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Office of Inspector General

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April 1, 2013–September 30, 2013

Office of Inspector General
Kathleen S. Tighe
Inspector General

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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, 2013, through September 30, 2013. The audits, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness in our oversight of the Department's programs and operations.

Over the last 6 months, we closed 74 investigations involving fraud or corruption related to the Department's programs and operations, securing more than $44.8 million in settlements, fines, restitutions, recoveries, and savings. In addition, as a result of our investigative work, criminal actions were taken against a number of individuals, including school officials—people who cheated the students they were in positions to serve. We also issued 15 audit-related reports, making recommendations to improve program operations. For example and as highlighted in this report:

- A 2012 OIG audit identified a possible conflict involving the Alabama State Department of Education's Director of Federal Programs' participation in the selection process that awarded $24 million to three local educational agencies that listed her husband's employer as a contractor. Our audit and subsequent criminal investigation led to the indictment of the now former director and her husband on felony ethics charges.

- The founder and former chief executive officer of the Pennsylvania Cyber Charter School—the largest cyber charter school in the State—and his accountant were indicted on charges related to an elaborate fraud scheme involving more than $8 million.

- Our audit found that 78 percent of the publicly traded for-profit schools and an estimated 58 percent of the privately held for-profit schools did not present the amounts spent on instruction and marketing in their required financial statements, leaving the Department unable to identify the amount of Federal student aid funds spent on instruction—the primary mission of all schools.

- As a result of problems with its debt management collection system (known as DMCS2), the Department paid $448 million in commissions and $8.3 million in bonuses to private collection agencies based on estimates, as the DMCS2 system was unable to provide the information necessary to calculate the actual amounts.

- The mayor of Progreso, Texas, along with his father, a Progreso Independent School District official, and his brother, the district's school board president, were arrested and charged with allegedly using their positions to extract bribes and kickbacks from Progreso Independent School District and city service providers.

- ATI Enterprises, a Texas-based school chain, agreed to pay $3.7 million to settle claims that it knowingly misrepresented job placement statistics at three of its campuses. ATI also agreed to provide an additional $2 million to students to satisfy student refunds and closed school discharges.

- Our audit found that the Michigan Department of Education could improve its system of internal control over preventing, detecting, and taking corrective actions if it finds indicators of inaccurate, unreliable, or incomplete statewide test results.
- TestQuest, a supplemental education services provider, agreed to pay more than $1.725 million for falsifying student attendance records and submitting false claims for reimbursement for tutoring services it never provided. The company also agreed to a voluntary 3-year debarment from all Federal programs.
- Our audit of the Department's and selected State educational agencies' oversight of the 21st Century Community Learning Centers program found that although the Department tracked program performance measures at the State educational agencies reviewed, neither the Department nor three of the four State educational agencies validated the performance data that the subgrantees submitted. As a result, the Department was unable to ensure that grantees met program objectives.
- The former chief executive officer (CEO) and the former chief financial officer of Circle System Group, a sports equipment and reconditioning company, both pled guilty to defrauding schools throughout New Jersey and the United States for their own personal gain. Their fraud scheme, which in part involved phony invoices and fake quotes, totaled more than $822,000.

In this report, you will find more information on these efforts, as well as summaries of other reports issued and investigative actions taken over the last 6 months. I am proud of the work my office is conducting and the recommendations we are making to help the Department improve the management of its programs and operations and ensure the protection of Department funds. However, the reduction in our appropriated funding has led to a reduction in staff and a reduction in needed resources for the staff, which are having an impact on the breadth and scope of our work. For example, we have had to complete those statutory assignments that we are required to conduct each year, followed by only our highest priority audit work. This limits our ability to audit other programs and operations and to identify waste, fraud, or abuse. Nationwide projects have been scaled back to cover fewer sites as a result of reduced travel funds. Additional reductions in staff and resources will further reduce the number of audits and investigations we can conduct in a year and the timeliness of our work. We will, however, continue to make the most of our limited resources and work to provide real value to the Department, the Congress, taxpayers, and most importantly, America's students.

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

Kathleen S. Tighe
Inspector General

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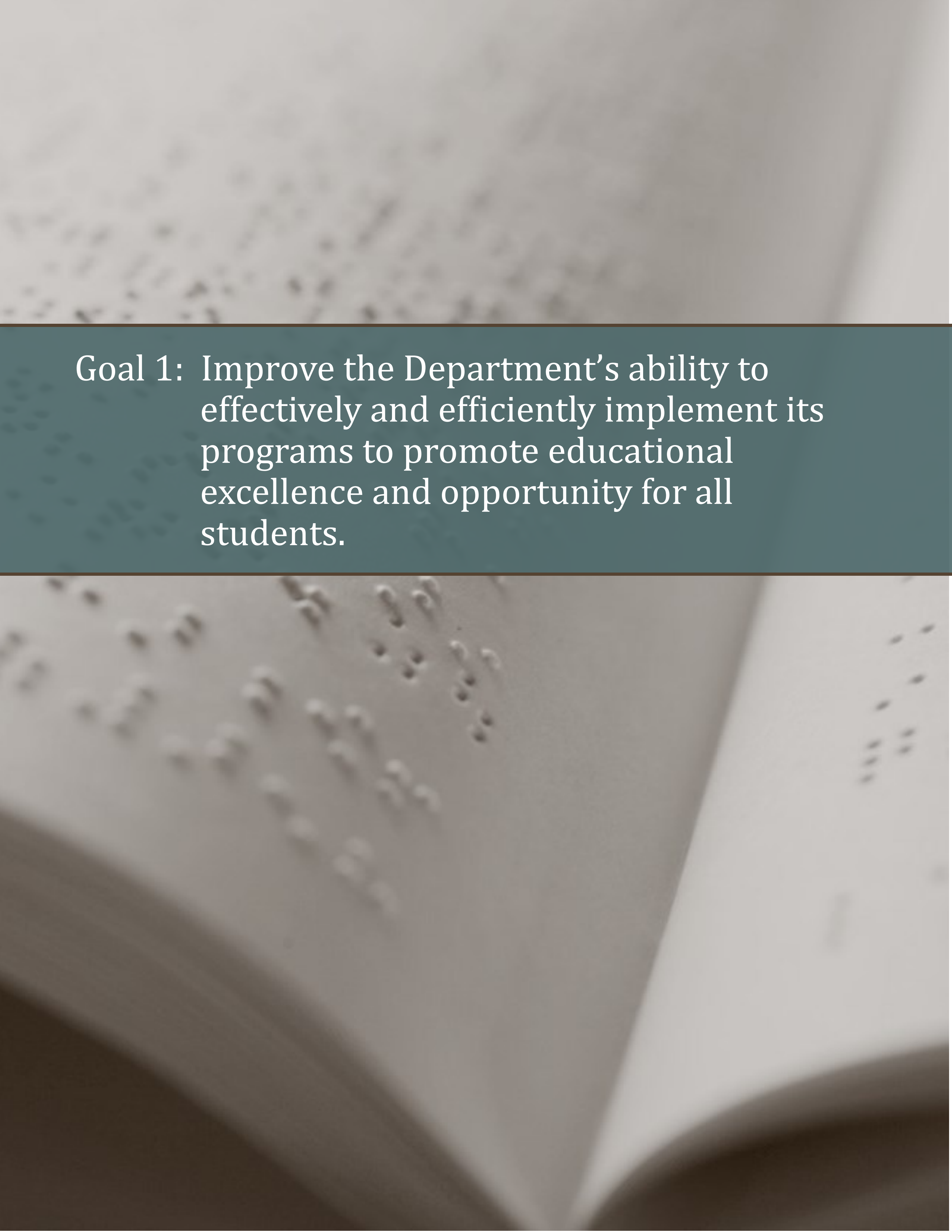


Goal 1: Improve the Department's ability to effectively and efficiently implement its programs to promote educational excellence and opportunity for all students.

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

Audits and Reviews

Work related to this goal over the last 6 months involves the American Recovery and Reinvestment Act of 2009 (Recovery Act). Recovery Act funding provided more than $98 billion for existing and new education-related grant programs, most of which ended at the close of fiscal year (FY) 2011. A second education stimulus, the Education Jobs Fund, which was enacted in 2010 and provided another $10 billion to help local educational agencies (LEAs) hire, retain, or rehire employees who provided school-level educational and related services, ended at the close of FY 2012. OIG has conducted a significant amount of work involving these programs and continued to do so throughout this reporting period. Over the last 6 months, we issued several Recovery Act-related reports, including a national perspective on how selected LEAs obligated and spent final Recovery Act funds, and a review of how LEAs exercised "maintenance of effort" flexibility as a result of the significant increase in Federal special education funding they received through the Recovery Act. Summaries of these audits are below, along with a "lessons learned" review coordinated by several OIGs, including our office, through the Recovery Accountability and Transparency Board (Recovery Board). This review identified best practices and challenges faced by agencies and OIGs in implementing and administering Recovery Act programs. We also continued to compile and analyze data for our internal "lessons learned" report. The goal of that report is to provide insights into the key challenges associated with implementing the Recovery Act and the Department's and its grantees' responses to those challenges. We will report the findings of these efforts once we complete the report.

Nationwide Review of Final Recovery Act Expenditures

During this reporting period, we issued the results of our nationwide review of how LEAs obligated and spent Recovery Act money in the final year of funding. This review covered Recovery Act spending at the Puerto Rico Department of Education (as both a State educational agency (SEA) and an LEA), four other SEAs, and eight LEAs. Our review did not find that the LEAs used Recovery Act funds in an inappropriate or wasteful manner to avoid lapsing funds for the programs in our scope.[1] We also determined that the SEAs and LEAs generally obligated and spent Recovery Act funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we identified some issues involving Puerto Rico and LEAs in Arkansas, Delaware, and Florida, as summarized below. We issued separate reports to those LEAs' respective SEAs that provided details on those issues. Those reports were summarized in our last Semiannual Report to Congress.

- **Payments on Late Obligations.** Two LEAs paid for obligations that were incurred after the obligation deadline: (1) Delaware's Christina School District obligated about $41,000 in Recovery Act funds for personnel expenditures after the grant period had ended and (2) Arkansas' El Dorado Public Schools paid less than $1,000 after the grant period, which we considered immaterial.
- **Unallowable Expenditures.** Two LEAs spent funds on unallowable costs: (1) Arkansas' El Dorado Public Schools spent more than $237,300 to replace a gym roof at a high school that was no longer being used to educate children, contrary to the requirements of the Recovery Act and (2) Puerto Rico overpaid $7,000 for professional services that were billed incorrectly and paid a vendor $7,300 in excess of a quoted price for a copier.
- **Fiscal and Management Control Issues.** We identified fiscal and management control issues at one LEA: Florida's Miami-Dade County Public Schools did not perform due diligence when reviewing and approving a transaction that resulted in misclassified transportation expenditures totaling more than $400,400. We also found that it could not reconcile Recovery Act Elementary and Secondary Education Act, Title I (Title I) and Recovery Act Individuals with Disabilities Education Act, Part B (IDEA) expenditures during our audit period of calendar year 2011. We summarize below our separate report on these findings.
- **Internal Control Weaknesses.** We identified internal control weaknesses over inventory and procurement at two LEAs: (1) Arkansas' Little Rock Public Schools did not properly account for and safeguard equipment purchased with more than $196,000 in Recovery Act funds; and (2) Puerto Rico's Central Procurement Office did not have adequate documentation for Recovery Act purchases totaling more than $3.4 million, and an additional $3.5 million of computer equipment was unused because it required software that had not been installed.

Florida Recovery Act Expenditures

We found that for the time period covered by our audit, Miami-Dade County Public Schools could not reconcile about $2.3 million in Recovery Act Title I funds and about $1.2 million in IDEA funds with the Florida Department of Education's Cash Advance and Reporting of Disbursements System. As a result, we could not determine whether data that Miami-Dade reported to the Florida Department of Education, which was in turn reported on the Recovery Act Web site, was

[1] Programs in our scope were the Elementary and Secondary Education Act, Title I, Part A; Individuals with Disabilities Education Act, Part B; and the State Fiscal Stabilization Fund, Education Stabilization Fund.

accurate. We also found that Miami-Dade improperly classified more than $400,000 in transportation costs as supply costs. We recommended that the Florida Department of Education require Miami-Dade to develop and implement adequate fiscal and management controls to maintain reliable financial records.

LEA Maintenance of Effort Flexibility

In July, we issued a report on how LEAs that received increased IDEA funds through the Recovery Act exercised IDEA's maintenance of effort (MOE) flexibility provision. MOE flexibility permits an eligible LEA to reduce the level of local expenditures for the education of children with disabilities by up to 50 percent of any increase in its annual IDEA, Part B, Section 611 subgrant allocation. We found that the 17 LEAs and 6 SEAs reviewed did not always comply with applicable laws and regulations associated with exercising MOE flexibility or properly use and account for freed-up funds resulting from exercising MOE flexibility. The following summarizes the findings of our audit.

- **Eligibility to Exercise MOE Flexibility.** Two of the six SEAs reviewed (Maine and Ohio) did not have an adequate system for determining LEA eligibility for MOE flexibility. Further, based on the information that Maine provided during the audit, we concluded that the State exercised MOE flexibility at the SEA level even though it did not meet the eligibility requirements. Another SEA (California) miscalculated the overall determinations for 25 LEAs and incorrectly determined they were eligible for MOE flexibility. Another SEA (Louisiana) provided LEAs with incomplete information regarding the amount of MOE reductions they could take. None of the 14 eligible LEAs in Louisiana exercised MOE flexibility, but they may have chosen to if the SEA had provided complete information.

- **Use of and Accounting for Freed-Up Funds.** Some LEAs in our review that exercised MOE flexibility did not account for the freed-up funds in accordance with applicable laws, regulations and guidance. The two LEAs we reviewed in both Illinois and Ohio did not track how they used freed-up funds. As a result, we could not determine whether the LEAs used the funds appropriately. Additionally, one LEA in California exercised MOE flexibility by more than the maximum allowed, and at least one LEA in California, Illinois, Ohio, and Texas used IDEA funds for coordinated early intervening services in amounts that exceeded the maximum available. Furthermore, SEAs in California, Illinois, and Ohio did not properly monitor LEAs' use of freed-up funds.

- **Impacts to Special Education Services Resulting from Spending Reductions Under the Flexibility Provision.** SEA program and fiscal officials from four SEAs (California, Illinois, Ohio, and Texas) whose LEAs exercised MOE flexibility did not have information about LEAs in their States experiencing adverse impacts to special education. The supplemental Recovery Act IDEA funds increased the amount of funding available and may have masked impacts in the short term. As a result, we did not identify evidence of actual or potential adverse impacts.

We made 12 recommendations to address the issues identified, including that the Department perform additional program monitoring, verify that SEAs have implemented appropriate policies and procedures, and determine the amount SEAs are required to remit to the Department. The Department did not agree with all of our findings or recommendations.

California Department of Education's Administration of LEAs Special Education MOE Compliance Requirement

We issued a special report on a specific issue of concern in California that we identified during the course of our nationwide review. We determined that the California Department of Education instructed LEAs that had not previously met the MOE compliance requirement with local-only special education expenditures that they may use local-only special education expenditure information from an improper base year to demonstrate compliance with the LEA MOE requirement. We found two actual instances in which the California Department of Education allowed LEAs to demonstrate MOE compliance by using improper expenditure information. These two LEAs spent less than they should have on special education programs and were not penalized for doing so. It is possible that additional LEAs in California incorrectly represented that they complied with the MOE compliance requirement by also using an improper base year. Based on our findings, we made a number of recommendations, including that the Department revise its regulations as needed to ensure that LEAs are not permitted to reduce the amount of local funds spent on educating children with disabilities below levels required by IDEA, and determine the amount the California Department of Education is required to remit to the Department as a result of the LEAs using an improper year to meet the actual MOE compliance requirement. The Department partially agreed with our concerns, and said it would consider regulatory change and subsequently published a Notice of Proposed Rulemaking on LEA MOE in September 2013.

Lessons Learned From the Recovery Act: An Agency and OIG Retrospective

This report, commissioned by the Recovery Board, identified strategies employed by 16 Federal agencies and OIGs that were effective in the implementation and administration of Recovery Act programs and those that were obstacles. Agencies, OIGs, and the Recovery Board reported several practices that aided the implementation of the Recovery Act. These included the OIGs' use of special governance structures, including designated steering committees and workgroups; that OIGs worked closely with their agencies throughout implementation to prevent inefficiencies, ensure compliance, and increase fraud awareness; and that agencies conducted extensive outreach to recipients to inform them of Recovery Act funding opportunities and help them during the reporting process. In addition, OIGs and the Board engaged in numerous fraud awareness and prevention activities, and agencies and OIGs employed a variety of new business practices or altered existing ones to meet obligation deadlines and ensure timely and effective oversight.

The review also highlighted challenges faced by agencies during implementation, the most common being the Recovery Act's mandate to execute such a large program in so little time. Other challenges included myriad requirements surrounding implementation and reporting that created a significant learning curve for recipients, agencies, and OIGs alike; that the Recovery Act created a dramatic spike in agency workloads, thus agencies and OIGs hired new employees and used a number of techniques to increase staffing flexibilities—a task that was easier for agencies that were able to use administrative funds to help with implementation efforts; and that even while recognizing that the accelerated timeframe was a primary purpose of the Recovery Act, agencies were still challenged by the time constraints to sufficiently plan for implementation, including increasing staff capacity and developing improved oversight, monitoring, program guidance, and performance measures specific to the goals of the Recovery Act. The authors of the report, including the OIG, hope that these lessons learned can be applied to the planning, implementation, and oversight of future Government programs.

Investigations

During this reporting period, we continued to investigate allegations of fraud and corruption involving Recovery Act funds. Since the enactment of the Recovery Act, we have initiated 210 criminal investigations of various schemes involving improper uses of Recovery Act funds. To date, our Recovery Act-related investigations have resulted in more than 216 criminal convictions and more than $702,500 in recoveries. The following is a summary of an OIG Recovery Act investigation and an update on our Recovery Act whistleblower reprisal investigations.

Former Director of Federal Programs and Husband Indicted (Alabama)

A 2012 OIG audit of Alabama's use of Recovery Act funds identified a possible conflict of interest where the Alabama Department of Education's director of Federal programs participated in the process that awarded more than $24 million in School Improvement Grants funds to three LEAs that listed her husband's employer, Information Transport Solutions, Inc., as a contractor. We conducted an investigation, which found that the former official allegedly abused her position of trust for personal gain by allegedly diverting School Improvement Grants funds to the LEAs doing business with her husband's employer. In August, the now former director and her husband were indicted on ethics charges. The two were also charged with misusing a State computer and e-mail account, documents, and other materials, and soliciting things of value from another vendor for the purpose of influencing official action.

Whistleblower Reprisal Investigations

During this reporting period, our investigations did not sustain the allegations made in any of the whistleblower reprisal complaints that we received. We discontinued investigations of eight whistleblower complaints made in Delaware, Florida, Illinois, Kentucky, Massachusetts, Michigan, North Carolina, and Virginia. We discontinued the investigations after our work determined that the employers did not reprise against the complainants or that the complaints did not relate to Recovery Act funds. We did not receive any extensions for whistleblower investigations during this reporting period.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Inspector General Community

- *Recovery Accountability and Transparency Board (Recovery Board).* Inspector General Tighe is the Chair of the Recovery Board. OIG staff members also participated in a work group composed of all of the OIGs that provide Recovery Act oversight and a subgroup focused on Recovery Act grant funds.

Federal and State Law Enforcement-Related Groups

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

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, inspection, and investigative work—the Federal student financial aid programs. These programs are inherently risky because of their complexity, the amount of funds involved, the number of program participants, and the characteristics of student populations. Our efforts in this area seek not only to protect Federal student aid funds from waste, fraud, and abuse, but also to protect the interests of the next generation of our nation's leaders—America's students.

Audits and Other Reports

OIG audits and other reviews help ensure that the Department effectively oversees and monitors compliance and accountability at more than 6,200 postsecondary institutions, about 2,900 lenders, 32 guaranty agencies, and numerous third party servicers. As the office responsible for administering the Federal student aid (Title IV) programs, the Department's Federal Student Aid office (FSA) must conduct effective oversight of programs, operations, and participants to help protect these Federal funds from waste, fraud, and abuse. OIG reports issued over the last 6 months identified weaknesses in FSA's oversight. Summaries of these reports, as well as the results of our audit of Arkansas State University's administration of selected aspects of the Title IV programs, follow.

Transparency of Proprietary Schools' Financial Statement Data

Our audit concluded that the required financial statements submitted to the Department by proprietary schools generally do not include transparent information about the schools' use of Title IV funds sufficient to allow FSA to make informed decisions about program effectiveness. Our review of the FY 2010 audited financial statements for 521 proprietary schools found that the financial statements did not provide transparent information because the presentation of instruction and marketing expenses was not consistent across schools. As a result, the data were generally not useful to FSA in identifying how schools spent Title IV funds, nor were they useful in making meaningful comparisons of financial information across schools participating in the Title IV programs.

The ability to identify the amount of Title IV funds spent on instruction is an important measure because instruction is the primary mission of all schools. The amount spent on marketing is important because proprietary schools may devote significant resources to recruiting and enrolling students and can be indicative of a school's focus. We determined that the financial statements submitted by 78 percent of the publicly traded for-profit schools and an estimated 58 percent of the privately held for-profit schools did not present the amounts spent on instruction and marketing. We also found that schools varied in terms of how they presented expense information. As a result, the audited financial statements are generally not useful to the Department, a major financer of postsecondary education for this sector, in evaluating schools and the Title IV programs. Based on our findings, we recommended that FSA work with Congress to obtain statutory authority to establish uniform account classification rules and procedures for all postsecondary schools, including proprietary schools, create a standard chart of accounts for use by schools that includes expense classifications that clearly define the types of costs to be recorded under each expense account, and determine what detailed financial statement information would provide the necessary insight into the operations of schools participating in the Title IV programs and develop common reporting requirements for that information. FSA did not state whether it concurred with our finding and recommendations, but did state that even though it has authority to require schools to provide audited financial statements in a format that FSA specifies, regulatory changes would be needed to establish uniform account classification rules, which would not be possible for at least 2 years. FSA also described the actions it planned to take to address some of our other recommendations.

Federal Student Aid Paid Private Collection Agencies Based on Estimates

In our last Semiannual Report to Congress, we reported that FSA's system for managing defaulted student loans, Debt Management Collection System 2 or DMCS2, was unable to accept the transfer of certain defaulted student loans from FSA's Title IV servicers, which resulted in those servicers accumulating more than $1.1 billion in defaulted student loans that should have been transferred to the Department for management and collection. During this reporting period, as a result of the systems modifications needed in DMCS2, FSA paid $448 million in commissions and $8.3 million in bonuses to Private Collection Agencies (PCAs) based on estimates because DMCS2 could not provide the information necessary to calculate actual commissions and bonuses.

During FY 2012, FSA had individual contracts with 23 PCAs to perform collection services on defaulted student loans. PCAs are paid commissions based on successfully collecting on defaulted loans, and a PCA qualifies for bonuses based on its performance relative to other PCAs. Before it transitioned to DMCS2 in September 2011, FSA used its previous system to calculate PCA commissions and bonuses based on actual collections data contained in the system. However, as DMCS2 has been unable to produce the data necessary to calculate commissions and bonuses, FSA required PCAs to submit invoices, without supporting documentation that calculated estimated commissions, and paid estimated bonuses based on bonus payments made in previous years. We recommended that FSA calculate any overpayments or underpayments of PCA commissions and bonuses based on actual data, require PCAs to return any overpayments to the Department, address any underpayments, and require PCAs to submit supporting documentation for all commissions invoiced since October 2011. FSA stated that it shared our concerns, was committed to resolving the problems with DMCS2, and that bonus payments and appropriate adjustments would be calculated in April 2013.

Verbal Complaints Against Private Collection Agencies

In May, we notified the Department that FSA was not enforcing a contract requirement that PCAs report verbal complaints from borrowers to FSA. The contracts between PCAs and the Department provide that each PCA will adhere to

Department complaint procedures. Those procedures mandate specific actions a PCA must take when it receives a complaint from a borrower, including verbal complaints, such as suspending collection activity on the account. During our site visits at three PCAs—Pioneer Credit Recovery, Performant Financial Corporation, and NCO Financial Systems, Inc.—we learned that none considered verbal complaints to be actual complaints because they believed that they had been able to appease the borrower and defuse the complaint. In addition, we found that no PCAs tracked or reported verbal complaints. As a result, FSA was unaware of the number or severity of verbal complaints filed by borrowers against PCAs and how those complaints were resolved. We recommended that FSA enforce the contract requirement that PCAs report verbal complaints to FSA, and develop a quality assurance program to verify that FSA is receiving all verbal complaints. FSA stated that it shared our concerns and provided a series of corrective actions it planned to take to address our recommendations.

Arkansas State University's Administration of Selected Title IV Programs

We evaluated Arkansas State University's (ASU) loan default prevention and management, the accuracy of selected information ASU reported to the Integrated Postsecondary Education Data System (IPEDS), its quantitative satisfactory academic progress measures, and the accuracy of selected consumer information on its Web site. We determined that for the time period reviewed, ASU's default prevention and management to address its rising cohort default rate was reasonable, selected information it reported to IPEDS was accurate, and that it properly measured quantitative satisfactory academic progress for students. We did, however, find that ASU did not provide employment and continuing education data of students graduating from 6 of its 10 colleges in the 2008–2009 academic year and did not provide employment and continuing education data of students graduating from 8 of its 10 colleges in the 2009–2010 academic year. In addition, ASU provided unsupported job placement rates for four colleges for the 2008–2009 academic year and for two colleges for the 2009–2010 academic year on its Web site. Although ASU reported its graduation data accurately through IPEDS, we found that ASU reported inaccurate graduation data on its Web site for undergraduate students who received degrees in academic year 2008–2009 for 4 of its 10 colleges. We also identified minor graduation data inaccuracies for academic year 2009–2010.

We recommended that FSA require ASU to establish policy and procedures to make available employment and continuing education data to enrolled or prospective students for all colleges; collect, maintain, and verify the accuracy of documentation to support required disclosures of employment and continuing education data, job placement rates, and graduation data reported on its Web site or by other means of dissemination; and ensure that any required job placement rate disclosures include the required disclosures of the source, time frames, and methodology associated with job placement rate. ASU concurred with our finding and all of our recommendations.

Investigations of Schools and School Officials

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

ATI Enterprises Agrees to Pay $5.7 Million (Texas)

ATI Enterprises, a Texas-based for-profit school chain, agreed to pay $3.7 million to settle claims that it knowingly misrepresented job placement statistics at three of its Dallas-area campuses in order to maintain State approval of its program and Title IV eligibility. The settlement is a result of our investigation that also revealed that ATI enrolled ineligible students in the school, falsified high school diplomas, kept students enrolled who should have been dropped, and made false representations to students regarding future employability and potential earnings. In addition to the $3.7 million, ATI also agreed to provide an additional $2 million for students to satisfy student refunds and closed school discharges.

American Commercial College Agrees to $2.5 Million Settlement (Texas)

American Commercial College, Inc. (ACC), a for-profit school based in Texas, agreed to pay $2.5 million to settle an allegation that it violated the False Claims Act by falsely certifying that it complied with the "90/10 Rule"—a requirement that requires for-profit schools to obtain no more than 90 percent of their annual revenue from the Title IV programs. The settlement is a result of our investigation that determined that the school artificially inflated the amount of private funding it received in order to meet the 90/10 requirement.

Former President of Galiano Career Academy Pled Guilty (Florida)

The former president of Galiano Career Academy, a for-profit trade school based in Florida, pled guilty to charges related to theft of government property, obstruction of a Federal audit, and aggravated identity theft. The former president admitted that he knowingly used a high school diploma mill—owned and operated by his wife—to fraudulently qualify students for Federal student aid. He also admitted that he secretly made audio and video recordings of Department program review staff as they conducted an on-site review at his school and tampered with student records during the review. From July 2007 through July 2010, the school received more than $1.9 million in Title IV funds for students who were ineligible to receive them.

Former Vice President of Universal Careers Community College Sentenced (Puerto Rico)

The former vice president of Universal Careers Community College was sentenced to serve 1 year of home confinement followed by 2 years of probation and was ordered to pay more than $201,800 in restitution for fraud. Our investigation revealed that from 2008 through 2010, the former vice president falsified student admission and withdrawal records in order to receive Pell Grant funds to which the school was not entitled.

Two More Former South Texas Vocational Technical Institute Employees Indicted (Texas)

We recently reported that the former admissions director and an admissions representative of the South Texas Vocational Technical Institute were indicted for allegedly telling students to lie on their Free Application for Federal Student Aid (FAFSA) to qualify for student aid and grants that they were not otherwise eligible to receive. During this reporting period, two additional former admission representatives also were indicted. As a result of their alleged actions, the school fraudulently received more than $486,000 in Federal student aid.

Former United States University Financial Aid Director Sentenced (California)

In our last Semiannual Report to Congress, we highlighted the $686,700 civil settlement reached between United States University, a for-profit school based in San Diego, and the U.S. Government to settle claims that the school submitted fraudulent student data to the Department in order to receive Pell Grant funds to which it was not entitled. During this reporting period, the school's former financial aid director was sentenced to serve 4 months of home detention, 1 year of supervised release, and was ordered to pay a $4,000 fine for her role in the scheme. The former director changed information on student FAFSAs to make ineligible post-baccalaureate students eligible to receive Pell Grants.

Sullivan and Cogliano Training Centers Former Financial Aid Advisor Pled Guilty (Massachusetts)

A former financial aid advisor at Sullivan and Cogliano Training Centers pled guilty to stealing more than $62,000 in student financial aid. The former advisor stole more than 100 student aid refund checks from the school's financial aid office and deposited them into her personal bank account and the accounts of members of her family. She was previously convicted of stealing about $240,000 in a similar scam at two others schools for which she served 6 months in prison and 3 years of probation.

Investigations of Fraud Rings

Below are summaries of actions taken over the last 6 months against people who participated in Federal student aid fraud rings. Fraud rings are large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. The cases below are just a sample of actions taken against fraud ring participants during this reporting period. As of September 30, 2013, OIG has opened 127 fraud ring investigations, secured more than 450 indictments of fraud ring participants, and recovered nearly $13 million.

Leaders of $1.8 Million Fraud Ring Indicted (California)

Four people were indicted on charges of conspiracy to commit financial aid fraud and multiple counts of wire fraud related to an alleged $1.8 million Federal student aid fraud scheme. According to the indictment, the four allegedly conspired to recruit people to act as "straw students" and then helped the straw students prepare, sign, and transmit fraudulent FAFSAs, knowing that many of the straw students were not eligible to receive Federal student aid because they had not obtained high school diplomas and had no intention of attending school or using the funds for educational purposes. After receiving the student aid funds, the four allegedly shared the funds among themselves and sometimes with the straw students.

Actions Taken Against Eight Participants in Fraud Ring That Targeted Phoenix College (Mississippi)

The ringleader and seven of her coconspirators were indicted for allegedly participating in a fraud ring that scammed more than $156,000 in Federal student aid. The ringleader allegedly recruited people to act as straw students at the online Phoenix College, and submitted false admission and financial aid applications to the school, knowing that they had no intention of attending classes. The ringleader allegedly paid a portion of the award to the straw student for use of his or her identity and kept the rest.

Actions Taken Against 13 Members of Fraud Ring (Alabama)

Actions were taken against 13 participants in a student aid fraud ring that targeted online programs at a number of schools. The participants recruited people to participate in the scam, most of whom did not possess a high school diploma or certificate of high school equivalency. These people knowingly provided their personally identifying information to the ringleaders who enrolled them in distance education programs at various educational institutions for the purpose of fraudulently applying for financial aid and converting the funds to their own use. Schools targeted included the American Public University System, Ashford University, Capella University, the University of Maryland University College, Saint Leo College, and the University of Phoenix.

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

In our last Semiannual Report to Congress, we noted that a press release was issued by the U.S. Attorney for the Eastern District of Michigan and Inspector General Tighe highlighting the indictments of 11 people for their roles in Michigan-based fraud rings that scammed more than $1 million in Federal student aid. During this reporting period, five of those people pled guilty, including the leaders of two separate rings. The leader of one fraud ring recruited about 40 people to participate in the ring, most of whom did not have a high school diploma or certificate of high school equivalency. As a result of their fraudulent actions, the straw students received more than $650,000 in Federal student aid. The other ring operated in the same manner and fraudulently obtained more than $400,000 in Federal student aid.

Four People Sentenced for Roles in $200,000 Fraud Ring (California)

Four people were convicted and two of them were sentenced to prison for orchestrating and participating in a fraud ring that stole more than $200,000 in Federal student aid. The four submitted false admissions and financial aid applications to Axia College and Capella University on behalf of students who did not intend to attend either school. In some cases, they used stolen personally identifying information for people who did not know that their identities would be used to apply for financial aid. One participant was sentenced to serve 25 months in prison and another participant to 28 months in prison. The remaining two are scheduled to be sentenced later this year.

Investigations of Other Student Aid Fraud Cases

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

A Former Financial Aid Officer Pled Guilty (Arizona)

A woman once employed in the financial aid office of a community college in Michigan pled guilty to charges related to student aid fraud in Arizona. The woman submitted admission and financial aid applications containing false statements for a number of people, including her son and stepson, to obtain Federal student aid funds from various colleges, including Rio Salado College, Argosy University, Mesa Community College, and Chandler-Gilbert Community College. When the students failed to make satisfactory academic progress, the woman created fictitious appeal forms that falsely claimed that students were receiving counseling services or purported to be from medical professionals who stated that the students faced hardships and would improve their academic performance if given another opportunity to receive student aid. As a result of her fraudulent actions, the woman received more than $168,400 in student aid.

Repeat Offender Charged With Financial Aid Fraud (Texas)

In our 60th Semiannual Report to Congress issued in 2010, we noted that a man was sentenced to prison for stealing the identities of others to fraudulently apply for and receive Federal student aid. Now, just 3 years later, while on presentence release, this man has been charged for allegedly perpetrating the same scheme. Without their consent or knowledge, the man allegedly used the personally identifying information of family members, including his father, his brother, and stepbrother, and fraudulently applied for and received Federal student aid at schools in the Dallas County Community College District and Trinity Valley Community College.

New Orleans Woman Charged With Theft (Louisiana)

A woman was charged with stealing the identities of at least nine people to enroll them at colleges in and around Louisiana and online to fraudulently obtain Federal student aid. She allegedly also applied for admission and aid for herself, misrepresenting that she graduated from high school when in fact she had not. As a result of these alleged actions, the woman received more than $191,000 in Federal student aid.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

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

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

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

Audits

OIG audits provide information on the effectiveness of internal controls, evaluate the appropriateness of Federal funds usage, and identify weaknesses and deficiencies in Departmental programs and operations. The results of our work can assist the Department as well as grantees and program participants in improving operations, strategic planning, and risk management. During this reporting period, we continued with our nationwide audit of the Department's and SEAs' systems of internal control over Statewide test results to determine whether they prevent, detect, and require corrective action if indicators of inaccurate, unreliable, or incomplete test results are identified. Although we have not yet issued our final nationwide report, we issued two supplemental reports noting specific concerns identified during our review at the Michigan Department of Education and the Texas Education Agency. Other OIG audit work contributing to this goal focused on oversight of the 21st Century Community Learning Centers program—a program that supports academic enrichment opportunities for children during nonschool hours, particularly students who attend high-poverty and low-performing schools. Below you will find summaries of these efforts, as well as the findings of our review of the Department's Office of Elementary and Secondary Education's (OESE) process of awarding discretionary grants, and our audit of Texas' El Paso Independent School District's compliance with the accountability and academic assessment requirements of the Elementary and Secondary Education Act of 1965, as amended (ESEA).

Internal Controls Over State Assessments

As required by the ESEA, States must have high-quality, yearly student academic tests that measure the proficiency of students in math, reading or language arts, and science, and establish a single minimum percentage of students who are required to meet or exceed the proficient level on these tests. States use these tests to determine the yearly performance of the SEAs, each LEA, and each school in the State. The following are summaries of our findings in the two reports related to this issue for the Michigan Department of Education and the Texas Education Agency.

Michigan

We performed our audit work at the Michigan Department of Education, Detroit Public Schools (Detroit), Cesar Chavez Academy, and the School District of the City of Inkster. We found that although the Michigan Department of Education performed some internal control activities and on-site monitoring related to administering statewide tests, it could improve controls over preventing, detecting, and taking corrective actions if it finds indicators of inaccurate, unreliable, or incomplete test results. Specifically, we found that Michigan Department of Education did not always monitor schools that it identified as high-risk, did not effectively use contractor-provided reviews of test results and forensic analysis to identify schools with possible administration irregularities, and did not ensure that its contractor provided timely reports on missing test materials. We recommended that Michigan (1) place schools that it identifies as high-risk for possible violations of test administration procedures on the next year's targeted monitoring list, (2) use test results and erasure analyses to identify schools with possible test administration irregularities, and (3) ensure that its contracts are amended to include specific requirements for contractors to report missing test materials. At Detroit, we found that its building security allowed unauthorized access to test materials, that it did not retain records of its onsite monitoring visits to schools, and did not test all students in a continuous manner, which may render the tests invalid. We recommended that Detroit correct these weaknesses by (1) adequately securing test materials, (2) retaining monitoring visit reports, and (3) testing students in a continuous session and reporting any deviations from required test administration procedures. Michigan Department of Education and Detroit agreed with our findings and recommendations.

Texas

We performed our audit work at the Texas Education Agency (TEA), La Joya Independent School District (La Joya), Lufkin Independent School District, and Marion Independent School District. We determined that both the TEA and La Joya need to improve their systems of internal controls. We found that the TEA did not use analyses of test results and erasures to identify LEAs or schools to monitor, did not ensure that LEAs tested all qualified 10th grade students, had not assessed how LEAs or schools could influence outcomes of new State tests, and did not document its recommended corrective actions to address all Statewide test administration irregularities that La Joya reported or verified that La Joya implemented all corrective actions. We recommended that the TEA (1) strengthen its risk assessment and monitoring processes by using reviews of test results and analyses of erasure data, (2) identify ways that LEAs and schools can improperly influence test results and design mitigating controls, and (3) document the corrective actions that it recommends and verify that the LEAs implement the corrective actions. We found that La Joya did not properly administer Statewide tests, did not adequately document its reviews or provide records of all reviews of potential test administration irregularities, and did not report all test administration irregularities to TEA or did not report them in a timely manner. We recommended that La Joya strengthen its system of internal control by (1) properly administering Statewide tests, (2) adequately documenting its reviews of potential test administration irregularities, (3) retaining records of all reviews of potential test administration irregularities, and (4) reporting all test administration irregularities to TEA. Both TEA and La Joya agreed with our findings and recommendations.

Department's and SEAs' Oversight of the 21st Century Community Learning Centers Program

Our audit to determine whether the Department effectively monitored and tracked 21st Century Community Learning Centers program performance measures and controls at four SEAs identified areas needing improvement. The four SEAs reviewed were the Alabama State Department of Education, the Florida Department of Education, the Mississippi Department of Education, and the Puerto Rico Department of Education. We found that although the Department tracked program performance measures at the SEAs, neither the Department nor three of the SEAs (Alabama, Mississippi, and Puerto Rico) validated the performance data that the subgrantees submitted. As a result, the Department was unable to ensure that grantees met program objectives. We also found that although the Department monitored the SEAs' processes to award and monitor subgrants and reported some deficiencies it identified, it did not identify the internal control weaknesses that we found at the selected SEAs. Based on our findings, we made a number of recommendations, including that the Department ensure that SEAs implement written policies, procedures, and monitoring instruments to sufficiently test 21st Century Community Learning Centers performance data and provide reasonable assurance of the accuracy, reliability, and completeness of data reported to the Department. We also recommended that the Department provide sufficient monitoring and oversight of SEAs' processes to award and monitor 21st Century Community Learning Centers grants to subgrantees. The Department agreed with the findings and either agreed or partially agreed with all but one of the recommendations.

Office of Elementary and Secondary Education's Process of Awarding Discretionary Grants

Our audit sought to determine whether the Department's OESE complied with applicable laws, regulations, and guidance for selecting recipients to be awarded discretionary grants and whether OESE had sufficient internal controls to ensure that its review process resulted in a fair and objective competition. We reviewed OESE's three largest discretionary grant programs: Striving Readers Comprehensive Literacy, Impact Aid School Construction—Recovery Act, and Grants for Enhanced Assessment Instruments. We concluded that for these grant programs, OESE complied with applicable laws, regulations, and guidance when selecting recipients to be awarded discretionary grants, and internal controls were sufficient to ensure a fair and objective competition. However, we noted some improvements were needed in the retention of required documentation and suggested that OESE ensure that program offices maintain documentation to demonstrate that they followed proper procedures. The Department agreed with our suggestion.

El Paso Independent School District (Texas)

We determined that the El Paso Independent School District, Bowie High School, and Coronado High School Adequate Yearly Progress results for 2009, 2010, and 2011, and the graduation rate data used for the 2009 and 2012 Adequate Yearly

Progress calculations cannot be relied on because not all students took the necessary tests due to policies El Paso Independent School District put into place that prevented all applicable students from taking the test. We also determined that the TEA and El Paso Independent School District violated the academic and assessment requirements of the ESEA by allowing students to graduate from high school without taking the required test that counted towards Adequate Yearly Progress. In addition, we found that school district leadership designed an inadequate control environment and lacked adequate control activities to provide reasonable assurance of compliance with laws and regulations. As a result of the issues identified during the audit, El Paso Independent School District students' civil rights may have been violated.

This audit attracted a significant amount of attention due to the criminal conviction of the former El Paso ISD superintendent. The now-imprisoned former superintendent admitted in 2011 that he directed district employees to change student records, reclassify student grade levels, and take other actions to make it appear that the district was meeting or exceeding its Adequate Yearly Progress standards. He did this to receive the financial bonuses stipulated in his contract. Further, in 2012, El Paso's interim superintendent announced that the district had found and documented violations of El Paso policies, potential falsifications of government documents, and improper promotion and retention of students to avoid Federal education accountability standards. Based on our audit findings, we recommended that the Department require TEA to determine the impact of these findings on El Paso, Bowie, and Coronado Adequate Yearly Progress results for 2009, 2010, 2011, and 2012, reconsider the previous Adequate Yearly Progress results, and take appropriate action; require TEA to develop policies, guidance, and internal controls and require TEA to direct El Paso to implement specific oversight mechanisms and internal controls; and work with the Assistant Secretary for Civil Rights to determine whether students' civil rights were violated. TEA and El Paso concurred with our findings. El Paso provided corrective actions in response to recommendations.

Investigations of Schools and School Officials

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

Progreso Mayor, School Board President, and School Official Indicted (Texas)

In August, the mayor of Progreso, his father, the director of maintenance and transportation of the Progreso Independent School District, and his brother, the district's school board president, were indicted on charges that included conspiracy, theft, and bribery. The three allegedly used their positions to extract bribes and kickbacks from service providers to Progreso Independent School District and the city of Progreso. According to the indictment, from 2004 to 2006, a construction company paid the mayor about $85,000 in bribes in exchange for contracts on city projects, including building an elementary school; in 2008 and

2009, an attorney paid nearly $10,000 to be hired as a local counsel for Progreso Independent School District; and from 2009 to 2012, the mayor instructed the owner of an electrical and plumbing supply company to provide fraudulent invoices to Progreso Independent School District and the city for products that were not supplied and provide a kickback to him once the invoices were paid.

Former Detroit Public Schools Accountant and Her Daughter Found Guilty (Michigan)

A Federal jury leveled guilty verdicts against a former Detroit Public Schools contract accountant, who was also once a school board candidate, and her daughter, a Detroit Public Schools teacher, for fraud, conspiracy, and money laundering. Between 2004 and 2008, the two obtained more than $530,000 from the school district when a sham company they controlled placed orders for books and educational materials that were never provided.

Former Associate Superintendent of Pontiac Public Schools Sentenced (Michigan)

The former associate superintendent for Organizational Development and Human Resources for Pontiac Public Schools was sentenced to serve 12 months in prison, 3 years of supervised release, and was ordered to pay $184,000 in restitution for fraud. Our investigation found that the former associate superintendent directed an employee to write a $236,000 check to a business that he owned. The check was deposited into an account that he controlled, a portion of which he used for personal expenses.

St. Landry Parish School Board Member Convicted, Another Pled Guilty (Louisiana)

A Federal jury convicted a St. Landry Parish school board member of taking bribes in exchange for his vote in favor of a candidate for school board superintendent. Another school board member pled guilty to doing the same. The investigation revealed that the two board members approached the candidate and solicited and accepted $5,000 each in exchange for their favorable votes.

Shorewood School District Employee Pled Guilty (Wisconsin)

A former Shorewood School District administrative assistant pled guilty to stealing more than $310,000 in Federal special education funds. Over a 13-year period, the former assistant created bogus purchase orders to use school district funds for vacations and household items.

Two Former Louisiana State University Officials Pled Guilty (Louisiana)

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

Actions Taken Against Seven Puerto Rico Department of Education Employees (Puerto Rico)

In previous Semiannual Reports to Congress, we noted that criminal actions had been taken against Puerto Rico Department of Education Procurement Office employees and vendors for their roles in a fraud scheme involving more than $7 million in contract awards. During this reporting period, seven of those people were sentenced for their roles in the scheme. From 2008 through 2010, vendors conspired to reward the Puerto Rico Department of Education employees in exchange for their support on lucrative procurement contracts. The vendors then worked with a certified public accountant to conceal and disguise their unlawful activity. Three former employees received sentences ranging from probation to 2½ years in prison. Two of the former employees were given an additional 3 years of probation, and all three were ordered to pay a $100 fine each, and one was ordered to forfeit $26,355. Three former Puerto Rico Department of Education vendors were sentenced to probation during this reporting period and one was ordered to pay a $12,500 fine. The certified public accountant was sentenced to 4 months in prison, 4 months of home confinement, and 3 years of probation.

Investigations of Charter Schools

OIG has conducted a significant amount of investigative work involving charter schools. From January 2005 through September 30, 2013, OIG has opened 62 charter school investigations. To date, these investigations have resulted in 40 indictments and 26 convictions of charter school officials. The cases that have been fully settled resulted in nearly $10.7 million in restitution, fines, forfeitures, and civil settlements.

Founder and Former CEO of Pennsylvania Cyber Charter School and His Accountant Indicted (Pennsylvania)

The founder and CEO of Pennsylvania Cyber Charter School and his accountant were indicted on charges that included conspiracy, theft, bribery, and mail fraud related to an elaborate fraud scheme involving more than $8 million. The former CEO allegedly created 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. His accountant allegedly assisted in the tax fraud scheme. Over 6 years, the two falsified corporate books and records and shifted more than $8 million in income attributable to the CEO to the Federal income tax returns of other people to conceal his income from the Internal Revenue Service. The CEO's sister, the owner of a Pennsylvania Cyber Charter School contractor, was also charged with filing a false tax return.

Former CEO of Harambee Institute of Science and Technology Pled Guilty (Pennsylvania)

The former CEO of Harambee Institute, Inc., and Harambee Institute of Science and Technology pled guilty to fraud. The former CEO admitted that he engaged in a scheme to improperly use Harambee Institute funds and money from a private scholarship fund for his personal use. He improperly withdrew $9,000 from a private scholarship fund set up by the school in order to purchase a house for himself in Philadelphia, and improperly withdrew about $79,000 from the Institute’s bank accounts that he converted for his personal use. The former CEO attempted to cover up his illegal activities by disguising a significant portion of the cash withdrawals as labor costs when there were no such costs and directed employees to lie for him to Federal agents and a Federal grand jury.

Former CEO of Pocono Mountain Charter School Pled Guilty (Pennsylvania)

The former CEO of the Pocono Mountain Charter School, who was also the pastor of the Shawnee Tabernacle Church that owned the building in which the school operated, pled guilty to tax fraud. The plea is a result of our investigation that found that the former CEO substantially increased the school’s lease payments to the church and increased his salary and bonuses for his wife, who was also a school employee. The former CEO concealed the income with a number of financial transactions to avoid paying the appropriate Federal taxes.

Former Senior Certified Public Accountant of Lusher Charter School Charged (Louisiana)

The former senior certified public accountant in the business office of the Lusher Charter School was charged with theft for allegedly forging five school checks totaling $25,000. She allegedly wrote checks to herself and deposited them into her personal bank account.

Temporary Employee at Cesar Chavez Charter School Pled Guilty (Washington, DC)

A former temporary employee working in the finance department at Cesar Chavez Charter School for Public Policy pled guilty to stealing more than $75,000 from the school. From January through March 2010, the former employee was responsible for processing invoices from vendors. She accessed the school’s accounting system and changed the names listed on pending checks, replacing the names of legitimate vendors with those of fictitious vendors. The former temporary employee then forged the signatures on the check, which she cashed and used for her personal benefit.

Investigations of Supplemental Education Service Providers

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

Two SES Providers and a Former Oklahoma City School Counselor Indicted in $1.2 Million Fraud Scam (Oklahoma)

The owner of A+ Tutoring, an SES provider, and her daughter, the owner of Foundations Tutoring, another SES provider, along with a former counselor at U.S. Grant High School, were charged with conspiracy to defraud Oklahoma City Public Schools. The indictment alleges that during the 2009–2010 school year, the three instructed tutors at the high school to complete and sign student attendance rosters for tutoring sessions that did not take place. They also allegedly entered the false information into the school district's database and used the false information to generate invoices, which were submitted to the school district for payment. As a result of their alleged actions, A+ Tutoring fraudulently received more than $884,000, and Foundations Tutoring more than $321,500 for tutoring services.

Actions Taken Against TestQuest (New York)

In our last Semiannual Report, we noted that the U.S. Department of Justice had filed civil fraud complaints against TestQuest, Inc., and a criminal and civil complaint against a former TestQuest manager for defrauding SES at New York City schools. During this reporting period, significant actions were taken against both TestQuest and the former manager, as well as three New York City public school teachers.

- TestQuest agreed to pay $1.725 million to settle allegations that it violated the False Claims Act. TestQuest admitted and accepted responsibility for engaging in fraudulent conduct involving SES funds, including falsifying student attendance records and submitting claims for reimbursement for tutoring services that it did not provide. TestQuest also agreed to a voluntary 3-year debarment from all Federal programs.
- The former TestQuest manager (also a New York City school teacher) who carried out the fraud pled guilty and agreed to $2.3 million civil judgment and awaits sentencing for his criminal actions.
- One additional New York City school teacher was also criminally charged with fraud, and, along with two other teachers, was charged in an amended civil complaint for their roles in the scheme.

Former River Rouge School District Official Sentenced (Michigan)

The former director of State and Federal programs for the River Rouge School District was sentenced to 5 years in prison and 3 years of supervised release for bribery. The former director received money and other items of value from a vendor in exchange for her support in awarding a contract to the vendor for mandatory programs offered through SES. Those programs, however, were neither authorized nor mandatory.

Investigations of Other Federal Education Fraud

Our investigations into suspected fraudulent activity by Federal education grantees and other individuals have led to the arrest and conviction of a number of people for theft or misuse of Federal funds.

Former Executives of a Nationwide Sports Equipment Company Pled Guilty (New Jersey)

The former CEO and chief financial officer of Circle System Group pled guilty for perpetrating a long-running fraud scheme against schools in New Jersey and other States. Circle System Group was a sports equipment and reconditioning company that provided services to school districts, colleges, universities, and professional sports teams nationwide. From at least 1997 through June 2007, the two engaged in a number of fraudulent business practices aimed at defrauding schools, such as submitting fraudulent invoices and fake quotes to schools in order to increase Circle System Group sales and profits. As a result of their fraudulent actions, Circle System Group retained more than $822,000 in overpayments from various schools.

Former El Paso Independent School District Contractor Sentenced (Texas)

The former owner of Strategic Governmental Solutions, Inc., was sentenced to serve 3 years in prison, 36 months of supervised release, and was ordered to pay nearly $3 million in restitution for scheming to defraud the El Paso Independent School District. The former owner conspired with his business partner, a former El Paso Independent School District associate superintendent, and former El Paso Independent School District trustee to fraudulently obtain a software contract with the school district worth several million dollars. The company failed to provide working software and submitted improper claims for reimbursement. The former associate superintendent was sentenced to prison in 2012 for his role in the scheme.

Leaders of Nonprofit Organization Pled Guilty (Illinois)

The former directors of the Beacon Street Gallery and Performance Company pled guilty to fraudulently obtaining and misapplying 21st Century Community Learning Center program funds. From May 2004 through June 2010, they submitted grant applications that contained inaccurate information to fraudulently receive at least $1 million in grant funds, about $400,000 of which were used for their personal benefit, including payment of personal credit card bills, household expenses, automobile payments, rental, and personal travel expenses.

Former Nonprofit Executive Director Indicted (Oregon)

The former executive director for the Oregon Respect, Inspire, Support, Educate/Parent Training & Information Center was indicted for theft and aggravated identity theft. From 2006 through 2012, the former executive director allegedly stole tens of thousands of dollars from the program.

Former Santiago Canyon College Director Pled Guilty (California)

The former director of special programs at Santiago Canyon College pled guilty for participating in a scheme to defraud the College Assistance Migrant Program. From 2008 through 2011, the former director devised a scheme to defraud the program of about $90,000 by awarding grant funds to students who were not eligible to receive them and by converting stipend checks of College Assistance Migrant Program students for her personal use.

Greater Lawrence Community Action Council Agrees to Settlement (Massachusetts)

The Greater Lawrence Community Action Council, a nonprofit corporation focused on assisting low income families, agreed to pay $80,282 to settle claims that several of its employees were paid for work on Federal grants that was never performed.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Federal and State Law Enforcement-Related Groups

- *U.S. Department of Justice's Financial Fraud Enforcement Task Force—Consumer Protection Working Group*. OIG participates in this working group composed of Federal law enforcement and regulatory agencies that work to strengthen efforts to address consumer-related fraud.

- *U.S. Department of Justice's Financial Fraud Enforcement Task Force—Grant Fraud Committee*. OIG participates in this group composed of Federal law enforcement agencies seeking to enforce and prevent grant and procurement fraud.

- *Northern Virginia Cyber Crime Working Group*. OIG participates in a workgroup of various Federal, State, and local law enforcement agencies conducting cybercrime investigations in Northern Virginia. The purpose is to share intelligence and collaborate on matters affecting multiple agencies.

Federal and State Audit-Related Groups

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

Review of Legislation, Regulations, Directives, and Memoranda

- *Notice of Proposed Rulemaking, Part B of the Individuals with Disabilities Act (IDEA)*. OIG provided comments to the Department on its draft Notice of Proposed Rulemaking concerning LEA maintenance of effort requirements. The comments reflected audit findings and recommendations made in the OIG's reports that are summarized on page 3 of this Semiannual Report.

- *Guidance Memorandum, Missing Audits-Post Awards*. OIG provided comments to the Department on its draft guidance to program offices regarding grantee compliance with timely single audit submissions, including suggesting that OIG be notified if a grantee does not submit a required single audit, which would help us determine which grantees to audit.

Goal 4: Contribute to improvements in Department business operations.

Effective and efficient business operations are critical to ensure that the Department successfully manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. OIG work in this area helps the Department accomplish its objectives by ensuring the reliability, integrity, and security of Department data; the Department's compliance with applicable policies and regulations; its oversight and monitoring of contractors and contract requirements; and the Department's effective use of taxpayer dollars.

Audits and Reviews

OIG audits and reviews of the Department's data security systems help ensure the Department is taking all necessary actions to protect the millions of records it maintains in its systems from malicious malware, hackers, and other unauthorized access, misuse, and fraud. We also regularly review the Department's management of contracts to help ensure that contract objectives are accomplished, that vendors meet their responsibilities, and that the Department has an effective contract monitoring system that mitigates risk. During this reporting period, we issued two reports related to these areas, the first involving the FSA personal identification number registration system, and the second involving FSA's award and administration of the Title IV Additional Servicers contracts. Below are summaries of our findings.

Vulnerabilities Associated With the Personal Identification Number Registration System

This report highlighted security vulnerabilities associated with the Federal student aid Personal Identification Number (PIN) Registration System (PIN system) that were identified through various OIG investigations. Vulnerabilities identified included inadequate PIN recovery mechanisms that have the potential to allow unauthorized users to access FSA's student loan Web sites and databases and obtain sensitive personal information contained in the PIN system; students sharing their PINs with Internet-based loan servicers that provide an opportunity for bad actors at a company to change and misuse the students' personal data; and third-party FAFSA preparers managing student PINs without identifying themselves on the FAFSA, controlling student PIN accounts, and receiving electronic correspondence from FSA that is intended for the student. We recommended that FSA make specific improvements to its PIN system to ensure personal information stored on its databases and Web sites is adequately protected. We also suggested that the Department consider developing a capability to enable students to permit companies providing loan-related services read-only access to relevant areas of their accounts that do not contain sensitive personal information, and that it create preparer-specific access accounts that would allow a student to authorize a preparer to access and modify only certain sections of the FAFSA. FSA agreed with our recommendation but not our suggestions.

FSA's Award and Administration of the Title IV Additional Servicers Contracts

Our audit to determine whether FSA selected Title IV Additional Servicers servicing prices that were most efficient and cost-effective found that it did so; however, we could not determine whether it did the same for changes made to those contracts. We also found that FSA did not adequately monitor Title IV Additional Servicers' compliance with contract requirements. We were unable to determine whether FSA selected the most efficient and cost-effective prices for the contract changes because a contract modification to include a requirement for cohort default rate challenges resulted in a separate cost of more than $600,800, which was possibly more costly than it would have been if that requirement was included initially. In addition, FSA did not properly document decisions for 18 of 21 contract changes that totaled more than $1.2 million. We also found that contracting officer representatives did not sufficiently validate Title IV Additional Servicers' invoices and confirm the timeliness and adequacy of deliverables, and FSA used inadequate criteria in its contract monitoring. We made 10 recommendations to address the weaknesses identified, including that FSA develop and implement guidance and procedures on how to adequately validate borrower volumes and related costs in invoices, and apply those steps to the invoices from our audit period to ensure accurate billing and payment occurred. FSA agreed with most of our findings and recommendations.

Investigations

The following is a summary of a case involving theft of personally identifiable information and abuse of a financial aid database.

Former Florida A&M Student Pled Guilty (Florida)

A former Florida A&M University student pled guilty to charges involving aggravated identify theft and access device fraud arising from a scheme to steal Federal student aid from students attending Florida A&M University. The former student, along with two others, accessed the financial aid accounts of other students in the school's computer system. They obtained user names, passwords, and other student personally identifiable information by obtaining discarded paperwork from trash bins located near the school's computer help desk, gathering information off the internet, and tricking school employees and the students themselves into providing information, which they used to log onto the financial aid system, changing the bank accounts and routing numbers so student aid award checks would be routed to their accounts.

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

OMB Circular A-133 requires entities such as State and local governments, universities, and nonprofit organizations that spend $500,000 or more in Federal funds in 1 year to obtain an audit, referred to as a single audit. Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in specific Federal student aid programs are required to undergo annual audits performed by independent public accountants in accordance with audit guides issued by the OIG. These audits assure the Federal Government that recipients of Federal funds comply with laws, regulations, and other requirements that are material to Federal awards. To help assess the quality of the thousands of single audits performed each year, we conduct quality control reviews of a sample of audits. During this reporting period, we completed 28 quality control reviews of audits conducted by 25 independent public accountants or offices of firms with multiple offices. We concluded that 12 (43 percent) were acceptable or acceptable with minor issues and 16 (57 percent) were technically deficient.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Department

- *Department of Education Senior Assessment Team.* OIG participates in an advisory capacity on this team. The team provides oversight of the Department's assessment of internal controls and related reports and provides input to the Department's Senior Management Council concerning the overall assessment of the Department's internal control structure, as required by the Federal Managers' Financial Integrity Act of 1982 and OMB Circular A-123, "Management's Responsibility for Internal Control."

- *Department of Education Investment Review Board and Planning and Investment Review Working Group.* OIG participates in an advisory capacity in these groups, which review information technology investments and the strategic direction of the information technology portfolio.

- *Department Human Capital Policy Working Group.* OIG participates in this working group, which meets monthly to discuss issues, proposals, and plans related to human capital management.

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

Inspector General Community

- *Council of the Inspectors General on Integrity and Efficiency (CIGIE).* OIG staff play an active role in CIGIE efforts. Inspector General Tighe is the Vice Chair of the Information Technology Committee and a member of CIGIE's Audit Committee, Investigations Committee, the Interagency Coordination Group for Guam Realignment, and the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee. OIG staff are members of CIGIE's Assistant Inspector General for Investigations Subcommittee, chair the Information Technology Subcommittee for Investigations, the Cyber Security Working Group, the Inspections and Evaluations Working Group, the Council of Counsels to the Inspectors General, and the New Media Working Group.

    - *Financial Statement Audit Network.* OIG staff chair this Governmentwide 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 Department of the Treasury on the annual audit of the Government's financial statements.

    - *CIGIE/Government Accountability Office Annual Financial Statement Audit Conference.* OIG staff chair the Planning Committee for the annual conference that covers current issues related to financial statement audits and standards.

    - *CIGIE Grant Reform Working Group.* OIG staff participate in this IG-community group. During this reporting period, OIG provided extensive comments on OMB's proposed Uniform Guidance on Cost Principles, Audit, and Administrative Requirements for Federal Awards.

    - *Cloud Computing Working Group.* OIG participated in this IG-community group that developed cloud computing contract clauses to ensure that OIGs have adequate data access for the purposes of audits and criminal investigations.

Federal and State Audit-Related Groups and Entities

- *Intergovernmental Audit Forums.* OIG staff have chaired and served as officers of a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work to improve audit education and training and exchange information and ideas regarding the full range of professional activities undertaken by government audit officials. During this reporting period, OIG staff chaired the New Jersey-New York Forum and the Midwestern Forum and served as officers of the Southeastern Forum and the Southwestern Forum.

- *Interagency Working Group for Certification and Accreditation.* OIG participates in this working group, which exchanges information relating to Federal forensic science programs that share intergovernmental responsibilities to support the mission of the National Science and Technology Council's Subcommittee on Forensic Science.

- *Interagency Fraud and Risk Data Mining Group.* OIG participates in this group that shares best practices in data mining and evaluates data mining and risk modeling tools and techniques to detect patterns indicating possible fraud and emerging risks.

- *AICPA Government Audit Quality Center's Single Audit Roundtable.* OIG staff responsible for single audit policy and quality participate in this discussion group, which meets semiannually and consists of Federal, State, and local government auditors and accountants who perform single audits. The participants discuss recent or anticipated changes in single audit policy, such as the Compliance Supplement to Office of Management and Budget Circular A-133, new auditing standards, and issues of audit quality found in recent quality control reviews.

Review of Legislation, Regulations, Directives, and Memoranda

- *Administrative Data for Statistical Purposes*. OIG provided a comment on OMB's draft guidance on providing administrative data for statistical purposes. OIG suggested that OMB add a requirement that all employees and contractors who handle personally identifiable information must receive a background check that includes a National Agency Check with Written Inquiries and a credit check.

- *DATA Act*. OIG suggested to CIGIE that it pursue incorporating the DATA Act reporting requirement into an existing reporting vehicle, specifically the annual financial statement audit. We also noted our opposition to a proposed amendment that would narrow Section 5(d) of the IG Act's 7-day letter provision to apply only when termination, resignation, or suspension could result. In addition, we noted that the amendment could result in potentially compromising open investigations of a target and violating a target's due process rights, and could result in disclosure of Grand Jury and other court-sealed information in violation of Federal statutes.

- *Federal Information Security Management Act of 2002 and SECURE IT Acts*. OIG suggested to CIGIE that the legislation be amended to include Federal Information Security Management Act of 2002 evaluation provisions.

- *OMB Memorandum, Protecting Privacy While Reducing Improper Payments With the Do Not Pay Initiative*. OIG provided technical comments to OMB on its proposed guidance.

- *Departmental Directive on Cooperation with and Reporting to the OIG*. OIG provided comments on this revised directive, which sets out employee obligations to report fraud to the OIG and to cooperate with OIG investigations and audits.

- *Departmental Directive on Interagency Agreements*. OIG provided comments that OIG counsel is responsible for reviewing OIG-specific agreements with other agencies.

- *Departmental Directive on Acquisition Planning*. OIG provided editorial comments.

- *Departmental Directive on E-Government Act of 2002, Policy and Compliance*. OIG provided editorial comments.

- *Departmental Directive on Handbook for Property Management*. OIG provided technical and editorial comments.

- *Departmental Directive on Federal Managers Financial Integrity Act Management/Reporting on Internal Controls*. OIG provided technical and editorial comments.

- *Departmental Directive on Scientific Integrity Policy*. OIG provided editorial comments.

- *Departmental Directive on Information Collection Activities and Burden Control*. OIG

Annexes and Required Tables

Annex A. Contract-Related Audit Products With Significant Findings

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

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

Annex B. Peer Review Results

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

No peer reviews were completed during this reporting period.

Required Tables

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

Acronyms and Abbreviations Used in the Required Tables

AARTS	The Department's Audit Accountability and Resolution Tracking System
FSA	Federal Student Aid
ISU	Implementation and Support Unit
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
ODS	Office of the Deputy Secretary
OESE	Office of Elementary and Secondary Education
OGC	Office of the General Counsel
OII	Office of Innovation and Improvement
OPEPD	Office of Planning, Evaluation and Policy Development
OS	Office of the Secretary
OSDFS	Office of Safe and Drug Free Schools
OSEP	Office of Special Education Programs
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
PAG	Post Audit Group
PDL	Program Determination Letter
RMS	Risk Management Services
Recs	Recommendations

Definitions

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

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

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

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

Questioned Costs. As defined by the 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)	*Significant Problems, Abuses, and Deficiencies*	N/A
5(a)(3)	*Uncompleted Corrective Actions* Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed	1
5(a)(4)	*Matters Referred to Prosecutive Authorities* Statistical Profile for October 1, 2012, through September 30, 2013	6
5(a)(5) and 6(b)(2)	*Summary of Instances Where Information was Refused or Not Provided*	N/A
5(a)(6)	*Listing of Reports* Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (April 1, 2013, through September 30, 2013)	2
5(a)(7)	*Summary of Significant Audits*	N/A
5(a)(8)	*Questioned Costs* Audit, Inspection, and Evaluation Reports With Questioned or Unsupported Costs	3
5(a)(9)	*Better Use of Funds* Audit, Inspection, and Evaluation Reports With Recommendations for Better Use of Funds	4
5(a)(10)	*Unresolved Reports* Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to September 30, 2013 Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5-A 5-B
5(a)(11)	*Significant Revised Management Decisions*	N/A
5(a)(12)	*Significant Management Decisions With Which OIG Disagreed*	N/A
5(a)(13)	*Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996*	N/A

Table 1. Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed (April 1, 2013, through September 30, 2013)

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

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

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Date of Management Decision	Number of Significant Recs Open	Number of Significant Recs Closed	Projected Action Date
OCIO	Audit A11L0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act for Fiscal Year 2011 (FSA is also designated as an action official) *(SAR 64, page 36)*	10/18/2011	1/3/2012	5	13	3/31/2015
OESE	Audit A05L0002	School Improvement Grants: Selected States Generally Awarded Funds Only to Eligible Schools *(SAR 64, page 37)*	3/29/2012	8/21/2012	3	1	10/31/2013

Table 2. Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (April 1, 2013, through September 30, 2013)

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 A02L0006	Federal Student Aid's Award and Administration of the Title IV Additional Servicers Contracts	8/20/13	-	-	10
FSA	Audit A06M0013	Arkansas State University's Administration of Selected Aspects of the Title IV Programs	9/26/13	-	-	3
FSA	Audit A09L0001	Transparency of Proprietary Schools' Financial Statement Data for Federal Student Aid Programmatic Decisionmaking (OPE is also designated as an action official)	7/23/13	-	-	3
OESE	Audit A02M0009	Florida: Final Recovery Act Expenditures Supplemental Report (OSERS is also designated as an action official)	6/27/13	-	-	1
OESE	Audit A03M0002	The Office of Elementary and Secondary Education's Process of Awarding Discretionary Grants	8/12/13	-	-	None[2]
OESE	Audit A04L0004	U.S. Department of Education's and Selected States' Oversight of the 21st Century Community Learning Centers Program	6/21/13	-	-	7
OESE	Audit A04M0001	Review of Final Expenditures Under the American Recovery and Reinvestment Act for Selected Educational Agencies (OSERS and ODS-ISU are also designated as action officials)	7/8/13	-	-	None
OESE	Audit A05N0006	The Texas Education Agency's System of Internal Control Over Statewide Test Results	9/26/13	-	-	7

[2] Audit Report A03M0002 contained two suggestions.

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
OESE	Audit A06L0001	El Paso Independent School District's Compliance With the Accountability and Academic Assessment Requirements of the Elementary and Secondary Education Act of 1965 (OCR is also designated as an action official)	6/13/13	-	-	13
OESE	Audit A07M0007	Michigan Department of Education's System of Internal Control Over Statewide Test Results	5/20/13	-	-	8
OSERS	Audit A09L0011	Local Educational Agency Maintenance of Effort Flexibility Due to Recovery Act IDEA, Part B Funds	7/25/13	-	-	12
FSA	Alert Memo L02N0002	Federal Student Aid Paid Private Collection Agencies Based on Estimates	5/15/13	-	-	2
FSA	Alert Memo L06M0012	Verbal Complaints Against Private Collection Agencies	5/8/13	-	-	2
FSA	Management Information Report X21L0002 (Sensitive Data—No Public Distribution without Prior Approval)	PIN Security Vulnerabilities	9/30/13	-	-	5
OSERS	Alert Memo L09N0004	California Department of Education's Administration of LEAs' Special Education Maintenance of Effort Compliance Requirement	5/20/13	-	-	4
Total				**$0**	**$0**	**77**

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

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

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

Requirement	Number	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs
A. For which no management decision has been made before the commencement of the reporting period	23	$261,925,277	$148,722,750
B. Which were issued during the reporting period	0	$0	$0
Subtotals (A + B)	23	$261,925,277	$148,722,750
C. For which a management decision was made during the reporting period	8	$55,723,448	$8,945,456
(i) Dollar value of disallowed costs		$46,645,884	$2,507,164
(ii) Dollar value of costs not disallowed		$9,077,564	$6,438,292
D. For which no management decision was made by the end of the reporting period	15	$206,201,829	$139,777,294

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

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

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

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

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

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

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

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
ODS	Audit A03M0005 (New)	Delaware: Final Recovery Act Expenditures Supplemental Report *(SAR 66, page 39)* **Current Status:** ODS/ISU is currently working to resolve this audit.	12/19/12	-	2
ODS	Audit A09M0003 (New)	Arkansas: Final Recovery Act Expenditures Supplemental Report (OESE and OSERS are also designated as action officials) *(SAR 66, page 40)* **Current Status:** ODS/ISU, OESE, OSERS, and OSEP informed us that PDLs had been issued; however, that information was not included in AARTS at the end of the SAR reporting period.	12/20/12	$237,302	2
OESE	Audit A03K0009 (New)	Maryland: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs (ODS, OSERS, and OCFO are also designated as action officials) *(SAR 66, page 40)* **Current Status:** OESE informed us that a draft PDL is currently under review. OSERS informed us that a joint resolution with OESE and ISU is in progress. OCFO/ICG issued a PDL on 7/31/2013.	1/3/13	$736,582	8
OESE	Audit A04M0014 (New)	Puerto Rico: Final Recovery Act Expenditures Supplemental Report (OSERS is also designated as an action official) *(SAR 66, page 40)* **Current Status:** OESE informed us that a draft PDL is currently under review. OSERS informed us that it is currently working to resolve this audit.	2/20/13	$14,303[3]	8
FSA	Audit A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown *(SAR 49, page 14)* **Current Status:** FSA informed us that a draft audit determination/PDL is currently under review.	9/23/04	$2,458,347	7

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

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
FSA	Audit A05G0017	Capella University's Compliance with Selected Provisions of the HEA and Corresponding Regulations *(SAR 56, page 25)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	3/7/08	$589,892	9
FSA	Audit A05I0014	Ashford University's Administration of the Title IV HEA Programs *(SAR 62, page 24)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	1/21/11	$29,036	13
FSA	Audit A05K0012	Saint Mary-of-the-Woods College's Administration of the Title IV Programs *(SAR 64, page 36)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	3/29/12	$42,362,291	19
FSA	Audit A06D0018	Audit of Saint Louis University's Use of Professional Judgment from July 2000 through June 2002 *(SAR 50, page 21)* **Current Status:** FSA informed us that it is waiting on outcome of Secretary's decision of school's appeal of professional judgment finding for Saint Louis University before it can resolve this audit.	2/10/05	$1,458,584	6
FSA	Audit A07K0003	Metropolitan Community College's Administration of Title IV Programs *(SAR 65, page 40)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	5/15/12	$232,918	22
FSA	Audit A09K0008	Colorado Technical University's Administration of Title IV Programs *(SAR 65, page 40)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	9/21/12	$173,164	8
OCFO	Audit A09H0020	California Department of Education Advances of Federal Funding to LEAs *(SAR 58, page 31)* **Current Status:** OCFO/PAG informed us that it is developing a PDL.	3/9/09	$728,651	10
ODS	Audit A06K0002	Oklahoma: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) *(SAR 62, page 25)* **Current Status:** OSERS/OSEP informed us that it is finalizing the draft PDL. OCFO/PAG PDL was issued on 9/21/2012. OESE PDL was issued on 9/25/2012. ODS/ISU PDL was issued on 1/8/2013.	2/18/11	$16,150,803	10

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
ODS	Inspection I13L0001	Department's Nonprocurement Suspension and Debarment Process *(SAR 65, page 41)* **Current Status:** ODS/RMS informed us that it is working to resolve this audit.	6/22/12	-	5
OESE	Audit A03G0006	The Department's Administration of Selected Aspects of the Reading First Program (OCFO also designated as an action official) *(SAR 54, page 31)* **Current Status:** OESE informed us that it is currently working to resolve this audit.	2/22/07	-	3
OESE	Audit A03H0010	Philadelphia School District's Controls Over Federal Expenditures (OSERS, OSDFS, and OPE also designated as action officials) *(SAR 60, page 39)* **Current Status:** OESE informed us that the audit is under appeal. OESE and OSERS/OSEP issued a joint PDL on 9/29/11.	1/15/10	$138,769,898	27
OII	Audit A02L0002	The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants *(SAR 65, page 40)* **Current Status:** OII informed us that it is currently working to resolve this audit.	9/25/12	-	7
OPEPD	Audit A04J0003	Georgia Department of Education's Controls Over Performance Data Entered in ED*Facts* (OSDFS, OESE, and OSERS also designated as action officials) *(SAR 61, page 34)* **Current Status:** OPEPD previously informed us that it is currently working to resolve this audit.	4/7/10	-	9
OSERS	Audit A04K0001	Systems of Internal Controls over Selected Recovery Act Funds in Puerto Rico (OCFO, OESE, and OSERS are also designated as action officials) *(SAR 62, page 25)* **Current Status:** OSERS/OSEP informed us that it is finalizing the draft PDL. OCFO/PAG issued a PDL on 5/14/2013. OESE and ODS/ISU issued a joint PDL on 7/26/2012.	12/16/10	$2,051,000	16
OSERS	Audit A06K0003	Louisiana: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and ODS are also designated as action officials) *(SAR 63, page 37)* **Current Status:** OSERS informed us they are currently working to resolve an additional finding. OSERS/OSEP issued a PDL for one finding on 2/20/2013.	4/11/11	$209,058	5
Total				**$206,201,829**	**196**

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

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

Office	Report Title, Number, and Date Issued	Summary and Current Status
ODS	Delaware: Final Recovery Act Expenditures Supplemental Report Audit A03M0005 12/19/12	We reviewed Recovery Act expenditures at two LEAs—the Red Clay Consolidated School District and the Christina School District—and found that both districts generally obligated and spent stimulus funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we identified an internal control weakness in the Christina School District's payroll adjustment process that resulted in it obligating about $41,100 in Recovery Act funds for personnel expenditures after the grant period ended on September 30, 2011. We recommended that the Department require the Delaware Department of Education to direct the district to return the funds to the Department and implement sufficient internal controls to help ensure this does not happen in the future. **Current Status:** ODS/ISU informed us it is currently working to resolve this audit.
ODS	Arkansas: Final Recovery Act Expenditures Supplemental Report Audit A09M0003 12/20/12	We reviewed Recovery Act expenditures at two LEAs—the El Dorado School District and the Little Rock School District—and found that the LEAs generally obligated and spent stimulus funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we did identify areas of concern at each LEA. At El Dorado, we questioned its use of more than $237,300 in funds for a purpose prohibited by the Recovery Act: it improperly spent Recovery Act funds to replace a gymnasium roof at a high school that was no longer used as a school. In response to this finding, the district superintendent and business manager stated that the district reversed the costs and transferred other expenditures to offset those funds. At Little Rock, we identified control weaknesses in its asset inventory system that resulted in the district not properly accounting for and safeguarding equipment purchased with Recovery Act funds (and potentially other Federal funds) in a timely manner. Four of the seven purchases that we reviewed totaled almost $196,000. We recommended that the Department determine whether El Dorado's transfer of expenditures to offset the questioned costs was an allowable activity more than 6 months after the grant had ended and that it require the Arkansas Department of Education to ensure that Little Rock strengthens internal controls over assets purchased with Federal funds. **Current Status:** ODS/ISU, OESE, OSERS, and OSEP informed us that PDLs had been issued; however, that information was not included in AARTS at the end of the SAR

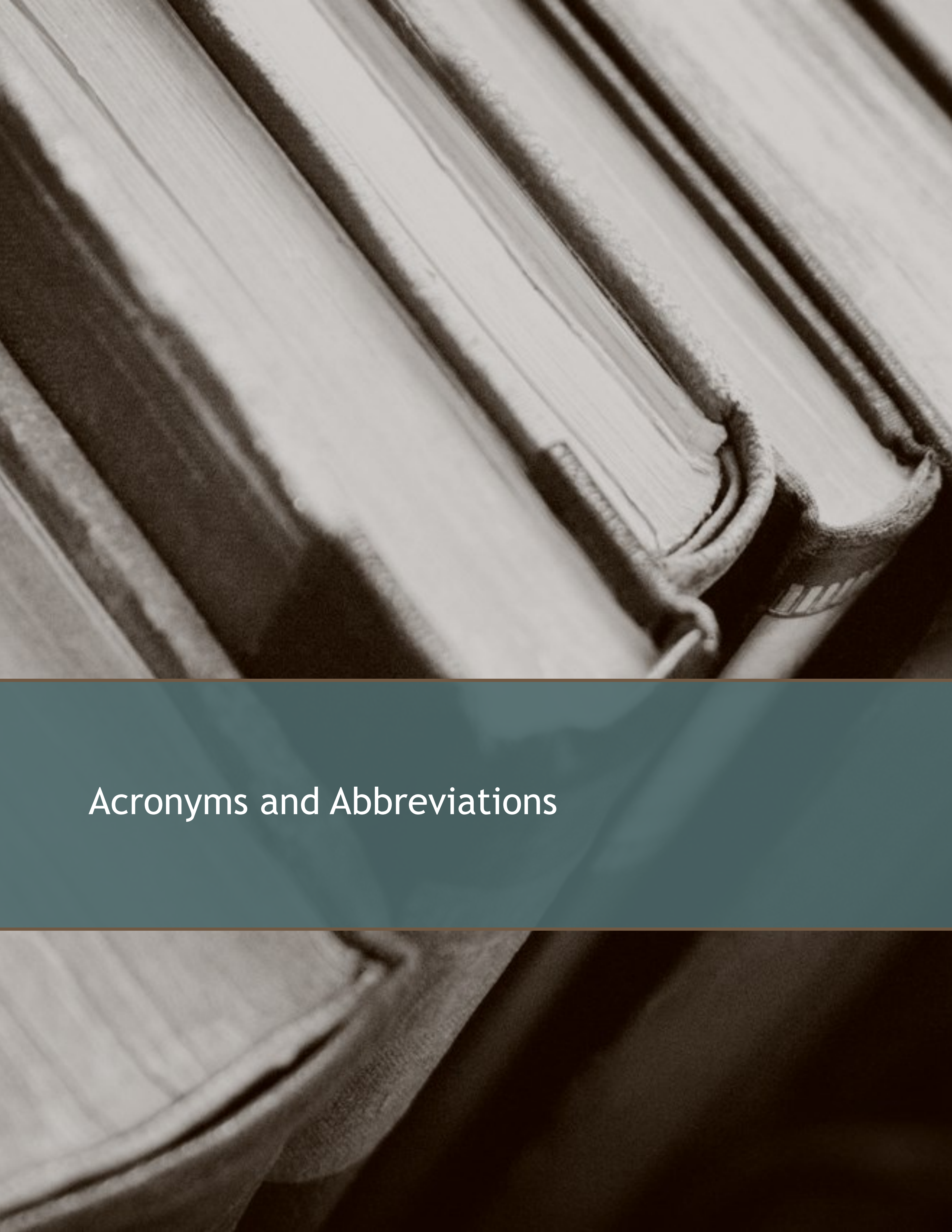
Office	Report Title, Number, and Date Issued	Summary and Current Status
OESE	Maryland: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs Audit A03K0009 1/3/13	We found that Recovery Act expenditures by the Maryland State Department of Education, Maryland Department of Public Safety and Correction, and two LEAs, Baltimore City Public Schools and Prince George's County Public Schools, were generally allowable, reasonable, and accounted for in accordance with the recipients' plans, approved applications, and applicable laws and regulations. However, we identified more than $736,400 in unallowable, unsupported, and inadequately supported expenditures at the two LEAs. For example, we found that Prince George's County spent more than $108,800 for unapproved travel, and Baltimore City could not adequately support personnel expenditures totaling more than $249,700. In addition, although we found that the Recovery Act data reported by the State were generally accurate, complete, and in compliance with Recovery Act reporting requirements, the jobs data reported by the Maryland Department of Public Safety and Correction and the two LEAs were not accurate or complete. We made several recommendations, including that the Department require the Maryland State Department of Education to revise its monitoring instruments to ensure adequate oversight of LEA compliance with requirements for Federal grant funds' use and accounting, return to the Department funds that were used for unallowable purposes, and provide documentation to support unsupported and inadequately supported expenditures or return the amount of those expenditures to the Department. **Current Status:** OESE informed us that a draft PDL is currently under review. OSERS informed us that a joint resolution with OESE and ISU is in progress. OCFO/ICG issued a PDL on 7/31/2013.
OESE	Puerto Rico: Final Recovery Act Expenditures Supplemental Report Audit A04M0014 2/20/13	We found that the Puerto Rico Department of Education generally obligated and spent Recovery Act funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we found that Puerto Rico Department of Education did not follow proper procurement procedures when using Recovery Act funds to purchase equipment totaling more than $3.4 million and overpaid $7,000 in Recovery Act funds for professional services not rendered. In addition, computer equipment Puerto Rico Department of Education had purchased with $3.5 million of Recovery Act funds was unused because required software had not been installed. Our audit also noted that in December 2011, Puerto Rico Department of Education received a waiver to extend the grant obligation for its Title I funds until September 30, 2012, and the liquidation period to December 29, 2012. However, as of September 30, 2012, Puerto Rico Department of Education had a remaining balance of $35.3 million in funds, representing more than 9 percent of its $386.4 million Title I allocation. This significant remaining balance raised concerns about Puerto Rico Department of Education's ability to liquidate its remaining funds on allowable costs that were obligated before the end of the grant period. We made nine recommendations, including that the Department follow up with Puerto Rico Department of Education during a future monitoring visit to determine whether the funds were obligated and liquidated appropriately. **Current Status:** OESE informed us that a draft PDL is currently under review. OSERS

Office	Report Title, Number, and Date Issued	Summary and Current Status
OII	The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants Audit A02L0002 9/25/2012	The audit examined two grant programs: the Charter Schools Program's State Educational Agency (SEA) Planning and Implementation Grant (SEA grant) and the Charter School Program non-SEA Planning and Implementation Grant (non-SEA grant) to determine whether the grantees and subgrantees met grant goals and objectives. We found that the Department did not effectively oversee and monitor the SEA and non-SEA charter school grants and did not have an adequate process to ensure that SEAs effectively oversaw and monitored their subgrantees. We selected three SEAs (Arizona, California, and Florida) based on a risk matrix we developed of SEAs that received charter school grants during our audit period (2007–2011). We found that the Department did not have an adequate corrective action plan process in place to ensure that grantees corrected deficiencies noted in annual monitoring reports, did not have a risk-based approach for selecting non-SEA grantees for monitoring, and did not adequately review SEA and non-SEA grantees' fiscal activities. In addition, we found that the Department did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct in order to comply with applicable Federal laws and regulations. We also found that none of the three SEAs adequately monitored charter schools receiving the SEA grants, had adequate methodologies to select charter schools for onsite monitoring, or monitored authorizing agencies. Additionally, we found that Florida did not track how much SEA grant funding charter schools drew down and spent and that California had unqualified reviewers performing onsite monitoring. We also determined that the Department did not ensure that SEAs had procedures to properly account for SEA grant funds spent by closed charter schools or for disposed-of assets purchased with SEA grants. We made a number of recommendations, including that the Department develop and implement policies and procedures for issuing and tracking corrective action plans to help ensure that all reported deficiencies are correctly timely. The Department agreed with all of our findings and almost all of our recommendations. **Current Status:** OII informed us that it is currently working to resolve audit.
ODS	Department's Nonprocurement Suspension and Debarment Process Inspection report I13L0001 6/22/2012	Our inspection found that the Department's nonprocurement suspension and debarment process was inefficient and lacked characteristics the Government Accountability Office identified as common in effective suspension and debarment programs. Unlike the other 31 Federal agencies we reviewed, the Department's policy requires both a notice official and a deciding official in the suspension and debarment process. We found that this two-tiered process required more human capital resources than necessary. Each tier reviews the same information but, in order to provide more due process, does not communicate with one another at any point in the process. This duplication occurred even in matters that were not contested by the outside entity or individual, which was the case more than 90 percent of the time for FY 2010–2011. We also found that the Department lacked detailed policies and procedures that provided guidance on referrals, which the Government Accountability Office has identified as common in effective suspension and debarment programs. We found the Department's guidance to be outdated and in need of revision and that the Department took nearly 7 years to conform to OMB regulatory requirements for suspension and debarment. In addition, we found that the Department's nonprocurement suspension and debarment program does not receive referrals from program offices but relies solely on OIG referrals, which are based on indictments and convictions. This limits the Department's ability to fully use suspension and debarment as a means to protect the Federal interest. Further, we identified delays in referrals from OIG that affected the Department's ability to take timely suspension and debarment actions. Our recommendations included that the Department eliminate the two-tiered process, update its outdated policies and procedures, ensure that its program offices are aware of suspension and debarment as a resource, and develop a system for processing referrals from program offices. The Department neither concurred nor nonconcurred with our findings and recommendations. In addition, OIG agreed to take steps to improve the timeliness of its referrals. **Current Status:** ODS informed us that it is currently working to resolve this audit.

Table 6. Statistical Profile for October 1, 2012, through September 30, 2013

Audits, Inspections, Other Products	October 1, 2012–March 31, 2013	April 1, 2013–September 30, 2013	FY 2013 Total
Audit Reports Issued	12	11	23
Inspection Reports Issued	1	0	1
Questioned Costs (Including Unsupported Costs)	$988,187	$0	$988,187
Recommendations for Better Use of Funds	$0	$0	$0
Other Products Issued	4	4	8
Reports Resolved By Program Managers	25	17	42
Questioned Costs (Including Unsupported Costs) Sustained	$82,696,606	$46,645,884	$129,342,490
Unsupported Costs Sustained	$71,147,107	$2,507,884	$73,654,271
Additional Disallowances Identified by Program Managers	$11,551	$376,599	$388,150
Management Commitment to the Better Use of Funds	$5,200,000	$0	$5,200,000
Investigative Cases Opened	41	41	82
Investigative Cases Closed	59	74	133
Cases Active at the End of the Reporting Period	386	358	358
Prosecutorial Decisions Accepted	61	85	146
Prosecutorial Decisions Declined	71	104	175
Indictments/Informations	54	83	137
Convictions/Pleas	55	96	151
Fines Ordered	$121,750[4]	$18,500	$140,250
Restitution Payments Ordered	$8,484,703[5]	$7,483,835	$15,968,538
Civil Settlements/Judgments (number)	15	18	33
Civil Settlements/Judgments (amount)	$25,573,795	$26,070,145	$51,643,950
Recoveries	$4,328,860[6]	$9,471,463	$13,800,323
Forfeitures/Seizures	$3,782,303	$2,132,116	$5,914,419
Estimated Savings	$2,918,330	$8,610,177	$11,528,507
Suspensions Referred to Department	25[7]	20	45
Debarments Referred to Department	24	19	43

[4] Additional $250 not included in SAR 66.
[5] Additional $205,213 not included in SAR 66.
[6] Additional $321,597 not included in SAR 66.
[7] A suspension included in SAR 66 was removed.



Acronyms and Abbreviations

Acronyms and Abbreviations Used in This Report

ASU	Arkansas State University
CEO	Chief Executive Officer
CIGIE	Council of Inspectors General on Integrity and Efficiency
Department	U.S. Department of Education
DMCS2	Debt Management Collection System 2
ESEA	Elementary and Secondary Education Act of 1965, as Amended
FAFSA	Free Application for Federal Student Aid
FSA	Federal Student Aid
FY	Fiscal Year
IDEA	Individuals with Disabilities Education Act, Part B
IG Act	Inspector General Act of 1978, as Amended
IPEDS	Integrated Postsecondary Education Data System
LEA	Local Educational Agency
MOE	Maintenance of Effort
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCA	Private Collection Agency
PIN	Personal Identification Number
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
SEA	State Educational Agency
SES	Supplemental Education Services
TEA	Texas Education Agency
Title I	Elementary and Secondary Education Act, Title I
Title IV	Higher Education Act of 1965, Title IV

For acronyms and abbreviations used in the required tables, see page 39.

FY 2014 Management Challenges

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

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

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

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

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

We encourage you to use the automated complaint form on our Web site; however, you may call or write the Office of Inspector General.

Inspector General Hotline
U.S. Department of Education
Office of Inspector General
400 Maryland Ave., S.W.
Washington, D.C. 20202

Call Toll-Free:
Inspector General Hotline
1-800-MISUSED
(1-800-647-8733)

Your report may be made anonymously.

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