audit.	9/21/12	\$173,164	8
OCFO	Audit A09P0001 New	Massachusetts Department of Elementary and Secondary Education’s Oversight of Local Educational Agency Single Audit Resolution (SAR 72, page 56)  <b>Current Status:</b> OCFO did not provide us any information during this reporting period.	1/25/16	-	5
OCFO	Audit A05O0004 New	The Tennessee Department of Education’s Administration of a Race to the Top Grant (SAR 72, page 57)  <b>Current Status:</b> OCFO did not provide us any information during this reporting period.	3/30/16	\$242,816	11
OESE	Audit A09O0009 New	State and District Monitoring of School Improvement Grant Contractors in California (SAR 72, page 57)  <b>Current Status:</b> OESE informed us that the audit is in process for resolution.	3/17/16	\$263,410	10
<b>Total</b>				<b>\$1,531,236</b>	<b>78</b>

## Table 5B. Summaries of Audit and Other 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 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
OCFO	<p>Massachusetts Department of Elementary and Secondary Education's Oversight of Local Educational Agency Single Audit Resolution (SAR 72, page 56)</p> <p>Audit A09P0001</p> <p>1/25/2016</p>	<p>Our audit found that the Massachusetts Department of Elementary and Secondary Education's (Massachusetts) oversight of local education agency (LEA) single audit resolution was not sufficient. Specifically Massachusetts (1) did not always work collaboratively or communicate effectively with LEAs that had audit findings to ensure that the LEAs took timely and appropriate corrective action. (2) did not have internal controls that were sufficient to ensure that it provided adequate oversight of the LEA audit resolution process, and (3) did not appear to make LEA audit resolution a high priority, as only one staff person worked on audit resolution activities and only on a part-time basis. Because of weaknesses in its oversight of LEA single audit resolution, Massachusetts did not always identify and require LEAs to implement appropriate corrective actions, sometimes resulting in lengthy delays in LEAs implementing necessary corrective actions that would correct past deficiencies. Further, repeat audit findings may have occurred unnecessarily and Federal funds may not have been collected and remitted back to the U.S. Treasury. We made a number of recommendations to address the issues identified. Massachusetts acknowledged shortcomings in its oversight of LEA single audit resolution but disagreed with some parts of our finding and stated that it would review of our recommendations and make improvements to its processes as warranted.</p> <p><b>Current Status:</b> OCFO did not provide us any information during this reporting period.</p>
OCFO	<p>The Tennessee Department of Education's Administration of a Race to the Top Grant (SAR 72, page 57)</p> <p>Audit A05O0004</p> <p>3/30/2016</p>	<p>The audit found that, for the specific areas reviewed, the Tennessee Department of Education (Tennessee) generally administered its Race to the Top grant in accordance with program requirements and its approved grant application. We did, however, determine that Tennessee did not ensure that one of the two LEAs included in our review developed and implemented fiscal control and fund accounting procedures that provided reasonable assurance that the LEA accounted for and spent Race to the Top funds in accordance with Federal requirements and the approved grant application. By not designing and implementing effective fiscal control and fund accounting procedures, the LEA increased the risk that it would misuse Federal funds or not accomplish the goals set forth in the approved Race to the Top grant application. In addition, we found that Tennessee and the LEA did not spend Race to the Top funds only on allowable items and activities and in accordance with program requirements and the approved grant application. We made 11 recommendations to address the weaknesses identified, 8 of which were specific to improving internal control activities at the LEA. Tennessee agreed with our findings and generally agreed with the recommendations.</p> <p><b>Current Status:</b> OCFO did not provide us any information during this reporting period.</p>

Office	Report Title, Number, and Date Issued	Summary and Current Status
OESE	<p>State and District Monitoring of School Improvement Grant Contractors in California <i>(SAR 72, page 57)</i></p> <p>Audit A09O0009</p> <p>3/17/2016</p>	<p>The audit evaluated the adequacy of California’s monitoring of three LEA activities in three key areas, whether the LEAs adequately monitored School Improvement Grant contractors’ performance, and whether the LEAs had appropriate fiscal controls to ensure that payments to SIG contractors for professional services met Federal requirements. We found that California and the three LEAs did not adequately monitor SIG contractors. We also</p> <p>found that one LEA approved two SIG contracts that included unallowable activities, and another LEA did not appear to routinely pay SIG contractors timely. We made a number of recommendations to address the issues identified. . California did not explicitly agree with our findings but agreed with all of our recommendations.</p> <p><b>Current Status:</b> OESE informed us the audit is in process for resolution.</p>



Table 6. Statistical Profile for FY 2016 (October 1, 2015, Through September 30, 2016)

Accomplishment	October 1, 2015– March 31, 2016	April 1, 2016– September 30, 2016	FY 2016 Total
Audit Reports Issued	16	9	25
Inspection Reports Issued	0	0	0
Questioned Costs (Including Unsupported Costs)	\$506,226	\$0	\$506,226
Recommendations for Better Use of Funds	\$0	\$0	\$0
Other Products Issued	1	2	3
Reports Resolved By Program Managers	13	11	24
Questioned Costs (Including Unsupported Costs) Sustained	\$3,916,931	\$44,205,299	\$48,122,230
Unsupported Costs Sustained	\$0	\$34,976	\$34,976
Additional Disallowances Identified by Program Managers	\$1,395,416	\$2,415,607	\$3,811,023
Management Commitment to the Better Use of Funds	\$0	\$0	\$0
Investigative Cases Opened	31	29	60
Investigative Cases Closed	48	35	83
Cases Active at the End of the Reporting Period	259	253	253
Prosecutorial Decisions Accepted	34	24	58
Prosecutorial Decisions Declined	44	47	91
Indictments/Informations	54	43	97
Convictions/Pleas	42	49	91
Fines Ordered	\$10,500	\$32,249	\$42,749
Restitution Payments Ordered	\$7,269,439	\$3,285,667	\$10,555,106
Civil Settlements/Judgments (number)	8	9	17
Civil Settlements/Judgments (amount)	\$110,117,153	\$16,666,391	\$126,783,544
Recoveries	\$64,492	\$231,176	\$295,668
Forfeitures/Seizures	\$19,500	\$4,126,982	\$4,146,482
Estimated Savings	\$68,220,915	\$3,251,871	\$71,472,786
Suspensions Referred to Department	32	31	63
Debarments Referred to Department	4	5	9
Debarments Imposed by OIG	0	0	0

## Acronyms and Abbreviations

CIGIE	Council of Inspectors General on Integrity and Efficiency
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
FSA	Federal Student Aid
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
ISIS	Islamic State in Iraq and Syria
IT	Information Technology
LEA	Local Educational Agency
OIG	Office of Inspector General
Recovery Act	American Recovery and Reinvestment Act of 2009
SEA	State Educational Agency
SLDS	Statewide Longitudinal Data System
SSRP	School Support and Rural Programs



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## **FY 2017 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 2017.

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 2017 Management Challenges report, visit our Web site at <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>.



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

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