U.S. DEPARTMENT OF EDUCATION

Inspector General's Semiannual Report to Congress, No. 59

April 1, 2009 - September 30, 2009

U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS, NO. 59

(APRIL 1, 2009 – SEPTEMBER 30, 2009)

U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
550 12TH STREET, S.W.
WASHINGTON, DC 20024

MESSAGE FROM THE INSPECTOR GENERAL

As the Acting Inspector General of the U.S. Department of Education (Department) Office of Inspector General (OIG), I am pleased to provide this semiannual report on the activities and accomplishments of this office from April 1, 2009, through September 30, 2009. The audits, inspections, investigations, and related reports highlighted in this report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness in Federal education operations and programs.

Over the last 6 months, OIG issued 32 audits, inspections, and other reports. We identified more than $35 million in questioned costs and more than $3 million in unsupported costs. We also completed a number of investigations involving theft or other fraudulent use of Federal education funds, several of which involved individuals who abused their positions of trust for personal gain. Over the last 6 months, we closed 67 investigations and secured more than $24 million in settlements, fines, restitutions, recoveries, forfeitures/seizures, and savings.

As we have stated in previous Semiannual Reports to Congress, accountability is essential to success, particularly when it comes to education. As Members of Congress, you have made it a key component in our nation's largest Federal education laws, and most recently, in the *American Recovery and Reinvestment Act of 2009* (Recovery Act). The Recovery Act includes unprecedented accountability and transparency requirements for Federal agencies, States, other entities, and Inspectors General whose offices are affected by the law. Because of the particularly significant increase in funding through the Recovery Act, the Department must hold its staff, program participants, grantees, contractors, and other entities involved in Federal education programs accountable for adhering to statutory and other requirements. The Department must be able to provide reasonable assurance that the billions of dollars entrusted to it are reaching the intended recipients and achieving the desired results. Work concluded over the last 6 months shows that this is an area in which the Department and the grantees and program participants reviewed must make some significant improvements to include:

- Improved accountability in elementary, secondary, and postsecondary programs by the Department and by program participants, as our work demonstrated that some grantees, their contractors, and others were not always held accountable nor were there always consequences for failing to meet the terms of their grant agreements; and

- Improved oversight by Federal Student Aid (FSA) and accountability of participants in the Federal student loan programs we reviewed, as our work continued to reveal weaknesses that demonstrate the need for corrective actions by FSA to ensure that its programs and program participants are performing in accordance with relevant laws, regulations, and guidance.

As you will read in the pages of this report, OIG is committed to helping the Department address identified weaknesses and improve in the area of accountability and transparency by continuing to reduce the time it takes to produce our reports without compromising their quality; producing more reports and posting them on our Web site; and compiling data for regular dissemination through the Recovery Accountability and Transparency Board.

The Department has voiced its commitment to tackling the issue of accountability and the underlying problem of weak internal controls, which you will see is a recurring issue in the work we completed over the last 6 months. By establishing effective internal controls, the Department can be an effective steward of the billions of taxpayer dollars supporting its programs and operations. America's students and taxpayers deserve nothing less.

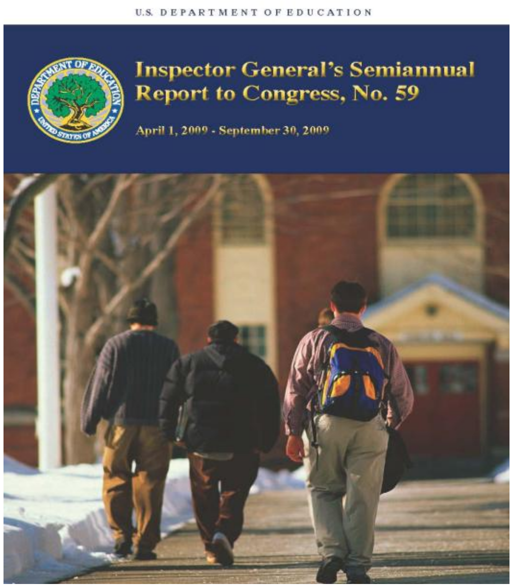
Thank you for your continued support of our efforts. We look forward to working with the 111th Congress in furthering our goals and achieving our mission.

Mary Mitchelson
Acting Inspector General

TABLE OF CONTENTS

OVERVIEW

We are pleased to provide this Semiannual Report on the activities and accomplishments of the U.S. Department of Education (Department) Office of Inspector General (OIG) from April 1, 2009, through September 30, 2009. The audits, inspections, investigations, and other activities highlighted in this report are products of our continuing commitment to promoting accountability, transparency, efficiency, and effectiveness in Federal education programs and operations.



We present the work OIG concluded during this reporting period in six sections: (1) Recovery Act efforts; (2) elementary, secondary, and postsecondary education programs; (3) student financial assistance programs; (4) information technology (IT) security and management and other internal operations efforts; (5) other noteworthy efforts; and (6) a compilation of tables of the audits, other reports, and investigations we concluded during this reporting period, as required by the *Inspector General Act of 1978*, as amended.

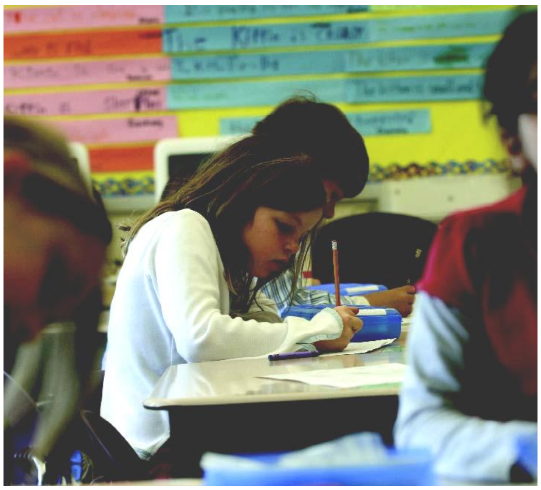
Recovery Act Efforts

The Recovery Act was signed into law on February 17, 2009, and provides approximately $98.2 billion in new funding for Federal education programs and operations. With 55 State and territorial educational agencies, more than 16,000 school districts, and thousands of schools, colleges, and universities eligible to receive Recovery Act funds, the Department faces a formidable challenge in ensuring that Recovery Act funds reach the correct recipients and achieve the desired results. The OIG also faces a formidable challenge in conducting all of the work necessary to assure the Department, Congress, and the general public that Recovery Act funds are used as intended. With the dramatic increase in funding that State educational agencies (SEAs), local educational agencies (LEAs), and other entities are receiving through the Recovery Act, it is very important that these entities provide adequate oversight of Recovery Act funds and accurately account for how those funds are being used. During this reporting period, OIG initiated its on-the-ground Recovery Act efforts, including holding more than 160 meetings with individual SEAs and LEAs across the country. We issued two reports of significance: one highlighting an issue of concern related to States' administration of the State Fiscal Stabilization Fund portion of the Recovery Act and the flexibility inherent in the maintenance of effort requirements that may result in States reducing funding for public education; and the second summarizing a number of pervasive fiscal issues identified in prior

OIG audit work. This report also included a summary of significant OIG investigations involving LEA officials that resulted in criminal convictions. We present an overview of our Recovery Act activities in this section of our report.

Elementary, Secondary, and Postsecondary Education Programs

With the significant increase in education funding the States, SEAs, and LEAs are receiving through the Recovery Act in addition to their annual allotments, effective accountability and transparency in how these entities expend all Federal education funds they receive is vital. Work concluded during this reporting period showed a need for improved accountability by the Department, SEAs, LEAs, and other grantees we reviewed. This includes our inspection of the Department's oversight of Federal TRIO grants, which found that the Office of Postsecondary Education did not take appropriate action to hold accountable grantees that did not serve the number of participants they were funded to serve in FY 2003 through FY 2007, and that there were no consequences for grantees' failure to meet the terms of their grant agreements. In addition, our audit of an SEA's oversight of its grantees (referred to as "subrecipients" in this report) determined that improvements in its processes were necessary to ensure subrecipient compliance with specific statutes and regulations. Finally, our audit of an LEA identified internal control weaknesses that led to more than $3 million in unnecessary, undocumented, or insufficiently documented costs. You will find more details on these reports, as well as other reports involving elementary, secondary, and postsecondary education program participants, in this section of our report. We also include summaries of our more significant investigations involving theft or misuse of Federal education funds, including cases involving school officials and contractors.



Federal Student Financial Assistance Operations and Programs

The Federal student financial assistance programs have long been a major focus of our audit, inspection, and investigative work. With more than 6,000 postsecondary institutions, more than 2,900 lenders, 35 guaranty agencies, $113 billion in student loans and other awards, and an outstanding loan portfolio of more than $600 billion, accountability in these programs is critical. The Department and Federal Student Aid (FSA), the office within the Department that is responsible for administering the Federal student aid programs, must ensure that they and all of the entities involved in the programs comply with statutory and regulatory requirements.

Work concluded over the last 6 months showed a need for improvement in this area. Our evaluation of FSA's Enterprise Risk Management Group found that FSA had not fully implemented enterprise risk management and had not done risk identification in any of the Federal student aid programs. Our review of FSA's oversight and monitoring of guaranty agencies, lenders, and servicers participating in the programs found internal control weaknesses that demonstrate the need for corrective actions by FSA to ensure that program participants were performing in accordance with relevant laws, regulations, and guidance. And our final two audits in a series of Family Federal Education Loan (FFEL) program lenders' special allowance billings for loans funded by tax-exempt obligations identified noncompliance by the two lenders reviewed involving millions of dollars. You will find more on our findings, as well as summaries of other audit reports and our more significant cases of fraud involving student financial assistance program funds, in the Federal Student Financial Assistance Operations and Programs section of this report.

IT Security and Management and Other Internal Operations

In this section of the report we highlight our reviews of the Department's IT security and management efforts and other internal operations. This includes our *Federal Information Security Management Act* reviews—an area in which accountability is vital to protecting the Department's valuable data and confidential information. Results of this work concluded that there are weaknesses in the Department's security controls associated with its external Web sites. We also examined the Department's process for resolving lapsed funds by its grant recipients—Federal education funds that are not obligated or used within a specific timeframe that must be returned to the Federal Government. This was a follow-up to a 2004 OIG audit that found that the Department did not have procedures to notify recipients when award balances were about to become unavailable. Our 2009 audit found that improvements in the process were still needed. You will find more information on these findings, as well as summaries of our investigative cases involving a Department employee and an employee of a Department contractor, in this section of the report. With regard to Section 845 of the *National Defense Authorization Act for Fiscal Year 2008*, which requires each OIG to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings, OIG did not issue such reports over the last 6 months.

Other Noteworthy Efforts

OIG constantly strives to improve its operations through our work with the Inspector General community and with the independent auditors tasked with conducting single audits of entities that receive significant Federal education funds each year. You will find an update on our activities in this section of our report.

Compilation Tables

The final section of our report provides a compilation of tables of the audits, inspections, other reports, and investigations we concluded over the last 6 months, as required by the *Inspector General Act*.

Copies of the reports discussed in this Semiannual Report to Congress are available on the OIG Web site. For more information on our work and activities, please contact the OIG Congressional Liaison at (202) 245-7023, or visit our Web site at http://www.ed.gov/about/offices/list/oig/index.html?src=oc.

RECOVERY ACT EFFORTS

The Recovery Act was signed into law on February 17, 2009, and provides approximately $98.2 billion in new funding for Federal education programs and operations, including programs within the *Elementary and Secondary Education Act of 1965*, as amended (ESEA), the *Higher Education Act of 1965*, as amended (HEA), the *Individuals with Disabilities Education Act of 2004*, as amended (IDEA), and the *Rehabilitation Act of 1973*. With 55 State and territorial educational agencies, more than 16,000 school districts, and thousands of schools, colleges, and universities potentially eligible to receive these funds, the Department faces a formidable challenge in ensuring that Recovery Act funds reach the necessary recipients and achieve the desired results. The OIG also faces a formidable challenge in conducting all of the work necessary to provide the Department, the Congress, and the general public with assurance that Recovery Act funds are used as intended. OIG will continue to use every tool at its disposal to accomplish this goal. This has included hiring a number of experienced term employees to supplement current staff.

As discussed in our last Semiannual Report to Congress, OIG staff has been meeting with Department leaders and our counterparts in the Government Accountability Office and other Federal agencies since the enactment of the law to set in motion measures to help ensure that Recovery Act dollars reach the intended recipients and achieve the intended results. During this reporting period, we continued to participate in an advisory capacity on a number of Department and Office of Management and Budget (OMB) Recovery Act work groups, maintained our seat on the Recovery Accountability and Transparency Board, and continued to provide the Department and its grantees with tools to help identify and fight waste, fraud, and abuse of Recovery Act funds. OIG staff also met with State and local officials across the country, including more than 160 meetings with individual SEAs and LEAs. These sessions have covered Recovery Act-related topics such as:

- Impact of Recovery Act on State and local programs, including special education programs;
- Impact of Recovery Act on student financial assistance programs;
- Oversight programs for Recovery Act funds;
- Data quality's impact on Recovery Act reporting;
- Fraud awareness and prevention:
    - Identifying programs susceptible to fraud and fraud indicators;
    - Reporting fraud; and
    - Whistleblower protection.

During the last 6 months, OIG staff initiated its on-the-ground Recovery Act efforts, launching a series of audits at the State and local level (Governors' offices, SEAs, LEAs, and other grantees) to determine whether entities responsible for overseeing Recovery Act funds have designed systems of internal control that are sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. Internal controls are plans, methods, and procedures an entity employs to provide reasonable assurance that it meets its goals and achieves its objectives while minimizing operational problems and risks. These initial audits are still ongoing and we expect to complete our work in the coming months. During this reporting period, we issued two Recovery Act-related reports of significance. Summaries of these reports are below, and full reports and related information are posted on our Web site via this link: http://www.ed.gov/about/offices/list/oig/recoveryact.html, as well as on the government's overall Recovery Act Web site, www.recovery.gov.

Recovery Act-Related Reports

Fiscal Issues Related to SEAs and LEAs

In July, we provided the Department with a report summarizing the pervasive fiscal issues involving LEAs and SEAs, when the SEA work included a review of LEAs, identified in OIG audit reports issued during FYs 2003 through 2009. The report also included summaries of OIG investigations involving LEA officials that resulted in criminal convictions during the period FY 2003 through December 31, 2008. With the dramatic increase in funding to LEAs and SEAs under the Recovery Act, this report provided the Department with information that we believed would be particularly beneficial in overseeing grants to LEAs and SEAs.

We considered an issue to be pervasive if it appeared in 5 or more final audit reports, and identified 41 reports containing such issues. Of these 41 reports:

- 27 included pervasive fiscal issues related to one or more of the following issues: unallowable or inadequately documented personnel and non-personnel expenditures; violations of the supplement not supplant rule; and inventory control systems; and

- 14 included unallowable costs related to LEAs: not meeting program requirements; inability to demonstrate that program requirements were fulfilled; ineligibility for the programs; or inadequately documenting program eligibility.

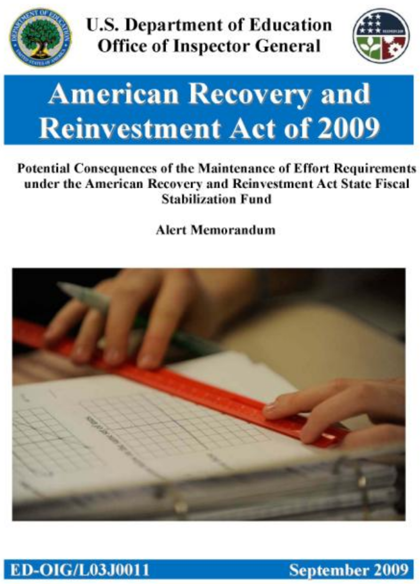
The 41 reports included approximately $182 million in questioned costs and an additional $1.4 billion in funds determined to be at risk because of internal control weaknesses at the SEAs and LEAs reviewed.

Our report also provided the Department with summaries of 13 OIG investigations that resulted in criminal convictions of LEA officials. We sorted those cases into categories of fraud schemes: (1) embezzlement involving kickbacks from consultants, contractors, and employees; (2) embezzlement involving fictitious vendors; (3) embezzlement involving false expenditure reports and checks; (4) embezzlement involving use of dormant or unknown bank accounts; and (5) embezzlement involving misuse of procurement cards.

We concluded that more effective internal control systems at the SEAs and LEAs reviewed could have mitigated the risk of the pervasive issues and fraud schemes occurring. To address this, we suggested that the Department enhance its guidance to SEAs and LEAs on how to implement the administrative requirements for Federal grants and ensure that SEA and LEA officials understand the importance of complying with the requirements. It should also make SEAs and LEAs aware of the necessity to have and implement policies and procedures that require proper segregation of duties for procuring goods and services and reconciling bank statements, bidding procedures, and review of invoices and supporting documentation. We also suggested that the Department offer additional training to SEAs and LEAs, stressing existing requirements and providing technical support for ensuring allowable and adequately documented personnel and non-personnel costs; proper inventory control systems; and the supplementing, not supplanting, of Federal grant funds. In response to our report, the Department stated that it is developing a technical assistance plan and training curricula to provide enhanced guidance and training to SEAs and LEAs. Click here for a copy of the report.

Potential Consequences of Recovery Act Requirement

The State Fiscal Stabilization Fund (SFSF) established by Title XIV of the Recovery Act provides $53.6 billion to the States for education and other government services for FY 2009 through FY 2011. To receive these funds, States must submit an application that includes a number of assurances, including that the State will maintain its support (known as "Maintenance of Effort" or MOE) for elementary and secondary education, and for public institutions of higher education (IHEs), at least at its FY 2006 level of support.


U.S. Department of Education
Office of Inspector General

American Recovery and Reinvestment Act of 2009

Potential Consequences of the Maintenance of Effort Requirements under the American Recovery and Reinvestment Act State Fiscal Stabilization Fund

Alert Memorandum

ED-OIG/L03J0011 September 2009

Based on our preliminary Recovery Act work and complaints we received, we found some States' budget proposals, in response to this flexibility, would reduce State support for public education to the FY 2006 levels, and replace the State funds with their SFSF allocation to free up State resources for non-education budget items. Depending on the level of State resources, this could reduce the percentage of State revenue spent on public education. Although this reduction is allowable under the law, it may adversely affect the achievement of the goals of the SFSF program.

In July, the Department posted proposed requirements, definitions, and approval criteria applicable for the FY 2010 distribution of SFSF program funds in the *Federal Register* in an effort to secure further assurance that States use SFSF program funds for education purposes. Under the proposed requirements, to receive FY 2010 SFSF program funds, a State must pledge to use the funds to: (1) increase teacher effectiveness and address inequities in the equitable distribution of highly qualified teachers; (2) implement statewide data systems that track pre-K-through-career progress and foster continuous improvement; (3) make progress towards rigorous standards and high-quality assessments; and (4) provide intensive support and effective interventions to struggling schools. None of these proposed indicators or descriptors, however, will ensure that States are complying with their MOE assurances in their first application or address how levels of State funding are affecting States' progress toward the education reform objectives.

As our result of our work and research, we recommended that the Department implement a process to track State support for elementary and secondary education and IHEs to determine the extent to which State funding for public education is being reduced. We also recommended that the Department establish and implement a process to ensure that States have met the MOE requirements and assurances prior to awarding additional SFSF funding. In its response to our report, the Department stated that our recommendations were reasonable and that it would further assist in addressing the concerns expressed in the memorandum. Click here for a copy of the report.

ELEMENTARY, SECONDARY, AND POSTSECONDARY EDUCATION PROGRAMS

The significant work we have conducted over the years has shown accountability to be a concern with grantees and subrecipients in elementary, secondary, and postsecondary education programs. Previous OIG work has identified issues of noncompliance with

data collection and reporting by SEAs, LEAs, and other grantees, making it a significant challenge for the Department and the entities involved in its elementary, secondary, and postsecondary programs to ensure that data received from those entities are accurate, reliable, and complete. Our reviews conducted over the last 6 months indicated that accountability is still an issue for a number of Department offices, SEAs, and LEAs. Summaries of our findings are provided below, along with information on our most significant investigations involving elementary and secondary education program funds.

Elementary and Secondary Education

SEA Subrecipient Monitoring

An SEA is responsible for the distribution of Federal education funds to subrecipients, including LEAs. The SEA is required to monitor activities to provide reasonable assurance of each subrecipient's compliance with Federal requirements and the achievement of performance goals. To do so adequately, SEAs must have procedures in place for: (1) reviewing and approving subrecipient applications and amendments; (2) providing technical assistance to subrecipients; (3) evaluating the performance of projects; (4) ensuring resolution of Single Audits; and (5) performing other administrative responsibilities that the State has determined are necessary to ensure a subrecipient's compliance with statutes and regulations. Because of the increased demands of this requirement on SEAs as a result of the Recovery Act, subrecipient monitoring is a critical component of OIG's Recovery Act audit plan and an issue we will examine closely over the next several years.

Illinois Department of Education

Our audit of the Illinois State Board of Education (ISBE) determined that, as of June 30, 2008, ISBE had an adequate system of internal control over the first four subrecipient monitoring procedures defined above, but determined that ISBE could strengthen its system of internal control over ensuring subrecipient compliance with selected aspects of the ESEA Title I, Part A, and the IDEA Part

B. Specifically, we found that ISBE did not cite Chicago Public Schools (CPS) for not complying with ESEA Title I, Part A comparability requirements[1] in FY 2008 and did not determine the amount of ESEA funding that should have been withheld or repaid as a result of CPS not meeting those requirements, which we estimated to be more than $660,000. We also found that ISBE did not have an effective process in place to provide reasonable assurance that an individual school's comprehensive plan for its schoolwide program[2] contained the required components, and did not have an effective monitoring process in place to review IDEA Part B, local-level MOE calculations.[3]

We made a number of recommendations, including that the Department require the ISBE to return more than $660,000. ISBE concurred with some but not all of our findings and recommendations. Click here for a copy of the report.

Scoring of State Assessments

The ESEA requires each State to use a set of annual student academic assessments to determine whether the performance of the SEA, LEAs, and schools meets the State's academic achievement standards. States must also use these assessments to determine whether individual students are meeting minimum State proficiency standards in mathematics, reading or language arts, and science. The ESEA requires the assessments to be used for valid and reliable purposes consistent with relevant, nationally recognized professional and technical standards. Congress reemphasized the importance of using academic assessments to measure student achievement in the Recovery Act by specifically targeting funds toward enhancing the quality of assessments that States administer under the ESEA.

During this reporting period, we concluded a series of audits that sought to determine whether controls over scoring of assessments at SEAs were adequate to provide

[1] To be eligible to receive Title I funds, an LEA must use State and local funds to provide services in Title I schools that, taken as a whole, are at least comparable to services provided in non-Title I schools.
[2]ESEA allows schools in an area with a poverty level of 40 percent or more, or in which at least 40 percent of enrolled students are from low-income families, to operate schoolwide programs. Schools operating schoolwide programs may use Title I funds to upgrade the entire educational program in a school in order to improve the academic achievement of all students, particularly the lowest-achieving students.
[3] IDEA requires States to expend local and State funds for special education in a year at the same or higher level as in the previous year. This provision ensures that the funds are used to supplement, not supplant, local, State, and other Federal funds. This is commonly referred to as "maintenance of effort."

reasonable assurance that assessment results are reliable. Our review covered assessments administered by three SEAs—Florida, Tennessee, and Wyoming—in school year 2007-2008. Those assessments were used for evaluating individual student achievement and making adequate yearly progress (AYP) determinations, as required by the ESEA. Below you will find summaries of these audits that found that while controls over scoring were adequate, there were concerns identified at each SEA that must be addressed in order to ensure that test scores are reliable.

Florida Department of Education

Although we found that the Florida Department of Education (FLDOE) had internal controls over scoring of its comprehensive assessment test to provide reasonable assurance that assessment results were reliable, we identified several discrepancies involving its assessment contractor that should be addressed.

First, we identified examples of incorrect or insufficient scanning by the contractor's system relating to gridded responses, which could affect a student's overall score. Second, we found that FLDOE did not sufficiently monitor the contractor, as it was not aware that the contractor had inadequate safeguards for discarding students' personally identifiable information (PII), it did not comply with contract terms, and it did not have adequate document control procedures.

We found an instance where the contractor did not responsibly discard documents containing student PII. Also, and although required, the contractor did not notify FLDOE of changes to subcontractors and did not sufficiently monitor its subcontractors to ensure that they hired qualified employees. We identified 14 subcontractor employees who were not qualified to perform the assessments and thus should not have been allowed to score the tests. Finally, our audit was delayed because the contractor limited our access to documentation required for our audit, which could have been avoided had FLDOE had effective document control procedures included in its agreement with the contractor.

We recommended that the Department require FLDOE to implement procedures to ensure that students' gridded responses are accurately scanned, ensure that all contractors are aware of the proper handling of PII, monitor contractors to ensure compliance with contract provisions, and include penalties for noncompliance with a Federal audit. FLDOE did not agree with all of our findings and recommendations. [Click here] for a copy of the report.

Tennessee Department of Education

Although the audit found that the Tennessee Department of Education's (TDOE) controls over scoring of State assessments were adequate to provide reasonable assurance that assessment results were reliable, we did identify three areas of concern.

First, TDOE did not provide sufficient oversight for one of its three assessments to ensure that monitors were qualified and that their qualifications were properly documented. Second, TDOE did not have adequate written internal control procedures for its assessment scoring process, and its contracts with assessment vendors lacked clauses providing for Federal audits and requiring adherence to specified industry standards. Finally, we found that PII on student answer sheets was sent to a TDOE assessment contractor for processing, but there was no indication this complied with requirements of the *Family Educational Rights and Privacy Act of 1974*[4] (FERPA). Further, the contractor used an inmate program at a maximum security prison to review those assessments.

We recommended that the Department require TDOE to create and distribute written internal control procedures for assessment scoring and reporting, and that it take appropriate steps to properly protect student PII in the assessment process and ensure that the disclosure of student PII to assessment contractors is in compliance with the FERPA. TDOE generally concurred with our findings and did not specifically concur or disagree with our recommendations. Click here for a copy of the report.

Wyoming Department of Education

The audit found that the Wyoming Department of Education's (WDE) controls over scoring of State assessments were adequate to provide reasonable assurance that its assessment results were reliable; however, we identified controls over assessment scoring that could be enhanced. We determined that in each of the 3 years that its assessment had been administered, WDE identified errors in the contractor-provided assessment results. In all cases, WDE required the contractor to determine and correct the cause of the errors and produce corrected results. To improve this process, we recommended that WDE document its existing procedures for monitoring contractor performance and reviewing contractor-provided assessment results to enhance its control over operations. We also suggested that WDE allow additional time for its accountability staff to review contractor-provided assessment results and involve school personnel in the review

[4] FERPA is a Federal law designed to protect the privacy of a student's education records and applies to all schools that receive Federal education funds.

process, which would decrease the risk that WDE will publish incorrect results and then have to restate student assessment results and AYP determinations, or both. WDE concurred with our findings and described actions that it has taken or will take to implement our recommendations. Click here for a copy of the report.

Other Grantees and Subrecipients

State Educational Agencies

Puerto Rico Department of Education

The Supplemental Educational Services (SES) provision of the ESEA requires LEAs to offer SES to students from low-income families when the students attend an ESEA Title I school that is in the second year of school improvement or is identified for corrective action or restructuring. During 2006-2007, the Puerto Rico Department of Education (PRDE) identified a total of 578 schools that fell within those criteria. This audit found that contracts PRDE awarded SES providers generally contained the elements required by law and regulations, but did not include requirements related to individual student agreements, and lacked control mechanisms to ensure that the contractors provided the contracted services. As a result, PRDE paid for a number of unsupported costs, more than $6,000 for services provided to non-eligible students, and for services that were not rendered. Also, PRDE did not withhold more than $44,100 in fees due from the SES providers for the use of its facilities to provide the contracted services. In addition, although PRDE properly approved SES providers, it did not ensure that parents of eligible school children selected the SES provider of their choice, as required by the ESEA.

We recommended that the Department require PRDE to provide supporting documentation for the unsupported charges or return that funding to the Department, and recover the amount of funding providers owed for using PRDE facilities, and establish adequate controls to ensure that checks are issued for the correct amount. PRDE did not concur with all of our findings. Click here for a copy of the report.

Virgin Islands Department of Education

As a result of the Virgin Islands Department of Education's (VIDE) designation as a high-risk grantee due to its history of unsatisfactory performance, it entered into a compliance agreement with the Department that contained, among other provisions, a requirement that VIDE implement an inventory system that complied with Federal regulations. VIDE did not comply with the terms of the compliance agreement, and as a result, the Department required the VIDE to hire a third-party fiduciary to manage all grant funds. In 2006, VIDE signed a 32-

month, $7.8 million contract with Alvarez & Marsal Public Sector Services (A&M) to provide the required third-party fiduciary services.

Despite this large contract, our audit found that VIDE did not have adequate policies and procedures or an effective property management system in place to properly account for property purchased with Department funds. As a result, it did not properly account for property with a total value of more than $298,600. In addition, A&M did not manage the property in accordance with contract requirements, and VIDE did not provide proper oversight of A&M's contract to ensure that it complied with all the contract deliverables.

We recommended that the Department require VIDE to account for all of the missing property or return the value of the property to the Department. VIDE concurred with some of our findings. Click here for a copy of the report.

Local Educational Agencies

Dallas Independent School District

Our audit found that as of June 30, 2006, the District's system of internal control over the expenditure of ESEA Title I, Part A funds was inadequate to provide reasonable assurance that those funds were used only for allowable purposes. As a result, the District charged more than $1.6 million in costs to a Title I grant without required approval, for unreasonable and unnecessary costs, and for purchases of other unallowable items, and expended more than $1.8 million in undocumented or insufficiently documented costs. Further, we found that District management was either slow in taking or took no corrective action in response to internal control weaknesses cited in prior audits, reviews, and investigative reports made between August 2003 and November 2006.

We recommended that the Department require the Texas Educational Agency (TEA) to require the District to return more than $1.6 million to the Department, and to provide adequate documentation supporting the allowability of more than $1.8 million or return those funds to the Department. TEA acknowledged the serious weaknesses in the District's grant management and concurred in part with our finding and recommendations. Click here for a copy of the report.

Houston Independent School District

Our audit of the Houston Independent School District found that while the District generally had an adequate system of fiscal controls, it did not always use Federal funds in accordance with all applicable Federal and State requirements. We reviewed more than $21.7 million of the District's Federal expenditures and determined that more than $145,400 was expended either in violation of Federal, State, or District guidelines or lacked documentation adequate to substantiate the expenditures. We also found that the District charged purchase card costs to Federal programs for items that were either unallowable or not adequately documented. We judgmentally selected a number of purchase card charges and found that 32 percent of the charges were in violation of Federal or State guidelines or had inadequate or no documentation to substantiate the charge.

We recommended that the Department require TEA to require the District to refund more than $64,800 of Federal funds expended for unallowable costs and refund more than $87,400 in inadequately documented costs or provide adequate documentation to support that amount. TEA partially concurred with our findings. Click here for a copy of the report.

Postsecondary Education

Office of Postsecondary Education

Oversight of Talent Search and Educational Opportunity Centers Grantees

Our inspection determined that the Office of Postsecondary Education (OPE) did not take appropriate action to address Talent Search and Educational Opportunity

Centers (EOC) grantees that did not serve the number of participants they were funded to serve in FYs 2003-2007. The Talent Search and EOC programs are two of eight programs administered by OPE's Higher Education Preparation and Support Service (know as TRIO). The Talent Search program provides academic, career, and financial counseling to participants from disadvantaged backgrounds and encourages them to graduate from high school and continue on to a postsecondary institution. The EOC program provides counseling and information on college admissions to qualified adults who want to enter or continue a program of postsecondary education. Regulations currently specify that Talent Search grantees serve a minimum of 600 participants in each year and EOC grantees serve 1,000 participants in each year.

Our inspection found that a large number of Talent Search and EOC grantees failed to meet their funded-to-serve number in at least one year during the grant cycles we reviewed. TRIO management was unable to take appropriate action to address these grantees because it did not have a well-defined, transparent process for reviewing grantee performance; did not appropriately oversee program specialists' work; and did not implement a process that appropriately held grantees accountable for not serving the number of participants they were funded to serve.

We recommended that the Department hold all grantees accountable for not serving the number of participants they were funded to serve. In its response to our draft report, OPE did not concur with our recommendation because it interpreted it as a requirement to assess a financial penalty whenever a grantee did not serve the number of participants it was funded to serve. OPE further stated its general practice has been to not impose financial penalties on grantees that do not meet their funded-to-serve numbers, and it did not provide any indication that it would change this practice. We do not view reducing, discontinuing, or recovering funds from grantees that did not meet fundamental performance requirements as a penalty. Click here for a copy of the report.

Postsecondary Grantees

Illinois: Southern Illinois University-Edwardsville

Our audit determined Southern Illinois University-Edwardsville (SIUE) did not comply with provisions of the HEA and regulations governing the use of TRIO program funds and participant eligibility in three of its TRIO programs—Upward Bound (UB), Upward Bound Math-Science (UBMS), and Talent Search. SIUE was awarded more than $2.9 million for these three programs for the time period we examined. The goal of UB and Talent Search is to increase the rate at which participants complete secondary education and enroll in institutions of postsecondary education. The goal of UBMS is to help students recognize and develop their potential to excel in math and science and to encourage them to pursue postsecondary degrees in math and science. We found SIUE did not serve the required minimum number of Talent Search participants; failed to provide adequate documentation for TRIO personnel costs; used UB, UBMS, and Talent Search funds for unallowable and inadequately documented non-personnel costs; and failed to maintain adequate TRIO participant records. As a result, SIUE received more than $720,500 in Talent Search funds that it was not entitled to receive and could not show how more than $287,100 in UB, UBMS, and Talent Search personnel costs were allowable. It also did not have more than $11,900 in UB and UBMS funds available to spend on allowable activities, could not show how $11,000 in UB and UBMS non-personnel costs were allowable, and used more than $22,800 in Talent Search and UB funds to serve participants whose eligibility had not been determined and documented.

We recommended that the Department require SIUE to return more than $720,500 in Talent Search funds that it received but was not entitled to and provide adequate documentation or return more than $287,100 in inadequately documented costs. SIUE did not concur with all of our findings. Click here for a copy of the report.

Washington, D.C.: Gallaudet University

This audit found that while Gallaudet University (GU) generally had adequate internal controls in place and expenditures charged to Federal education funds were reasonable, allocable, and allowable for the time period examined, it had inadequately supported payroll costs for salaries paid by Federal grant funds. GU is a federally chartered, private, nonprofit educational institution that provides elementary, secondary, undergraduate, graduate and continuing education programs for persons who are deaf. GU receives approximately 67 percent of its operating revenues by direct appropriation from the Federal Government under the authority of the *Education of the Deaf Act.*

We found that GU did not have adequate activity reports or a process in place to verify the distribution of activity charges for services performed by its employees on grant-related activities. As a result, GU charged more than $1 million in inadequately supported salary and fringe benefits costs to grant funds. In addition, we found that GU's procurement policy and its Purchasing Card Program Guide were outdated and not in line with Federal regulations for record retention. We also found that GU did not maintain separate records for the receipt and expenditure of federally appropriated funds, and pooled appropriated funds with other revenue. Thus, GU could not provide the universe of transactions expended from its appropriated Federal funds. We recommended that GU provide supporting documentation or return more than $1 million in unsupported salary and fringe benefit costs to the Department. GU did not concur with all of our findings, but did take or stated it planned to take corrective action to address the weaknesses identified. Click here for a copy of the report.

Contracts

Educational Testing Service National Assessment of Education Progress Contract

During this reporting period, we concluded an audit to determine whether the direct labor costs (excluding employee benefits) and other direct costs incurred under a specific Educational Testing Service (ETS) National Assessment of Educational Progress

(NAEP)[5] contract were reasonable, allowable, and allocable in accordance with the terms and conditions of the contract and applicable acquisition regulations. The National Center for Education Statistics (NCES) within the Department contracted with ETS and other organizations to perform six core components of NAEP's operations. In 2002, ETS was awarded a $90 million contract to carry out two of those components.

Our audit sampled more than $1 million from a total of more than $7 million in direct costs and labor costs and found that ETS charged more than $57,700 of unallowable costs and more than $46,700 of unsupported costs to the contract, and that ETS did not always properly report incurred costs in appropriate cost categories on its invoices. We also determined that ETS improperly billed the Department more than $2.7 million in unallowable post-retirement medical benefits expenses and imputed interest, which ETS returned to the Department shortly after we issued our draft audit report. We recommended that the Department require ETS to provide documentation to support the unallowable and unsupported costs, or return that amount to the Department. ETS partially agreed with our findings and recommendations. Click here for a copy of the report.

Investigations

Our investigations into suspected fraudulent activity by or within SEAs, LEAs, and their contractors have led to the arrest and conviction of a number of individuals for theft or misuse of Federal education funds. Below are a number of examples of our more significant investigations in this area over the last 6 months.

Settlement

Maine – $1.5 million settlement reached with Maine Department of Education: The U.S. Department of Justice reached a $1.5 million civil fraud agreement with the Maine Department of Education (MDE) to settle allegations that it submitted false information to the Department regarding its eligibility to receive Federal funds under the Migrant Education Program. The settlement is a result of our investigation which revealed that the MDE, the Portland Public Schools, Maine Administrative School District #14, and the Maine Family Resource Center, Inc., a non-profit corporation responsible for identifying and servicing migrant children residing in the State, falsely represented to the Department the number of children who were eligible to participate in the Migrant

[5] The NAEP, often referred to as "The Nation's Report Card," was authorized under *The National Assessment of Educational Progress Improvement Act* to provide a fair and accurate measurement of educational achievement in reading, mathematics, and other areas.

Education Program for FYs 2002 through FY 2004 by approximately 75 percent. As a result of the false counts, the State received Migrant Education Program funds to which it was not entitled.

School Officials

Pennsylvania – Philadelphia Academy Charter School Officials Pled Guilty to Fraud and Theft: The former chief executive officer (CEO) and the former board president of the Philadelphia Academy Charter School—both former Philadelphia police officers— pled guilty in U.S. District Court, Eastern District of Pennsylvania, to multiple counts of fraud and theft. Our investigation with the Federal Bureau of Investigation (FBI) and the Internal Revenue Service Criminal Investigation Division (IRS-CID) uncovered extensive fraudulent activity perpetrated by the two former officials and another co-conspirator who died prior to being charged. The conspirators misappropriated upwards of $1 million in school funds by soliciting bribes and kickbacks from school vendors and submitting false invoices for reimbursement for personal items such as meals, entertainment, home improvement, and personal bills. The former CEO also used school funds to purchase a building in the name of his purported non-profit business with the aim of flipping the building to another charter school for a $1 million profit and collecting rent from entities using the schools' facilities. The CEO also used school funds to hire a computer firm to destroy evidence related to the crimes and to obstruct the investigation. In his plea agreement, the CEO agreed to forfeit $500,000 in personal assets.

Pennsylvania – Raising Horizons Quest Charter School Officials Sentenced: The former CEO and the former chief financial officer (CFO) of the Raising Horizons Quest Charter School were sentenced in U.S. District Court, Eastern District of Pennsylvania, for conspiracy and alteration of records in a Federal investigation. The former officials were each sentenced to 5 years of probation and were order to pay approximately $24,000 in restitution. Our investigation revealed that the two officials used school credit cards for personal expenses and, in an attempt to conceal their crime, altered credit card statements by removing or changing those personal expenses and inserting charges purported to be for school-related costs prior to and in preparation for a Philadelphia School District audit.

Contractors and Grantees

California – Grant Writer Indicted in $35 Million Fraud Case: The owner of Cross Resources, Inc., a grant writing company that assisted businesses in securing Federal and State grants, was indicted by a Federal Grand Jury in U.S. District Court, Central District of California, on charges of fraud. Our investigation with the FBI, the Riverside District Attorney's Office, and the Paso

Robles Police Department alleges that the owner was contracted by the Indio Youth Task Force (IYTF), a non-profit community based organization, for grant writing services. Per the contract she entered into with the executive director of IYTF, the grant writer would prepare and submit grant applications on behalf of YTF, and, upon the grant award, would receive 15 percent of the total amount received. The grant writer allegedly forged numerous signatures on the applications and altered documents to support the grant requests. As a result of these fraudulent actions, the IYTF would have received more than $35 million in 21st Century Community Learning Center funds, of which the owner would have received more than $7 million.

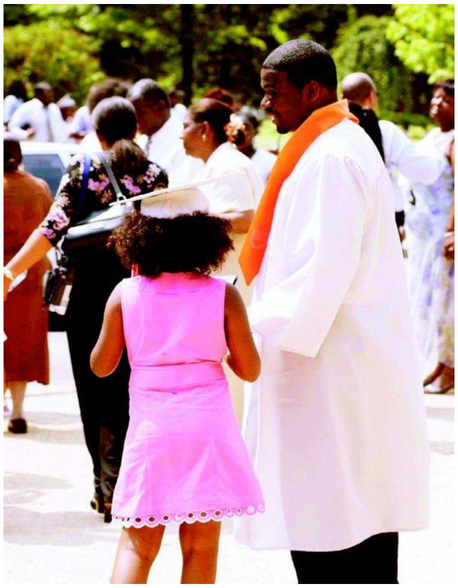
Louisiana – Federal Jury Convicts Former Congressman's Brother on Charges of Bribery and Obstruction of Justice: The brother of a former Louisiana Congressman was convicted by a Federal jury in U.S. District Court, Eastern District of Louisiana, on charges of bribery and obstruction of justice. Our investigation with the FBI and the IRS found that while employed by JRL Enterprises, Inc. (JRL), the man paid bribes to a former board member of the Orleans Parish School Board to promote and approve $14 million in contracts for JRL. The man received more than $900,000 as a sales commission from JRL, and paid the former board member $100,000 for her role in the contract approval process.

Texas – Grantee Sentenced for Stealing Rehabilitation Funds: The owner and executive director of Rehab Specialists, Inc., a community rehabilitation program provider, was sentenced in U.S. District Court, Southern District of Texas, to 33 months in prison, 3 years of supervised release, and was ordered to pay more than $335,900 in restitution for fraud. The investigation revealed that the owner fraudulently obtained Federal vocational rehabilitation funds through the Texas Rehabilitation Commission by claiming he was providing training and cleaning services that in fact were never provided.

Fraud Ring

Puerto Rico – Six Individuals Pled Guilty in ID Theft and Fraud Involving School Children: Our last Semiannual Report to Congress summarized the indictment of a number of individuals who were allegedly involved in an ID theft ring in Puerto Rico. During this reporting period, six of the individuals pled guilty for their roles in the scheme. The multi-agency State and Federal task force found that the individuals burglarized approximately 50 schools in Puerto Rico, stealing identity-related documents of school children. The individuals had been involved in the unlawful transfer and possession of social security cards, birth certificates, passports, as well as fake Puerto Rico drivers' licenses. The conspirators looked to sell the information stolen from the Puerto Rico schools to buyers, including individuals in Alaska, California, and Texas.

FEDERAL STUDENT FINANCIAL ASSISTANCE OPERATIONS AND PROGRAMS



The Federal student financial assistance programs have long been a major focus of our audit, inspection, and investigative work, as they have been considered the most susceptible to fraud. The programs are large, complex, and inherently risky due to their design, reliance on numerous entities, and the nature of the borrower population. With more than 6,000 postsecondary institutions, more than 2,900 lenders, 35 guaranty agencies, $113.6 billion in awards, and an outstanding loan portfolio of more than $600 billion in FY 2009, accountability in these programs is critical. The Department and FSA must ensure that their staff and all program participants are held accountable for their compliance with statutory and regulatory requirements, and they must provide program oversight and monitoring to reduce waste, fraud, and abuse in these programs. As you will read in this section of this Semiannual Report to Congress, work concluded over the last 6 months showed areas in which FSA needs to make improvements in its management, oversight, and accountability in order to be more effective stewards of the billions of dollars that support these programs. Below you will find summaries of our work in this area, as well as summaries of our higher-profile investigative cases involving student financial assistance fraud by school officials, contractors, and individuals.

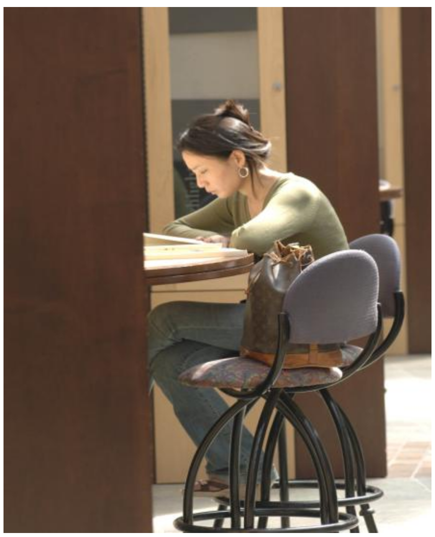
FSA Operations

ECASLA Efforts

With the significant disruptions in the credit markets, in early 2008, lenders in the Federal Family Education Loan (FFEL) Program expressed concerns that there would be insufficient private capital to fund FFEL loans to meet the demands of Stafford and PLUS loan borrowers. To address these concerns, Congress passed the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), which provided the Department with the authority to purchase, or enter into forward commitments to purchase, student loans from lenders to ensure that loans are available for all students. During this reporting period, OIG continued to work with the Department and FSA on ECASLA-related issues, providing audit guidance, assistance, and advice to help ensure compliance with rules and provisions for the loan purchase programs authorized under ECASLA. To provide accountability for the Asset-Backed Commercial Paper Conduit Put Program established under ECASLA, we issued an attestation engagement guide for the review of loans that lenders intend to pledge to the Conduit. Attestation engagements are conducted by independent public accountants and lead to conclusions about the reliability of assertions made by FFEL Program lenders that loans they intend to pledge to the Conduit meet selected requirements of the Asset-Backed Commercial Paper Conduit Put Program. Click here for additional information and copies on the attestation engagement guides.

FSA's Enterprise Risk Management

In 2006, FSA established the Enterprise Risk Management Group (ERMG), a work unit focused on providing FSA senior management with information and guidance so it could better anticipate, analyze, and manage risks inherent in the Federal student financial assistance programs. FSA's program was based on the Enterprise Risk Management Integrated Framework, which consists of eight interrelated components: (1) internal environment; (2) objective setting; (3) event identification; (4) risk assessment; (5) risk response; (6) control activities; (7) information and communication; and (8) monitoring. In May, we evaluated FSA's implementation of enterprise risk management and found that the ERMG had not fully addressed any of the eight components. While it had developed plans and begun business unit activities related to three components (objective setting, event identification, and risk assessment), the plans for fully addressing the remaining five components (internal environment, risk response, control activities, information and communication, and monitoring) have received limited attention. As a result, FSA has not implemented enterprise risk management.



Specifically, the evaluation found that the ERMG had completed only risk identification, aggregate risk assessment, and inventory activities for 3 of FSA's 26 business units. None of FSA's business units directly responsible for administering the Federal student aid programs had been examined or were included in ERMG's business unit activities. Further, the ERMG's work had not adequately addressed the first component—internal environment, which serves as the basis for enterprise risk management: it had not ensured that FSA had a defined risk management philosophy or risk appetite; and had not given attention to existing internal operations, including results of FSA-wide surveys that indicated there were perceptions on the part of FSA staff concerning a lack of integrity, ethical values, and commitment to competence from FSA leadership. Recent OIG audits found similar issues with FSA's internal environment, which, if not addressed, can have a far-reaching negative impact on FSA's overall operations, not just its efforts to address risk. FSA did not take issue with most of the information presented in the report. Click here for a copy of the report.

Oversight and Monitoring of Guaranty Agencies, Lenders, and Servicers

Our audit determined that controls implemented by FSA to ensure that guaranty agencies, lenders, and servicers were performing in accordance with relevant laws, regulations, and guidance needed improvement. First, we found that FSA had not dedicated sufficient resources to effectively monitor FFEL program participants, and program reviews were not properly supervised or performed consistently. As a result, FSA's program reviews cannot be relied upon to assess FFEL program participants' compliance with the HEA, related regulations, and Department guidance. Second, we found that FSA did not properly assess, quantify, or document financial and compliance impacts of identified risks; there was limited to no documentation to support selection of FFEL participants for program reviews; and there was no evidence that consideration was given to available staffing resources. The failure to properly assess risk raises issues regarding transparency and whether FSA was using its program review resources effectively. Third, we found that FSA's process for monitoring lenders' compliance with the requirement that certain lenders submit independent annual compliance audit reports was not effective. FSA's calculation of minimum reserve ratios was not calculated in accordance with the HEA, which requires certain guaranty agencies to maintain minimum Federal fund reserve ratio of 0.25 percent, and the FSA-approved Common Review initiative may not satisfy all guaranty agency obligations to conduct lender reviews. As a result, FSA may not have assurance that FFEL program participants were financially sound and were appropriately managing the FFEL program. Fourth, FSA had not established a formalized process for obtaining and tracking policy decisions related to the proper application of the HEA and FFEL regulations, or to resolve issues consistent with Department policy or prior determinations. Nor were there appropriate processes in place to share and disseminate policy decisions. As a result, FSA runs the risk that program review findings and/or proposed corrective actions may not be consistent with the HEA and the Department's policies. Finally, we found that FSA did not take timely corrective action to address findings and recommendations noted in prior OIG audit reports, and the status of some corrective actions were not accurately reported in the Department's audit tracking system. Failure to take prompt and effective corrective action can exacerbate the problem or weakness identified.

For each of the weaknesses we identified, we provided recommendations that, if implemented, will improve the effectiveness of FSA's oversight and monitoring of guaranty agencies, lenders, and servicers. In response to our audit, FSA provided a draft corrective action plan that included proposed actions to address each of the recommendations in the report. Click here for a copy of the report.

Special Allowance Payments

During this reporting period, we concluded the final two audits in our series of work involving the 9.5 percent special allowance payments (SAP) made to lenders on certain loans in the FFEL program. In general, the amount of a SAP is the difference between the amount of interest the lender receives from the borrower or the government and the amount that is provided under requirements in the HEA. The HEA includes a SAP calculation for loans that are funded by tax-exempt obligations issued before October 1,

1993. The quarterly SAP payment for these loans may not be less than 9.5 percent, minus the interest the lender receives, divided by four. We refer to this calculation as the "9.5 percent floor." When interest rates are low, the 9.5 percent floor provides a significantly greater return than lenders receive for other loans. During this reporting period, we concluded two audits involving SAP payments made to the Kentucky Higher Education Student Loan Corporation, and Sallie Mae's subsidiary, Nellie Mae.

Kentucky Higher Education Student Loan Corporation

The Kentucky Higher Education Student Loan Corporation (KHESLC) is an independent municipal corporation that makes, finances, services, and collects educational loans. As of June 30, 2007, KHESLC owned $1.78 billion in FFEL loans.

Our audit found that KHESLC's billings did not comply with requirements for SAP at the 9.5 percent floor: the billings contained loans that were not funded by eligible tax-exempt obligations, which we estimated resulted in improper SAP of $9 million; loans were assigned to a retired bond or a bond with incorrect histories because of errors in the loan servicing system, which we estimated resulted in improper SAP of $18,400; and during the 1997 and 1998 calendar years, loans were made or acquired with the proceeds of a tax-exempt bond that was ineligible because it was not originally issued before October 1, 1993.

We also found that KHESLC billed at the 9.5 percent rate for loans that were ineligible because they were not first-generation or second-generation loans, which resulted in KHESLC receiving improper SAP of $79.5 million for third-generation or later loans. Under guidance issued to lenders by the Department, however, KHESLC is not required to reimburse the Department for this amount as long as it continues to comply with the terms of that guidance. Based on our findings, we recommended that FSA require KHESLC to calculate and return the actual amount of improper special allowance payments it received, which we estimate to be $9 million, and if KHESLC violates the terms of the guidance, that it calculate and return the actual amount of improper SAP it received, which we estimate to be $79.5 million. KHESLC did not concur with all of our findings. Click here for a copy of the report.

Sallie Mae Subsidiary, Nellie Mae

Sallie Mae, Inc. (SLMA) originates and holds student loans by providing funding, delivery, and servicing support for education loans. SLMA managed the largest portfolio of FFEL Program and private education loans in the student loan industry, serving nearly 10 million borrowers through ownership and management of $142.1 billion in student loans as of December 31, 2006, of which $119.5 billion or 84 percent were federally insured.

From 1999 through 2004, SLMA acquired several companies in the student loan industry that billed loans under the 9.5 percent floor. This included the Nellie Mae Corporation (NLMA), which it acquired in July 1999. Our audit sought to determine whether NLMA billed loans under the 9.5 percent floor in compliance with the *Taxpayer-Teacher Protection Act of 2004* and the *Higher Education Reconciliation Act of 2005*, and whether it billed loans under the 9.5 percent floor after the eligible tax-exempt bonds from which the loans derived their eligibility matured or were retired. Our audit period covered October 1, 2003, through September 30, 2006.

We found that while its billings for SAP under the 9.5 percent floor complied with the two laws, SLMA's billing for NLMA did not comply with other requirements for the 9.5 percent floor calculation. Specifically, SLMA continued to bill loans under the 9.5 percent floor after the eligible tax-exempt bonds had matured and been retired and after the loans were refinanced with funds derived from ineligible sources. We estimated that this noncompliance resulted in special allowance overpayments of about $22.3 million. SLMA officials asserted that the date the last bond associated with an indenture matured determined the eligibility for the 9.5 percent floor calculation of loans financed by, or made eligible through, the bonds associated with that indenture. SLMA justified its practice based in part upon its position that because all of the bonds associated with an indenture shared common characteristics, all of the bonds should be treated as a single obligation for purposes of applying the 9.5 percent floor calculation. We did not agree that SLMA's position was a reasonable interpretation of the HEA or regulations.

We made a number of recommendations, including that FSA require SLMA to adjust its special allowance billings for the quarters ended September 30, 2004, through June 30, 2005, and return all overpayments to the Department, which we estimated to be about $12.3 million. We also recommended that SLMA identify the loans associated with certain bonds that became ineligible for the 9.5 percent floor calculation and adjust its special allowance billings for the affected loans in the quarters June 30, 2002, through June 30, 2005, and return all overpayments to the Department, which we estimated to be about $10 million. SLMA disagreed with our findings and recommendations. Click here for a copy of the report.

Title IV Program Participants

Community Care College

Our audit determined that Community Care College, a proprietary school located in Oklahoma, did not comply with provisions of the HEA and regulations governing the return of HEA Title IV aid, disbursements, and the percentage of revenue that may be derived from Title IV programs, known as the 90/10 Rule.[1] Our audit covered the period of July 1, 2006, through June 30, 2007, during which the school awarded approximately $6 million in Federal student aid to 826 students.

Since 2002, oversight entities, including FSA, have identified instances of noncompliance by the school. Our audit found those weaknesses remained, as well as additional concerns regarding the school's application of the 90/10 Rule. The school incorrectly calculated the amounts it was required to return to Title IV program accounts, returning $37,200 less than it should have; improperly made late disbursements, resulting in its retaining more than $7,300 in prohibited loans disbursements; incorrectly prorated disbursements, resulting in excessive awards of more than $2,400; and inaccurately calculated the percentage of revenue it derived from the Title IV programs.

We recommended that FSA require the school to recalculate all return of Title IV aid calculations for students who withdrew from the school and return any program funds owed to the Department or lenders, as appropriate, including the more than $37,200 identified in our report. The school did not concur with all of our findings or recommendations. Click here for a copy of the report.

Dallas Nursing Institute

Our audit determined the Dallas Nursing Institute, a private, for-profit institution, complied with requirements regarding student eligibility but did not comply with requirements governing the 90/10 Rule, award calculations and disbursements, and the return of Title IV aid. Our audit covered the period of July 1, 2006, through June 30, 2007, during which time the school received more than $3.1 million in FFEL and Pell Grants on behalf of 426 students. We found that in calculating the 90/10 percentage, the school did not presume that Title IV program funds were used to pay students' tuition, fees, and other institutional charges, regardless of whether those funds were credited or paid directly to the students. For example, if a student paid his or her tuition in cash before loan funds were disbursed and the loan funds were subsequently disbursed directly

[1] In order to participate in Title IV programs, a proprietary institution must have no more than 90 percent of its revenues derived from Title IV program funds.

to the student, the school would not consider the tuition payment to have been made with Title IV funds. Under the HEA and regulations, the school would be required to presume that the tuition payment was made with Title IV funds. By not including this presumption, the school reported a lower percentage of revenue then it actually derived from the Title IV programs. We also found that the school used inaccurate cost of attendance amounts; did not notify students when FFEL funds were credited to their accounts; improperly disbursed FFEL and Pell Grant funds; and incorrectly calculated the amount to return to Title IV programs.

We recommended that FSA require the school to recalculate the 90/10 Rule percentage for the years reviewed in our audit, report the percentages to FSA, and provide FSA with the revised calculations and all the details supporting the revised calculations. We also recommended that FSA require the school to develop and implement written policies and procedures for calculating the 90/10 Rule percentage to ensure that Title IV program funds are presumed to first pay for tuition, fees, and other institutional charges. The school did not disagree with our findings and proposed corrective actions to prevent future occurrences. Click here for a copy of the report.

TUI University

Our audit determined that TUI University, a distance education proprietary school based in California, did not have adequate policies and procedures to ensure that Title IV programs were properly administered in accordance with applicable requirements of the HEA, Federal regulations, and Department guidance. Our review covered the period of October 16, 2007, through June 20, 2008, during which time the school disbursed about $8.6 million in Title IV funds to a total of 963 students.

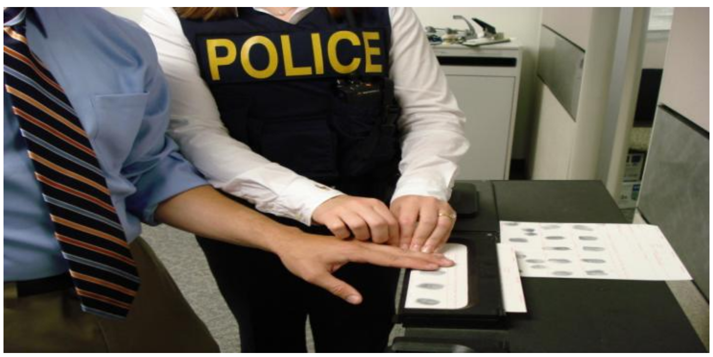
The audit found that the school did not have adequate policies and procedures for ensuring student eligibility for Title IV funds at the time of disbursement and for identifying students who had withdrawn from the institution. We estimated that more than $923,000 of the $8.6 million in Title IV disbursements made to students for the Fall 2007, Winter 2008, and Spring 2008 sessions was either disbursed to ineligible students or students who had withdrawn from the institution. Although we found that the school had policies and procedures for performing return of Title IV calculations, because of the low number of such calculations, we did not have sufficient evidence to conclude that the procedures were adequate to ensure that the calculations would be consistently performed in compliance with the requirements. We also identified deficiencies in school policies and procedures concerning academically related activity, length of an academic year, tuition discounts, loan periods, and training that led us to conclude that the school had not demonstrated the capability to adequately administer the Title IV programs. We recommended that FSA consider taking action, as appropriate, to fine, limit, suspend, or terminate the participation of TUI University in the Title IV programs. School officials disagreed with our findings and recommendations. Click here for a copy of the report.

Investigations

Identifying and investigating fraud and abuse in the student financial assistance programs have always been a top OIG priority. The following are summaries of some of our more significant investigations of student financial assistance fraud conducted over the last 6 months involving school officials, contractors, and other individuals.

Educational Loan Project

Project Yielding Results – During this reporting period, a West Virginia man was sentenced to 18 months in prison, 2 years of supervised released, and was ordered to pay more than $340,000 for using the identities of innocent third parties to fraudulently apply for and receive more Federal student aid. This is the latest in a successful and on-going law enforcement initiative known as the Educational Loan Project, an effort by our office and the Pennsylvania Higher Education Assistance Agency, that seeks to identify and investigate individuals who obtain Federal and private financial aid far in excess of their financial need. The Project has thus far yielded extraordinary results—more than a dozen individuals have been charged in Federal or State courts over the past year for their roles in educational frauds, which resulted in more than $1 million in losses.



School Officials

Arizona – Former Arizona State University Business Manager Arrested: The former senior business manager with the Arizona State University (ASU) Mary Lou Fulton College of Education was arrested by ASU police on charges of fraud and theft. Our investigation with the ASU Police Department alleges that the former manager improperly used ASU purchase cards tied to multiple grants on personal items totaling more than $29,000. The former manager, who was in charge of purchase cards for selected Federal and State grants, would receive a purchase card statement of all purchases made on those cards and was then required to review those listings to ensure purchases made were within the grant guidelines. The former official did not turn in most of her purchase card statements and receipts to a second tier reviewer, which enabled her to purchase the personal items.

Massachusetts – Former Tufts University Employees Sentenced in Separate Schemes: Two former Tufts University employees were sentenced in Middlesex County Court to 2 years and 2 days in State prison, 5 years of probation, and were ordered to pay nearly $1 million in restitution in two separate theft schemes. Our investigation with the Middlesex District Attorney's Office and the Tufts University Audit and Management Services office found that the two former employees stole funds from the school's student activities account and used the money on items such as luxury goods, vacations, and concerts.

New York – Second Touro College Official Sentenced in Transcript Scheme: The former admissions director of Touro College was sentenced in New York Supreme Court to serve up to 8 years in prison for his role in a college transcript tampering scheme at the school. Together with another Touro official, who was sentenced earlier this year, the former admissions director fraudulently changed student grades, provided transcripts to students who never attended the school, and forged a letter of recommendation for another individual in exchange for upwards of $10,000 in cash. To date, 20 individuals have been sentenced for their roles in this scheme. These actions are a result of our investigation with the New York City Police Department and the New York County District Attorney's Office.

Pennsylvania – Former Harrison Career Institute Officials Sentenced: The former president, the former director of internal audit, and the former director of financial aid at the Harrison Career Institute were sentenced in U.S. District Court, Eastern District of Pennsylvania, for financial aid fraud. The former officials received sentences ranging from 18 months in prison to 5 years of probation and were each ordered to pay more than $115,000 in restitution. The investigation found that from 2000 through 2003, the school's independent auditor found instances of noncompliance by the school, specifically findings of late refunds for award years 2000, 2001, and 2002. The Department advised school officials that repeat findings of noncompliance could lead to adverse administrative actions, including fines, or a limit, suspension, or termination of the school's eligibility to receive Federal student aid funds. Our investigation determined that from 2001 to 2005, the officials fabricated false Department records and tax documents and falsified student records without the students' knowledge and consent in order to make them appear eligible for Federal student aid and to make the student files appear to be in compliance with Federal regulations when they were not. This was done to prevent the school's independent auditor and the Department's Program Review staff from detecting widespread deficiencies in the school's student Federal financial aid processes.

Tennessee – Operator of EZP's College of Barbering Sentenced: The former operator of EZP's College of Barbering was sentenced in U.S. District Court, Eastern District of Tennessee, to 48 months in prison, 3 years of supervised release, and was ordered to pay more than $300,000 in restitution for fraud. Our investigation found that from 2006 through 2007, the man falsely obtained loans in the names of EZP students without their permission. He submitted false applications for student loans using the names of EZP students and used the social security numbers of students to obtain loans in their names. As a result of his fraudulent efforts, he received more than $300,000, which he used for his own benefit.

On-Line Fraud Rings

Arizona – 65 Individuals Indicted in Fraud Scheme at Rio Salado Community College: A Federal grand jury in U.S. District Court, District of Arizona, handed down a 130-count indictment against 65 individuals in connection with a $538,000 student financial aid fraud scheme. Our investigation with the U.S. Postal Inspection Service and the U.S. Marshals Service found that from 2006 through 2007, the alleged ringleader recruited individuals to act as "straw students" at Rio Salado Community College in order to apply for and receive Federal financial aid. The applicants were neither active students nor did they intend to become active students at the school. The ringleader engaged four individuals to help recruit people to participate in the scheme, working with them to fraudulently apply for admission to the school, then apply for student financial aid. When the participants received their student aid checks, they would then kick back a portion of those funds received to the ringleader and her conspirators in amounts ranging from $500 to $1,500. The ringleader assumed the identity of those individuals to access Rio Salado's on-line classes. This was done to generate records of the individuals' participation in on-line classes, which caused Rio Salado school officials to authorize financial aid payments to those individuals. As a result of these efforts, the individuals received more than $538,000 in Federal financial aid to which they were not entitled. As of September 30, 2009, 13 individuals have pled guilty for their roles in the scheme.

Press conference announcing the indictment of 65 individuals in connection with a fraud scheme at Rio Salado Community College.

Arizona – Individuals Sentenced in Fraud Scheme at Axia College: Seven individuals were charged, six of whom have been sentenced, and another pled guilty in Arizona Superior Court for their roles in a fraud scheme at Axia College, the on-line college of the University of Phoenix. The scheme's two ringleaders were former employees of ACS, a third party servicer to the school, who recruited individuals to enroll at Axia in order to fraudulently obtain student financial aid. The former employees assisted the individual in completing the enrollment forms and student aid applications, then enrolled the individuals in the classes and posted homework assignments for them in order for it to appear as though the individuals were attending the on-line courses. When the individuals received their student aid checks, they would kick back a portion to the two ringleaders. One of the ringleaders was sentenced to serve 8 months in prison, 3 years of probation, and was ordered to pay more than $51,000 in restitution. Another participant was sentenced to serve more than 2 years in prison, 2 years of probation, and pay more than $41,400 in restitution, while four others received probation, and were ordered to pay restitution ranging from approximately $4,900 to more than $9,600.

Michigan – Individuals Indicted for Fraud at Lansing Community College: Three individuals were indicted, two of whom have pled guilty in U.S. District Court, Western District of Michigan, for devising and participating in a scheme to fraudulently obtain student aid at Lansing Community College. Our investigation with the U.S. Postal Inspection Service uncovered the scheme in which the individuals fraudulently enrolled in on-line classes at the College in order to receive Federal student aid. The scheme's ringleader, who has been indicted, allegedly recruited the two others by telling them that they could receive financial aid checks from the school without attending classes. She allegedly led them through the enrollment and application processes, requesting $150 for each time she enrolled them in a class and completed the financial aid forms. The two used their own identities and also obtained the identifying information of others, at least one without authorization, to enroll in on-line classes to fraudulently receive student aid.

Texas – Man Pled Guilty for Orchestrating Fraud Schemes at Texas Community Colleges: A man pled guilty in U.S. District Court, Northern District of Texas, to charges of theft. Our investigation revealed that the man obtained personally identifying information of 31 individuals, many of whom were registered sex offenders, and used the information to enroll in on-line programs at various campuses of the Dallas County Community College and the Houston Community College. He also attended on-line classes on behalf of some of the individuals so he could receive additional student aid in their names for future semesters. The man also attempted to register additional students at the Dallas school under the guise of a large church group. In his plea agreement, he agreed to pay more than $185,000 in restitution.

Unauthorized Access to NSLDS

Florida – Employee of Now-Defunct Consolidation Company Pled Guilty: A former marketing director for now-defunct University Financial Lending Services pled guilty in U.S. District Court, Middle District of Florida, to charges of fraud in connection with computers and with violating provisions of the *Privacy Act of 1974.* We found that from 2006 to 2007, while serving as the company's Destination Point Administrator with access to FSA's National Student Loan

Database (NSLDS), the former employee caused the unauthorized access to NSLDS by assigning the user accounts of former employees to company managers whose accounts were previously revoked because of abuse of the NSLDS system.

Florida – Employee of Another Defunct Consolidation Company Pled Guilty: A former senior financial specialist with Student Funding Services, another now-defunct loan consolidation company, pled guilty in U.S. District Court, Middle District of Florida, to fraud in connection with computers and violations of the *Privacy Act*. We found that the former employee, who was allowed access to NSLDS only with the permission of and on behalf of a borrower to assist in determining the eligibility of an applicant for Federal student aid, abused this authority in order to conduct data mining for marketing purposes. Additionally, the former employee admitted to improperly using other employees' passwords to gain access to the system.

Other

New York – Longtime Fugitive Imprisoned: A fugitive, who had been on the run for 11 years, was ordered by a Federal judge in New York to be held without bail after being arrested in London by officials from the U.S. Marshals Service and the London Metropolitan Police Service for his role in an $11 million fraud scheme. The fugitive and six others were charged in 1997 for participating in a massive conspiracy to defraud the Department and other government agencies for the benefit of themselves and other residents of the Village of New Square, New York. The conspirators created entities to fraudulently receive Federal and state funds, including a fictitious postsecondary institution called the Toldos Yakof Yosef, for the purpose of collecting Federal Pell Grants. As a result of this scheme, the conspirators fraudulently received more than $11 million.

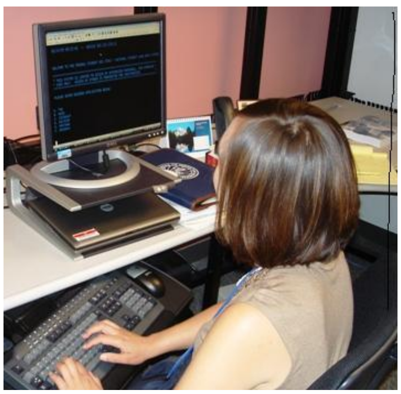
IT Security and Management and Other Internal Operations

The OIG's reviews of the Department's internal operations are designed to help improve the overall operation of our mission-focused agency. Our reviews seek to help the Department accomplish its objectives by ensuring the reliability, integrity, and security of its data; its compliance with applicable policies and regulations; that its investments are sound; and that it is effectively, efficiently, and fairly using the taxpayer dollars with which it has been entrusted. Given the billions of dollars that the Department distributes and expends each year, effective management and accountability are critical in order to minimize the Department's vulnerability to waste, fraud, and abuse. Work concluded during this reporting period showed that there are weaknesses in these areas, specifically in the Department's privacy controls over its external Web sites, and enforcement of its policies and procedures for handling lapsed funds by its grantees. Below you will find more information on our work in these areas, as well as summaries of two recent investigative cases involving a Department employee and an employee of a Department contractor.

IT Security and Management

Federal Information Security Management Act Reviews

The *E-Government Act of 2002* recognized the importance of information security to the economic and national security interests of the United States. Title III of the *E-Government Act*, entitled the *Federal Information Security Management Act of 2002* (FISMA), requires each Federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. It also requires inspectors general to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of the agency's compliance with FISMA.



In support of our FY 2009 FISMA requirement, OIG performed a series of reviews of the Department's information security and management practices, one of which was issued during this reporting period: an examination of the Department's incident handling and privacy controls over its external Web sites. Based on our findings, we presented the Department with a series of recommendations for improvements and corrective actions. The Department concurred with the majority of our recommendations. For security purposes and to maintain the integrity of the Department's critical data, we discuss below only the general aspects of our work.

Incident Handling and Privacy Controls over External Web Sites

Our review evaluated the Department's external Web sites, and assessed whether IT security controls were in place to protect Department resources in the areas of incident handling, security awareness and training, and compliance with provisions of the *Privacy Act*. Our review identified weaknesses in several areas, including the incident response and handling program, two-factor authentication implementation, and establishment and maintenance of public domain Web sites.

With regard to incident handling, we found that the Department did not provide sufficient security awareness to Department users, provided conflicting guidance regarding incident response reporting procedures, and did not properly oversee customer service staff. The Department has a responsibility to implement all precautions to protect PII data residing on the Department's network. Compromise of these data would cause substantial harm and embarrassment to the Department and could lead to identity theft or other fraudulent use of the information. In the area of two-factor authentication, we found that the Department did not implement any effective compensating controls commensurate with the risk and magnitude of harm resulting from a Department data compromise. As for its security over its public domain Web sites, we found that the Department did not properly track, update, and verify a directory of public Web sites; did not properly control internet protocol address assignment; did not properly issue and administer Web site certificates; did not properly monitor public domain Web sites; and did not use approved domain names. It is essential that the Department validate its public Web sites and adequately protect the confidentiality, integrity, and availability of PII residing on public Web sites. Click here for a copy of the report.

Other Reviews

Exhibit 300s

The Department, along with other Federal agencies, is required to submit an exhibit 300 Capital Asset Plan and Business Case (exhibit 300) to OMB each year for each major IT investment in order to justify the funding requests for the investments. Among other things, exhibit 300s contain cost, schedule, performance goals, and the controls that agencies have established to ensure good project management. During this reporting period, we conducted two audits to determine whether the information presented in the Department's exhibit 300s was based on reasonably accurate, reliable, and complete cost and benefit data, and whether the Department independently validated the information prior to its submission to OMB. We reviewed exhibit 300s that the Department submitted to OMB through September 2007, covering 10 IT investments from 6 different offices within the Department.

Although we found that all offices reviewed generally complied with validation requirements for exhibit 300 costs, we also found that the Department did not always report reliable and complete cost data. Specifically, four of the six offices reviewed did not report cumulative project costs in exhibit 300s; four of the offices did not maintain sufficient documentation to support the accuracy, reliability, and completeness of the summary of spending tables included in the exhibit 300s; and of those four offices, two did not maintain sufficient support for the benefits. Without complete cost information and supporting documentation, we could not verify that the estimated costs and benefits information included in the exhibit 300s were reasonable and beneficial. Accordingly, the Department and OMB could be making investment decisions based on unreliable data and without full consideration of the entire cost of projects. We made a number of recommendations to address these weaknesses, all of with which the Department concurred. [Click here](#) for a copy of the report.

Other Internal Operations

Department's Process to Resolve Lapsed Funds

Federal grant funds have a limited life in which to be used by grant recipients. Funding recipients under the Department's State-administered programs must obligate funds

during the fiscal year for which the funds were appropriated or during the succeeding fiscal year. Funds that are not obligated or used within that time period are referred to as "lapsed funds" and must be returned to the Federal Government. In August, we concluded an audit that sought to evaluate the effectiveness of the process used by the Department to resolve lapsed funds. Our audit included an evaluation of the Department's process for reviewing grantee requests for late liquidation of funds and its process to notify grant recipients of award balances that were about to become unavailable. This was a follow-up to a 2004 OIG audit which found that the Department did not have procedures to notify recipients when award balances were about to become unavailable.

Our 2009 audit found that improvements were needed in the overall management of late liquidation requests submitted by grant recipients and in the process to notify grant recipients of award balances about to become unavailable. We noted that Principal Offices (POs) were following inconsistent processes for reviewing and approving late liquidation requests, approving requests that did not meet policy guidance, and were not retaining sufficient documentation to support decisions made. We also found that POs were not contacting grantees with grant balances as required or properly documenting contacts. As a result, accountability was weakened, the risk that requests were being approved for inappropriate costs was increased, and the grantees' trust in the Department could be diminished. Without receiving notification from Department staff of grant balances that may lapse, States and their subrecipients may not use all of their resources in a timely manner to address the needs of students. Further, as several State-administered programs have received a significant amount of funding under the Recovery Act, it is imperative that the Department address weaknesses identified in this report to help ensure the effectiveness of grantee financial management practices. To help address the weaknesses identified in our report, we made a number of recommendations, and the Department provided OIG with an action plan to address each finding. [Click here](#) for a copy of the report.

Investigations

Accountability applies to everyone, especially those individuals in positions of trust within the Department and on behalf of the Department—Federal employees and contractors entrusted with stewardship of taxpayer dollars and helping with the administration of Federal education programs and services. During this reporting period, we closed two cases involving individuals who held such positions of trust.

Department Employee

Former Reading First Director Agrees to Civil Settlement: The U.S. Department of Justice reached a $25,000 civil settlement with the former director of the Department's Reading First program. The settlement is a result of our investigation that revealed that the former employee failed to list his spouse's income on his Public Financial Disclosure Reports for 2003-2006, which violated provisions of the *Ethics in Government Act of 1978*, as amended. During this 4-year time span, the former employee's spouse earned income as an employee of a business entity that was closely associated with the Reading First program.

Department Contractor

Former Employee of Department Contractor Sentenced: A former employee of Texas-based Electronic Data Systems (EDS), a Department contractor, was sentenced in U.S. District Court, Middle District of Alabama, to 24 months in prison, 3 years of supervised release, and was ordered to pay approximately $434,000 for theft involving Department data. Our investigation with the IRS-CID, the FBI, the Alabama Board of Pardons and Paroles, and the Alabama Attorney General's Medicaid Fraud Control Unit found that the former employee stole PII from systems maintained by EDS, including Department information on student loan borrowers who had consolidated loans, and provided that data to other individuals in exchange for money. Those individuals then used the information to file tax returns that fraudulently claimed refunds. The former employee then received a portion of the proceeds from those returns.

OTHER NOTEWORTHY EFFORTS

Non-Federal Audits

Quality Control Reviews

The Single Audit Act of 1984, as amended, requires entities, such as State and local governments, universities, and non-profit organizations that receive and expend $500,000 or more in Federal funds in one year to obtain an annual audit, referred to as a "single audit." Under applicable laws and Department regulations, entities not covered by single audits, including for-profit postsecondary institutions and lenders, are also required to obtain annual financial and/or compliance audits. These audits provide the Federal Government with assurance that recipients of Federal funds comply with laws and regulations, as well as compliance requirements that are material to Federal awards. The audits are performed by independent auditors (e.g., Certified Public Accountants).

With thousands of grantees participating in Federal education programs, single audits and other required audits are vital tools for ensuring grantees are fulfilling their obligations relating to the Federal education funds they receive. The OIG Non-Federal Audit Team provides timely and valuable guidance to the auditors who conduct these audits. We also produce and update audit guides based on new laws and regulations. We provide input to OMB relating to the education programs covered in the annual *Single Audit Compliance Supplement*, used by auditors in performing single audits. To help assess the quality of the thousands of single audits that the Department receives each year, OIG's Non-Federal Audit Team conducts quality control reviews (QCRs) by reviewing a sampling of audits each year. During this reporting period, we completed 45 QCRs of audits conducted by 44 different Independent Public Accountants, or offices of firms with multiple offices. We concluded that 25 (55.5 percent) were acceptable or acceptable with minor issues, 16 (35.6 percent) were technically deficient, and 4 (8.9 percent) were substandard.

OIG Director Receives Prestigious Award

In May, Hugh Monaghan, Director of OIG's Non-Federal Audit Team, was presented with the 2009 David M. Walker Excellence in Government Performance and Accountability Award. The Award, sponsored by the National Intergovernmental Audit Forum (NIAF), recognizes Federal, State, and local auditors for their outstanding efforts to improve government efficiency and effectiveness, and for holding government entities accountable for results. The award was presented to Director Monaghan by Gene Dodaro, chairman of the NIAF and Acting Comptroller General of the United States, and the award's namesake, former Comptroller General David Walker, at a special NIAF ceremony.

Pictured left to right: Acting Comptroller Gene Dodaro; OIG Director Hugh Monaghan; former Comptroller General David Walker

Council of the Inspectors General on Integrity and Efficiency

Assistant Inspector General Selected for CIGIE Committee Post

During this reporting period, William Hamel, OIG's Assistant Inspector General for Investigations, was selected to chair the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Assistant Inspector General Investigations (AIG-I) Advisory Subcommittee. The Subcommittee serves as the voice of the AIG-I community to assist the CIGIE Investigations Committee on issues that directly impact IG investigations. AIG-I Hamel is the first OIG staffer to chair this important Subcommittee.

Reporting Requirements of the Inspector General Act, as amended		
Section	Requirement *(Table Title)*	Table Number
5(a)(1) and 5(a)(2)	**Significant Problems, Abuses, and Deficiencies**	N/A
5(a)(3)	**Uncompleted Corrective Actions** *Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed*	1
5(a)(4)	**Matters Referred to Prosecutive Authorities** *Statistical Profile FY 2009*	7
5(a)(5) and 6(b)(2)	**Summary of Instances where Information was Refused or Not Provided**	N/A
5(a)(6)	**Listing of Reports** *Audit, Inspection, and Evaluation Reports on Department Programs and Activities (April 1, 2009, through September 30, 2009)* *Other Reports on Department Programs and Activities (April 1, 2009, through September 30, 2009)*	2 3
5(a)(7)	**Summary of Significant Audits**	N/A
5(a)(8)	**Questioned Costs** *Audit, Inspection, and Evaluation Reports with Questioned Costs*	4
5(a)(9)	**Better Use of Funds** *Audit, Inspection, and Evaluation Reports with Recommendations for Better Use of Funds*	5
5(a)(10)	**Unresolved Reports** *Unresolved Reports Issued Prior to April 1, 2009*	6
5(a)(11)	**Significant Revised Management Decisions**	N/A
5(a)(12)	**Significant Management Decisions with which OIG Disagreed**	N/A
5(a)(13)	**Unmet Intermediate Target Dates Established by the Department Under the *Federal Financial Management Improvement Act of 1996***	N/A

Table 1: Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed

Section 5(a)(3) of the IG Act, as amended, requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action.

Report Number	Report Title (Prior Semiannual Report (SAR) Number and Page)	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per Corrective Action Plan)
					Open	Completed	
AUDIT REPORTS							
FSA							
A09G0012	Department's Oversight of the FAFSA Verification Process (SAR 55, page 27)	8/23/2007	10/10/2007		0	4	*
A11H0001	FY 2007 System Security Review of the COD System *(Office of the Chief Information Officer (OCIO) also designated as an action office)* (SAR 55, page 28)	9/27/2007	11/20/2007		1	67	12/31/2009
A19-H0011	Audit of the Department's Process for Disbursing ACG and SMART Grants (SAR 57, page 25)	8/1/2008	8/12/2008		2	0	6/30/2010
Office of the Chief Financial Officer (OCFO)							
A17G0003	Financial Statement Audits of the Department FY 2006 and FY 2005 *(FSA also designated as an action office)* (SAR 54, page 30)	11/15/2006	5/13/2008		1	4	9/25/2009
A17H0003	Financial Statement Audits FY 2007 and FY 2006 of the Department and FSA *(FSA also designated as an action office)* (SAR 56, page 25)	11/15/2007	9/26/2008		2	3	11/30/2009
OCIO							
A11F0002	Review of the Department's Incident Handling Program and EDNet Security Controls *(OCIO designated as lead action office and OCFO and FSA as the other action offices)* (SAR 52, page 28)	10/6/2005	11/16/2005		0	9	*

Report Number	Report Title (Prior Semiannual Report (SAR) Number and Page)	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per Corrective Action Plan)
					Open	Completed	
A11F0005	Effectiveness of the Department's Financial Management Support System Oracle 11i Re-Implementation *(Report recommends Office of the Secretary (OS) direct the Investment Review Board Chair, CFO, and CIO to take recommended actions)* (SAR 55, page 28)	6/26/2007	5/12/2008		4	5	12/31/2010
A11F0006	Audit of the Department's IT Contingency Planning Program – Asset Classification (SAR 52, page 28)	1/31/2006	5/25/2006		4	0	1/31/2010
A11G0002	System Security Review of the Education Data Center FY 2006 (SAR 53, page 25)	9/28/2006	4/9/2007		0	14	*
A19F0025	Controls Over Excessive Cash Drawdowns by Grantee (SAR 54, page 30)	12/18/2006	9/28/2007		2	7	12/31/2009
A19H0009	Department Controls Over Travel Expenditures (SAR 57, page 26)	7/1/2008	9/4/2008	$5,649	1	20	3/31/2010
Office of the Deputy Secretary (ODS)							
A09E0014	Departmental Actions to Ensure Charter Schools' Access to Title I and IDEA Part B Funds *(Office of Elementary and Secondary Education (OESE) and Office of Special and Rehabilitative Services (OSERS) also designated as action officials)* (SAR 50, page 22)	10/26/2004	1/10/2005		0	6	*
OESE							
A07F0014	Department's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions (SAR 52, page 29)	12/29/2005	7/10/2007		0	4	*

Report Number	Report Title (Prior Semiannual Report (SAR) Number and Page)	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per Corrective Action Plan)
					Open	Completed	
INSPECTION REPORTS							
FSA							
I13H0006	Review of the Department's Process for Granting Access to the NSLDS (SAR 57, page 27)	7/24/2008	9/17/2008		4	7	9/30/2010
OESE							
I13F0017	The Reading First Program's Grant Application Process (SAR 53, page 27)	9/22/2006	5/29/2008		0	16	*

** Closure of audit or inspection reports were not completed in AARTS by the end of reporting period (9/30/2009)*

Table 2: Audit, Inspection, and Evaluation Reports on Department Programs and Activities (April 1, 2009, through September 30, 2009)

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

Report Number	Report Title	Date Issued	Questioned Costs[1]	Unsupported Costs	Number of Recomm-endations
AUDIT REPORTS					
FSA					
A03I0006	Special Allowance Payments to Sallie Mae's Subsidiary, Nellie Mae, for Loans Funded by Tax-Exempt Obligations	08/03/09	$22,378,905		3
A05I0011	Special Allowance Payments to the Kentucky Higher Education Student Loan Corporation for Loans Made or Acquired with the Proceeds of Tax-Exempt Obligations	05/28/09	$9,018,400		4
A06H0016	Community Care College's Administration of the HEA Title IV Federal Student Aid Programs	08/26/09	$47,084		14
A06I0012	Dallas Nursing Institute's Compliance with Selected Provisions of the HEA and Corresponding Regulations *(Audit resolved 9/30/09)*	04/08/09	$142		6
A09I0009	TUI University's Administration of the HEA, Title IV Student Financial Assistance Programs	08/05/09	$923,379		14
A20I0001	FSA's Oversight and Monitoring of Guaranty Agencies, Lenders, and Servicers Needs Improvement *(Report addressed to the Deputy Chief of Staff)*	04/29/09			32
OCFO					
A02I0024	Audit of NAEP Contract, ETS Incurred Costs under Contract No. ED-02-CO-0023 *(Institute for Education Sciences also designated action office)*	05/28/09	$57,747	$46,772	10
A03I0009	Gallaudet University's Internal Controls Over Federal Funds *(OSERS and Office of Postsecondary Education (OPE) also designated action offices)*	05/20/09		$1,050,479	3
A05I0013	Southern Illinois University-Edwardsville's Compliance with Selected Provisions of the Law and Regulations for the Upward Bound, Upward Bound Math-Science, and Talent Search Programs *(OCFO and OPE also designated action offices)*	04/30/09	$746,206	$185,538	15

Report Number	Report Title	Date Issued	Questioned Costs1	Unsupported Costs	Number of Recomm-endations
A19H0010	Audit of the Department’s Process to Resolve Lapsed Funds	08/24/09			3
OCIO					
A04H0018	Reliability of Cost and Benefit Information in the Department’s IT Investment Exhibit 300s *(Audit resolved 9/18/09)*	07/30/09			5
A11I0006	Incident Handling and Privacy Act Controls over External Web sites *(Audit resolved 9/9/09)*	06/10/09			18
OESE					
A02I0034	Tennessee Department of Education Controls Over State Assessment Scoring *(Office of Planning, Evaluation, and Policy Development also designated action office)*	05/28/09			9
A04I0041	Puerto Rico Department of Education's Compliance with Title I - Supplemental Educational Services	04/21/09		$16,092	8
A04I0042	Virgin Islands Department of Education’s Administration of Property Purchased with Federal Funds	08/17/09	$4,304		10
A04I0043	Florida Department of Education Controls Over State Assessment Scoring	09/30/09			8
A05I0016	Illinois State Board of Education’s Oversight of Subrecipients *(2 of the 9 recommendations made to OSERS)*	09/23/09	$667,876		9
A05J0004	The College of Menominee Nation's Indian Education-Professional Development Grant *(Although not required, auditee may provide comments to Office of Indian Education)*	05/07/09			0
A06H0011	Adequacy of Fiscal Controls Over the Use of Title I, Part A Funds at Dallas Independent School District	04/14/09	$1,689,685	$1,834,951	6
A06H0017	Adequacy of Houston Independent School District’s Fiscal Controls over Accounting for and Using Federal Funds *(Office of Vocational and Adult Education, Office of English Language Acquisition, Office of Special Education Programs, and Office of Safe and Drug Free Schools also designated action offices)*	06/30/09	$64,837	$87,443	9
A09I0012	Wyoming Department of Education Controls Over State Assessment Scoring	07/10/09			2

Report Number	Report Title	Date Issued	Questioned Costs1	Unsupported Costs	Number of Recomm-endations
INSPECTION REPORTS					
OPE					
I13I0007	Review of OPE's Actions to Address Talent Search and Educational Opportunity Centers Grantees That Did Not Serve the Number of Participants They Were Funded to Serve in FY 2003-FY 2007	09/30/09			9
ALTERNATIVE PRODUCTS					
FSA					
A04H0019	Review of FSA's Reporting of Costs and Benefits for Information Technology Investments on Exhibit 300s *(Audit Closeout Memorandum. Results from this review to be included under A04H0018, addressed to the OCIO)*	04/27/09			0
I13I0005[2]	Review of FSA's Enterprise Risk Management Program *(Management Information Report)*	05/05/09			0
OESE					
A09J0002	Migrant Education High School Equivalency Program at California State University, Sacramento *(Audit Closeout Letter)*	06/17/09			0
OSERS					
A07I0016	Kansas Department of Social and Rehabilitative Services *(Audit Closeout Letter)*	04/21/09			0
OS					
X05J0005	Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs *(Management Information Report)*	07/21/09			3[3]
OVAE					
A06J0009	Texas Adult Education and Family Literacy Program administered by the Texas Education Agency *(Audit Closeout Letter)*	04/21/09			0
TOTALS:			**$35,598,565**	**$3,221,275**	**200**

[1]*For purposes of this schedule, questioned costs may include other recommended recoveries. See footnotes 2 and 3 under Table 4 for additional information regarding questioned and unsupported costs.*
[2]*Management Information Report I13I0005 should have been coded "X" instead of "I."*
[3]*Management Information Report X05J005 contained 3 suggestions.*

DESCRIPTION OF PRODUCTS

Audit Closeout Letters or Memoranda *are provided to auditees as a written notification of the audit closure when a decision is made to close an assignment without issuing an audit report. This notification is called an "audit closeout memorandum" if the auditee is the Department and an "audit closeout letter" if the auditee is an external entity. Audit closeout letters and memoranda are posted on the OIG Web site.*

Inspection Reports *are analyses, evaluations, reviews, or studies of the Department's programs that are conducted in accordance with appropriate quality standards established by the Council of the Inspectors General for Integrity and Efficiency (CIGIE). The purpose of an inspection is to provide the Department with factual and analytical information, which may include an assessment of the efficiency and effectiveness of its operations and vulnerabilities created by existing policies or procedures. Inspections may be conducted on any Department program, policy, activity, or operation. Inspection findings and related recommendations are often presented in a written report and posted on the OIG Web site.*

Management Information Reports *provide Department management with information derived from audits or special projects that may be useful in its administration of program activities. Reports are conducted following generally accepting auditing standards or quality standards for inspections established by the CIGIE. A management information report may address several issues and may include suggestions for corrective action. These reports are posted on the OIG Web site.*

Table 3: Other Reports on Department Programs and Activities (April 1, 2009, through September 30, 2009)

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

Report Number	Report Title	Date Issued
FSA		
L09I0008	Fifth Third Bank's Other Eligible Lender Trustee Agreements Not Included in the Audit Report ED/OIG A09H0017 Appear to Violate the Prohibition on Inducements and the Department Needs to Provide Guidance[1] *(OPE also designated as action official. Alert Memorandum resolved 7/22/09)*	6/4/2009
OCFO		
L09I0013	Local Educational Agency Requirement to Remit Interest Earned on Federal Cash Advanced by SEAs[2] *(Alert Memorandum)*	7/14/2009
OESE		
L03J0011	Potential Consequences of the Maintenance of Effort Requirements under the Recovery Act State Fiscal Stabilization Fund[3] *(Alert Memorandum)*	9/30/2009
OSERS		
L02J0004	Need to Update Department's Agreements with Gallaudet University and the National Technical Institute for the Deaf[4] *(Alert Memorandum)*	5/12/2009

[1]L09I0008 made 3 non-monetary suggestions
[2]L09I0013 made 10 non-monetary suggestions
[3]L03J0011 made 2 non-monetary recommendations
[4]L02J0004 made 2 non-monetary suggestions.

DESCRIPTION OF PRODUCTS

***Alert Memoranda** are prepared when OIG either identifies a concern during an audit or inspection that requires immediate Department attention that is either outside the agreed-upon objectives of an audit or inspection assignment, or when an audit or inspection report will not be issued. Alert memoranda that are not subject to Freedom of Information Act (FOIA) exemptions will be posted on the OIG Web site. Consistent with FOIA, and to the extent practicable, OIG will redact exempt information from alert memoranda so that non-exempt information contained in the memoranda may be made available on the OIG Web site.*

Table 4: Audit, Inspection, and Evaluation Reports with Questioned or Unsupported Costs[1]

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.

		Number	Questioned[2] Costs	Unsupported[3] Costs
A.	For which no management decision has been made before the commencement of the reporting period (as adjusted)	50	$852,196,360	$296,321,252
B.	Which were issued during the reporting period	13	$38,819,840	$3,221,275
	Subtotals (A + B)	63	$891,016,200	$299,542,527
C.	For which a management decision was made during the reporting period	10	$4,985,425	$2,064,986
	(i) Dollar value of disallowed costs		$3,420,835	$1,792,196
	(ii) Dollar value of costs not disallowed		$1,564,590	$272,790
D.	For which no management decision was made by the end of the reporting period	53	$886,030,775	$297,477,541

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

[2] *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. Special note: As the IG Act does not provide for other recommended recoveries, in addition to questioned costs as defined above, OIG includes other recommended recoveries of funds in this section, i.e., recovery of outstanding funds and/or revenue earned on Federal funds, or interest due the Department.*

[3] *Unsupported costs are costs that, at the time of the audit, were not supported by adequate documentation.*

Table 5: Audit, Inspection, and Evaluation Reports with Recommendations for Better Use of Funds[1]

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

		Number	Dollar Value
A.	For which no management decision was made before the commencement of the reporting period (as adjusted)	2	$13,327,577
B.	Which were issued during the reporting period	0	$0
	Subtotals (A + B)	2	$13,327,577
C.	For which a management decision was made during the reporting period		
	(i) Dollar value of recommendations that were agreed to by management	0	$0
	(ii) Dollar value of recommendations that were not agreed to by management	0	$0
D.	For which no management decision has been made by the end of the reporting period	2	$13,327,577

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

Table 6: Unresolved Reports Issued Prior to April 1, 2009

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 decisions had been made by the end of the reporting period. (Status below represents comments provided by the Department, comments agreed to, or documents obtained from the Department's tracking system, AARTS.)

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
NEW SINCE LAST REPORTING PERIOD				
AUDIT REPORTS				
FSA				
A02H0008	Touro College's Title IV HEA Programs, Institutional and Program Eligibility *(SAR 58, page 31)*	10/30/08	$36,026,364	5
	Current Status*: FSA informed us that it is currently working on this audit. AARTS shows FSA administrative stay extension was approved on 7/27/2009.*			
A05H0018	Walden University's Compliance with Selected Regulations and Depart. Guidance *(SAR 58, page 31)*	1/21/09	$1,185,473[1]	10
	Current Status*: FSA informed us that it is currently working on this audit. AARTS shows FSA administrative stay extension was approved on 9/22/2009.*			
A09H0017	Fifth Third Bank's Eligible Lender Trustee Agreements' Compliance with Lender Provisions of the HEA and Monitoring of Entities with Which It Has Agreements *(SAR 58, page 31)*	1/5/09	$5,000,000[2]	5
	Current Status*: FSA informed us that it entered into a Determination and Voluntary Disposition with Third Fifth Bank that resolved all issues related to the findings in the OIG audit report on March 23, 2009. This audit, however, is not considered resolved or closed until it is certified through AARTS.*			
OCFO				
A09H0019	Los Angeles Unified School District's Procedures for Calculating and Remitting Interest Earned on Federal Cash Advances *(SAR 58, page 31)*	12/2/08	$6,302,406[3]	15
	Current Status*: OCFO informed us that resolution activities are in process.*			
A09H0020	California Department of Education Advances of Federal Funding to Local Educational Agencies *(SAR 58, page 31)*	3/9/09	$728,651[4]	10
	Current Status*: OCFO informed us that resolution activities are in process.*			
OESE				
A04H0017	Puerto Rico Department of Education's Administration of Title I Services Provided to Private School Students *(SAR 58, page 31)*	10/9/08	$821,714	15
	Current Status*: OESE informed us that the PDL is clearing the internal review process.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A05H0025	Harvey Public Schools District's Use of Selected Department Grant Funds *(OSERS and OCFO also designated action offices) (SAR 58, page 31)*	11/25/08	$317,093[5]	9
	***Current Status**: OESE informed us that the PDL is clearing the internal review process.*			
REPORTED IN PREVIOUS SARs				
AUDIT REPORTS				
FSA				
A02H0005	EDUTEC's Administration of the Federal Pell Grant Program *(SAR 55, page 27)*	9/27/07	$83,000	5
	***Current Status**: FSA informed us that it is currently working on this audit. AARTS shows FSA administrative stay extension was approved on 9/22/2009.*			
A02H0007	Technical Career Institutes, Inc.'s Administration of the Federal Pell Grant and FFEL Programs *(SAR 57, page 25)*	5/19/08	$6,458	13
	***Current Status**: FSA informed us that it is currently working on this audit. AARTS shows FSA administrative stay extension was approved on 9/22/2009.*			
A04B0019	Advanced Career Training Institute's Administration of the Title IV HEA Programs *(SAR 47, page 13)*	9/25/03	$7,472,583	14
	***Current Status**: FSA informed us that the audit was previously closed in the Department's previous tracking system. FSA will work on getting this audit closed in AARTS by 12/31/2009. The required documents for resolution are needed in AARTS before this audit can be officially resolved.*			
A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown *(SAR 49, page 14)*	9/23/04	$2,458,347	7
	***Current Status**: FSA informed us that it is still waiting on a policy decision to address and resolve this audit.*			
A05E0013	Audit of the Administration of the Student Financial Assistance Programs at the Ivy Tech State College Campus in Gary, Indiana, during the Period July 1, 2002, through June 30, 2003 *(SAR 50, page 21)*	2/25/05	$1,645,160	3
	***Current Status**: FSA informed us that the required documents were uploaded into AARTS on 9/23/2009.*			
A05G0017	Capella University's Compliance with Selected Provisions of the HEA and Corresponding Regulations *(SAR 56, page 25)*	3/7/08	$589,892	9
	***Current Status**: FSA informed us that it is currently working on this audit.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A05G0029	Wilberforce University's Administration of HEA, Title IV Programs *(SAR 56, page 25)*	3/21/08	$2,472,781	25
	***Current Status**: FSA informed us that it is currently working on this audit. AARTS shows FSA administrative stay extension was approved on 7/27/2009.*			
A0670005	Professional Judgment at Yale University *(SAR 36, page 18)*	3/13/98	$5,469	3
	***Current Status**: FSA informed us that it is waiting on a decision of school's appeal of Professional Judgment finding for Saint Louis University before it can resolve this audit.*			
A0670009	Professional Judgment at University of Colorado *(SAR 37, page 17)*	7/17/98	$15,082	4
	***Current Status**: FSA informed us that it is waiting on a decision of school's appeal of Professional Judgment finding for Saint Louis University before it can resolve this audit.*			
A06D0018	Audit of Saint Louis University's Use of Professional Judgment from July 2000 through June 2002 *(SAR 50, page 21)*	2/10/05	$1,458,584	6
	***Current Status**: FSA informed us that it is waiting on a s decision on school's appeal of this audit.*			
A06H0010	Eagle Gate College's Administration of Title IV HEA Programs *(SAR 55, page 27)*	9/28/07	$2,630	6
	***Current Status**: FSA informed us that it is working on getting this audit resolved in AARTS.*			
A0723545	State of Missouri, Single Audit Two Years Ended June 30, 1991	4/1/93	$1,048,768	18
	***Current Status**: We did not receive a response from FSA on this audit during this reporting period. FSA previously informed us that it was researching options to resolve this audit.*			
A0733123	State of Missouri, Single Audit Year Ended June 30, 1992	3/7/94	$187,530	18
	***Current Status**: We did not receive a response from FSA on this audit during this reporting period. FSA previously informed us that it was researching options to resolve this audit.*			
A09D0024	American River College's Compliance with Student Eligibility Requirements for Title IV HEA Programs *(SAR 50, page 21)*	12/1/04	$3,024,665	3
	***Current Status**: FSA informed us that it is working to get this audit resolved in AARTS and expects to have it closed by 12/31/2009.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
N0690010	Inspection of Parks College's Compliance with Student Financial Assistance Requirements *(SAR 40, page 18)*	2/9/00	$169,390	1
	***Current Status**: FSA informed us that it is working to get this resolved in AARTS and expects to have it closed by 12/31/2009.*			
OCFO				
A03F0010	The Education Leaders Council's Drawdown and Expenditure of Federal Funds *(Office of Innovation and Improvement (OII) also designated as an action office) (SAR 52, page 8)*	1/31/06	$760,570	12
	***Current Status:** OCFO informed us that the resolution activities continue to be suspended.*			
A05H0016	Saint Paul Public School's Teacher Quality Enhancement Grant *(OPE also designated as an action office) (SAR 57, page 25)*	5/23/08	$124,646[6]	7
	***Current Status**: AARTS shows OCFO administrative stay extension was approved on 6/19/2009.*			
A06H0002	Review of Project GRAD USA's Administration of Fund for the Improvement of Education Grants *(OII also designated action office) (SAR 57, page 26)*	7/21/08	$31,384,603	11
	***Current Status**: AARTS shows OCFO administrative stay extension was approved on 9/25/2009.*			
OESE				
A02G0002	Audit of New York State Education Department's Reading First Program *(SAR 54, page 31)*	11/3/06	$215,832,254	8
	***Current Status**: OESE informed us that it is working to resolve the audit.*			
A02G0020	Elizabeth Public School District Allowability of ESEA Title I, Part A Expenditures *(SAR 56, page 25)*	10/9/07	$1,946,925	14
	***Current Status**: OESE informed us that it is working to resolve the audit.*			
A03G0006	The Department's Administration of Selected Aspects of the Reading First Program *(OCFO also designated as an action office) (SAR 54, page 31)*	2/22/07		3
	***Current Status**: OESE informed us that its program team is addressing the on-going corrective actions.*			
A04G0012	Audit of Mississippi Department of Education's Emergency Impact Aid Program Controls and Compliance *(SAR 55, page 28)*	8/8/07	$3,192,395	4
	***Current Status**: OESE informed us that its program team is working with the States to reconcile the pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A04G0015	Audit of Georgia Department of Education's Emergency Impact Aid Program Controls and Compliance *(SAR 56, page 26)*	10/30/07	$9,977,242	9
	***Current Status**: OESE informed us that its program team is working with the States to reconcile pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A04H0011	Puerto Rico Department of Education's Administration of Contracts Awarded to Excellence in Education, Inc. and the University of Puerto Rico's Cayey Campus *(SAR 57, page 26)*	5/20/08	$189,011	10
	***Current Status**: OESE informed us that the PDL is currently with Office of General Counsel (OGC) for review.*			
A05G0020	Audit of the Alabama State Department of Education's and Two Selected LEAs' Compliance with Temporary Emergency Impact Aid Program Requirements *(SAR 55, page 28)*	9/27/07	$4,579,375	5
	***Current Status**: OESE informed us that its program team is working with the States to reconcile pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A05G0033	Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirements *(SAR 55, page 29)*	6/7/07	$16,809,020	8
	***Current Status**: OESE informed us that the PDL is clearing the internal review process.*			
A05H0010	The School District of the City of Detroit's Use of Title I, Part A Funds Under the ESEA *(SAR 57, page 26)*	7/18/08	$53,618,859	21
	***Current Status**: OESE informed us that the PDL is clearing the internal review process.*			
A06E0008	Audit of the Title I Funds Administered by the Orleans Parish School Board for the period July1, 2001, through December 31, 2003 *(SAR 50, page 23)*	2/16/05	$73,936,273	7
	***Current Status**: OESE informed us its program team is revising the PDL to include the analysis of work papers.*			
A06F0016	Arkansas Department of Education's Migrant Education Program *(SAR 53, page 25)*	8/22/06	$877,000	2
	***Current Status**: OESE informed us that its program revising the PDL based on our non-concurrence.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A06G0009	Audit of the Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable LEAs (*SAR 55, page 29)*	9/18/07	$10,270,000	4
	***Current Status**: OESE informed us that its program team is working with the States to reconcile the pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita*			
A06G0010	Louisiana Department of Education's Compliance with Temporary Emergency Impact Aid for Displaced Students Requirements *(SAR 55, page 29)*	9/21/07	$6,303,000	4
	***Current Status**: OESE informed us that its program team is working with the States to reconcile the pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A07H0017	St. Louis Public School District's Use of Selected Department Grant Funds *(OSERS also designated as an action official)* (*SAR 57, page 26)*	9/29/08	$765,001	7
	***Current Status**: OESE informed us that the PDL is with OGC for review.*			
OPE				
A07B0011	Audit of Valencia Community College's Gaining Early Awareness and Readiness for Undergraduate Programs Matching Requirement (*SAR 47, page 15)*	5/8/03	$1,822,864	5
	***Current Status**: OPE informed us that OPE and OGC are revising the PDL based on additional documentation received.*			
OSERS				
A02B0014	Audit of the Puerto Rico Vocational Rehabilitation Administration *(SAR 45, page 18)*	6/26/02	$15,800,000	5
	***Current Status**: OSERS informed us that it is presently working to resolve the audit.*			
A02E0020	The Virgin Islands Department of Health's Administration of the Infants and Toddlers Program *(SAR 51, page 28)*	9/28/05	*[7]	17
	***Current Status**: OSERS informed us that the draft PDL is with OGC for review.*			
A06F0019	Results of five audits of the IDEA, Part B requirements at schools under the supervision of the Department of Interior's Bureau of Indian Affairs *(Report was addressed to the Bureau of Indian Education, Department of the Interior) (SAR 54, page 32)*	3/28/07	$328,000,000	6
	***Current Status**: OSERS informed us that the draft PDL is with OGC for review.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
INSPECTION REPORTS				
OS				
I13F0012	Review of Department Identified Contracts and Grants for Public Relations Services *(SAR 51, page 29)*	9/1/05	$0	6
	***Current Status**: Risk Management Services (RMS) informed us that on 10/1/09, the audit was reassigned to RMS/Grants Policy & Procedures Team. RMS is working with OCFO/Contracts & Acquisitions Management to develop corrective actions to address both the policy and contract issues in the audit recommendations.*			
OGC				
I13H0005	Review of the Department's Public Financial Disclosure Reports for Employees Responsible for Oversight of the FFEL Program *(SAR 56, page 27)*	3/12/08	$0	2
	***Current Status**: OGC informed us that it has resolved this audit; however, it is not considered resolved or closed until it is certified through AARTS.*			
I13I0004	Inspection to Evaluate the Adequacy of the Department's Procedures in Response to Section 306 of the FY 2008 Appropriations Act – Maintenance of Integrity and Ethical Values Within the Department *(Congressional Request, OGC designated as the action office by OS) (SAR 57, page 27)*	4/21/08	$0	2
	***Current Status** OGC informed us that it has resolved this audit; however, it is not considered resolved or closed until it is certified through AARTS.*			
Total			**$847,211,078**	**383**

[1]Audit Report A05H0018 identified a total of $1,185,473 ($1,129,970 questioned costs and $55,503 unsupported cost) being due to the Department. As $912,430 of the $1,185,473 was recovered from the auditee during the audit, $273,043 remains to be recovered.
[2]Audit Report A09H0017 identified $5,000,000 of other recommended recoveries and no questioned costs.
[3]Audit Report A09H0019 identified $6,302,406 of other recommended recoveries and no questioned costs.
[4]Audit Report A09H0020 identified $728,651 of other recommended recoveries, $13,000,000 of annual better use of funds, and no questioned costs.
[5]Audit Report A05H0025 identified $33,726 of other recommended recoveries and no questioned costs.
[6]Audit Report A05H0016, in this $124,646 figure, included $100,675 of questioned cost and $23,971 of monetary recoveries made during audit.
[7]Audit report A02E0020 identified $327,577 in one-time better use of funds.

Table 7: Statistical Profile: FY 2009	**Six-Month Period Ending 3/31/2009**	**Six-Month Period Ending 9/30/2009**	**FY 2009 Total**
Audit Reports Issued	12	21	33
Inspection Reports Issued	0	1	1
Questioned Costs	$49,677,742	$35,598,565	$85,276,307
Unsupported Costs	$703,959	$3,221,275	$3,925,234
Recommendations for Better Use of Funds	$13,000,000	$0	$13,000,000
Other Products Issued *SAR 58 = 9 products composed of: 3 attestation reports, 3 special projects, 2alert memoranda, and 1 interim audit memorandum; SAR 59 = 10 products composed of: 4 alert memoranda, 4 audit closeout letters/memoranda, and 2 management information reports*	9	10	19
Audit and Special Reports Resolved By Program Managers	14	16	30
Inspection Reports Resolved By Program Managers	1	1	2
Questioned Costs Sustained *	$10,815,603	$1,628,639	$12,444,242
Unsupported Costs Sustained *	$5,240,654	$1,792,196	$7,032,850
Additional Disallowances Identified by Program Managers *	$2,985,443	$239,863	$3,225,306
Management Commitment to the Better Use of Funds*	$0	$0	$0
Investigative Case Activity			
Cases Opened	70	87	157
Cases Closed	64	67	130[1]
Cases Active at the End of the Reporting Period	403	427	427
Prosecutorial Decisions Accepted Declined	 59 77	 77 85	 223[2] 166[3]

[1] Includes previously closed case involving a fugitive. Fugitive was located and case re-opened.
[2] Includes 87 cases that were not reflected in SAR 58
[3] Includes 4 cases that were not reflected in SAR 58

	Six-Month Period Ending 3/31/2009	Six-Month Period Ending 9/30/2009	FY 2009 Total
Investigative Results			
Indictments/Informations	61	108	169
Convictions/Pleas	69	80	149[4]
Fines Ordered	$13,764	$188,450	$203,214[5]
Restitution Payments Ordered	$8,035,356	$4,264,177	$12,375,008[6]
Civil Settlements/Judgments (number)	5	3	9[7]
Civil Settlements/Judgments (amount)	$7,162,227	$1,533,050	$8,713,777[8]
Recoveries	$175,360	$6,356,215	$6,523,089[9]
Forfeitures/Seizures	$1,928,024	$19,344	$1,947,369
Estimated Savings	$2,762,219	$12,013,405	$14,778,071[10]
Suspensions Referred to Department	N/A	10	17[11]
Debarments Referred to Department	N/A	11	28[12]

[4] Includes 2 cases that were not reflected in SAR 58
[5] Includes $1,000 fine that was not reflected in SAR 58
[6] Includes $75,474 that was not reflected in SAR 58
[7] Includes 1 case that was not reflected in SAR 58
[8] Includes $18,500 that was not included in SAR 58
[9] Includes $8,486 removed after SAR 58 was published
[10] Includes $2,447 that was not reflected in SAR 58
[11] Includes suspension referrals not reported in SAR 58
[12] Includes debarment referrals not reported in SAR 58