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AUDIT SERVICES

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Michael K. Yudin
Acting Assistant Secretary
Office of Special Education and Rehabilitative Services
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, DC 20202-4300

Dear Mr. Yudin:

This **final audit report**, titled *Payback Provisions of the Personnel Development to Improve Services and Results for Children with Disabilities Program*, presents the results of our audit. The objectives of our audit were to determine whether the Personnel Development to Improve Services and Results for Children with Disabilities Program (PDP) effectively (1) met program objectives by training recipients who subsequently performed work related to the program, and (2) obtained repayment of the assistance received for recipients that did not fulfill work agreements. This audit was part of a review of payback provisions of selected grant programs throughout the U.S. Department of Education (Department).

BACKGROUND

The Office of Special Education Programs (OSEP) administers the PDP, one of a number of grant programs authorized under the Individuals with Disabilities Education Act (IDEA). The purposes of the PDP are to help address State-identified needs for highly qualified personnel—in special education, early intervention, related services, and regular education—to work with children, including infants and toddlers, with disabilities; and to ensure that those personnel have the necessary skills and knowledge, derived from practices that have been determined through scientifically-based research and experience, to be successful in serving those children. The average funding level for the PDP has been approximately \$87 million over the last 5 years, with the 5-year grants generally averaging between \$225,000 and 250,000 per grantee, per year.¹

¹ This is the average size of awards per year as noted in the most recent *Federal Register* Notices Inviting Applications for those grants under the PDP where scholars receive training and have their service obligations tracked by the Department.

Notices inviting application for the PDP have consistently required that 65 percent of the total requested annual budget must be used for scholar support, unless the applicant provides justification for any lesser designation. Students who receive financial assistance from projects funded under this program, often referred to as “PDP scholars,” are required to pay back such assistance either by providing special education, early intervention, or related services to infants, toddlers and children with disabilities for a period of time after they complete their training, or by making a cash repayment to the Federal government. Upon completing their respective program, scholars who receive funding under the PDP must work 2 years for every 1 year of funding received. Scholars who complete at least 1 year of training are also eligible for work payback. Work payback must be completed within the sum of the number of years owed plus 5 additional years, often referred to as the grace period. Scholars are required to repay all or part of any scholarship they receive if they do not complete their service obligation. The PDP regulations do, however, provide for specific circumstances under which the Secretary of Education (Secretary) may grant a deferral or exception to performance or repayment under a scholarship agreement.²

Grantees are required to fully inform students about their payback obligations and other requirements before disbursing scholarship funds and students must sign a pre-scholarship/repayment agreement before they receive funds. Grantees are also required to track current PDP scholars and maintain accurate and complete information on them from the time they are enrolled in the program until the time they exit the program. Once a scholar exits the program and an exit certification is completed, which includes the total amount of scholarship assistance received that is subject to the work or repayment requirements and the time period during which the scholar must satisfy the service obligation, responsibility for monitoring the scholar’s fulfillment of his or her service obligation falls to the Secretary. Scholars who are found to be noncompliant with the PDP requirements are referred for repayment to the Department’s Debt and Payment Management Group (DPMG).

In 2007, OSEP awarded a contract to establish the National Center on Service Obligations (NCSO). The purpose of the NCSO was to act as an agent of the Department in tracking exited PDP scholars to determine whether they were fulfilling their service obligations. The NCSO was also tasked with collecting and analyzing data that would assist OSEP in reporting on selected performance measures established under the Government Performance and Results Act (GPRA). To accomplish its objectives, the NCSO launched the Service Obligation Tracking System (SOTS), a web-based data collection system with the ability to collect data on a continuous basis from grantees, scholars, and employers. Prior to this time, OSEP’s only means for collecting scholar-specific data was the scholar data report (SDR), which was developed under a separate contract awarded by OSEP in 2001.³ Grantees are required to submit an SDR annually for each scholar who received financial assistance or was enrolled in the program during the reporting period, but are not required to continue submitting an SDR once a scholar has exited the program. In 2012, OSEP awarded a new contract with the goal of consolidating its two primary data collection systems. The contractor established the Personnel Development Program Data

² Title 34 of the Code of Federal Regulations (C.F.R.) § 304.31 provides that the Secretary may grant a deferral or exception to performance or repayment under the following circumstances: permanent disability, death, further academic study, active duty in the military, and service in the Peace Corps or as a Domestic Volunteer.

³ This contract also required the development of a web-based data collection system.

Collection Center (DCC) upon award and in July 2014 began a phased launch of the consolidated Data Collection System (DCS).⁴

OSEP awarded a total of 81 PDP grants in fiscal year (FY) 2006, the year of focus for our review. We chose to focus on FY 2006 grants because of differences in the regulations and scholar tracking requirements for grants awarded prior to this time.⁵ FY 2006 grants were also more likely to have a larger number of scholars that had completed the training and were in the payback portion of the program than more current grants, thereby enabling us to obtain sufficient evidence to answer our audit objectives. We noted that the number of scholars served under the nine FY 2006 grants included in our sample ranged from 8 to 49, with a total of 220 scholars having received funding under these grants. According to the SOTS, financial assistance provided over the course of scholars' participation in these projects ranged from \$125 to \$166,611, with a total of \$3.6 million in financial assistance awarded to the scholars served under these grants.⁶

AUDIT RESULTS

Overall, we found that results related to PDP objectives are encouraging, but data limitations and quality issues limit stakeholders' ability to assess PDP effectiveness. Specifically, our audit results indicate that more than half of the PDP scholars in our sample who received training under the FY 2006 grants and exited their respective programs have either completed or are currently working toward completion of their service obligation. However, limited data availability for the scholars in our sample due to the program's 5-year grace period made it generally too early to comment on program effectiveness with regard to the employment of those scholars. While related GPRA measures provide some insight into program effectiveness, we identified certain data limitations and quality issues concerning information on PDP scholars used by OSEP and its contractor in compiling some of the performance data. We also noted that

⁴ DCS completed phase one of its launch, consisting of data migration and testing, in July 2014. Grantees began entering data in July 2014 as part of phase two and scholars and employers were to begin entering data in January 2015 as part of phase three of the launch. Because the DCS was not fully operational at the time of our audit fieldwork, we were unable to assess its effectiveness as a tool for monitoring the PDP.

⁵ For grants awarded in FY 2004 or earlier, the regulations published in the Federal Register on December 9, 1999 (64 FR 69138) implementing section 673(h) of IDEA, as amended by the IDEA Amendments of 1997, apply, including the requirement that grantees track the service obligations of scholarship recipients. For grants awarded in FY 2005, the "Additional Requirements" section of the notice inviting applications published in the Federal Register on March 25, 2005 (70 FR 15299) applies, including the requirement that the Secretary track the service obligations of scholarship recipients. For grants awarded in FY 2006 and any year thereafter, the regulations published in the Federal Register on June 5, 2006 (71 FR 32396) apply, fully implementing the requirement in section 662(h) of the IDEA, as amended by the Individuals with Disabilities Education Improvement Act of 2004 (IDEIA), that the Secretary track the service obligations of scholarship recipients.

⁶ For some scholars, the amount of financial assistance awarded was not yet included in the SOTS, as grantees do not have to enter funding amounts into the system for scholars who are enrolled and have not yet completed the program. As a result, the total financial assistance provided to scholars served under these grants is greater than the \$3.6 million reflected in the SOTS.

improvements are needed in OSEP's process for identifying and referring scholars for financial repayment.

With regard to objective one, we found that more than half of the scholars who received training under the nine FY 2006 PDP grants in our sample and exited their respective programs have either completed or are currently working toward completion of their service obligation. Specifically, we determined that 89 of the 168 (53 percent) scholars who graduated or otherwise exited their respective program have either completed or are working toward completing their service obligation. However, we noted that 61 of the 168 scholars (36 percent) who graduated or otherwise exited their respective program and have not yet begun work in eligible employment are still in their 5-year grace period and, therefore, not yet required to have begun work in eligible employment. As a result, it is generally too early to comment on program effectiveness with regard to the employment of FY 2006 PDP scholars.⁷

We also reviewed other available information on program performance as part of our assessment of the PDP's effectiveness in meeting its objectives. Specifically, we noted that OSEP reports overall scholar employment data in the PDP's annual Congressional budget justifications, which require discussion of each Department program's performance on measures established under GPRA. While these measures provide some insight into program effectiveness, we identified certain data limitations and quality issues concerning information on PDP scholars maintained by OSEP and its contractor that impacted one of the measures. Specifically, we noted issues related to the total number of scholars served and reported employment data, as well as problems with the methodology used to calculate results that limit stakeholders' ability to draw reliable conclusions on program effectiveness.

With regard to objective two, we found that OSEP does not always appropriately identify and refer for financial repayment scholars who are not fulfilling their service obligation. We determined that 17 scholars within the nine FY 2006 PDP grants in our sample should have been identified as either not eligible or not on track to complete their service obligation within the number of years required, based on information contained in the SOTS. We found that OSEP appropriately identified for financial repayment and subsequently referred to the DPMG 12 of the 17 scholars since they were not eligible for work payback because they did not complete at least 1 year of the program. However, we determined that OSEP did not appropriately identify the remaining five scholars as not on track to complete their service obligation within the number of years required and, as a result, did not contact these scholars for the purpose of determining whether they should be referred to DPMG for financial repayment.

The weaknesses noted with regard to the identification and referral of scholars for financial repayment increase the susceptibility of the PDP to fraud, waste, and abuse. We noted that the five scholars who should have been identified as not on track to complete their service obligation, and therefore placed in repayment status, received approximately \$16,000 in Federal funds. These are funds that are owed to the Federal government according to the agreements that these scholars signed upon starting their respective programs. Because a significant majority of

⁷ Of the remaining 168 scholars, 13 have paid back financial assistance received or have been referred for financial repayment; 5 scholars are outside of their grace period but are not working in eligible employment and should be referred for financial repayment.

scholars who graduated or otherwise exited their respective program are still in their grace period and, therefore, not yet required to have begun work in eligible employment, there are very few scholars for whom this situation has occurred. However, as time goes by, there is increasing risk that greater numbers of PDP scholars who are unable to fulfill their service obligation according to the program regulations will not be appropriately identified and referred for financial repayment and that OSEP will not timely recover funds owed to the Federal government. Also, because OSEP does not refer scholars for financial repayment until their period of obligation has expired, the accrued interest owed to the Federal government will be less than what it should have been had OSEP, consistent with the regulations, correctly identified when a scholar entered into repayment status and timely initiated debt collection activities.

OSEP management noted, and our review of the applicable performance work statement indicated, that the new contract awarded in September 2012 and the resulting new system launched in July 2014 will allow for project officers to reconcile system data against data in grantee performance reports and allow OSEP to more efficiently and effectively collect, analyze, and report data. If the system includes the functionalities discussed, it should allow for more active and effective monitoring of the program's payback provision.

In its response to the draft audit report, OSEP did not state whether it agreed or disagreed with the findings, but concurred with each of the 11 recommendations and noted significant actions that it has taken or plans to undertake to address these recommendations. OSEP stated that its goal is to ensure that the information collected and reported for the PDP is accurate and that all scholars who are not fulfilling service obligations are referred in a timely manner for financial repayment. OSEP also stated that it continues to make significant strides in its collection of data, delivery of technical assistance to grantees on data quality, and in making appropriate referrals for debt collection.

OSEP's comments are summarized at the end of each applicable finding. OSEP also provided technical comments that we considered and addressed, as appropriate, in the body of the report. The full text of OSEP's response is included as Attachment 2 to this report.

FINDING NO. 1 – Results are Encouraging, but Data Limitations and Quality Issues Limit Stakeholders' Ability to Assess PDP Effectiveness

We found that more than half of the scholars who received training under the nine FY 2006 PDP grants in our sample have either completed or are currently working toward completion of their service obligation. Specifically, we determined that 89 of the 168 (53 percent) scholars who graduated or otherwise exited their respective program have either completed or are working toward completing their service obligation. However, we noted that 61 of the 168 scholars (36 percent) who graduated or otherwise exited their respective program and have not yet begun work in eligible employment are still in their 5-year grace period and, therefore, not yet required to have begun work in eligible employment. As a result, it is generally too early to comment on

program effectiveness with regard to the employment of FY 2006 PDP scholars.⁸ [See Table 1 below for additional information on the number and status of all scholars served under the grants in our sample.]

| Table 1: Number and Status of All Scholars Served Under a Sample of FY 2006 PDP Grants | | |
|--|--------------|----------|
| | Total Number | Percent* |
| Scholars | 220 | |
| Unknown Status** | 1 | <1% |
| Current Scholars | 51 | 23% |
| Exited Scholars*** | 168 | 76% |
| Scholars Who Fulfilled Service Obligation or Are Currently Working in Eligible Employment**** | 89 | 53% |
| Scholars Who Are Not Working in Eligible Employment ***** | 66 | 39% |
| Scholars Who Paid Back Financial Assistance Received or Have Been Referred for Financial Repayment | 13 | 8% |
| * Percentages do not always add to 100 due to rounding. ** We know that this scholar exists according to our review of available documentation, but we could not make a determination regarding his or her status. *** Of these 168 scholars, 145 (86 percent) graduated from their respective program and 23 (14 percent) withdrew or otherwise exited prior to completion. **** Of these 89 scholars, 20 (23 percent) have already fulfilled their service obligation and 67 (75 percent) are currently working in eligible employment. We could not make a clear determination on whether the remaining 2 scholars were currently working or had already fulfilled their service obligation. ***** This number includes 61 scholars who are still in their 5-year grace period and, therefore, not yet required to have begun working in eligible employment. The remaining 5 scholars are outside of their grace period but are not working in eligible employment and should be referred for financial repayment. | | |

We identified scholars based on data located in the SOTS and/or through our review of associated grant files. Because a significant number of FY 2006 PDP scholars were still in their 5-year grace period during our audit period and, therefore, not yet required to have begun work in eligible employment, the SOTS did not contain the employment data necessary for us to draw any firm conclusions about program effectiveness. As a result, we reviewed other available information on program performance as part of our assessment of the PDP’s effectiveness in meeting its objectives. Specifically, we noted that OSEP reports overall scholar employment data in the PDP’s annual Congressional budget justifications, which require discussion of each Department program’s performance on measures established under GPRA. The PDP has established two annual performance measures and one long-term performance measure under GPRA related to overall scholars’ employment:

1. the percentage of degree/certification recipients who are working in the area(s) for which they are trained upon program completion (annual);

⁸ This assessment differs from what was reported recently about another similar program under the jurisdiction of the Office of Special Education and Rehabilitative Services (OSERS), the Rehabilitation Long-Term Training (RLTT) program (“Payback Provisions of the Rehabilitation Long-Term Training Program,” April 25, 2014, ED-OIG/A19M0004). In the case of RLTT, which is administered by the Rehabilitation Services Administration (RSA), no more than 14 percent of exited scholars had not yet begun working in eligible employment and were still in their grace period at the time of our audit—a number small enough to allow us to conclude that RSA appeared to have met RLTT program objectives by training recipients who subsequently performed work related to the program.

2. the percentage of degree/certification recipients who are working in the area(s) for which they are trained upon program completion and who are fully qualified under IDEA⁹ (annual); and
3. the percentage of degree/certification recipients who maintain employment for 3 or more years in the area(s) for which they were trained and who are fully qualified under IDEA (long-term).

We noted that the annual performance measures provide some insight into program effectiveness and are calculated using a sufficient data source and reasonably sound methodologies. However, we identified certain data limitations and quality issues specific to the long-term performance measure which are discussed in further detail below.

Annual Performance Measures

At the time of our audit, the most recent year for which data were available for the two annual performance measures noted above was FY 2011. In FY 2011, 82 percent of degree or certification program recipients were working in the area(s) in which they were trained upon program completion. OSEP's target for this measure was 84 percent. That same year, 79 percent of degree or certification recipients were working in the area(s) for which they were trained upon program completion and were fully qualified under IDEA. OSEP's target for this measure was 80 percent. We further noted that OSEP made progress on both measures when compared to FY 2010 data, increasing its success rates from 78 percent to 82 percent and 76 percent to 79 percent, respectively.

Results on both of these measures are calculated based on data submitted annually by grantees in SDRs. Grantees submit SDRs using a web-based data collection system designed specifically for the PDP. According to OSEP management and staff, PDP grantees are required to submit annually an SDR for each scholar who received financial assistance or was enrolled in the program during the reporting period, with data collection via the SDR ending when the scholar completes or otherwise exits the program.

Long-Term Performance Measure

We found that OSEP's long-term performance measure related to scholar employment is meant to be particularly useful in gauging the effectiveness of the PDP, as it accounts for scholars who are years removed from the program and continue to work in eligible employment. However, we learned that OSEP and its contractor had previously identified certain limitations with regard to the value of this measure as it does not align with the regulations governing service obligation fulfillment. Specifically, we found that annual interim SOTS reports submitted to OSEP by the NCSO noted that a large number of scholars—nearly 62 percent as of August 2012—had service obligations of 3 years or less, meaning many would not even meet the criteria being measured or would not be required to report employment data for more than 3 years. We substantiated this particular issue through our review of available data for the nine FY 2006 PDP grants in our

⁹ OSEP considers scholars who meet State certification and licensure standards for their particular field as being fully qualified under IDEA.

sample, whereby we noted that 56 percent of scholars who received training under these grants had service obligations of 3 years or less.

We also learned that OSEP and its contractor had previously identified data quality issues pertaining to the calculation of results on this measure using the SOTS. These issues included difficulty determining the total number of scholars served and the number of scholars working in eligible employment, which we substantiated through our review of available performance data as discussed further below. As a result of these data quality issues, OSEP decided to stop publishing data as of FY 2009, at which time it was reported that 65 percent of degree or certification recipients maintained employment in the area(s) for which they were trained for 3 or more years and were fully qualified under IDEA. OSEP's target for this measure for FY 2009 was 91 percent.

According to PDP's FY 2014 Congressional budget justification, results on the long-term performance measure were calculated for FY 2009 using a temporary data collection methodology that involved surveying a small sample (nine) of the largest grantees who received program funds to support training for scholars who graduated in 2004. Although this methodology allowed for the reporting of at least some information on program results, OSEP believed that there was room for improvement. In 2010, OSEP began obtaining data from all currently funded PDP grantees through the NCSO, which began tracking graduates from grantees who received grants in FY 2005 and later, to assess scholars' compliance with the program's service obligation requirement.¹⁰ OSEP subsequently determined, however, that the available data did not provide an accurate representation of the actual proportion of scholars who maintained employment for 3 or more years in the area(s) for which they were trained and decided against reporting results on this measure. Most recently, in PDP's FY 2015 Congressional budget justification, OSEP reported that it, "[h]as found it difficult to accurately and meaningfully calculate and report data on this measure. As such, we are currently evaluating this measure and the available methodologies for accurately calculating it."

As noted above, during the course of our audit, we corroborated a number of data quality issues related to the calculation of results on PDP's long-term performance measure. Most significant among these is grantees' failure to enter the names of exited scholars into the SOTS to allow for tracking by the NCSO. When we reviewed grant files for the nine FY 2006 PDP grantees in our sample, we identified 220 scholars who received funding under the program. However, when we reviewed the initial response to our request for data from the SOTS, we found that the system included information on only 202 scholars.¹¹ We subsequently determined that one grantee had failed to enter data for 17 scholars, and that another grantee had failed to enter data for 1

¹⁰ Although the NCSO contract was awarded in September 2007, reports provided by the contractor noted that grantees were not able to access the SOTS for the purpose of submitting scholar data until July 2009.

¹¹ We first requested data on scholars funded under the PDP grants in our sample in December 2012. OSEP provided summary-level information on these scholars, obtained by its contractor, in February 2013, but did not at that time provide detailed scholar-level information that would enable the audit team to perform independent analyses of the data to verify the payback status of each scholar. We made additional requests for scholar-specific data in July and August 2013 (i.e., scholar start and exit dates, method of exit, work years owed, work years completed, and service obligation completion date) and were provided with initial data in September 2013 and revised data in November 2013. OSEP last provided data on scholars funded under the PDP grants in our sample in January 2014.

scholar.¹² Scholars cannot access the SOTS nor upload employment information until they have been entered into the system by a grantee—a step that is supposed to occur when a scholar exits the program. If a grantee does not enter or update a scholar’s information in the SOTS, OSEP does not have another mechanism by which to determine the scholar’s enrollment status or verify the scholar’s fulfillment of his or her service obligation. We found that some of the grantees in our sample did not update scholar information in the SOTS in a timely manner based on our reviews of annual performance reports (APR) and final performance reports (FPR). For example, the grantee who failed to enter data for 17 scholars submitted an FPR in April 2012 that identified 48 scholars as having been served under the grant—44 of whom completed the program. However, when we first received data from the contractor in February 2013, we noted that the grantee had not updated scholar information in the SOTS since October 2009, at which point it identified 32 scholars as having been served under the grant.

We also identified a few issues related to the employment records in the SOTS. Specifically, of the 92 scholars in our sample with employment records located in the SOTS, we identified one scholar whose employment end date occurred before the start date, one scholar who the contractor confirmed was receiving credit for the same employment twice, and four additional scholars who also may be receiving credit for the same employment twice.

Office of Management and Budget (OMB) Circular A-123, *Management’s Responsibility for Internal Control*, states

Management has a fundamental responsibility to develop and maintain effective internal control. The proper stewardship of Federal resources is an essential responsibility of agency managers and staff. Federal employees must ensure that Federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives. Programs must operate and resources must be used consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement.

Section 662(h)(3) of the IDEA, as amended by the IDEIA, makes the Secretary responsible for ensuring that scholars funded under the PDP comply with the service obligation requirement.

Under 34 C.F.R. § 304.23(d), grantees are required to forward to the Secretary any information that is necessary to carry out the Secretary’s functions under the IDEA, as amended. Under 34 C.F.R. § 304.30(i), scholars are required to provide the Department all information that the Secretary needs to monitor the scholar’s service obligation.

The Department’s “Handbook for the Discretionary Grant Process” (OS-01, dated January 26, 2009) (Handbook) states that monitoring shall continue for as long as the Department retains a residual financial interest in the project, whether or not it is providing active grant support. Specifically, staff are to monitor each grantee to the extent appropriate so as to achieve expected results under approved performance measures, while assuring compliance with grant requirements.

¹² We found that 16 of these 18 scholars have since been added to the SOTS.

Reasons for Data Quality Concerns

Issues noted with regard to the quality of data used to report on the effectiveness of the PDP are directly attributable to (1) the overall design of the program, which requires coordination between four distinct parties, the use of multiple data collection systems, and reliance on self-reported data; and (2) OSEP's limited involvement in the monitoring of the program's payback provision, to include a lack of contractor oversight. Specifically, we noted that although the PDP is not unique in relying on grantee and other self-reported data for the purpose of determining progress toward meeting GPRA performance measure targets, the program represents a distinct risk to the Federal government in that scholars—many of whom received significant sums of money—must continue to be tracked by the Federal government once they have exited their respective programs. We also noted that OSEP has long relied on its contractor to monitor scholars' fulfillment of their service obligations—an arrangement that, while not a concern in and of itself, has not been managed as diligently and effectively as it could have been.

Program and Systems Design

Responsibilities for various aspects of the PDP are divided between multiple entities, including OSEP, the SOTS contractor, grantees, and scholars. Further, OSEP's abilities to draw conclusions about program effectiveness and to fulfill its other monitoring responsibilities (as discussed in Finding No. 2) are complicated by the fact that it must rely significantly on interactions between (and the responsiveness of) these entities.

We noted that OSEP provides annual training to grantees regarding data reporting requirements for both enrolled and exited scholars. The stated goal of this training is to improve the quality of data submitted to OSEP by its grantees, as well as to provide information on any changes in OSEP's data collection systems. However, we found that annual interim SOTS reports submitted to OSEP by the NCSO identified data quality issues related to the reported data. For example, the February 2010 report stated that results for the performance measures depend on both grantee and scholar data entry, and that if data entry is incomplete, then the performance measure results can be diluted. The report noted that not all scholars who had completed their program were entered into the SOTS by their respective grantee. Specifically, as of January 4, 2010, 128 of 442 grantees (29 percent) had not entered scholars into the SOTS or indicated that there were no scholars to enter.¹³

With regard to the scholars themselves, the July 2010 report noted that the number of scholars who were entered into the SOTS and the percentage of those meeting the performance measure criteria were low due primarily to user reporting delays, as more than half of the scholars who were not meeting the performance measures had not logged into the SOTS and, therefore, had not entered any employment records. Improvements in this area were noted in the final interim report, provided to OSEP in August 2012, but the NCSO nevertheless reported that almost one-third of scholars who had been entered into the SOTS still had not logged into the system.

¹³ As noted above, the NCSO was tasked with tracking graduates from grantees who received grants in FY 2005 and later to assess scholars' compliance with the program's service obligation requirement. The 442 grantees mentioned here received grants between FYs 2005 and 2010.

The NCSO also noted difficulty in obtaining current and complete contact and employment information for scholars whom it was tasked with tracking, mainly because there were no consequences for scholars who did not provide such information during their 5-year grace period. Additionally, because the NCSO did not collect the total number of scholars who should have been entered into the SOTS for each grant, it lacked the ability to determine the actual number of scholars who were unaccounted for.

The issues described above are tied substantially to OSEP's use of various data collection systems, none of which were integrated during the scope of our audit. Specifically, we noted that OSEP relied on no fewer than three means by which to obtain financial and performance data from grantees and scholars: APRs/FPRs, SDRs, and the SOTS. Although it is not uncommon for programs to use multiple management information systems, OSEP did not reconcile data—primarily between grantees' APRs/FPRs and the SOTS—to determine whether grantees were providing complete and accurate information.

The Handbook requires that all Department grantees submit an APR for each year of their grant and an FPR at the end of their grant. The purpose of such reporting is for the grantee to provide data on the funded project that corresponds to the scope and objectives established in the approved application and any approved amendments. OSEP also requires grantees to submit an SDR for each year of a scholar's enrollment in the project and to input scholar data into the SOTS once the scholar completes or otherwise exits the project, as discussed above. We found that OSEP did not compare data from the various sources available for review and, as a result, did not identify any discrepancies reported in the numbers of scholars served under each grant. Additionally, we noted that SDRs do not contain any personally identifiable information, thus preventing OSEP and its contractor from determining whether scholars reported on by a grantee during their enrollment in the program were subsequently entered into the SOTS.

As for the issues related to employment records in the SOTS, we learned through our review of policies and procedures and discussions with OSEP management and staff that employers cannot be required to verify scholars' employment records. Also, although the system includes some quality control and logic checks, the primary focus is on data completeness and formatting rather than validity. In fact, scholars are able to override one check designed to identify double employer entries as long as they provide a justification for listing the same employer information twice. OSEP management stated that the Department cannot require employers to log into the SOTS and verify scholars' employment records. However, OSEP is currently considering other ways of achieving this objective, to include making scholars responsible for obtaining verification and providing supporting documentation. OSEP management further stated that, in the future, employment will not count toward a scholar's fulfillment of his or her service unless it has been appropriately verified.

OSEP management noted that a new contract awarded in September 2012 will consolidate the two web-based data collection systems (the SDR and the SOTS) and also allow for project officers to reconcile data in the new system against data in APRs/FPRs. According to the performance work statement, the new system, known as the DCS, will allow OSEP to more efficiently and effectively collect, analyze, and report data. We also noted that OSEP will require grantees to enter what it refers to as "Pre-Scholarship Agreements" into the system upon

a scholar's enrollment in the program as opposed to waiting to enter scholar data until a scholar exits the program, as was done under the SOTS. This will ensure that all funded scholars are accounted for. Grantees will also be required to upload scholars' "Exit Certifications."

The DCS, which was originally scheduled to launch in February 2013 but subsequently began a phased launch in July 2014, is operated by the DCC, the successor to the NCSO.¹⁴ Because the DCS was not fully operational at the time of our audit fieldwork, we were unable to assess its effectiveness as a tool for monitoring the PDP. However, if the system includes the functionalities discussed, it should allow for more active and effective monitoring of the program's payback provision.

Contractor Oversight

We learned through discussions with OSEP management and staff that program officers are not held responsible for monitoring the service obligation portion of the grants but instead are advised to focus only on how grantees spend their money and whether they are making progress in achieving grant objectives. The latter is accomplished by reviewing APRs/FPRs. Responsibility for payback monitoring falls solely on the SOTS contractor with whom program officers have little or no contact. The only exception to this is the program officer who is also the designated Contracting Officer's Representative (COR), and is supposed to maintain communications with the contractor and hold it accountable for adhering to the terms of the contract. We further learned that neither program officers nor the COR had access to the SOTS.¹⁵ As a result, staff were unable to reconcile data in grantee applications and APRs/FPRs with data in the SOTS.

OSEP management stated that although individual program officers are not involved in payback monitoring, certain deliverables under the prior contract enabled officials to monitor grantee and scholar compliance with PDP reporting requirements. However, we noted that OSEP either did not receive or did not review several reports identified in the NCSO Handbook¹⁶ that would have

¹⁴ The contract required that the DCS be approved by the Office of the Chief Information Officer and operational by February 2013. OSEP was also required to obtain clearance from OMB on the information package. A contract modification in June 2013 extended the date by which the system should be operational to February 2014. The DCC actually began migrating data from the SDR and the SOTS in July 2014, and the DCS completed phase one of its launch, consisting of data migration and testing, in September 2014. Scholars and employers were to begin entering data in November 2014 as part of phase three of the launch.

¹⁵ OSEP management stated that it did not obtain access to the SOTS due to the time and expense required to develop the SOTS database, but that the COR will have read-only access to the DCS under the terms of the new contract. OSEP management also requested the ability to run reports in order to save on the cost of requesting additional reports from the contractor, with the expectation that they will run reports every 3 to 6 months to help project officers reconcile the number of scholars listed for their grants.

¹⁶ The NCSO Handbook, formally titled the "Final Draft Procedural Handbook for the SOTS," was submitted to OSEP by the former contractor in June 2008. The current contractor, who was tasked with running the SOTS until the DCS was authorized and operational, submitted to OSEP an augmented version of the NCSO Handbook (in draft form) in September 2013. According to the COR for the current contract, in order to have functional use of the SOTS, the current contractor found it necessary to create screenshots of the system to augment the existing NCSO Handbook and then write detailed procedures that matched the actual system logic. In its introduction to the augmented NCSO Handbook, the current contractor indicated that there will be future revisions to the NCSO Handbook once the DCS is fully operational.

been helpful for these purposes. For example, OSEP management stated that if a grantee was not updating information in the SOTS, it would be included on a report that OSEP received from the contractor every 6 months. After reviewing an example of such a report, we found that it included grantees who had never logged into the SOTS, but did not account for those grantees who had logged into the system but failed to update scholar information—a key piece of information that would have necessitated followup with the grantees. We also noted that the contractor was required to send OSEP reports on each grantee's projected number of funded scholars relative to the actual number of funded scholars entered into the SOTS. However, the contractor stated that it was never provided with the projected number of scholars to be served under each grant and, therefore, could not reconcile the number of scholars in the SOTS with other program data for reporting purposes. Lastly, while it was the contractor's intent to provide OSEP users the ability to generate various reports in the SOTS to monitor program compliance and reporting requirements – to include a list of scholars who did not update their information in the SOTS – OSEP did not see any such reports as it did not receive access to the SOTS.

The data limitations and quality issues discussed above limit stakeholders' ability to draw reliable conclusions on program effectiveness. Specifically, because OSEP was unable to reconcile data in APRs/FPRs and in the SOTS, it was unaware that a number of scholars funded under the PDP were not in the system and, therefore, not being tracked for the purpose of determining whether they were fulfilling their service obligation. Further, scholars that were not in the system were subsequently unable to enter employment data. Additionally, data that was entered into SOTS was not verified to ensure it was current, accurate, and complete. Without verifying employment data or, at a minimum, incorporating adequate system logic checks, scholars may report erroneous employment data and may not adequately complete their required service obligation.

Recommendations

We recommend that the Assistant Secretary for OSERS require OSEP to

- 1.1 Continue to emphasize to grantees, through training or by other means, the need to timely submit accurate and complete scholar data into the DCS; also emphasize to grantees the need to remind scholars of their obligations once they have exited the program.
- 1.2 Require grantees to submit scholar data into the DCS upon a scholar's enrollment in the program, as currently planned, to ensure that all funded scholars are accounted for.
- 1.3 Ensure that the DCC identifies grantees who fail to timely submit accurate and complete scholar data and takes appropriate actions, to include referring to OSEP any noncompliant grantees.
- 1.4 Monitor implementation of the DCS, to include ensuring that all required OSEP access privileges are granted and that all other terms and conditions of the contract are met, including the development of a handbook based on the new system.

- 1.5 Generate periodic reports and use them to reconcile data in the DCS against data in grantees' APRs and FPRs and conduct followup with grantees as needed.
- 1.6 Require the DCC to develop system logic checks to prevent scholars from entering erroneous employment information such as duplicative employment entries and illogical employment start and end dates.
- 1.7 Establish and implement a process for verifying scholars' employment records, to include notifying scholars of their responsibilities in this area as part of the agreement that they must sign to participate in the program, and credit only those records that have been verified toward scholars' fulfillment of their service obligations. Refer to DPMG scholars that fail to report or misreport employment information.
- 1.8 Work with OMB and the appropriate Department parties to establish and implement a long-term performance measure and related methodology that will enable OSEP to calculate and report accurate and meaningful data for use in assessing the effectiveness of the PDP in training scholars who subsequently perform work related to the program.

OSEP Comments

OSEP concurred with the recommendations and described the actions that it will take to improve the accuracy and timeliness of data for the PDP, including both grantee- and scholar-submitted data. These actions include requiring scholar data to be submitted into the DCS upon a scholar's enrollment in the program to ensure that all funded scholars are accounted for, establishing an annual submission cycle where all grantees are given an annual deadline by which all records must be updated, and adding logic checks to the DCS to prevent scholars from entering erroneous employment information. OSEP also established a process for verifying scholars' employment records to include notifying scholars of their responsibilities in the Pre-Scholarship Agreement and crediting only those records that have been verified toward scholars' fulfillment of service obligations. OSEP noted that its documents, training and technical assistance materials, and the DCS procedural handbook will be updated to reflect these actions and any new policies.

In addition, OSEP has been working with the DCC to develop two new reports that will be used to identify any discrepancies between the number of scholars reported in the DCS and the APRs as well as grantees that have not submitted required data by the annual deadline. With this information, OSEP project officers will be able to contact the noncompliant grantees to ensure that they submit required data and comply with service obligation regulations. Read-only access to the DCS will also be made available to OSEP's COR and Alternate COR if deemed necessary to conduct monitoring activities. OSEP has also been working on its outcome measures. Specifically, it has been working with its DCS subcontractor to develop three new outcome performance measures, including a long-term measure, and related methodologies. The three outcome measures and their methodologies have been submitted for review and approval to Budget Service and the measures will be piloted beginning in 2015 once OSEP receives Budget Service and OMB approval.

FINDING NO. 2 – Improvements are Needed in OSEP’s Process for Identifying and Referring Scholars for Financial Repayment

We found that OSEP does not always appropriately identify and refer for financial repayment scholars who are not fulfilling their service obligation. Scholars who receive funding under the PDP must work 2 years for every 1 year of funding received upon completing their respective program. Scholars who do not complete their respective program but complete at least 1 year of training are also eligible for work payback. Work payback must be completed within the sum of the number of years owed plus 5 additional years known as the grace period.¹⁷

Based on information contained in the SOTS, we determined that 17 scholars within the nine FY 2006 PDP grants in our sample should have been identified as either not eligible or not on track to complete their service obligation within the number of years required.

We found that OSEP appropriately identified for financial repayment and subsequently referred to DPMG 12 scholars who were not eligible for work payback because they did not complete at least 1 year of the program. We made this determination by identifying all scholars whose SOTS data indicated that the scholar exited from their respective program prior to completion and also did not include the date on which the scholar completed at least 1 year of the program. We then compared our results to information on scholars in repayment status that was provided by DPMG staff and confirmed that appropriate actions were taken.

However, we determined that OSEP did not appropriately identify five scholars as not on track to complete their service obligation within the number of years required and, as a result, did not contact these scholars for the purpose of determining whether they should be referred to, nor subsequently refer them to, DPMG.¹⁸ We again made this determination based on data contained in the SOTS for each grant in our sample. Specifically, we determined how many work years each scholar had left to complete their service obligation and compared work years owed to the amount of time remaining between the date on which each scholar last updated his or her employment information in the SOTS, and each scholar’s completion date. [See Table 2 below for information on the number and status of exited scholars served under the grants in our sample.]

¹⁷ For example, if a scholar began a program in 2006, received 2 years of funding, and completed the program in 2008, he or she would have until 2017 to complete his or her service obligation.

¹⁸ One of the 5 scholars was actually referred to DPMG for financial repayment because he or she was erroneously identified as not having completed at least 1 year of the program.

| Table 2: Exited Scholars' Status in Fulfilling Work Requirements | | |
|---|--------------|---------|
| Scholars | Total Number | Percent |
| | 168 | |
| Exited Scholars Who Were Still Within 5-Year Grace Period as of January 2014* | 142 | 85% |
| Exited Scholars Who Were Not Eligible to Fulfill Their Obligation Through Acceptable Employment | 12 | 7% |
| Exited Scholars Who Should Have Started Working in Acceptable Employment by January 2014** | 14 | 8% |
| Scholars Who Fulfilled Service Obligation or Are On Track to Fulfill Service Obligation*** | 9 | 64% |
| Scholars Who Are Not On Track to Fulfill Service Obligation**** | 5 | 36% |
| <p>* This is the date when OSEP last provided data on scholars funded under the PDP grants in our sample. ** This number is composed of scholars whose 5-year grace period expired on or before January 2014, as well as scholars who withdrew or were expelled from their respective program but completed at least 1 year of training. *** Of these 9 scholars, 3 (33 percent) have already fulfilled their service obligation and 5 (56 percent) are on track to fulfill their service obligation within the required timeframe. We could not make a clear determination on whether the remaining scholar was currently working or had already fulfilled the required service obligation. **** None of these 5 scholars are currently working in eligible employment based on the amount of work reported as completed in the SOTS. [See below for additional discussion regarding OSEP's scholar referral process, including reasons why scholars were not appropriately identified and referred for financial repayment.]</p> | | |

The five scholars described above were all required to be working in eligible employment as of January 2014, when we last received data from OSEP on scholars funded under the nine FY 2006 PDP grants in our sample. However, according to data in the SOTS, none of the five scholars were on track to complete their service obligation on time.

We further noted that 2 of the 5 scholars (40 percent) last updated their employment information in the SOTS in 2010, and 3 of the 5 scholars (60 percent) never entered employment information in SOTS. We asked the contractor to verify whether these scholars were reminded to enter or update their employment information. The contractor stated that these scholars had not yet been reminded to enter employment information and that it is in the process of developing procedures for contacting scholars such as these.

According to 34 C.F.R. § 304.30(j)(4), a scholar enters repayment status on the first day of the first calendar month after the earliest of the following dates, as applicable: (1) the date the scholar informs the grantee or the Secretary that the scholar does not plan to fulfill the service obligation under the agreement; (2) any date when the scholar's failure to begin or maintain employment makes it impossible for that individual to complete the service obligation within the number of years required; or (3) any date on which the scholar discontinues enrollment in the course of study at the educational institution or agency designated in the scholarship.

Under 34 C.F.R. § 304.30(j), scholars enter into an agreement in which they agree to repay in an amount proportional to the service obligation they do not complete, any scholarship they receive, plus interest, provided they do not receive an exception or deferral to repayment under 34 C.F.R. § 304.31. The debt the scholar owes is a debt to the United States that is subject to collection by the Secretary. The debt equals any amount of the scholarship that has not been repaid through eligible employment, excluding deferral or repayment exceptions, plus interest on the unpaid balance which accrues from the date the scholar is determined to have entered repayment status.

The Handbook states that monitoring must address the Department's fiduciary responsibility to ensure grantees' legal and fiscal compliance and to protect against fraud, waste, and abuse.

Reasons for Not Always Appropriately Identifying and Referring Scholars for Financial Repayment

OSEP did not always appropriately identify and refer for financial repayment scholars who are unable to fulfill their service obligation, and is at risk of doing so in the future, because (1) its policies, procedures, and practices regarding the identification and referral of scholars for financial repayment are not consistent with PDP regulations; and (2) the SOTS is not coded to allow for the identification of scholars who are outside of their grace period and unable to fulfill their service obligation within the required timeframe.

Repayment Policies, Procedures, and Practices

We found that OSEP appears to appropriately identify and refer to DPMG scholars who do not complete at least 1 year of their respective program. According to OSEP staff, the contractor was told to code the system to identify scholars for referral to DPMG if a scholar was in a program for less than 1 year, assuming that the program length was 1 year or longer. However, we also found that its policies and procedures—specifically, the NCSO and DPMG Handbooks¹⁹—appear to allow for scholars to avoid being referred for financial repayment once their 5-year grace period has expired as long as they are working in eligible employment even if they cannot complete the service obligation within the required time period. This is contrary to the program regulations, which require OSEP to refer to DPMG any scholars who are outside of their grace period and unable to fulfill their service obligation within the required timeframe, regardless of whether or not they are working in eligible employment. OSEP staff and management confirmed that they will wait until the date by which a scholar must complete his or her service obligation before identifying and referring the scholar for financial repayment.

Additionally, although the NCSO Handbook currently requires the contractor to refer to DPMG scholars who are outside of their grace period and miss a reporting period without updating their employment information, we learned that OSEP intends to remove this requirement from future updates to its procedures. The requirement as now written, however, helps ensure that scholar information is current and complete for payback monitoring purposes, so removal of this requirement may have an adverse impact on the contractor's ability to fulfill its payback monitoring responsibilities.

¹⁹ The DPMG Handbook, formally titled the "Final DPMG Procedures Handbook," was submitted to OSEP by the current contractor in May 2013. The version provided to the audit team was identified by the COR as a final product (albeit one subject to changes to reflect updates to procedural requirements for referrals to DPMG). The COR further stated that the DPMG Handbook is a standalone manual per the DCC performance work statement (Task 10), but may become a chapter in the DCS Procedural Handbook (Task 8).

System Capabilities

Contractor staff cannot easily identify in the SOTS scholars who should be classified as being in repayment status and potentially referred to DPMG. This is due to the system not being structured in a manner that would allow for contractor staff to run periodic reports on scholars who are unable to complete their service obligation within the required timeframe. Specifically, the database underlying the SOTS lacks certain fields that are necessary for calculating the difference between the number of work years still owed by a scholar and the amount of time remaining before the date he or she must complete his or her service obligation. Scholars who have less time remaining to complete their service obligation than time owed should be in repayment status; however, because contractor staff would have to perform this calculation manually, they instead wait until the date by which the scholar must complete his or her service obligation (and for which an automated query can be run) before initiating debt collection activities.

The SOTS is also not coded to alert contractor staff when a scholar's deferral period has ended, at which point they must either begin working in eligible employment or be referred to DPMG. Instead, there is a table in the database that needs to be reviewed manually by staff to make this determination.

The weaknesses noted with regard to the identification and referral of scholars for financial repayment increase the susceptibility of the PDP to fraud, waste, and abuse. We noted that the five scholars who should have been identified as not on track to complete their service obligation, and therefore placed in repayment status, received approximately \$16,000 in Federal funds. These are funds that are owed to the Federal government according to the agreements which these scholars signed upon starting their respective programs. Because a significant majority of scholars who graduated or otherwise exited their respective program are still in their grace period and, therefore, not yet required to have begun work in eligible employment (as discussed in Finding No. 1), there are very few scholars for whom this situation has occurred. However, as time goes by, there is increasing risk that greater numbers of PDP scholars who are unable to fulfill their service obligation according to the program regulations will not be appropriately identified and referred for financial repayment and that OSEP will not timely recover funds owed to the Federal government. Also, because OSEP does not refer scholars for financial repayment until their period of obligation has expired, the accrued interest owed to the Federal government will be less than what it should have been had OSEP, consistent with the regulations, correctly identified when a scholar entered into repayment status and timely initiated debt collection activities.

Recommendations

We recommend that the Assistant Secretary for OSERS require OSEP to

- 2.1 Direct the DCC to both immediately and periodically review scholar data in the DCS to determine whether any scholars should be classified as being in repayment status in accordance with the program regulations; conduct followup with grantees and/or scholars as needed to ensure that scholar data is current, accurate, and complete; and refer to

- DPMG for financial repayment any noncompliant scholars, along with all required documentation.
- 2.2 Consider changing the regulation defining when a scholar enters repayment status to be consistent with OSEP's current practice, or revise all current policies and procedures related to the identification and referral of scholars for financial repayment to reflect the current regulatory requirements.
 - 2.3 Work with the DCC to include fields in the DCS that would allow for the identification of scholars who are outside of their grace period and unable to fulfill their service obligation within the required timeframe; also identify other potential areas for improvement.

OSEP Comments

OSEP concurred with the recommendations and described actions that it has taken or plans to take to improve its process for identifying and referring scholars for financial repayment. Specifically, it is working with the DCC to include fields in the DCS that would allow for the identification of scholars who are outside of their grace period and unable to fulfill their service obligation within the required timeframe. In addition, the DCS now requires grantees to upload completed and signed Pre-Scholarship Agreements and Exit Certifications. This will allow the DCC to easily identify and refer scholars for financial repayment to DPMG since it will already have proof of debt. The DCC will document these steps and procedures in the procedural handbook. OSEP stated it is also identifying other potential areas for improvement, to include the development and documenting of procedures for ensuring high scholar and employer response rates.

Finally, OSEP concurred with the recommendation to explore changing the regulation defining when a scholar enters repayment status or revising current policies and procedures related to the identification and referral of scholars for financial repayment to reflect current regulatory requirements. OSEP stated that after a thorough review, management will decide the best approach for the PDP and the DPMG procedural handbook will be revised accordingly.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether the PDP effectively (1) met program objectives by training recipients who subsequently performed work related to the program, and (2) obtained repayment of the assistance received for recipients that did not fulfill work agreements. This audit was part of a review of payback provisions of selected grant programs throughout the Department.

To accomplish our objectives, we gained an understanding of internal control applicable to the Department's administration and oversight of discretionary grant programs, in general, and to OSEP's process for monitoring grantees and scholars who receive funding under the PDP. We reviewed applicable laws and regulations, OMB guidance, Department policies and procedures, Federal Register notices, and the Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government." In addition, to identify potential vulnerabilities, we reviewed prior Office of Inspector General (OIG) and GAO audit reports with relevance to our audit objectives. We also reviewed the performance work statement for the SOTS and DCS contracts, as well as system documentation prepared by the contractors, to obtain an understanding of the contractor responsibilities and system capabilities under each contract.

We conducted discussions with OSEP management and staff, including program officers, to obtain a more complete understanding of the PDP. These discussions focused primarily on monitoring activities pertaining to the service obligation component of the PDP, as well as information on GPRA performance measures and relevant program studies. We conducted discussions with DPMG officials regarding the referral and financial repayment processes and to determine whether OSEP has utilized their services. We also conducted discussions with the SOTS and DCS CORs and DCS contractor officials regarding monitoring and tracking activities and the data collection systems used to perform such activities.

The scope of our review was limited to the Department's post-award activities for grants made under the FY 2006 PDP competition, with a particular focus on monitoring of scholars' fulfillment of the applicable payback requirement. We chose to focus on FY 2006 grants because of differences in the regulations and scholar tracking requirements for grants awarded prior to this time. We selected a sample of 9 of the 81 (11 percent) PDP grants awarded in FY 2006. Our sample included eight grants that were randomly selected and one grant that was judgmentally selected based on the results of a prior OIG audit at the entity. Our sample included \$7 million of the \$64.5 million (11 percent) awarded to FY 2006 PDP grantees. Because there is no assurance that the judgmental sample used in this audit is representative of the respective universe, the results should not be projected over the unsampled awards.

To achieve our objectives, we relied primarily on grantee- and scholar-reported data found in the SOTS. We reviewed data from SOTS as of January 6, 2014 for each of the nine FY 2006 PDP grants in our sample. We also reviewed official grant files, which are maintained in hardcopy form, most notably the annual and final performance reports. We reviewed documentation for

each of the grants in our sample to determine: (1) the number of scholars served; (2) financial assistance provided to each scholar; (3) the current program enrollment status of each scholar; and (4) whether payback (either employment or financial) had begun for those scholars who completed or otherwise exited their respective program. We also reviewed referral and financial repayment documentation provided by DPMG and OSEP.

We relied on computer-processed data from G5, the Department's grants management system, and from the SOTS. We used data from G5 for the purpose of identifying the universe of PDP grants awarded in FY 2006 and related obligation amounts. Because G5 is the Department's system of record for such information and the data were used primarily for informational purposes and did not materially affect our findings and resulting conclusions, we did not perform a data reliability assessment.

We used the SOTS for the purpose of identifying the universe of scholars served under the nine FY 2006 PDP grants in our sample and also to determine the current status of each scholar. We compared the total number of scholars served under each grant according to the SOTS with information contained in each grantee's annual and final performance reports. During our review of the SOTS data, we noted that some information was missing, to include total funding amount, and in some cases we identified scholars who had received funding but were never entered into the SOTS. In addition, we noted cases where SOTS contained illogical entries for a scholar, such as an employment exit date that occurred prior to the employment start date and/or a scholar entering and twice receiving credit for the same employment. [See Finding No. 1 for additional information.] Because source data for information contained in the SOTS is primarily located at various grantees and employers across the country, our ability to perform an assessment of the reliability of the information in the SOTS was limited, and as such, we could not fully determine the reliability of the data. However, despite these limitations, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. Specifically, the limitations noted did not impact our ability to assess OSEP's processes related to the identification and referral of noncompliant scholars nor provide enough basis for us to completely discount what available data indicate with regard to program results.

We conducted fieldwork at Department offices in Washington, D.C., from November 2012 through August 2014. We provided our audit results to Department officials during an exit conference conducted on August 14, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the OIG is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the OIG are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Michele Weaver-Dugan at (202) 245-6941.

Sincerely,

Patrick J. Howard /s/
Assistant Inspector General for Audit

**Abbreviations, Acronyms, and Short Forms
Used in this Report**

| | |
|---------------|--|
| APR | Annual Performance Report |
| CAP | Corrective Action Plan |
| C.F.R. | Code of Federal Regulations |
| COR | Contracting Officer's Representative |
| DCC | Data Collection Center |
| DCS | Data Collection System |
| Department | U.S. Department of Education |
| DPMG | Debt and Payment Management Group |
| DPMG Handbook | Final DPMG Procedures Handbook |
| FPR | Final Performance Report |
| FY | Fiscal Year |
| GPRA | Government Performance and Results Act |
| Handbook | Handbook for the Discretionary Grant Process |
| IDEA | Individuals with Disabilities Education Act |
| IDEIA | Individuals with Disabilities Education Improvement Act of 2004 |
| NCSO | National Center on Service Obligations |
| NCSO Handbook | Final Draft Procedural Handbook for the Service Obligation Tracking System |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |

| | |
|-------|--|
| OSEP | Office of Special Education Programs |
| OSERS | Office of Special Education and Rehabilitative Services |
| PDP | Personnel Development to Improve Services and Results for Children with Disabilities Program |
| RLTT | Rehabilitation Long-Term Training |
| RSA | Rehabilitation Services Administration |
| SDR | Scholar Data Report |
| SOTS | Service Obligation Tracking System |



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES

JAN - 9 2015

Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, S.W.
Washington, D.C. 20202-1500

Dear Ms. Weaver-Dugan:

OSERS received the December 12, 2014 letter from the Assistant Inspector General for Audit, which included the draft audit report, titled *Payback Provisions of the Personnel Development to Improve Services and Results for Children with Disabilities Program*, control number ED-OIG/A19O0004. My staff and I appreciated the opportunity to review the draft report. It has been and will continue to be our goal to ensure that the information collected and reported for the Office of Special Education Program's (OSEP's) Personnel Development Program's (PDP) Service Obligation payback is accurate and that all scholars who are not fulfilling service obligations are referred in a timely manner to the Debt and Payment and Management Group (DPMG) for financial repayment. To that end, we have made and continue to make significant progress in our collection of data, delivery of technical assistance to grantees on data quality, and in making appropriate referrals for debt collection.

We agree with all recommendations in the draft report, and, on the assumption it will be issued in final without substantive change, we identify below the significant actions OSEP has taken, and plans to undertake, to address the eight recommendations under Finding No.1 and the three recommendations under Finding No. 2.

FINDING NO. 1 – Results are Encouraging, but Data Limitations and Quality Issues Limit Stakeholders' Ability to Assess PDP Effectiveness

We summarize this finding very briefly here. The OIG draft audit report noted that, "audit results indicate that more than half of the PDP scholars in our sample who received training under the FY 2006 grants and exited their respective programs have either completed or are currently working towards completion of their service obligation." The report also stated, "However, limited data availability for the scholars in our sample due to the program's five year grace period made it generally too early to comment on program effectiveness with regard to the employment of those scholars."

OIG Recommendation 1.1

Continue to emphasize to grantees, through training or by other means, the need to timely submit accurate and complete scholar data into the DCS; also emphasize to grantees the need to remind scholars of their obligations once they have exited the program.

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The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

OSEP Response:

We concur with the recommendation to continue to emphasize to grantees the need to a) timely submit accurate and complete scholar data into the Personnel Development Program Data Collection System (DCS), and b) remind scholars of their obligations once they have exited the program. OSEP has provided substantial training and technical assistance to grantees through annual training events, document dissemination, technical support, and Project Officer communications. OSEP intends to continue its training and technical assistance to grantees, as described below:

1. OSEP will continue to provide¹ annual training to its grantees on submitting high quality data through:
 - OSEP's Project Directors' Conferences, face-to-face or virtual (all grantees)
 - Live, interactive webinars (new grantees)
 - On demand, archived training at the DCS website:
<https://pdp.ed.gov/OSEP/Home/Training> (all grantees, scholars, and employers).
2. OSEP will continue required training for grantees each year on annual performance reporting (APR) requirements, including those related to service obligation. These APR webinar trainings, conducted by OSEP Project Officers, have been uniquely developed for grants funded under the Personnel Development Program (CFDAs 325D, 325K, 325T, and 325N). Additional training on developing high quality logic models and project performance measures is offered to all grantees.
3. OSEP disseminates annually information and documents on timely submission of data, including data related to service obligation, including:
 - 325D and 325K priorities published in the Federal Register.
 - Reiteration of the regulatory requirements to timely submit Annual Performance Reports, Scholar Data Reports, and Service Obligation data (34 CFR 75.253(a)(3)²; and 34 CFR 75.217(d)(3)(ii)³) and the possible consequences for not making timely submissions, as disseminated at the OSEP Project Directors' Conference.
 - Annual results on program performance measures, including the need for timely submission of quality data, presented at OSEP's Annual PDP Program Meeting.
 - A Dear Colleague Letter from Research to Practice Director, Dr. Lawrence Wexler, transmitted with each Grant Award Notification for Continuing and New Awards.

¹ Training on SDR data submission has been provided annually since 2008 to PDP grantees at OSEP's Project Directors' Conferences; training has been provided annually since 2010 on SDR data submission requirements; and since FY 2012 training has been targeted to new grantees on submitting quality data.

² According to 34 CFR 75.253(a)(3), the timely submission of this report is one of the factors that the Secretary will consider in determining whether to continue your project's funding for next fiscal year.

³ According to 34 CFR 75.217(d)(3)(ii), the Secretary can consider the failure to submit scholar data in a timely fashion in determining your project's ability to obtain future grants from the Office of Special Education Programs or under any other Department program.

4. The DCS contractor supports a technical assistance help desk, Monday through Friday, from 8 a.m. to 8 p.m. (Eastern time) to assist grantees not only with issues related to the technical submission of data, but also with questions associated with data quality, such as directing the grantee to specific, archived training webinars on data quality. Technical support can be accessed through email at serviceobligation@ed.gov; phone at 1-800-285-6276; or fax at 1-888-252-6960.
5. Finally, PDP Project Officers conduct a post-award conference for each new award. During each post-award conference, all data reporting requirements for timely submission of Annual Performance and Final Reports are reviewed, along with requirements for scholar and service obligation reporting.

Because OSEP's contractor recently merged service obligation and scholar data collections from two separate, previous systems, (SDR and SOTS⁴), all OSEP training, documents, and technical assistance materials will be reviewed and revised to reflect new contact information for the contractor, new websites for archived training and other resources, as well as any other relevant updates. Updates will a) emphasize the need for grantees to remind scholars of their obligations once they have exited the program, and b) increase emphasis on the quality of data that grantees submit. In particular, we will stress how the quality of grantee data on scholars influences annual results on program performance measures and the critical importance of scholars submitting their employment data not only for tracking their service obligation fulfillment, but also for calculating program effectiveness. Scholar data could be disaggregated at the grantee level, for example, to determine the employment rates for scholars from each OSEP-funded grantee.

The following activities will continue to be emphasized or added:

1. The DCS contractor will be required to prepare a targeted training for scholars that will emphasize a) how the data they submit documents their service obligation fulfillment, and b) their responsibilities to submit their employment data and to obtain employer verification. The training will be available on the DCS website, so that scholars may participate in the training prior to data submission and on demand throughout a scholar's data submission period (annually until the service obligation is fulfilled).
2. The DCS contractor sends reminders annually by email to grantees three weeks prior to the date on which they can begin entering data.
3. The DCS tracks data submissions throughout the annual submission cycle. Data submissions are due 60 days after the data entry start date for grantees indicated in the email notification sent by the DCS contractor regarding data system availability. The DCS sends follow-up reminders by email to each grantee one month prior to their data submission deadline, for grantees that have not completed data submission. OSEP also receives notification of all grantees that have not submitted data during the data collection period so that Project

⁴ SDR is the Scholar Data Report; SOTS is the Service Obligation Tracking System. SDR and SOTS are no longer active data collection systems.

Officers can follow-up with their grantees not submitting data prior to the data submission deadline and consequently will require a time extension to the deadline. After time extensions have been used, those grantees which have yet to submit data will be contacted by the DCS contractor to provide technical support to resolve their challenges on submitting scholar data. At this point, if any grantees are unable to submit scholar data, OSEP options include: a) determine that no substantial progress was made and no continuation funds would be awarded; b) close the grant; or c) seek further action to determine whether fraud, waste, or abuse occurred.

4. The DCS will continue to collaborate with OSEP on the development and implementation of training for grantees on the submission of quality data.

OIG Recommendation 1.2

Require grantees to submit scholar data into the DCS upon a scholar's enrollment in the program, as currently planned, to ensure that all funded scholars are accounted for.

OSEP Response:

We concur with the recommendation to require grantees to submit scholar data into the DCS upon a scholar's enrollment. Grantees are required to create a scholar record and upload a Pre-Scholarship Agreement into the DCS within 30 days of a scholar's enrollment in the program. The Personnel Development Program Data Collection Center (DCC) now monitors how often grantees are accessing the DCS and sends reminders if 6 months have passed since the grantee last accessed the system. In addition, all grantees will be given an annual deadline, typically in April, by which all records must be updated. The DCC will monitor response rates and report noncompliant grantees to OSEP. OSEP and the DCC have developed a new Quarterly Report to Project Officer (on key indicators of project progress) that is expected to be ready for use in March 2015. Project Officers will be able to compare data in the DCS with data submitted in the grant APRs by means of the new report. The DCC will work with the Project Officers to address any discrepancies between the number of scholars reported in the DCS and the APRs.

OIG Recommendation 1.3

Ensure that the DCC identifies grantees who fail to timely submit accurate and complete scholar data and takes appropriate actions, to include referring to OSEP any noncompliant grantees.

OSEP Response:

We concur with the recommendation. Grantees not in compliance will be referred to OSEP. By giving all grantees a specific annual deadline, the DCC will be able to track grantee responses rates and identify grantees that have not submitted required data by the annual deadline. Using a process developed for the Scholar Data Report, the DCC will provide OSEP with a "Nonresponse Report" identifying noncompliant grantees as of the annual deadline. Each OSEP Project Officer will then contact their assigned grantees reported to have failed to timely submit data to determine why the

grantee has not submitted data and to ensure that all grantees submit required data and comply with service obligation regulations. The DCC will provide a weekly update to OSEP of the nonresponse report until all grants are in compliance with data submission requirements.

In addition, OSEP and its contractor have designed the DCS to require grantees to upload each scholar's Pre-Scholarship Agreement (PSA) prior to submitting scholar data. By using this strategy, DCC will assure complete data entry within 30 days of scholar enrollment. Grantees have submitted records of 8,114 scholars with PSAs during the 2014 launch period. Random sampling will begin in January 2015 for reviewing PSAs and scholar records to assure they are submitted with accurate and complete data including required signatures.

OIG Recommendation 1.4

Monitor implementation of the DCS, to include ensuring that all required OSEP access privileges are granted and that all other terms and conditions of the contract are met, including the development of a handbook based on the new system.

OSEP Response:

We concur with the recommendation. The DCC has added a read-only user category to the DCS and will assign accounts to the OSEP Contracting Officer's Representative (COR) and Alternate COR. Read-only functionality will be available as of January 2015. DCC staff will then train the COR and Alternate COR on how to navigate the system. Administrative access is not currently required for monitoring, however, if administrative-level access is required to conduct monitoring activities in the future, the DCC can make it available to the COR and Alternate COR within 24 hours.

OSEP will also ensure that other terms and conditions of the contract are met by the DCC. The COR reviews progress on each task during bi-monthly conference calls with the contractor. Deliverables are archived on a secure SharePoint site for monthly monitoring and future reference. The contractor submitted a draft procedural handbook for the DCS which is currently under review by the COR. The contractor will respond to COR feedback by the end of January 2015 and submit a final draft DCS procedural handbook by the end of February 2015.

OIG Recommendation 1.5

Generate periodic reports and use them to reconcile data in the DCS against data in grantees' APRs and FPRs and conduct follow-up with grantees as needed.

OSEP Response:

We concur with the recommendation to generate periodic reports and use them to reconcile data in the DCS against data in grantees' APRs and FPRs (Final Performance Reports). The DCC will prepare quarterly reports for each Project Officer with aggregated counts tracking scholar data entry status, program completion status, and service obligation status for each scholar having received funds from their assigned training grants. OSEP Project Officers will be able to compare these

reports to the proposed number of scholars from the grant application and the number of scholars reported in the most recent APR. The DCC will provide the first quarterly reports to OSEP Project Officers by March 2015. Please see also the OSEP Response for OIG Recommendation 1.2.

OIG Recommendation 1.6

Require the DCC to develop system logic checks to prevent scholars from entering erroneous employment information such as duplicative employment entries and illogical employment start and end dates.

OSEP Response:

We concur with the recommendation. The DCC has added logic checks to the DCS that prevent scholars from entering illogical employment start and end dates (e.g., end dates in the future). The DCC has also capped the number of employment hours scholars may submit to one full-time equivalent (FTE) (i.e., 40 hours/week). This edit prevents duplicative employment records and can be overridden by DCC staff if the scholar contacts the Help Desk, if he or she is in fact working over one FTE. These logic checks were added in December 2014 and are in place for the initial launch to scholars and employer by the end of January 2015. A list of the logic checks will be provided in the final procedural handbook along with instructions for DCC staff on how to handle the employment override functionality.

OIG Recommendation 1.7

Establish and implement a process for verifying scholars' employment records, to include notifying scholars of their responsibilities in this area as part of the agreement that they must sign to participate in the program, and credit only those records that have been verified toward scholars' fulfillment of their service obligations. Refer to DPMG scholars that fail to report or misreport employment information.

OSEP Response:

We concur with the recommendation to establish and implement a process for verifying scholars' employment records, to include notifying scholars of their responsibilities as part of the Pre-Scholarship Agreement that they must sign to participate in the program, and credit only those records that have been verified toward scholars' fulfillment of service obligations. We also concur with the recommendation to refer to DPMG scholars who fail to report or misreport employment information.

The system design for the DCS currently assigns to scholars the responsibility for obtaining employment verification and providing supporting documentation. Through an automated system, the DCS contacts the employer to verify a scholar's employment. If the employer fails to verify employment, the scholar is contacted and must seek the employer's verification or the employment cannot be used for service obligation fulfillment. Data collection for scholars and employers will

begin in January 2015, and employment will not count toward a scholar's fulfillment of his or her service unless it has been appropriately verified.

The DCC will refer all scholars who fail to fulfill their service obligation to DPMG. The Procedural Manual will document the process by which cases are referred to DPMG. Reports will be run on Mondays by the DCC Data Manager to ensure a timely referral to DPMG.

OIG Recommendation 1.8

Work with OMB and the appropriate Department parties to establish and implement a long-term performance measure and related methodology that will enable OSEP to calculate and report accurate and meaningful data for use in assessing the effectiveness of the PDP in training scholars who subsequently perform work related to the program.

OSEP Response:

We concur with the recommendation to work with OMB and the appropriate Department parties to establish and implement a long-term performance measure and related methodology that will enable OSEP to calculate and report accurate and meaningful data for use in assessing the effectiveness of the PDP in training scholars who subsequently perform work related to the program.

OSEP has been working for the past two years with its DCS subcontractor, Westat⁵, to develop three new outcome measures, including a long-term measure, and related methodologies. During this process, OSEP sought technical feedback from ED's Budget Service and the Office of the General Counsel. OSEP Project Officers and focus groups of PDP grantees also provided input and feedback. The three outcome measures and their methodology have been submitted for review and approval to the Budget Service. Scholar and employer data collections for these measures were approved by OMB on May 8, 2014 (OMB# 1820-0686). When OSEP receives Budget and OMB approval on the methodology, the measures will be piloted in 2015.

FINDING NO. 2 – Improvements are Needed in OSEP's Process for Identifying and Referring Scholars for Financial Repayment

We summarize this finding very briefly here. The OIG draft audit report noted, "We found that OSEP does not always appropriately identify and refer for financial repayment scholars who are not fulfilling their service obligation." The report also stated, "...we determined that OSEP did not appropriately identify five scholars [in the sample] as not on track to complete their service obligation within the number of years required and, as a result, did not contact these scholars for the purpose of determining whether they should be referred to, nor subsequently refer them to, DPMG."

⁵ Westat significantly improved performance measures and methodologies on selected ED programs under the Data Quality Initiative, a former contract with ED's Institute of Education Sciences (IES).

OIG Recommendation 2.1

Direct DCC to both immediately and periodically review scholar data in the DCS to determine whether any scholars should be classified as being in repayment status in accordance with the program regulations; conduct follow-up with grantees and/or scholars as needed to ensure that scholar data is current, accurate, and complete; and refer to DPMG for financial repayment any noncompliant scholars, along with all required documentation.

OSEP Response:

We concur with the recommendation. The DCS now requires grantees to upload completed and signed Pre-scholarship Agreements and Exit Certifications. The DCC will be able easily to make referrals to DPMG, since it will already have proof of debt. (Lack of proof of debt was a common problem for the previous contractor.) In addition, the DCC has established procedures in its draft handbook for generating and reviewing weekly referral lists to identify scholars who should be referred. A dedicated, private email account has been established by OSEP for managing all referrals from DCS to DPMG: (DPMG.DCS@ed.gov).

OIG Recommendation 2.2

Consider changing the regulation defining when a scholar enters repayment status to be consistent with OSEP's current practice, or revise all current policies and procedures related to the identification and referral of scholars for financial repayment to reflect the current regulatory requirements.

OSEP Response:

We concur with the recommendation. OSEP will explore changing the regulation defining when a scholar enters repayment status or revising current policies and procedures related to the identification and referral of scholars for financial repayment to reflect current regulatory requirements. After a thorough review, OSEP management will decide the best approach for the PDP; practice and policies will be consistent with 34 C.F.R. §304.30(j)(4)⁶ or will be changed to reflect any new regulatory requirements. The DPMG procedural handbook will be revised accordingly.

⁶ According to 34 C.F.R. §304.30(j)(4), a scholar enters repayment status on the first day of the first calendar month after the earliest of the following dates, as applicable: (1) the date the scholar informs the grantee or the Secretary that the scholar does not plan to fulfill the service obligation under the agreement; (2) any date when the scholar's failure to begin or maintain employment makes it impossible for that individual to complete the service obligation within the number of years required; or (3) any date on which the scholar discontinues enrollment in the course of study at the educational institution or agency designated in the scholarship.

OIG Recommendation 2.3

Work with the DCC to include fields in the DCS that would allow for the identification of scholars who are outside of their grace period and unable to fulfill their service obligation within the required timeframe; also identify other potential areas for improvement.

OSEP Response:

We concur with the recommendation to work with DCC to include fields in the DCS that would allow for the identification of scholars who are outside of their grace period and unable to fulfill their service obligation within the required timeframe. The DCS will use the scholar's end date plus the grace period to identify the date by which a scholar must have begun eligible employment. After that date, a scholar's failure to report employment will result in a referral to DPMG. The procedural handbook will document the steps the DCC will take to ensure timely referrals to DPMG. A draft version of this handbook is currently under review by OSEP. The DCC will prepare a final version of the procedural handbook upon receipt of OSEP feedback.

OSEP will also work with the DCC to identify other potential areas for improvement. For example, OSEP will direct the DCC to develop and document procedures for ensuring high scholar and employer response rates. By contacting scholars frequently and through different methods (e.g.; email messages, postcards), OSEP and the DCC will minimize the number of scholars who fail to report eligible employment.

Other issues:

We previously provided your office with recommendations for technical and conforming edits, that, if incorporated, we believe will improve the accuracy of certain aspects of the final audit report.

Thank you for the opportunity to review and respond to the draft audit report. Should you have questions concerning our response or need additional information, please do not hesitate to contact Dr. Lawrence Wexler, Research to Practice Division, Office of Special Education Programs, at (202) 245-7571.

Sincerely,



Michael K. Yudin
Acting Assistant Secretary