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Office of Inspector General

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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, 2014, through September 30, 2014. The audits, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness through our oversight of the Department's programs and operations.


Over the last 6 months, we closed 68 investigations involving fraud or corruption related to the Department's programs and operations, securing nearly \$23.2 million in settlements, fines, restitutions, recoveries, and savings. In addition, as a result of our investigative work, criminal actions were taken against a number of people, including school officials and service providers who cheated the students they were in positions to serve. We also issued 12 audit-related reports that included recommendations to improve program operations. For example:

- Our audit found that the Department did not adequately address the risks that schools offering direct assessment programs pose to the Federal student aid programs and did not establish processes to ensure that only programs meeting Federal regulatory requirements are approved as eligible. The Department did not establish an effective system of internal control because, as it stated, few schools had submitted applications to offer direct assessment programs, so it did not believe the programs posed a significant risk.
 - Senior executives of the Brilliance Academy and its wholly owned subsidiary Babbage Net Schools, companies that provide federally funded tutoring services, were indicted on charges that they bilked 200 public school districts in 19 States out of more than \$33 million.
 - Our audit of the Federal Student Aid (FSA) office's handling of borrower complaints against private collection agencies (PCAs) found that FSA did not effectively monitor borrower complaints against the PCAs or make sure that the complaints were satisfactorily resolved, did not ensure that the PCAs were adhering to Federal debt collection laws, and did not consider complaints when deciding how much to compensate PCAs. As a result, FSA did not know whether the PCAs were appropriately servicing borrower accounts.
 - Academic Advantage, a Supplemental Educational Services (SES) provider, agreed to pay \$2 million to settle allegations that it fraudulently billed the New York City Department of Education for SES services that it never provided. Nine of its employees are facing charges for their roles in the scam.
 - Criminal actions were taken against 30 high-ranking school district officials and education service providers across the country. This included prison sentences for two Beaumont, Texas, Independent School District officials for stealing more than \$4 million from the school district and prison sentences for the former mayor of Progreso, Texas, his father and two brothers—all former Progreso Independent School District officials—for using their positions to extract more than \$300,000 in bribes and kickbacks from district service providers and city contractors.
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- The owner of Bilingual SEIT, a company that provided special education and preschool programs in New York City, was sentenced to prison for stealing more than \$2 million by deliberately inflating costs the school incurred and overpaying certain employees to receive a portion of the overpayments, which he used for his personal benefit.
- In 2013, American Commercial Colleges, Inc., (ACC) agreed to pay \$2.5 million to settle allegations that it circumvented the 90/10 rule (which provides that no more than 90 percent of a for-profit school's revenue may come from Federal student aid). Now ACC, its president, and five other ACC officials have pled guilty to manipulating ACC's 90/10 revenue calculation to maintain its eligibility to participate in the Federal student aid programs.
- Our evaluation of FSA's process for ensuring the continued protection of Federal funds at guaranty agencies (GAs) determined that FSA did not have an adequate process to ensure the continued protection of Federal funds because the methodology it used to calculate a GA's current reserve ratio was not in compliance with the requirement that the Federal fund balance used in the reserve ratio be calculated by using an accrual basis of accounting. The current reserve ratio calculation overstated the financial position of the GAs and understated the level of financial stress a GA may be under.
- Our review of FSA's oversight and monitoring of PCA and GA information technology security controls found weaknesses that left systems and the financial and personally identifiable information of student loan recipients contained in them vulnerable to attack, unauthorized release, or other misuse. Specifically, FSA did not issue valid authorizations to operate to any of the PCAs for an average of 8 months, did not ensure that PCAs timely resolved security control deficiencies, and had inadequate assurance that GA information system security complied with the requirements of the Federal Information Security Management Act.

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 very proud of the results of this work, that criminals are behind bars and the Department has before it important recommendations from our reports. Our recommendations, when implemented, will lead to actions by the Department to put in place protections to prevent fraud and abuse, protect student interests, improve oversight and monitoring, and recoup taxpayer dollars.

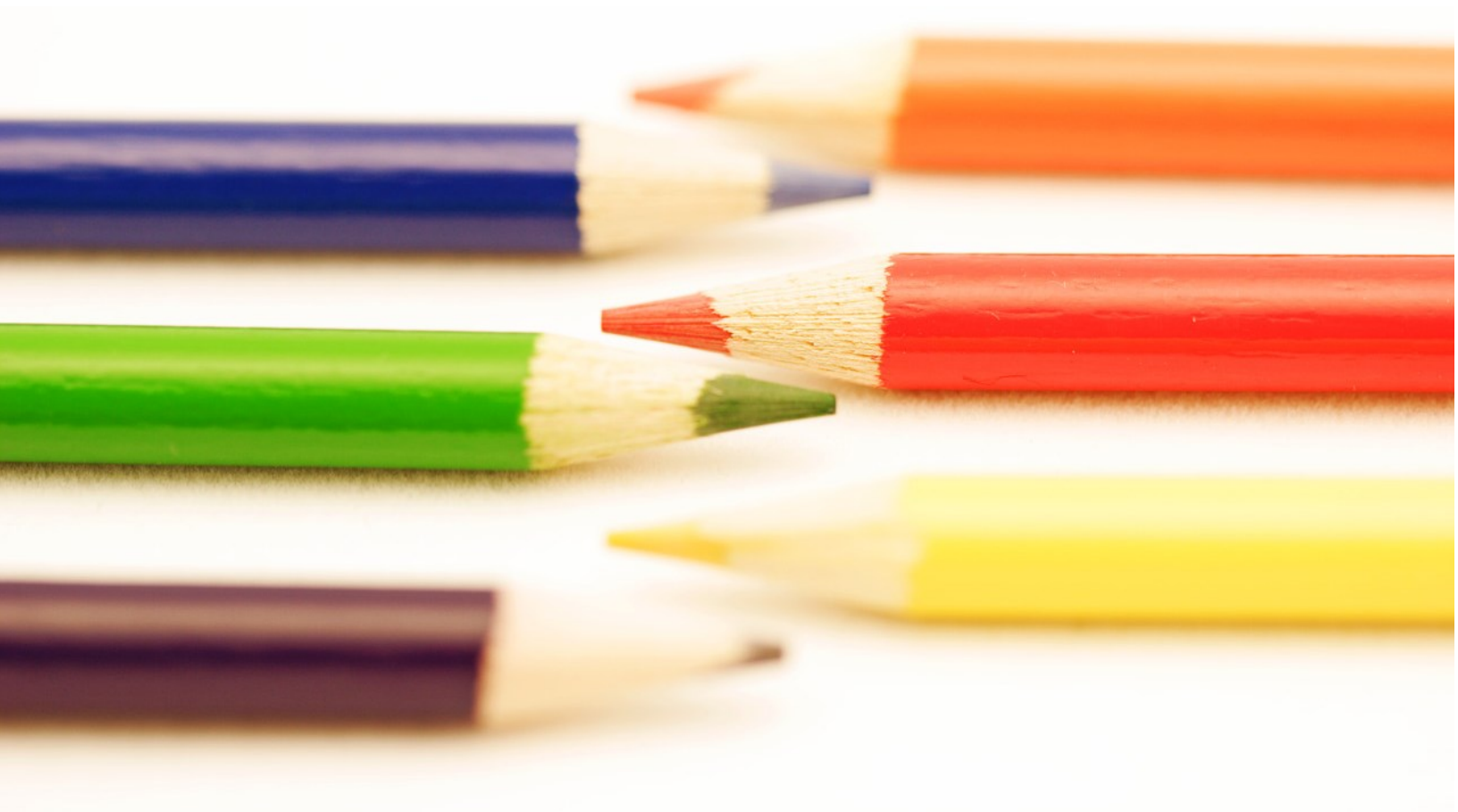
I greatly appreciate the interest and support of this Congress and Secretary Duncan in our efforts. I look forward to working with you in meeting the challenges and opportunities that lay ahead.



Kathleen S. Tighe
Inspector General

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Goal 1:

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

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

Audits and Reviews

We issued three reports related to this goal over the last 6 months. The first report focused on actions that Congress and the Department could take to help State educational agencies (SEAs) and local educational agencies (LEAs) address issues associated with the maintenance of effort flexibility provisions allowed under the Individuals with Disabilities Education Act (IDEA). The second report involves the Race to the Top Program (RTT)—a multibillion dollar discretionary grant program authorized under the American Recovery and Reinvestment Act of 2009 (Recovery Act) created to spur innovation, reforms, and outcomes in elementary and secondary education programs. During this reporting period, we completed our audit of the Ohio Department of Education’s administration of its \$400 million RTT grant. This is the first in a series of State-specific RTT reports; we will share the findings from our work in additional States once we complete those audits. The third report highlighted in this section is our Recovery Act “lessons learned” report, which provides our perspectives on challenges the Department, its funding recipients and subrecipients, and the OIG faced in planning, implementing, monitoring, and reporting on education-related grant programs funded by the Recovery Act, how the challenges were addressed, and what lessons should be considered in the future. Summaries of these reports are below.

IDEA Maintenance of Effort Flexibility

In 2013, we issued a report on how selected SEAs and LEAs administered the IDEA’s maintenance of effort flexibility¹ provision when increased funding was provided under the Recovery Act. The audit found the SEAs and LEAs reviewed did not always comply with applicable laws and regulations associated with exercising maintenance of effort flexibility or properly use and account for freed-up funds resulting from exercising maintenance of effort flexibility. During this reporting period, we issued a follow-up report that provided Congress and the Department with additional information on maintenance of effort flexibility that they may want to consider when Congress reauthorizes the IDEA and that also identified actions that the Department could take now to address implementation issues associated with maintenance of effort flexibility.

¹ In this section, we use the term “maintenance of effort flexibility” to refer to the authority in Sections 613(a)(2)(C) (adjustment to fiscal effort in certain fiscal years) and 613(j) (State agency flexibility) which permit an eligible LEA or SEA to reduce the level of 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.

Under current requirements, when an eligible LEA exercises maintenance of effort flexibility to reduce special education spending, it must spend the resulting freed-up funds to carry out activities authorized under the ESEA. We found that the full scope of LEAs' allowable uses of freed-up funds is not clear, particularly as related to the Impact Aid program, which offers the most flexibility in how LEAs can spend funds. Because of the wide array of activities that could be supported with funds under the ESEA, LEAs could be spending freed-up funds on activities that Congress had not intended. As such, we suggested that Congress clarify which uses of freed-up funds are permissible. Also, we found that some LEAs and SEAs may opt to exercise maintenance of effort flexibility in a year when there is a large, one-time increase in IDEA funding (like the Recovery Act) and continue to maintain that lower spending level even after the one-time infusion of Federal funds is depleted, therefore resulting in a decline in the overall investment in special education program funding. To prevent that from happening, we suggested that Congress limit LEA spending reductions through amendments to the provision in sections 613(j) and 613(a)(2)(C) of the IDEA or include it as a part of any future legislation providing a large, yet temporary, supplemental IDEA appropriation.

We also identified actions that the Department could take now to ensure that SEAs monitor how LEAs use freed-up funds and that LEAs appropriately account for these funds, and that SEAs and LEAs fully understand the relationship between maintenance of effort flexibility and voluntary coordinated early intervening services (CEIS) so that LEAs do not improperly spend IDEA funds on CEIS when also exercising maintenance of effort flexibility. In addition, we suggested that the Department correct or publicly disclose significant deficiencies in the quality of data related to the use of the maintenance of effort flexibility provision and other data to help ensure that Congress and the public are properly informed about important issues such as how extensively maintenance of effort flexibility was used as a result of the Recovery Act or the amounts of expenditure reductions that occurred in a State or across the nation. Our report also identified actions that the Department could take to address two areas where SEAs can vary the measures used to assess LEA performance, which may undermine program goals: (1) where SEAs are allowed to individually establish how they arrive at LEAs' annual performance results, which can lead to inequitable results for LEAs in one State versus another in the same or similar circumstances in another State; and (2) the adverse effects that may result when an SEA does not establish a meaningful threshold for significant disproportionality, which is a measure used to determine whether specific racial and ethnic groups are significantly overrepresented with respect to the identification of children as having a qualifying disability. Lastly, the report provided the Department with suggestions for ensuring that LEAs are aware of their eligibility for maintenance of effort flexibility and the full extent to which they could reduce local spending. In response to our report, the Department outlined actions it had taken or planned to take to address some of our findings.

Ohio Department of Education's Administration of its Race to the Top Grant

Our audit sought to determine whether the Ohio Department of Education (the Ohio SEA) accurately and completely reported RTT grant performance data to the Department, ensured that it and its participating LEAs and charter schools would have the capacity to deliver and sustain results described in its RTT grant application after all Federal funds had been expended, and whether they spent RTT funds only on allowable activities and in accordance with program requirements and the Ohio SEA's approved grant application. We examined two of the six educational topic areas on which the Ohio SEA spent RTT funds—data systems to support instruction and its Great Teachers and Leaders programs—and two of its LEAs—the Lorain City Schools (Lorain) and the Toledo Public Schools (Toledo). We found that although the Ohio SEA reported all required performance data for the two areas reviewed and ensured that it and the two LEAs had the capacity to deliver and sustain results, it did not always report accurate data and did not ensure that the LEAs spent RTT funds on allowable activities and in accordance with program requirements and the Ohio SEA's approved grant application. Specifically, we found the following.

- The Ohio SEA did not provide supporting documentation for the number of teachers it used to calculate its progress against performance measures, and it did not accurately report or provide documentation to support the results that it reported to the Department in its 2011–2012 RTT annual performance report for 5 of 11 (45.4 percent) performance measures.
- The Ohio SEA did not regularly monitor the fiscal activity of participating LEAs and charter schools. As a result, the Ohio SEA did not prevent Toledo from maintaining excess cash on hand or prevent Lorain and Toledo from spending RTT funds on unallowable items or activities. In addition, the Ohio SEA did not detect that Toledo did not adequately document its travel costs and allocated costs to the wrong grant.

RTT is a competitive grant program, and the Department awarded RTT funds to Ohio, in part, because of assertions the Ohio SEA made in its approved grant application. If the Ohio SEA cannot corroborate performance information reported to the Department, the Department cannot be sure that the Ohio SEA is accomplishing the goals identified in its approved application. In addition, the State's other stakeholders, such as parents and taxpayers, do not have an accurate picture of the Ohio SEA's performance against its RTT goals. Based on our findings, we recommended that the Ohio SEA improve the accuracy of its reported data and the administration of its RTT grant by taking a number of actions, including that it obtain supporting documentation for applicable performance data so it can verify progress towards those measures, disclose in its annual performance report when it has not verified or does not have documentation to support the reported performance data, retain documents used to support reported performance data, and more closely monitor the fiscal activity of participating LEAs and charter schools to ensure that they comply with

all Federal fiscal requirements. The Ohio SEA neither agreed nor disagreed with our findings or recommendations.

Lessons Learned from Implementing the Recovery Act

In September, we issued a report which drew on our experience in performing more than 50 Recovery Act-related audits, conducting more than 200 criminal investigations, and reviewing nearly 145 allegations of reprisals of people seeking whistleblower protection under the Recovery Act. This “lessons learned” report provides our perspective on challenges the Department, its funding recipients and subrecipients, and the OIG faced and what lessons should be considered in the event that other legislation providing a large yet temporary funding increase (like the Recovery Act) is enacted in the future. The table below presents the four key challenges highlighted in our report, the associated lessons learned, and suggestions to address each lesson.

Challenge	Lesson	Suggestion
Requiring OIGs to investigate Recovery Act whistleblower cases may divert OIG resources from other critical activities.	Opportunity period to allege whistleblower reprisals should be aligned with availability of funding provided through legislation.	For future legislation like the Recovery Act, we suggest that Congress (1) include a provision that establishes a reasonable statute of limitations for filing complaints, (2) consider providing additional funding to support whistleblower investigations of complaints made after the funding for such investigations has expired, and (3) allow OIGs additional flexibility to manage their investigative responsibilities.
Department, recipients, and subrecipients faced challenges with implementing processes to administer grants.	Grant recipients benefit from timely guidance, training, technical assistance, and outreach.	The Department should assess outreach and technical assistance activities performed in response to the Recovery Act and consider conducting similar activities for new programs and for existing programs that receive substantial increases in funding to ensure program integrity and effectiveness.
The Department addressed a variety of Recovery Act implementation issues, but persistent monitoring and oversight challenges remain.	Addressing persistent challenges on monitoring and oversight should improve program integrity and compliance. Independent oversight is a key tool to promote transparency and accountability, and the Department needs alternative processes for oversight and monitoring for new or temporary grant programs.	The Department should ensure that all program offices use effective risk-based monitoring approaches and encourage recipients to use the same approach for subrecipient monitoring and focus efforts on the audit resolution process and better target guidance and technical assistance. Congress could ensure that for future temporary efforts that funding is included for State and local oversight.
New reporting and transparency requirements created implementation challenges.	The Department took steps to improve data quality, but accuracy and reliability issues remained.	For future temporary legislation like the Recovery Act, other efforts intended to increase transparency, or to improve data for ongoing grant programs, the Department should implement measures that improve the quality of recipient and subrecipient data and continue to emphasize the need for appropriate data quality reviews.

Recovery Act Investigations Statistics

Since the enactment of the Recovery Act, OIG has initiated 220 criminal investigations of various schemes involving improper uses of Recovery Act funds. To date, our Recovery Act-related investigations have resulted in more than 286 criminal convictions and nearly \$1.2 million in recoveries.

Whistleblower Certification

In August, the OIG successfully completed the Office of Special Counsel's Whistleblower Certification Program. This action certified that the OIG had met its requirements to inform its workforce of the rights and remedies available to them under the Whistleblower Protection Act, the Whistleblower Protection and Enhancement Act, and related civil service laws. The certification also acknowledged that the OIG met the whistleblower protection requirements of the second Open Government National Action Plan, which required agencies to participate in a whistleblower certification program.

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. The Recovery Board was created in 2009 to provide transparency of funds spent under the Recovery Act and to detect and prevent waste, fraud, and mismanagement of those funds.
- *Government Accountability and Transparency Board (GAT Board)*. Inspector General Tighe is a member of the GAT Board. The Board was created in 2011 provide strategic direction for enhancing the transparency of Federal spending and advance efforts to detect and remediate fraud, waste, and abuse in Federal programs and to build on the lessons learned from the implementation of the Recovery Act. The 11 members of the GAT Board were appointed by the President.

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

Audits and Reviews

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

Direct Assessment Programs: Processes for Identifying Risks and Evaluating Applications for Federal Student Aid Eligibility Need Strengthening

We found that the Department did not adequately address the risks that schools offering direct assessment programs pose to the Federal student aid programs and did not establish sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as eligible. Not adequately addressing risks increases the likelihood that schools might create direct assessment programs that are not eligible, such as those that are really correspondence programs. Further, not establishing sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as eligible increases the risk that the Department will not obtain enough information to sufficiently evaluate the merits of all direct assessment program applications.

The Department did not establish an effective system of internal control because, as it stated, few schools had submitted applications to offer direct assessment programs, so it did not believe the programs posed a significant risk. Also, in 2014, FSA conducted a risk assessment that identified only two risk areas: (1) the Department might approve a direct assessment program that should not be approved, and (2) schools might not implement approved programs in accordance with Federal requirements. Although we agreed with FSA that the two areas were

legitimate, they were too broad for the Department to implement specific activities to mitigate all significant risks associated with them. Further, the two risk areas identified by FSA did not address the following other risk areas that OIG considers significant.

- Students might receive Federal student aid for life experience, which is unallowable because Federal student aid may be used only for learning that results from instruction that the school provides or oversees.
- A direct assessment program might really be a correspondence program, which is unallowable because Department direct assessment program regulations require a faculty member to work with a student to design a program of study and to interact with the student on a regular and substantive basis. Additionally, a school might be ineligible to receive Federal student aid funds if it offers more than 50 percent of its courses by correspondence or if it enrolls more than 50 percent or more of its students in correspondence courses.
- A school may develop credit- or clock-hour equivalencies for programs that are not based on the regulatory definition of a credit or clock hour, and direct assessment programs with improperly calculated credit- or clock-hour equivalencies could result in students receiving more Federal student aid funds than allowed.

In addition, we also identified weaknesses related to the Department's direct assessment application review processes: the Department was not documenting the basis for approval or denial of an application, and FSA School Participation Division managers were not fully informed of issues raised during the application review process. Further, we found that the Department's communication with accrediting agencies involved in the application process was not adequate to make well-informed decisions.

Although we agreed with the Department that few schools offering direct assessment programs have applied to have their programs deemed eligible to participate in the Federal student aid programs, and the amount of Federal aid currently at risk is relatively low, the program eligibility decisions that the Department is making for these early-implementing schools could set a precedent for future direct assessment programs and have a lasting, negative impact on the Federal student aid programs.

As a result of our findings, we made seven recommendations, including that the Department reassess the risks that direct assessment programs pose to the Federal student aid programs, communicate the results of that assessment to Department employees, and develop additional control activities to mitigate any newly identified risks. The Department did not explicitly agree or disagree with our finding, and agreed with some of our recommendations.

FSA's Handling of Borrower Complaints Against Private Collection Agencies

The purpose of our audit was to review borrower complaints against private collection agencies (PCAs) to evaluate how effectively FSA monitored the

complaints and ensured that corrective action was taken, ensured that PCAs were abiding by Federal debt collection laws and the related terms of their contracts, and considered borrower complaints in its evaluation and compensation of PCAs. We found that FSA did not effectively do so.

Because FSA senior managers considered the number of complaints to be immaterial, they placed insufficient emphasis on the importance of identifying, tracking, and resolving borrower complaints. For example, (1) FSA did not ensure that all complaint-receiving entities used a consistent definition of a complaint against a PCA, (2) FSA's Complaint Tracking System database and process for entering and analyzing data were flawed, (3) FSA did not ensure timely submission of complaints by PCAs and did not receive all borrower complaints against PCAs, and (4) FSA did not ensure that PCAs took corrective action in response to complaints filed against them and their collectors. We also found that FSA did not effectively ensure that the PCAs were abiding by the Federal debt collection laws and the related terms of their agreements with FSA. Specifically, the contracting officer's representative did not monitor, review, or evaluate PCAs' monthly quality control reports, which contain information about PCAs' internal monitoring of their compliance with Federal and State debt collection laws, or PCAs' management/fiscal reports, which contain borrower complaint information. Nor did the contracting officer's representative prepare or submit the required annual evaluation of PCAs' performance. In addition, during the time period of our audit, FSA reduced the number of phone calls it monitored between PCAs and borrowers to assess adherence to Federal debt collection laws. FSA monitored fewer phone calls in part because of the time it takes to review calls. Further, although FSA used the Competitive Performance and Continuous Surveillance (CPCS) score to evaluate and compensate PCAs, we found that it did not use the Service Quality performance indicator, which includes factors such as accuracy and completeness, rejections, bounced checks, and customer satisfaction, in calculating the CPCS scores. In addition, FSA's contracts with the PCAs provided that FSA will notify the PCA to immediately cease activity whenever the subject of a complaint is a concern to FSA. Although the contracts provided for a reduction in the PCA's CPCS scores if the PCA did not cease activity, we found that FSA did not have a process for identifying complaints that are a concern. As a result, FSA had not ordered any PCAs to cease any activity because of a borrower's complaint nor deducted points from a PCA's quarterly CPCS score. Therefore, PCA compensation had not been reduced due to complaints.

Based on our findings, we made a number of recommendations, including that FSA improve the monitoring of borrowers' complaints against PCAs by enforcing the contract requirement that PCAs submit all complaints to FSA, establish procedures that include ensuring PCAs take corrective action, revise the Complaint Tracking System database to ensure data is consistent and contains sufficient fields to capture all necessary data, and ensure FSA's complaint-receiving entities adhere to the revised PCA Procedures Manual guidelines for identifying complaints against PCAs. We also recommended that FSA require contracting officer's representatives to monitor, review, and evaluate PCA deliverables; reconcile the management/fiscal reports with the complaints recorded in the Complaint Tracking System database; and prepare and submit the evaluation of the PCA deliverables and annual evaluation of the PCAs' performance to the contracting

officer. We further recommended that FSA use the Service Quality indicator as a measure in calculating PCA's quarterly CPCS scores, identify the types of complaints that are a concern to FSA, monitor complaints activities that FSA has notified a PCA to cease, and enforce the contract provisions that provide that recurring complaints will result in a two-point reduction from quarterly CPCS scores. FSA concurred with our findings and most of the recommendations.

Oversight of Guaranty Agencies During the Phase-Out of the Federal Family Education Loan Program

We evaluated FSA's process for ensuring the continued protection of Federal funds at Guaranty Agencies (GA), oversight of the GAs' ability to perform their duties, and actions necessary for the GAs' successful participation during the phase-out of the Federal Family Education Loan Program (FFELP) and found significant weaknesses. We found the following.

- FSA's methodology for calculating a GA's Federal Fund reserve ratio did not comply with Federal requirements, which, as a result, inflated the GA's reserve ratio and understated the level of financial stress a GA may be under. FSA's erroneous calculation identified that all but one GA met the minimum ratio in fiscal year (FY) 2011, and all GAs met the minimum ratio in FY 2012; however, based on correct calculations, five GAs fell below the minimum ratio in these two consecutive years and should have been placed on management plans.
- Although FSA monitored the GAs' ability to perform their duties, it did not establish criteria for GAs to use to develop required financial projections, and FSA did not document the procedures for actions it should have taken on information that identified GAs under possible financial stress.
- FSA's initial methodology and then the modified methodology it used to select successor GAs for GAs ending participation in the FFELP contained deficiencies related to projected fund balances, relied on subjective factors, and did not provide a rationale for why the variables FSA selected to predict GA financial solvency were the most relevant variables.

We also found that FSA took actions for the GAs' successful participation during the phase-out of the FFELP by attempting to implement Voluntary Flexible Agreements, which would have permitted GAs to develop, use, and evaluate alternative models for ensuring that they carried out their responsibilities in a more cost effective and efficient manner. However, FSA did not enter into any Voluntary Flexible Agreements and put the process on hold in 2013 pending an evaluation of the Bipartisan Budget Act, which FSA said changed the payment schedule for the GAs. As a result, there has been no change in the relationship between FSA and the GAs participating in the FFELP since passage of the SAFRA—which mandated that no new loans be made or insured under the FFELP after June 30, 2010.

Based on our findings, we made a number of recommendations, including that FSA use the correct methodology and recalculate the reserve ratio for all GAs for the two most recently completed fiscal years and determine whether any of the GAs

should be required to submit a management plan for falling below the minimum ratio, develop criteria for fund projections that GAs are required to report, develop action plans when information indicates that a GA is under possible financial stress, and correct the deficiencies in its processes to select successor GAs. FSA concurred with our findings and agreed to take action to address our recommendations.

Oversight and Monitoring of PCAs and Guaranty Agency Information Security Controls

During this reporting period, we issued a report to inform FSA of our concerns about its oversight and monitoring of PCA and GA information security controls and to make recommendations to address those concerns. Our review identified the following.

- FSA did not issue a valid authorization to operate to any of the PCAs for an average of 8 months per PCA. Without such authorization, FSA has no assurance that the PCAs' information systems have effective security controls in place and is compliant with the Federal Information Security Management Act of 2002 (FISMA). As a result, the systems and the financial and personally identifiable information of student loan recipients contained in them are vulnerable to attack, unauthorized release, or other misuse.
- FSA did not ensure that PCAs timely resolved security control deficiencies that certification agents identified. Because PCA systems communicate not only with internal FSA platforms, but also with borrowers, other loan servicers, third-party data providers, consumer reporting agencies, guarantors, and other government agencies, the PCAs have an increased risk that their information systems may be compromised, resulting in a risk to organizational operations, assets, individuals, and other organizations.
- FSA neither collected nor validated PCA training certificates as required. Without adequate oversight of training documentation, FSA has no assurance that PCAs provided their employees and subcontractors with all the required training necessary to carry out their responsibilities in compliance with information security requirements.
- FSA had inadequate assurance that GA information system security complied with requirements of FISMA and thus was not meeting its obligation to ensure the integrity of system data, including personally identifiable information, and the protection of data from unauthorized access, misuse, disclosure, and destruction.

We made a number of recommendations aimed at addressing the weaknesses identified, and FSA concurred with them.

Duplication of Effort with Discretionary Grants

Our audit sought to determine whether OPE's internal controls were adequate for evaluating grantees for duplication of effort; whether the Talent Search, Upward

Bound, and Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) programs resulted in duplication of services provided by selected grantees; and whether selected grantees experienced administrative burdens or inefficiencies as a result of administering multiple programs with similar objectives. Based on our review of student records, we did not identify any duplication of services provided under the three programs, nor did we identify any duplication of services at the two schools reviewed, Berea College and Eastern New Mexico University-Roswell, for FY 2011. In addition, officials at both schools stated that they did not experience burdens or inefficiencies. We did, however, determine that OPE had not implemented adequate internal controls to provide assurance that grantees minimized the duplication of services, and we could not determine whether duplication of services occurred at Eastern New Mexico during FY 2009 and FY 2010 because the school did not maintain documentation that would have enabled us to do so.

OPE did not have adequate internal controls to ensure duplication of services was minimized between the three grant programs and other existing Federal, State, and local early intervention programs because it did not collect and evaluate information on duplication of services. As such, OPE did not fulfill requirements of the Department and the Higher Education Act of 1965, as amended (HEA) to ensure grantees minimized the duplication of services already provided to a school or community. Specifically, OPE did not have procedures for evaluating grant applications or other documentation for duplication of services. Its evaluation process included reviewing items such as budget and personnel qualifications but did not include evaluation procedures to ensure coordination and collaboration to prevent duplication of services. Department officials stated that OPE evaluated grant applications and other documentation based on each program's regulatory requirements and said that they had no requirement to evaluate grantee information to ensure coordination and collaboration with regard to duplication of services. However, Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," the HEA, and the Department's Handbook for the Discretionary Grant Progress all include provisions and procedures to ensure coordination and collaboration among programs and to evaluate for any duplication of services.

Also, regarding Eastern New Mexico University-Roswell, for FY 2009 and FY 2010, the school's GEAR UP records did not support the services provided, the number of students served, or certification of its annual performance reports. As a result, the Department may have awarded grant funds to the school in excess of what it should have received. Based on our findings, we recommended that OPE ensure that grantees provide information that would enable it to assess their efforts to coordinate, collaborate, and minimize duplication with other similar programs, and that it review Eastern New Mexico-Roswell's GEAR UP data for FY 2009 and FY 2010 to determine whether funds should be recovered. The Department did not specifically state its concurrence or nonconcurrence with our findings and generally agreed with 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.

Actions Taken Against American Commercial Colleges, Inc., Senior Officials for Roles in 90/10 Fraud (Texas)

We previously reported that American Commercial Colleges, Inc., (ACC) agreed to pay \$2.5 million to settle claims that it violated the False Claims Act by falsely reporting that it complied with the 90/10 rule—a statutory requirement that for-profit schools obtain no more than 90 percent of their annual revenue from the Federal student aid programs. During this reporting period, ACC, its president, and five ACC senior officials pled guilty to charges related to the school's manipulation of its revenue calculation to make it appear that it had complied with the 90/10 rule, thus maintaining the school's eligibility to participate in the Federal student aid programs. Four officials were sentenced to probation and were ordered to pay restitution ranging from about \$90 to more than \$66,000. In his plea agreement, the ACC president admitted that he knew about the data manipulation and did not report it, and he agreed to be personally liable for the total loss amount. ACC and the officials also agreed to voluntary debarments from participating in any Federal student aid program. One official is awaiting sentencing.

President, Senior Officials of Micropower Career Institute and the Institute for Health Education Arrested (New York/New Jersey)

The president of Micropower Career Institute, a for-profit school with five campuses in the New York/New Jersey area who also owns the Institute for Health Education, a for-profit school located in New Jersey, along with family members who are all senior school officials, were charged for a widespread student visa and student aid fraud scheme. The defendants allegedly fabricated student financial aid records in order for the school to remain eligible to participate in the Federal student aid programs. They also allegedly directed school employees to falsify student records in anticipation of scheduled program reviews by FSA. The schools collected nearly \$20 million in Pell Grants and other Federal student aid since 2008.

President, Facilities Manager of Stone Child College Indicted for Conspiracy, Theft, and Bribery (Montana)

The president of Stone Child College and her husband, the school's facilities manager, were indicted on charges of conspiracy to embezzle, theft, and bribery.

The two allegedly awarded more than \$530,000 to a construction company for projects and consulting services at the school and then allegedly received more than \$242,000 of that money in kickbacks, which they used for their personal use.

Former Merrimack College Financial Aid Director Charged in Perkins Loan Fraud Scam (Massachusetts)

The former financial aid director at Merrimack College was charged with fraud involving the Perkins Loan programs—a program that provides low-interest loans to help needy students finance the costs of postsecondary education. The director allegedly asked students whom the school had offered grants to take out Perkins Loans instead, falsely telling the students that the school was in danger of losing its unused Perkins Loan funds. The director also allegedly promised students that they would receive grants for the next academic year that would enable them to pay off their Perkins Loans. The director also allegedly disbursed Perkins Loan funds to other students without the students' knowledge or approval, and took actions to conceal the fraud from the students, their parents, and the school.

Former Sherman College of Chiropractic Financial Aid Director Pled Guilty (South Carolina)

The former financial aid director at Sherman College of Chiropractic pled guilty to stealing nearly \$80,000 in Federal student aid. From June 2012 through October 2013, the former official encouraged students to cash Federal loan refund checks and return the money to her under the pretense that she credited the payments to the students' accounts; however, she kept the money for her own use. She said that a series of deaths and an addiction to pain medicine caused her to steal the money.

Investigations of Fraud Rings

Below are summaries of actions taken over the last 6 months against people who participated in Federal student aid fraud rings. Fraud rings are large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. The cases below are just a sample of the large number of actions taken against fraud ring participants during this reporting period. As of September 30, 2014, OIG has opened 138 fraud ring investigations, secured more than 503 indictments of fraud ring participants, and recovered more than \$21 million.

In addition, we continued with a proactive investigative project to identify student aid fraud rings. The project uses an E-Fraud Query System risk model that we developed, as well as other investigative and analytical tools and data sources, to identify the scope of each fraud ring, estimate the total potential fraud, and establish grounds for initiating criminal investigations.

Six People Charged for Running Fraud Scams Targeting More Than \$2.7 Million (Illinois)

Six people were charged with participating in a fraud ring that sought to obtain more than \$2.7 million in student aid, mortgages, bank, and small business loans. Between 2010 and 2012, four members of the ring allegedly submitted at least 40 fraudulent applications for admission to and Federal student aid from Harper College, Elgin Community College, and Joliet Junior College. Some of the applications were completed using stolen identities that the ring obtained through a credit card fraud scheme. They allegedly caused the financial aid checks to be sent to addresses that they controlled, then cashed the checks and used the proceeds for themselves and others. A fifth member of the ring was charged separately for allegedly stealing student aid, while a sixth member was charged solely for his role in the mortgage fraud scam.

Eight-Year Fraud Scam Comes to an End (Wisconsin)

Two sisters and their cousin were sentenced to prison for their roles in an 8-year fraud scam that stole more than \$400,000 in student aid. The three used the identities of more than 20 people—including family members, friends, and others—to fraudulently apply for and receive the aid. They also used their own identities, even though none of them had a high school diploma or its equivalent and thus were ineligible to receive student aid. Sentences ranged from 6 to 14 months in prison, followed by supervised release, and they also were ordered to pay more than \$400,000 in restitution.

Nine Indicted in \$300,000 Student Aid Fraud Scam (Puerto Rico)

Nine people were indicted for allegedly participating in a fraud ring that targeted online courses at InterAmerican University. The ringleader allegedly recruited people to act as straw students and submitted false admission and financial aid applications to the school on their behalf, as the straw students had no intention of attending classes. The fraud ring allegedly paid a portion of the student aid refund award to the straw student for the use of his or her identity and kept the rest. As a result of their fraudulent actions, the fraud ring allegedly obtained more than \$300,000 in Federal student aid.

Couple That Stole More Than \$272,000 in Student Aid Sentenced to Prison (Pennsylvania)

A Pennsylvania couple was sentenced to prison for stealing more than \$272,000 in student aid. The two used stolen identities to apply for admission to and receive student aid from Liberty University and American Public University, then made it appear that they were attending classes. Once they received the student aid award balances, they cashed the checks and used the proceeds for themselves. The husband was sentenced to serve 28 months in prison and the wife was sentenced to 12 months in prison. In addition, they were both sentenced to 3 years of supervised release and were ordered to pay more than \$272,000 in restitution and ordered to pay \$35,000 in criminal fines.

Members of Fraud Ring That Used Identities of Prison Inmates to Scam Student Aid Sentenced (Arizona)

During this reporting period, three members of a fraud ring that used the identities of prison inmates to fraudulently apply for and receive Federal student aid were sentenced, and two of them are headed to prison. From early 2010 to 2012, the three defendants—a married couple and their housemate—submitted fraudulent admissions and student aid forms to Mesa Community College and Rio Salado College on behalf of 37 straw students, most of whom were inmates in Arizona prisons. Two of the three also fraudulently obtained the personally identifiable information of several noninmates and used that information to apply for admission to the schools and for student aid. None of the straw students participated in or intended to participate in the college courses, and most were unaware that they were enrolled in school or obtaining Federal student aid. As a result of their fraudulent efforts, the three defendants received more than \$254,800 in Federal student aid. The husband was sentenced to 48 months in prison, his wife to 5 years of probation, and their housemate to 24 months in prison. They also were ordered to pay more than \$254,800 in restitution.

Investigations of Other Student Aid Fraud Cases

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

Former Virgin Islands Senator and Staff Members Sentenced to Prison (Virgin Islands)

A former U.S. Virgin Islands Senator and two of his staff members were sentenced to prison for racketeering, including for receiving bribes from vendors in exchange for the award of lucrative contracts. While in office, the Senator also improperly directed his staff to complete his application for Federal student aid and coursework for his online degree from the University of Phoenix. The Senator was sentenced to serve 52 months in prison and 3 years of supervised release. The staffers received sentences ranging from probation to 1 year in prison, and were each sentenced to perform 300 hours of community service.

Family Members Pled Guilty to Student Aid Fraud, Recovery Act Fraud (Montana)

A student seeking a criminal justice degree from the University of Great Falls and his parents pled guilty to student aid fraud, as they intentionally failed to disclose more than \$700,000 in household income on FAFSAs submitted between 2009 and 2012. This allowed them to receive Stafford and PLUS loans and Pell Grants that they otherwise would have been ineligible to receive. A good portion of the \$700,000 was Recovery Act funds that the parents and other family members stole from the Chippewa Cree Tribe. The Tribe received a \$300,000 Recovery Act award to fund the construction of a freshwater pipeline for the Rocky Boy's Indian

Reservation. The family members and others created a shell company to which they diverted the Recovery Act funds, which they used for personal enrichment.

Repeat Offender Sentenced for Scamming Community Colleges (Texas)

In our Semiannual Report issued in May 2010, we noted that a man was sentenced to prison for stealing the identities of 31 people, which he used to apply for and receive more than \$182,000 in Federal student aid. The man targeted online programs at various campuses of the Dallas County Community College District and the Houston Community College District. He was caught after trying to register more than 200 additional students under the guise of a large church group. During this reporting period, he was sentenced for running the same scam while he was waiting to report to prison. This time, he used the identities of family members, including his father, brother, and stepbrother, without their consent, and targeted online programs at the Dallas County Community College District and Trinity Valley Community College. The man was sentenced to 24 months in prison and was ordered to pay more than \$22,000 in restitution.

Parents Indicted in Two Different States for Student Aid Fraud (Massachusetts/New York)

A couple were indicted in Massachusetts and in New York for providing false information on their student aid applications for their children—one attending Harvard College and the other attending the University of Rochester—to receive Federal student aid to which they were not entitled. The parents allegedly underreported their wages and incomes, sources of income, and adjusted gross income on FAFSAs submitted between 2010 and 2013, to obtain more than \$160,600 in student aid for their Harvard student and about \$46,600 for their Rochester student.

Police Officer Sentenced and Barred From Future Public Employment (New Jersey)

A former Union County Police officer was fired from his job and was barred from any future public sector employment in the State of New Jersey for lying on his FAFSA. According to court records, while a student at Kean University, the former police officer falsely indicated that he was single on FAFSAs and purposely omitted his wife's income, which enabled him to receive Federal student aid to which he was not entitled.

U.S. Department of Agriculture Employee Sentenced (Mississippi)

A former U.S. Department of Agriculture employee was sentenced to 1 year of probation and was ordered to pay more than \$21,100 in restitution for Federal student aid fraud. The former Federal employee admitted to knowingly lying on a FAFSA to obtain Pell Grants for her son when she included only her spouse's income, not her own. As a result, her son improperly received more than \$21,100

in Pell Grants. This investigation was initiated as a result of a proactive OIG investigation to identify Federal employees who provided false information on their or their dependent's FAFSA.

Husband Sentenced for Tampering With Estranged Wife's FAFSA (Indiana)

A man was sentenced to a year in prison for accessing his estranged wife's FAFSA and altering it without her consent or without the consent of the Department. He input false income information into the FAFSA, which made his estranged wife ineligible for student aid that she was entitled to receive. After the man pled guilty to computer tampering, the judge suspended the prison term and sentenced him to serve a year of probation and prohibited him from having contact with his estranged wife during that time period.

Other Activities

Participation on Committees, Work Groups, and Task Forces

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

Review of Legislation, Regulations, Directives, and Memoranda

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

Goal 3:

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



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

Audits and Reviews

OIG audits and other reviews assess the effectiveness of internal controls, evaluate the appropriateness of Federal funds usage, and identify weaknesses and deficiencies in Departmental programs and operations that could leave them vulnerable to waste, fraud, and abuse. The results of our work can assist the Department, as well as grantees and program participants, improve its operations, strategic planning, and risk management. During this report period, we issued two reports related to this goal. The first report focuses on the payback provisions of the Rehabilitation Long-Term Training Program (RLTT), a multimillion dollar program aimed at increasing the number of qualified personnel trained in providing rehabilitation and other services for people with disabilities. Students who receive RLTT scholarships must work for a period of time in public or private nonprofit rehabilitation agencies or related agencies after they complete their training or must pay back the assistance they received. Our audit sought to determine whether these requirements were met, and consequently, whether the RLTT program effectively met program objectives. The second report examined internal controls over nonpayroll purchases at the Los Angeles Unified School District. Below are summaries of these two reports.

Payback Provisions of the Rehabilitation Long-Term Training Program

We found that the Rehabilitation Services Administration appears to have met the RLTT program objectives by training recipients who subsequently performed work related to the program and that the majority of those in our sample were working in acceptable employment. However, we had concerns about the data quality of grantee reporting, and although Rehabilitation Services Administration had recently undertaken efforts designed to strengthen its monitoring process, further improvements were needed in identifying and referring noncompliant scholars for financial repayment. Specifically, we found the following.

- The payback reports that all grantees in our sample submitted to the Department did not always include all of the requested data and contained discrepancies.
- The performance measure under which the Rehabilitation Services Administration reports scholar employment data in the RLTT program’s annual Congressional budget justification did not reflect fully the program’s effectiveness in training recipients who work in fields providing rehabilitation and other services to people with disabilities.

- The Rehabilitation Services Administration did not appropriately identify and refer for financial repayment scholars who were not fulfilling their service obligation. Its failure to appropriately identify scholars who were not on track to fulfill their service obligation increases the risk that the Department will not timely recover funds owed.

We also learned that Rehabilitation Services Administration may on occasion extend the period within which scholars must complete their service obligation. It did not indicate that the extensions were related to the deferrals or exceptions authorized by regulation. Rather, the Rehabilitation Services Administration indicated it would consider granting extensions to not penalize working scholars who appeared to be able to fulfill their service obligation within a “reasonable amount of time” from their otherwise required completion date. We noted that, in implementing the current RLTT program regulations, the Department did not appear to view the period of obligation as flexible, beyond allowing for the granting of deferrals or exceptions under limited circumstances. As a result, it does not appear that the Department has the authority to unilaterally extend scholars’ completion dates, nor the ability to work within the current regulations to allow for such extensions. Based on our findings, we made 15 recommendations, including that the Department emphasize to grantees the need to provide accurate and complete data, that it identify grantees who consistently fail to do so and take appropriate enforcement action, and that it review all grants for which payback reports are still being submitted to determine whether any scholars should be classified as being still in repayment status and refer any noncompliant scholars to the Department’s Debt and Payment Management Group. The Rehabilitation Services Administration did not state whether it agreed with our findings but concurred with all of our recommendations.

Los Angeles Unified School District’s Internal Controls Over Nonpayroll Purchases Using U.S. Department of Education Funds

We found that the Los Angeles Unified School District designed internal controls that provided reasonable assurance that its personnel used Department funds for nonpayroll purchases in accordance with applicable Federal requirements. In addition to its own system of controls, the District was also subject to oversight, monitoring, and audits from multiple entities, including the California Department of Education and the school district’s own Inspector General. Our report did not include any recommendations.

Investigations of Public Corruption, Schools, and School Officials

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

Prison Sentences for Mayor, Others in “Pay to Play” Progreso Public Corruption Scheme (Texas)

In previous Semiannual Reports, we noted that the mayor of Progreso, his brother, the president of the Progreso Independent School District Board, and their father, the director of maintenance and transportation at the district, were indicted for their roles in a “pay to play” public contracting scam. During this reporting period, the three and another brother, the former district risk manager, were sentenced to prison for using their positions to extract bribes and kickbacks from several service providers. The now former mayor was sentenced to 121 months in prison and was ordered to forfeit \$314,000; the now former school board president was sentenced to 71 months in prison and was ordered to forfeit \$300,000; and the now former district risk manager was sentenced to 10 months in prison and \$12,800 in restitution. Their father, the now former district director of maintenance and transportation was sentenced to 151 months in prison, was ordered to forfeit \$300,000, and was ordered to pay a fine of \$10,000. One of the service providers was also sentenced to 60 months in prison.

Two Beaumont Independent School District Officials Sentenced for Stealing More than \$4 Million (Texas)

The former finance director and the former comptroller of the Beaumont Independent School District were sentenced for stealing more than \$4 million from the district’s coffers. While employed at the district, the two had the authority to conduct wire transfers of district money without notifying anyone. They exploited this vulnerability and transferred some \$4 million in 18 separate wire transfers to bank accounts in their names or to other accounts under their control.

Plano Independent School District Official Pled Guilty to Embezzling More Than \$2.5 Million (Texas)

The former manager and security and fire system security support specialist for the Plano Independent School District pled guilty for his role in a conspiracy to embezzle more than \$2.5 million from the school district. Between 2004 and December 2013, the former official and two coconspirators set up two fake companies that were allegedly in the business of maintaining fire safety systems and security systems. The three generated fraudulent invoices and submitted them to the district for payment. The former official used his position to approve the fraudulent invoices knowing that services and products were never provided or delivered. When payments were made, the three would split the profits among themselves.

Former Executive Director of Nonprofit Center for Independent Living Sentenced for Stealing \$900,000 (Florida)

The former executive director of the Center for Independent Living of Southwest Florida was sentenced to 39 years in prison for stealing more than \$900,000 intended for the nonprofit center, which provided services to people with disabilities in a number of Florida counties. The former official used the money to fund an extravagant lifestyle that included international travel. The center closed in 2011 due to a lack of operational funds.

Former Detroit Public School Teacher Sentenced in \$530,000 Scam (Michigan)

In previous Semiannual Reports, we highlighted a case involving a former Detroit Public Schools contract accountant and school board candidate and her daughter, a public school teacher, both of whom had been convicted by a Federal jury on charges of program fraud, money laundering, conspiracy, and tax charges. In our last report, we shared that the mother was sentenced to 70 months in prison and 24 months of probation, and she was ordered to pay more than \$530,000 in restitution for her role in the scam. During this reporting period, the daughter was sentenced to serve 36 months in prison and 36 months of supervised release, and she was ordered to pay more than \$530,000 in restitution. Between 2004 and 2008, the two improperly obtained more than \$530,000 from the school district through a fraudulent scheme in which orders were placed with a sham company they controlled for books and educational materials that were never provided.

Shorewood School District Employee Sentenced for Stealing More Than \$310,000 (Wisconsin)

A former Shorewood School District administrative assistant was sentenced to prison for 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. The woman was sentenced to serve a year and a day in prison and 2 years of supervised release, and she was ordered to pay more than \$310,000 in restitution.

Former Executive of a 21st Century Community Learning Center Pled Guilty to Fraud Involving \$87,000 (Louisiana)

The former executive director and accountant for CDC 58:12, a participant in the 21st Century Community Learning Center program, pled guilty to theft of government funds and wire fraud. From 2011 through 2013, the former executive improperly withdrew about \$87,000 from the CDC's bank accounts to cover gambling debts and other personal expenses—funds that should have been used for services for residents of a public housing development, summer programs for children, and educational services. Additionally, while still employed at the center, the official submitted a fraudulent claim for unemployment insurance benefits to the Louisiana Workforce Commission, falsely representing that she was unemployed, resulting in the Louisiana Workforce Commission providing her with nearly \$4,200.

Former Executive Director of the Midwestern Intermediate Unit IV Pled Guilty (Pennsylvania)

The former executive director of the Midwestern Intermediate Unit IV educational service agency pled guilty to program fraud. During her tenure, the former executive director charged more than \$71,000 on the agency's American Express card on questionable purposes, including restaurant meals, DVD rentals, and department store purchases that she misrepresented were business-related, when in fact they were not.

Former Glendale School District Superintendent Sentenced (Pennsylvania)

The former superintendent of the Glendale School District was sentenced to 10 months of home confinement, 5 years of supervised release, and 500 hours of community service. He was also ordered to pay nearly \$50,000 for fraud. During his tenure, the superintendent intentionally misapplied nearly \$50,000 from a Fund for Improvement of Education grant and conspired to obtain more than \$414,000 from the Federal E-Rate program coordinated through the Federal Communications Commission. As a result of the investigation, the Pennsylvania Public School Employees' Retirement System also revoked his \$80,000 per year pension.

Former Columbus City Schools Data Czar Pled Guilty (Ohio)

The former executive director of the Office of Accountability Systems for Columbus City Schools pled no contest to attempted tampering with government records. The former "Data Czar" created a system for administrators to manipulate student data, specifically student attendance records, to show that the school was meeting adequate yearly progress goals.

Long Branch High School Athletic Director Sentenced for Participation in Sports Equipment Fraud Scam (New Jersey)

In a previous Semiannual Report, we noted that the former chief executive officer and the chief financial officer of Circle Systems Group pled guilty for perpetrating a long-running fraud scheme against schools in New Jersey and other States. Circle Systems Group was a sports equipment and reconditioning company that provided services to school districts, colleges, universities, and professional sports teams nationwide. From 1997 through 2007, the officials engaged in a number of fraudulent business practices aimed at defrauding schools, including submitting fraudulent invoices and fake quotes to schools to increase their sales and profits. During this reporting period, the now former Long Branch High School athletic director was sentenced for his role in the scheme. The former official received gifts and other personal items in exchange for accepting and ensuring payment to Circle Systems Group on the phony invoices. He was sentenced to serve 12 months of probation.

Investigations of Charter Schools

OIG has conducted a significant amount of investigative work involving charter schools. From January 2005 through September 30, 2014, OIG has opened 65 charter school investigations. To date, these investigations have resulted in 41 indictments and 30 convictions of charter school officials. The cases that have been fully settled resulted in nearly \$11.3 million in restitution, fines, forfeitures, and civil settlements.

Executive Director of the Mary L. Dinkins Higher Learning Academy Charter School Indicted for Stealing More Than \$1 Million (South Carolina)

The executive director of the Mary L. Dinkins Higher Learning Academy Charter School was indicted for embezzling more than \$1.4 million from the school. This included Federal school nutrition funds, IDEA funds, and ESEA Title I and Title III funds. The indictment comes two years after the South Carolina Public Charter School District board voted to cut off funding for the school.

Cofounder and Former Executive Director of Nia Community Public Charter School Sentenced for Embezzling \$29,000 (Washington, D.C.)

The cofounder and former executive director of Nia Community Public Charter School was sentenced to 9 months in prison and 3 years of supervised release, and she was ordered to pay more than \$40,000 in restitution and forfeit about \$29,000 for embezzlement. From March 2008 through August 2008, the former official signed five checks totaling more than \$29,000 on the charter school's account for her own personal use. After leaving the charter school, she was hired as an assistant director at the Cody Development Center in Virginia, where she was provided with a government purchase card for buying work-related items. She used the purchase card to buy nearly \$12,000 in unauthorized gift cards.

Investigations of Supplemental Educational Service Providers

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

Indictments in \$33 Million SES Fraud Scam (Illinois)

A father and son who controlled the Brilliance Academy and its wholly owned subsidiary Babbage Net School, Inc., were indicted on charges related to fraud scheme that scammed more than \$33 million from 200 public school districts in

19 States. According to the indictment, the two allegedly misrepresented the tutoring services the companies provided, gave substandard educational materials to students, falsely inflated invoices for tutoring services, and distributed false student progress and improvement reports. Of the \$33 million the companies received, the father and son allegedly obtained between \$8 million and \$13.6 million respectively for themselves and their families. In addition, the father and son were also indicted for allegedly paying bribes to three school officials in Texas and one State official in New Mexico. The school officials were indicted for allegedly accepting bribes in exchange for recruiting students and steering Federal and State funds from school districts to the defendants' companies.

Academic Advantage Agrees to \$2 Million Settlement (New York)

Academic Advantage agreed to pay \$2 million to settle allegations that it fraudulently billed the New York City Department of Education for federally funded after-school tutoring services that were never provided. In its agreement, Academic Advantage admitted that its site managers routinely forged student signatures on daily attendance sheets to make it appear that more students had attended the tutoring classes than in fact, had attended. It also admitted that some of its directors knew—while others deliberately ignored or recklessly disregarded—that site managers and program aides were committing these fraudulent practices. Of the nine Academic Advantage employees who were cited in the settlement for their roles in the scheme, three agreed to pay more than \$101,700, \$61,800, and \$17,300 respectively; the former supervisor of the company's SES program was criminally charged for her role in the scheme; and a former site manager was sentenced to serve 5 years of probation, 6 months of home confinement, and was ordered to pay \$34,200 in restitution.

More Actions Taken in TestQuest Fraud Scheme (New York)

In our last Semiannual Report, we reported that TestQuest agreed to pay \$1.725 million to settle allegations that it engaged in fraudulent conduct involving SES funds. We also reported that a former TestQuest manager/New York City school teacher who carried out the fraud pled guilty, agreed to a \$2.3 million civil judgment, and was awaiting sentencing. Another TestQuest employee/New York City school teacher pled guilty to her role in the scam and agreed to a civil forfeiture of more than \$32,200 and was awaiting sentencing. During this reporting period, the former TestQuest manager/New York City school teacher was sentenced to serve 24 months in prison, and the second teacher was sentenced to 3 years of probation and a \$12,000 fine. Additionally, a former tutor admitted participating in the scam and agreed to pay more than \$21,300.

Investigations of School Vendors and Contractors

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

Owner of Special Education and Preschool Programs Company Sentenced for Stealing Millions (New York)

In our last Semiannual Report, we noted that the owner of Bilingual SEIT, Inc., a provider of special education services and preschool programs to New York City children, pled guilty for his role in defrauding the Federal, State, and local governments out of millions of dollars. During this reporting period, the owner was sentenced to serve 2 years in prison and was ordered to pay more than \$4 million in restitution and forfeiture. Between 2005 and 2012, the owner inflated costs incurred by Bilingual SEIT, deliberately overpaid certain employees in order to receive kickbacks, and used company funds for his personal benefit.

Actions Taken Against Congressman's Son for Fraud (Pennsylvania)

The owner/founder of an educational consulting company in Pennsylvania, who is also the son of a U.S. Congressman, was indicted on charges that he fraudulently obtained hundreds of thousands of dollars from the Philadelphia School District. According to the indictment, the man's educational consulting company submitted false expense information and inflated invoices to the district for services the company provided for at-risk students.

University of San Francisco Third-Party Loan Servicer Arrested (California)

A former contract employee was arrested on charges that he embezzled more than \$79,000 from the University of San Francisco. The man was hired by the school as a third-party loan servicer and entrusted with debtor payments remitted to him on behalf the school. While employed at the school, the man allegedly withheld certain student loan payments from the school and converted them to his personal use. The man allegedly used the funds to pay bills, business expenses, and tuition for his children.

Other Activities

Participation on Committees, Work Groups, and Task Forces

Federal and State Law Enforcement-Related Groups

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

Federal and State Audit-Related Groups

- *Association of Government Accountants Partnership for Management and Accountability.* 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

- *ESEA Flexibility—Guidance for Renewal Process.* OIG provided suggestions aimed at improving data quality and reliability.
- *Strong Start for America’s Children Act of 2013 (HR 3461).* OIG provided several suggestions aimed at improving data quality and reliability.

Goal 4:

Contribute to improvements in
Department business operations.



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

Audits and Reviews

During this reporting period, we issued two reports reviews related to this goal. The first report reviewed the Department's compliance with the Improper Payments Elimination and Recovery Act (IPERA), which requires Federal agencies to conduct annual risk assessments to determine which programs are susceptible to significant improper payments and to estimate, reduce, and recover improper payments. The second report reviewed the Department's compliance with Executive Order 1350, "Reducing Improper Payments," which requires the designated accountable official of each agency to submit to the Inspector General a report regarding its efforts to address improper payments in the agency's high-priority programs. In FY 2010, the Office of Management and Budget designated the Federal Pell Grant program as the only high-priority program within the Department; thus, our review focused on the Department's FY 2012 and FY 2013 Accountable Official's Reports to the OIG. Summaries of this work follow.

Compliance With the Improper Payments Elimination and Recovery Act for FY 2013

We found that the Department complied with IPERA for FY 2013; however, improvements were needed in its improper payment rate estimation methodologies for the Federal Pell Grant and William D. Ford Federal Direct Loan programs, specifically with regard to ensuring the methodologies' completeness. In previous reports on the Department's compliance with IPERA, we noted that the Pell Grant program's estimation methodology did not consider populations of recipients who may pose a higher risk of improper payments and did not consider all potential sources of improper payments. We found that these issues were still present in the Department's FY 2013 methodology. As a result, the Department continues to report an improper payment rate estimate for the Pell program that does not consider all potential improper payments. We also found that the Department calculated and reported an improper payment rate estimate for the Direct Loan program using an alternative methodology that relied heavily on the use of program reviews; however, many of those reviews were not included in the improper payment rate estimation calculation because the reports from these reviews had not yet been issued or the reviews did not test for improper payment transactions. As a result, the Department is not currently reporting an estimated improper payment rate for the Direct Loan program that is as complete as possible. Further, we also found that although the Department had shown progress in reducing and recapturing improper payments, it could still improve its efforts by establishing meaningful improper payment reduction targets, as we found that it did not actually set a target that, if met but not exceeded, would

result in a reduction in improper payments. By not setting reduction targets that aim to reduce the levels of improper payments, the Department may not be intensifying its efforts to identify, prevent, and recover improper payments.

We made several recommendations to address these issues, including that the Department continue to work with the Office of Management and Budget to obtain approval for an alternate methodology to address limitations regarding the Pell Grant and Direct Loan programs, that it include all program review reports that were issued when estimating improper payments, and that it set targets to reduce the rate of improper payments for all programs identified as susceptible to significant improper payments. The Department generally concurred with our findings and recommendations.

Compliance With Executive Order 13520 on Improper Payments

We found that for both FY 2012 and FY 2013, the Department complied with Executive Order 13520, adequately addressed improper payment risks, and described an adequate level of oversight to reduce and recapture improper Pell Grant payments. However, we found that the Department still had not addressed monitoring and oversight of the most significant root cause of potential improper payments in the Pell Grant program—inaccurate self-reported income for Pell Grant applicants who (1) do not use the Internal Revenue Service Data Retrieval Tool when completing their FAFSA and (2) are not selected for verification of self-reported income. We had a similar finding in our audit of the Department's FY 2011 report. By not studying the population of applicants who do not use the Internal Revenue Service Data Retrieval Tool and are not selected for verification, the Department may miss opportunities to further reduce and recapture improper payments. We recommended that the Department include the self-reported income component in a study of Pell Grant recipients who do not use the Internal Revenue Service Data Retrieval Tool and who are not selected for verification to determine whether it has adequate controls in place to mitigate the risk of improper payment to that population of recipients. The Department partially concurred with the finding and did not concur with the recommendation.

Investigations

During this reporting period, a former University of Nebraska-Lincoln student was sentenced to 6 months in prison, 3 years of supervised release, and was ordered to pay more than \$107,700 in restitution for accessing and causing damage to a protected computer without authorization. The former student unlawfully accessed a system that administers Federal student aid for the entire Nebraska State college and university network and exposed the personally identifiable information and financial data of over 650,000 students.

Congressional Hearings

During this reporting period, Inspector General Tighe testified before two subcommittees of the U.S. House of Representatives Committee on Education and the Workforce about OIG work involving the Department’s audit resolution and followup processes. Inspector General Tighe provided the subcommittees with background information on the Department’s audit resolution and followup processes, the findings of OIG work in this area, the current status of the Department’s audit resolution efforts, and the challenges that remain. She also shared with the committee that since 2002, OIG had issued six audit reports that identified weaknesses in the Department’s audit resolution and followup processes, and that recent efforts by the Department appear to have led to improvements in its processes. However, work remains to be done, particularly regarding audits of recipients of Federal education funds. The Inspector General also told the subcommittee that OIG has a seventh audit underway, and she would share results of that work once completed.

Non-Federal Audit Activities

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

Quality Control Reviews

Through 2013, Office of Management and Budget Circular A-133 required entities such as State and local governments, universities, and nonprofit organizations that spend \$500,000 or more in Federal funds in 1 year to obtain an audit, referred to as a “single audit.” The Office of Management and Budget’s new “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (known as the “Super Circular”) has since increased the single audit threshold to \$750,000. Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in specific Federal student aid programs are required to undergo annual audits performed by independent public accountants in accordance with audit guides issued by the OIG. These audits assure the Federal Government that recipients of Federal funds comply with laws, regulations, and other requirements that are material to Federal awards. To help assess the quality of the thousands of single audits performed each year, we conduct quality control reviews of a sample of audits. During this reporting period, we completed 25 quality control reviews of audits conducted by 24 different IPAs or offices of firms with multiple offices. We concluded that 12 (48 percent) were acceptable or acceptable with minor issues, 11 (44 percent) were technically deficient and 2 (8 percent) were unacceptable.

Other Activities

Participation on Committees, Work Groups, and Task Forces

Department

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

Inspector General Community

- *Council of the Inspectors General on Integrity and Efficiency (CIGIE).* OIG staff play an active role in CIGIE efforts. Inspector General Tighe is Chair of the Information Technology Committee and a member of CIGIE's Audit Committee.
 - During this reporting period, 19 OIGs, working under the auspices of the CIGIE Information Technology Committee, issued a report that showed a need for improved oversight in the cloud computing environment. As stated in the report, none of the 19 participating agencies had adequate controls in place to manage its cloud service providers and the data that reside within its cloud systems. This subjects Federal data to the risk of loss or exposure to unauthorized parties and could compromise both Federal program and personal data. Furthermore, because 42 of the contracts reviewed (totaling about \$317 million) did not specify how a cloud service provider's performance would be measured, reported, or monitored, the agencies are not able to ensure cloud service providers meet adequate service levels, which increases the risk that agencies could misspend or ineffectively use Government funds. Click here to read the report:
<http://www.ignet.gov/randp/Cloud%20Computing%20Initiative%20Report.pdf>
- Inspector General Tighe is also a member of CIGIE's Audit Committee, and the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee.
- OIG staff also chair the CIGIE Investigations Subcommittee of the Informational Technology Committee, and are members of CIGIE's Assistant Inspector General for Investigations Subcommittee, the Cyber Security Working Group, the Grant Reform Working Group, the OIG Human Resources Directors' Roundtable, the Council of Counsels to the Inspectors General, and the New Media Working Group. OIG staff also participate in the following.
 - *Financial Statement Audit Network.* OIG staff have a leading role in this Government-wide working group that identifies and resolves key issues concerning audits of agency financial statements and provides a forum for coordination with the Government Accountability Office and the Treasury on the annual audit of the Government's financial statements.
 - *CIGIE/Government Accountability Office Annual Financial Statement Audit Conference.* OIG staff work on the Planning Committee for the annual conference that covers current issues related to financial statement audits and standards.

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

Federal and State Audit-Related Groups and Entities

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

Review of Legislation, Regulations, Directives, and Memoranda

- *Department Directive on Scheduling, Use, and Waiver Approval Procedures for ED Sponsored Conference and Event Facilities.* OIG provided technical comments.
- *Proposed Presidential Memorandum on Enhanced Workplace Flexibilities and Work-Life Programs.* OIG provided suggestion regarding nursing mothers.
- *Department Dear Colleague Letter and Related Documents Regarding the Implementation of the Violence Against Women Act.* OIG provided technical comments.
- *Interim Final Regulations—Implementation of Office of Management and Budget Guidance on Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* OIG provided technical comments.
- *Draft Cloud Computing Legislation.* Through the CIGIE, OIG provided comments on proposed legislation aimed at ensuring IG access to necessary information in the cloud operating environment.
- *FY2015 CIO FISMA Metrics.* OIG made a technical suggestion regarding cloud service providers.



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.

During this reporting period, the Department of Education OIG conducted a peer review of the Federal Housing and Finance Agency (FHFA) OIG's investigative function. Our peer review determined that the system of internal safeguards and the management procedures for the investigative function of FHFA OIG were in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines. We made several recommendations for improvement, all of which the FHFA OIG agreed to.

Required Tables

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

Acronyms and Abbreviations Used in the Required Tables

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

Definitions

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

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

Inspections. Inspections are analyses, evaluations, reviews, or studies of the Department’s programs. The purpose of an inspection is to provide Department decision makers with factual and analytical information, which may include an assessment of the efficiency and effectiveness of their operations and

vulnerabilities created by their existing policies or procedures. Inspections may be conducted on any Department program, policy, activity, or operation. Typically, an inspection results in a written report containing findings and related recommendations. Inspections are performed in accordance with quality standards for inspections approved by the Council of Inspectors General for Integrity and Efficiency.

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

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

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

OIG Product Web Site Availability Policy

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

Reporting Requirements of the Inspector General Act, as Amended

Section	<i>Requirement (Table Title)</i>	Table Number
5(a)(1) and 5(a)(2)	<i>Significant Problems, Abuses, and Deficiencies</i>	N/A
5(a)(3)	<i>Uncompleted Corrective Actions</i> Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed	1
5(a)(4)	<i>Matters Referred to Prosecutive Authorities</i> FY 2014–October 1, 2013, through September 30, 2014	6
5(a)(5) and 6(b)(2)	<i>Summary of Instances Where Information was Refused or Not Provided</i>	N/A
5(a)(6)	<i>Listing of Reports</i> Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (April 1, 2014, through September 30, 2014)	2
5(a)(7)	<i>Summary of Significant Audits</i>	N/A
5(a)(8)	<i>Questioned Costs</i> Audit, Inspection, and Evaluation Reports With Questioned or Unsupported Costs	3
5(a)(9)	<i>Better Use of Funds</i> Audit, Inspection, and Evaluation Reports With Recommendations for Better Use of Funds	4
5(a)(10)	<i>Unresolved Reports</i> Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to September 30, 2014	5-A
	Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5-B
5(a)(11)	<i>Significant Revised Management Decisions</i>	N/A
5(a)(12)	<i>Significant Management Decisions With Which OIG Disagreed</i>	N/A
5(a)(13)	<i>Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996</i>	N/A

Table 1. Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed (April 1, 2014, through September 30, 2014)

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

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

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Date of Management Decision	Number of Significant Recs Open	Number of Significant Recs Closed	Projected Action Date
OCFO	Audit A03N0001	U.S. Department of Education's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2012 (FSA is also designated as an action official) (SAR 66, page 39)	3/15/13	5/31/13	3	1	11/15/14
OCIO	Audit A11M0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2012 (FSA is also designated as an action official) (SAR 66, page 39)	11/7/12	1/8/13	1	19	9/30/15
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)	10/18/11	1/3/12	1	17	3/31/15
ODS	Audit A19J0001	Department's Implementation of the State Fiscal Stabilization Fund Program (SAR 61, page 33)	9/24/10	6/17/13	1	3	8/28/13
OSERS	Audit A09L0011	Local Educational Agency Maintenance of Effort Flexibility Due to Recovery Act IDEA, Part B Funds (SAR 67, page 44)	7/25/13	9/26/13	11	1	5/25/15

Table 2. Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (April 1, 2014, through September 30, 2014)

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

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
FSA	Audit A05N0004	Direct Assessment Programs: Processes for Identifying Risks and Evaluating Applications for Title IV Eligibility Need Strengthening to Better Mitigate Risks Posed to the Title IV Programs (The report is addressed to and makes recommendations to the Under Secretary)	9/30/14	-	-	7
FSA	Audit A06L0003	Oversight of Guaranty Agencies During the Phase-Out of the Federal Family Education Loan Program	9/29/14	-	-	5
FSA	Audit A06M0012	Handling of Borrower Complaints Against Private Collection Agencies	7/11/14	-	-	11
FSA	Management Information X11N0003	Review of Federal Student Aid's Oversight and Monitoring of Private Collection Agency and Guaranty Agency Security Controls	9/22/14	-	-	8
OCFO	Audit A03N0004	U.S. Department of Education's Compliance With Executive Order 13520, "Reducing Improper Payments" for Fiscal Years 2012 and 2013 (FSA is also designated as an action official)	9/22/14	-	-	1
OCFO	Audit A19O0002	U.S. Department of Education's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2013 (FSA is also designated as an action official)	4/15/14	-	-	4
ODS	Audit A05N0009	The Ohio Department of Education's Administration of its Race to the Top Grant (OCFO is also designated as an action official)	9/2/14	\$30,748 ²	\$13,017	12

² Audit report A05N0009 identified questioned costs of \$17,731 and unsupported costs of \$13,017 that when combined equal \$30,748.

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
ODS	Management Information X09M0002	Lessons from Implementing the American Recovery and Reinvestment Act of 2009	9/23/14	-	-	10 ³
OESE	Audit A09N0009	Los Angeles Unified School District's Internal Controls Over Nonpayroll Purchases Using U.S. Department of Education Funds	5/6/14	-	-	-
OPE	Audit A06N0002	Office of Postsecondary Education Duplication of Effort with Discretionary Grants	9/30/14	-	-	3
OSERS	Audit A19M0004	Payback Provisions of the Rehabilitation Long-Term Training Program	4/25/14	-	-	15
OSERS	Management Information X09N0006	Management Information Report on IDEA Maintenance of Effort Flexibility	7/18/14	-	-	14 ⁴
Total				\$30,748	\$13,017	90 ⁵

³ Management information report X09M0002 contains 10 suggestions.

⁴ Management information report X09N0006 contains 14 suggestions.

⁵ Figure includes 24 suggestions and 66 recommendations.

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	13	\$67,194,629	\$18,685,475
B. Which were issued during the reporting period	1	\$30,748	\$13,017
Subtotals (A + B)	14	\$67,225,377	\$18,698,492
C. For which a management decision was made during the reporting period	3	\$952,012	\$179,757
(i) Dollar value of disallowed costs		\$952,012	\$179,757
(ii) Dollar value of costs not disallowed		\$0	\$0
D. For which no management decision was made by the end of the reporting period	11	\$66,273,365	\$18,518,735

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	\$13,000,000
B. Which were issued during the reporting period	0	\$0
Subtotals (A + B)	1	\$13,000,000
C. For which a management decision was made during the reporting period		
(i) Dollar value of recommendations that were agreed to by management	1	\$13,000,000
(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	0	\$0

Table 5-A. Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to September 30, 2014

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

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

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

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recs
FSA	Audit A09K0008	Colorado Technical University's Administration of Title IV Programs (SAR 65, page 40) Current Status: FSA informed us that it is currently working to resolve this audit.	9/21/12	\$173,164	8
ODS	Audit A06K0002	Oklahoma: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) (SAR 62, page 25) Current Status: OSERS/OSEP informed us that it is revising the draft PDL. OCFO/PAG PDL was issued on 9/21/2012. OESE PDL was issued on 9/25/2012. ODS/ISU PDL was issued on 1/8/2013.	2/18/11	\$16,150,803	10
OESE	Audit A03K0009	Maryland: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs (ODS, OSERS, and OCFO are also designated as action officials) (SAR 66, page 40) Current Status: OCFO/ICG issued a PDL on 7/31/2013. OESE and OSERS/OSEP issued a joint PDL on 3/31/2014; however, other requirements must be met before audit is resolved in the Department's Audit Accountability and Resolution Tracking System.	1/3/13	\$736,582	8
OPEPD	Audit A04J0003	Georgia Department of Education's Controls Over Performance Data Entered in ED Facts (SAR 61, page 34) Current Status: Because NCES/IES now houses ED Facts, OPEPD has requested to have this audit reassigned to NCES/IES.	4/7/10	-	9
OSERS	Audit A04K0001	Systems of Internal Controls over Selected Recovery Act Funds in Puerto Rico (OCFO, OESE, and OSERS are also designated as action officials) (SAR 62, page 25) Current Status: OSERS informed us that it is revising its draft PDL.	12/16/10	\$2,051,000	16
Total				\$66,242,617	127

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.

Nothing to report. Audit and other reports issued during the previous reporting period have been resolved.

Table 6. Statistical Profile for FY 2014

Audits, Inspections, Other Products	Reported in SAR 68 (October 1, 2013– March 31, 2014)	April 1, 2014– September 30, 2014	FY 2014 Total
Audit Reports Issued	8	9	17
Inspection Reports Issued	1	0	1
Questioned Costs (Including Unsupported Costs)	\$0	\$30,748	\$30,748
Recommendations for Better Use of Funds	\$0	\$0	\$0
Other Products Issued	4	3	7
Reports Resolved By Program Managers	17 ⁶	12	29
Questioned Costs (Including Unsupported Costs) Sustained	\$117,805,176	\$952,012	\$118,757,188
Unsupported Costs Sustained	\$110,210,114	\$179,757	\$110,389,871
Additional Disallowances Identified by Program Managers	\$4,006	\$0	\$4,006
Management Commitment to the Better Use of Funds	\$0	\$13,000,000	\$13,000,000
Investigative Cases Opened	34	43	77
Investigative Cases Closed	73	68	141
Cases Active at the End of the Reporting Period	316	295	295
Prosecutorial Decisions Accepted	56	80	136
Prosecutorial Decisions Declined	78	65	143
Indictments/Informations	32	101	133
Convictions/Pleas	59	50	109
Fines Ordered	\$41,740	\$141,493	\$183,233
Restitution Payments Ordered	\$13,495,671	\$10,170,478	\$23,666,149
Civil Settlements/Judgments (number)	5	7	12
Civil Settlements/Judgments (amount)	\$874,999	\$2,202,316	\$3,077,315
Recoveries	\$449,127	\$2,677,357	\$3,126,484
Forfeitures/Seizures	\$2,965,371	\$4,224,533	\$7,189,904
Estimated Savings	\$1,000,000	\$8,002,535	\$9,002,535
Suspensions Referred to Department	19	17	36
Debarments Referred to Department	21	22	43
Debarments Imposed by OIG	1	0	1

⁶ Four reports included in this total were issued prior to SAR 68.



Acronyms and Abbreviations

Acronyms and Abbreviations Used in This Report

ACC	American Commercial Colleges, Inc.
CEIS	Coordinated Early Intervening Services
CIGIE	Council of Inspectors General on Integrity and Efficiency
CPCS	Competitive Performance and Continuous Surveillance
Department	U.S. Department of Education
FFELP	Federal Family Education Loan Program
FISMA	Federal Information Security Management Act of 2002
FSA	Federal Student Aid
FY	Fiscal Year
GA	Guaranty Agency
GEAR UP	Gaining Early Awareness and Readiness for Undergraduate Programs
HEA	Higher Education Act of 1965, as Amended
IDEA	Individuals with Disabilities Education Act, Part B
IPERA	Improper Payments Elimination and Recovery Act
LEA	Local Educational Agency
OIG	Office of Inspector General
OPE	Office of Postsecondary Education
PCA	Private Collection Agency
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
RLTT	Rehabilitation Long-Term Training Program
RTT	Race to the Top Program
SEA	State Educational Agency
SES	Supplemental Educational Services
Title I	Elementary and Secondary Education Act, Title I
Title IV	Higher Education Act of 1965, Title IV

For acronyms and abbreviations used in the required tables, see [page 41](#).

FY 2015 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 2015.

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 2015 Management Challenges report, visit our Web site at www.ed.gov/oig.



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