



U.S. Department of Education  
Office of Inspector General

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# FY 2015 Management Challenges

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November 2014

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**Office of Inspector General**

Kathleen S. Tighe

*Inspector General*

November 2014

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*Please Note:*

The Inspector General's FY 2015 Management Challenges is available on the ED OIG Web site at <http://www2.ed.gov/about/offices/list/oig/reports.html>.



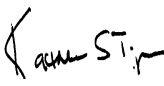
UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

The Inspector General

November 4, 2014

**MEMORANDUM**

TO: The Honorable Arne Duncan  
Secretary of Education

FROM: Kathleen S. Tighe   
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2015

The Reports Consolidation Act of 2000 requires the U.S. Department of Education (Department), Office of Inspector General to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges. To identify management challenges, we routinely examine past audit, inspection, and investigative work, as well as issued reports where corrective actions have yet to be taken; assess ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyze new programs and activities that could post significant challenges because of their breadth and complexity.

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. While the Department remains committed to addressing these areas and has taken or plans action to correct many of their underlying causes, each remains as a management challenge for fiscal year (FY) 2015.

The FY 2015 management challenges are:

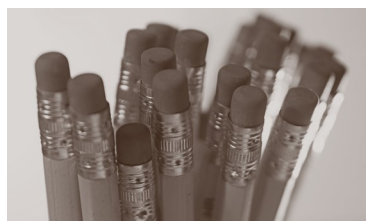
1. Improper Payments,
2. Information Technology Security,
3. Oversight and Monitoring,
4. Data Quality and Reporting, and
5. Information Technology System Development and Implementation.

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2015 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

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# TABLE OF CONTENTS



## EXECUTIVE SUMMARY

1



## IMPROPER PAYMENTS

11



## INFORMATION TECHNOLOGY SECURITY

19



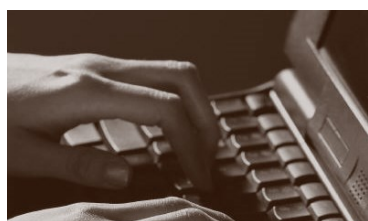
## OVERSIGHT AND MONITORING SFA PROGRAM PARTICIPANTS DISTANCE EDUCATION GRANTEES CONTRACTORS

25

34

41

50



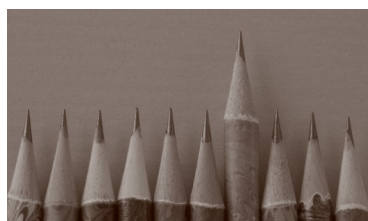
## DATA QUALITY AND REPORTING

53



## INFORMATION TECHNOLOGY SYSTEMS DEVELOPMENT AND IMPLEMENTATION

59



## APPENDICES

### A. WORK DISCUSSED UNDER THE CHALLENGES

63

### B. ACRONYMS AND ABBREVIATIONS

70





## EXECUTIVE SUMMARY

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The Reports Consolidation Act of 2000 requires the OIG to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges.

Last year we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2015.

The FY 2015 management challenges are:

1. Improper Payments,
2. Information Technology Security,
3. Oversight and Monitoring,
4. Data Quality and Reporting, and
5. Information Technology System Development and Implementation.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. The full FY 2015 Management Challenges Report is available at <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>.

### Management Challenge 1: Improper Payments

#### Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal Pell Grant (Pell), William D. Ford Federal Direct Loan (Direct Loan), and Federal Family Education Loan (FFEL) programs as susceptible to significant improper payments.

Our recent work has demonstrated that the Department remains challenged to meet new requirements and to intensify its efforts to successfully prevent,



identify, and recapture improper payments. We have identified concerns in numerous areas relating to improper payments, including calculation of the estimated improper payment rate for the Pell, FFEL, and Direct Loan programs and improper payments involving grantees and contractors. Our Semiannual Reports to Congress from April 1, 2011, through March 31, 2014, included more than \$53 million in questioned or unsupported costs from audit reports and over \$47 million in restitution payments from our investigative activity.

## Progress in Meeting the Challenge

The Department has revised its estimation methodologies for each of its risk-susceptible programs (Pell, Direct Loan, and FFEL); and the Office of Management and Budget approved the new estimation methodologies for all three programs in September 2014. Although the Office of Management and Budget approved the estimation methodologies, improvements are needed to ensure their completeness.

The Department has identified root causes for improper payments in its risk-susceptible programs that included documentation, administrative, and verification errors. In response, the Department planned or completed numerous corrective actions. These actions included a voluntary data exchange program with the Internal Revenue Service that is intended to improve the accuracy of financial aid applicant's income data reported on the online Free Application for Federal Student Aid (FAFSA), improved verification requirements, enhanced system edits within the Central Processing System, Common Origination and Support system, and the National Student Loan Data System, continued use of data analytics, and various internal controls to prevent and detect errors integrated into its grant and Direct Loan program-related systems and activities.

## What Needs to Be Done

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. The Department should continue to work to develop estimation methodologies that adequately address recommendations made in our audit work.

### Management Challenge 2: Information Technology Security

## Why This Is a Challenge

The OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. Department systems contain or protect an enormous amount of confidential information such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

Over the last several years, IT security audits have identified controls that need improvement to adequately protect the Department's systems and data. This included weaknesses in configuration management, identity and access



management, incident response and reporting, risk management, security training, plan of action and milestones, remote access management, and contingency planning. In addition, investigative work performed by the OIG has identified IT security control concerns in areas such as the Federal Student Aid (FSA) personal identification number system, mobile IT devices, malware, incident response, and email spear phishing.

## Progress in Meeting the Challenge

The Department provided corrective action plans to address the recommendations in our audits and has procured services to provide additional intrusion detection capabilities for its primary enterprise environment and related data center. The Department also awarded a contract for a continuous monitoring program of its enterprise infrastructure. It has nearly completed the requirement of implementing two-factor authentication for Government and contractor employees and is well into the process of supplying and implementing multifactor authentication for its external business partners.

The Department also stated that it is laying a foundation for increased security oversight and efficiency with an in-house Cyber Security Operations Center, which is scheduled to be fully operational in the latter part of 2014.

## What Needs to Be Done

The Department needs to continue its efforts to develop more effective capabilities to respond to potential IT security incidents. It also should continue its progress towards fully implementing and enforcing the use of two-factor authentication when accessing its system. The Department should strive towards a robust capability to identify and respond to malware installations.

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended, programs are achieving goals and objectives, and the Department is obtaining the products and level of services for which it has contracted. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on stakeholders. Four subareas are included in this management challenge—Student Financial Assistance (SFA) program participants, distance education, grantees, and contractors.

### Management Challenge 3: Oversight and Monitoring

#### Oversight and Monitoring—SFA Program Participants

##### *Why This Is a Challenge*

The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the Higher Education Act of 1965, as amended, to ensure that the programs are not subject to fraud, waste, and abuse. In FY 2014, the Federal Government planned to provide \$161.3 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2015 budget request outlines \$169.8 billion in Federal student aid, including \$29.2 billion in Pell Grants and more than

\$133.7 billion in student loans. Nearly 12.8 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

Our audits and inspections, along with work the Government Accountability Office conducted, continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. In addition, our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. OIG investigations have also identified various schemes by SFA program participants to fraudulently obtain Federal funds.

### *Progress in Meeting the Challenge*

FSA identified numerous initiatives that were completed, in progress, or under consideration to help ensure that SFA funds are delivered accurately and efficiently. For example, FSA makes software and updates available to SFA program participants to assist them in managing Federal funds. FSA also provides training opportunities to financial aid professionals that are intended to enhance their ability to effectively implement the Department's student aid programs. Additionally, FSA reported that it has continued to develop its risk management processes by enhancing the agency's analytical capabilities and strengthening its ability to recognize and mitigate risks in its operational and credit portfolios.

### *What Needs to Be Done*

Overall, FSA needs to continue to assess and improve its oversight and monitoring of postsecondary institutions; FFEL program guaranty agencies, lenders, and servicers; and other SFA program participants. It needs to act effectively when issues are identified in its oversight and monitoring processes. FSA also needs to evaluate the risks within its programs and develop strategies to address risks identified to ensure effective operations. It further needs to assess its control environment, using information from OIG reviews and other sources as appropriate, and implement actions for improvement.

## Oversight and Monitoring—Distance Education

### *Why This Is a Challenge*

Management of distance education programs presents a challenge for the Department and school officials because of few or no in-person interactions to verify the student's identity or attendance. In addition, laws and regulations are generally modeled after the campus-based classroom environment, which does not always fit delivering education through distance education. Distance education refers to courses or programs offered through a technology, such as the Internet, that supports regular and substantive interaction between postsecondary students and instructors. The flexibility offered is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment.

Our investigative work has noted an increasing risk of people attempting to fraudulently obtain Federal student aid through distance education programs. Our audits have identified noncompliance by distance education program participants that could be reduced through more effective oversight and monitoring.

### *Progress in Meeting the Challenge*

The Department has taken or plans to take numerous actions in response to our work in this challenge area. For example, starting in the January 2013 FAFSA cycle (for the 2013–2014 award year), applicants selected for verification who are in a distance education program must provide a notarized copy of a government-issued identification to the school. For the same FAFSA cycle, the Department began screening applicants for unusual attendance, such as a pattern of enrolling at several schools, receiving aid, and then withdrawing. Schools will follow up with these applicants to ensure they are attending school with an educational purpose, or the Department will not disburse aid. The Department has also begun tracking applicants who use the same email and IP address for multiple applications using different names.

### *What Needs to Be Done*

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should also gather information to identify students who are receiving SFA program funds to attend distance education programs—and gather other information as needed to analyze the differences between campus-based education and distance education. Based on this analysis, the Department should develop and implement requirements to specifically address potential problems inherent in distance education.

The Department should develop regulations that require schools offering distance education to establish processes to verify the student's identity as part of the enrollment process. Once these regulations are implemented, the Department should establish requirements for independent public accountants to assess the effectiveness of schools' processes for verifying distance education students' identities. Finally, the Department should also work with Congress to amend the Higher Education Act to specify that a school's cost of attendance budget for a distance education student include only those costs that reflect actual educational expenses.

## Oversight and Monitoring—Grantees

### *Why This Is a Challenge*

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,900 public school districts and 50 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include Title I of the Elementary and Secondary Education Act of 1965, as amended, which under the President's 2015 request would deliver \$14.4 billion to help 23 million students in high-poverty schools make progress toward State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide \$11.6 billion to help States and school districts meet the special educational needs of 6.6 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve local educational agency fiscal control issues, State

educational agency control issues, fraud perpetrated by local educational agency and charter school officials, and internal control weaknesses in the Department's oversight processes.

### *Progress in Meeting the Challenge*

The Department has planned or completed numerous corrective actions in response to our audits. This includes enhancing guidance to applicants and reviewers, updating and clarifying internal guidance and policy, developing formal monitoring plans, and developing training to grantees and Department staff. The Department has also developed and implemented a risk analysis tool that is intended to help identify areas of potential risk in the Department's grant portfolio and develop appropriate monitoring, technical assistance, and oversight plans as a part of grants management. Finally, the Department plans to develop a working group to consider potential regulations and other measures to address State educational agency monitoring issues.

### *What Needs to Be Done*

The Department should continue to improve its monitoring efforts for recipients of formula and discretionary grant funds. This includes efforts to enhance risk management, increase financial expertise among its grants monitoring staff, and develop mechanisms to share information regarding risks and monitoring results. The Department also should consider adding language to its regulations so that prime recipients are fully cognizant of their responsibilities related to minimum requirements for monitoring subrecipients. The Department should include a reporting requirement for fraud and criminal misconduct in connection with all programs authorized by the Elementary and Secondary Education Act of 1965, as amended, when the Education Department General Administrative Regulations are revised.

## Oversight and Monitoring—Contractors

### *Why This Is a Challenge*

The Department must effectively monitor contract performance to ensure that it receives the quality and quantity of products or services for which it is paying. As of May 2014, the Department has obligated more than \$6.6 billion towards the Department's active contracts. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-on obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations, such as systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations.

OIG audits have identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance. This is primarily related to the appropriateness of contract payments and the effectiveness of contract management. In addition, OIG investigations have noted contractor activities, such as false claims, that resulted in improper billings and payments.

## Management Challenge 4: Data Quality and Reporting

### *Progress in Meeting the Challenge*

The Department has provided corrective action plans to address the issues noted in our audit work. It has also developed and implemented several training programs and procedures within this area.

### *What Needs to Be Done*

The Department needs to ensure that it has an appropriately qualified staff in place and in sufficient numbers to provide effective oversight of its contracts.

### Why This Is a Challenge

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department uses data to make funding decisions, evaluate program performance, and support a number of management decisions.

Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at State and local educational agencies, as well as actions the Department can take to clarify requirements and provide additional guidance. This includes weaknesses in controls over the accuracy and reliability of program performance and academic assessment data.

### Progress in Meeting the Challenge

The Department has completed corrective actions to address issues with implementation of Government Performance and Results Act Modernization Act. These involve developing internal guidance related to strategic goals and plans and the quarterly performance review process, and including disclosures related to data limitations in all applicable performance reports. The Department has also reported several planned corrective actions to address deficiencies in internal controls over assessment results, which include requiring State educational agencies to respond to all flagged comments related to assessments and accountability, updating its monitoring plan, and revising the peer review manual. Additionally, the Department plans to issue Dear Colleague letters to address identifying and monitoring high-risk schools, timely reporting and resolving of test irregularities, implementing of test security procedures, and strengthening of test administration practices.

To address concerns related to one program's performance data, the Department plans to provide training to staff on assessing a State educational agency's efforts to sufficiently test performance data and provide reasonable assurance that the data are valid and complete. It also plans to revise its site visit monitoring instrument to ensure staff sufficiently evaluate State educational agency monitoring activities related to the reliability of program performance data.

The Department requires management certifications regarding the accuracy of some data that State educational agencies submitted. The Department also conducts an ongoing peer review process to evaluate State assessment systems, and it currently includes a review of test security practices during its scheduled program monitoring visits. In June 2011, the Secretary sent a letter to Chief State School Officers suggesting steps they could take to help ensure the integrity of the data used to measure student achievement. The Department also has a

contract that runs through 2015 to provide technical assistance to improve the quality and reporting of outcomes and impact data from Department grant programs.

## What Needs to Be Done

While the Department has demonstrated its commitment to improving staff and internal system capabilities for analyzing data and using data to improve programs, it must work to ensure that effective controls are in place at all applicable levels of the data collection, aggregation, and analysis processes and to ensure that accurate and reliable data are reported.

### Management Challenge 5: Information Technology System Development and Implementation

## Why This Is a Challenge

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with consistent staffing levels. The Department reported that its inflation adjusted administrative budget is about the same as it was 10 years ago while its full-time equivalent staffing level has declined by 9 percent. This makes effective information systems development and implementation, and the greater efficiencies such investments can provide, critical to the success of its activities and the achievement of its mission.

According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2014 was \$682.9 million. The Department identified 38 major IT investments, accounting for \$587.9 million of its total IT spending. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development; these weaknesses have negatively impacted operations and may have resulted in improper payments. In its FY 2012 Agency Financial Report, the Department self-reported two material weaknesses relating to financial reporting of Federal student aid data and operations of the Direct Loan and FFEL programs that resulted from system functionality issues occurring after large-scale system conversions in October 2011.

## Progress in Meeting the Challenge

The Department reported it has taken action to correct the financial reporting deficiencies associated with the system conversions. It also reported that FSA implemented other internal control improvements that resulted in system fixes and restored system functionality.

The Department further reported that actions to correct the root causes of the internal control deficiencies impacting operation of the Direct Loan and FFEL programs are ongoing. Actions include researching borrower balances and analyzing root causes of system limitations to inform recommendations on system and process fixes. In response to issues surrounding its defaulted loan servicing system, FSA awarded an operations and maintenance contract to a new vendor.

## What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that contractors correct system deficiencies and that system performance fully

supports the Department's financial reporting and operations. Further action needed to address this challenge include improving management and oversight of system development and life cycle management (to include system modifications and enhancements) and ensuring that the Department obtains appropriate expertise to managing system contracts (including accepting deliverables).







# IMPROPER PAYMENTS

“Improper payments” occur when funds go to the wrong recipient, the right recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or the recipient uses funds in an improper manner. In fiscal year (FY) 2013, Federal agencies reported a government-wide improper payment rate of 3.53 percent, a sharp decrease from the high-water mark of 5.42 percent reported in FY 2009. Improper payments totaled about \$106 billion in FY 2013.

Although not all improper payments are fraud and not all improper payments represent a loss to the government, all improper payments degrade the integrity of government programs and compromise citizens’ trust in government. Under the direction of the Office of Management and Budget (OMB), agencies have identified the programs that are susceptible to significant improper payments and measured, or have put into place plans to measure, the estimated amount of improper payments.

The Department identified the Federal Pell Grant (Pell), William D. Ford Federal Direct Loan (Direct Loan), and Federal Family Education Loan (FFEL) programs as susceptible to significant improper payments during risk assessment for all FSA-managed programs performed during FY 2011.

The U.S. Department of Education (Department), as well as other agencies, must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. Overall, the Department remains challenged to intensify its efforts to successfully prevent, identify, and recapture improper payments.

Our work in this area has identified concerns with the completeness of the Department’s improper payment rate calculation for the Pell program and with the Department’s methodologies for estimating improper payment rates for the Pell, Direct Loan, and FFEL programs as part of its compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). We have also recommended potential enhancements to the Department’s compliance with guidance issued by OMB and alerted the Department to a serious fraud vulnerability in distance education programs. Additionally, we identified improper payments in the Student Financial Assistance (SFA) programs, to or by State educational agencies (SEAs) and local educational agencies (LEAs), to other grantees, and to contractors.

## Background

IPERA and OMB guidance require Federal agencies to implement plans to reduce improper payments. It further requires the Department to annually report on its progress in reducing improper payments and the Office of Inspector General (OIG) to review the Department’s report and offer recommendations for improvement.

The Department’s FY 2012 Agency Financial Report (AFR) stated that OMB designated Pell a high-priority program because estimated FY 2011 Pell improper

payments of \$1.0 billion exceeded the high-priority program threshold of \$750 million. As a result, the Department coordinated with OMB to establish and execute a plan to implement applicable high-priority program requirements including the designation of accountable officials and the establishment of supplemental measures to be reported.

The Department conducts an assessment of the risk of improper payments in each program at least once every 3 years and under this process identified several FSA-managed programs as susceptible to significant improper payments. This includes the Pell, Direct Loan, and FFEL programs. For programs identified as susceptible to significant improper payments, agencies must report the annual amount of estimated improper payments and corrective actions taken or planned to reduce them.

OMB agreed to the Department's use of alternate methodologies that leverage data collected through FSA's program reviews to estimate Pell, Direct Loan, and FFEL program improper payments for FY 2014 AFR reporting.

The Pell program provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. In its FY 2013 AFR, the Department reported a preliminary FY 2013 improper payment rate estimate for the Pell program of 2.3 percent with an estimated improper payment value of \$731 million using the Internal Revenue Service (IRS) data. As a point of reference, the Department further reported FY 2013 Pell estimates of 2.22 percent or \$718 million under the alternate methodology that included program review data.

Under the Direct Loan program, the Department provides low-interest loans for students and parents to help pay for the cost of a student's education after high school. The Direct Loan program includes Direct Subsidized and Unsubsidized Loans for students, PLUS Loans for parents and graduate or professional students, and Direct Consolidation Loans for both students and parents. The Department's new improper payment rate calculation estimated an overall Direct Loan improper payment rate of 1.03 percent, or \$1.06 billion for FY 2013.

Under the FFEL program, private lenders made Federal student loans to students, and guaranty agencies insured these funds, which in turn were reinsured by the Federal Government. As a result of the Student and Aid and Fiscal Responsibility Act, no new FFEL program loans were made beginning July 1, 2010. The Department's new improper payment rate calculation estimated an overall FFEL improper payment rate that rounds down to 0.00 percent or \$0 million.

The Department stated in its FY 2013 AFR that it is enhancing its efforts for identifying and reducing the potential for improper payments to comply with IPERA.

## Results of Work Performed

OIG work related to improper payments has evolved and increased over the years to include (1) conducting reviews required under statute and guidance and (2) reviewing, auditing, and investigating major recipients of Federal funds. The results of this work are presented in the corresponding sections below.

## Required Reviews Found Issues With the Completeness of Certain Improper Payment Rate Calculations, Methodologies for Estimating Improper Payment Rates, and Improper Payment Reporting

Our September 2014 and October 2012 audit reports on the Department's compliance with Executive Order 13520, "Reducing Improper Payments" for FYs 2011, 2012, and 2013 found that the Department complied with Executive Order 13520, adequately addressed improper payment risks, and described an adequate level of oversight to reduce and recapture improper payments. However, we noted in both reports that the Department had not addressed monitoring and oversight of the most significant root cause of potential improper payments for Pell program applicants who (1) do not use the IRS Data Retrieval Tool when completing their Free Application for Federal Student Aid (FAFSA) and (2) are not selected for verification of self-reported income.

In April 2014, we issued an audit report on the Department's compliance with IPERA for FY 2013. We found that the Department complied with IPERA for FY 2013, but improvements were needed regarding improper payment rate estimation methodologies for Pell and Direct Loan programs. However we noted the following issues.

- The Department's Pell program estimation methodology for FY 2013 did not consider all potential sources of improper payments, an issue that we identified in our prior reporting. For example, we found that the Direct Loan program's estimation methodology relied heavily on program reviews; however, many of these reviews were not included in the improper payment rate estimation calculation because reports from these reviews had not yet been issued or the reviews did not test for improper payment transactions. We also found that the Department's FY 2013 methodology did not consider improper payments identified in OIG audits and investigations. However we reviewed the corrective action plan submitted by the Department in response to our prior audit and noted that the Department had agreed to consider incorporating findings from OIG work in the proposed statistical estimations for all of its programs.
- The Department's AFR did not report a summary of its progress in completing the IPERA reporting requirements, as required by OMB.
- The Department's FY 2013 AFR reported reduction targets for each of its programs that were equal to the improper payment rate estimate reported in the current year. Therefore, meeting these targets would not actually result in a reduction in improper payments.

In March 2013, we issued an audit report on the Department's compliance with IPERA for FY 2012. We found that the Department complied with IPERA for FY 2012; however, issues remained with the completeness of the calculation of the estimated improper payment rate for the Pell program. We noted that the Department's proposed methodologies for estimating improper payment rates for the Pell, Direct Loan, and FFEL programs were flawed. For example, to arrive at

the published estimate of improper payments for the Pell program, the Department's contractor computed a point estimate (3.36 percent), and using a 90 percent confidence level, calculated the upper bound (4.62 percent) and the lower bound (2.10 percent) of the estimate's confidence interval. Subsequently, the Department reported that the estimated improper payment rate was 2.10 percent (the lower bound of the estimate) and did not report either the point estimate (3.36 percent) or the estimate's upper bound (4.62 percent) in the AFR. We also found that the Department used new methodologies for estimating improper payment rates that OMB had not approved and that the Department did not follow OMB guidance for reporting of payment recapture audit programs.<sup>1</sup>

In April 2012, we issued an inspection report on the Department's process for identifying and reporting high-dollar overpayments in accordance with Executive Order 13250 and guidance issued by OMB. We found areas where the Department's process could be strengthened. For example, the Department's use of the accounts receivable amounts understated some overpayments identified through audits and program reviews. We informed the Department of an additional data source that could provide more accurate information on overpayments than accounts receivable alone. We also found that FSA had not determined whether Title IV of the Higher Education Act of 1965, as amended (Title IV) overpayments should be analyzed at the entity level or at the individual level, impacting its ability to determine whether Title IV overpayments meet the high-dollar threshold.

In March 2012, we issued an audit report that concluded the Department complied with IPERA for FY 2011. However, we identified weaknesses in the methodologies used to calculate the estimated improper payment rates for the Title I of the Elementary and Secondary Education Act of 1965 (Title I), Pell, and Direct Loan programs. We also determined that certain numbers, amounts, and percentages reported for the Pell and Direct Loan programs were not always based on accurate or complete data. The report further stated that the Department needs to continue its efforts for reducing and recapturing improper payments.

## Audits and Investigations of Recipients of Federal Funds Identified Significant Improper Payments

OIG audit and investigative work continues to identify various improper payments in the SFA programs, to or by SEAs and LEAs, to other grantees, and to contractors. Overall, our Semiannual Reports to Congress from April 1, 2011, through March 31, 2014, included more than \$53 million in questioned or unsupported costs from audit reports and over \$47 million in restitution payments from our investigative activity.

Many of our reviews of SFA programs have disclosed improper payments. Our audits and investigations of postsecondary institutions routinely disclose payments resulting from ineligible students, ineligible programs, or other noncompliance. In February 2014, we completed an audit to determine whether the Department

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<sup>1</sup> A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities.

adapted requirements and guidance for Title IV programs to mitigate risks inherent in the distance education environment. Overall, we found that the Department has not been collecting data and other information that could help it identify additional risks unique to distance education. We determined that the 8 schools that participated in our audit disbursed nearly \$222 million in Title IV funds to more than 42,000 distance education students who did not earn any credits during a payment period. Students who do not earn any credits during a payment period are at a higher risk for improper disbursements because they might not have attended school, and the school should have returned all Title IV funds to the Department. In addition, students who do not earn any credits might not have attended all the courses for which they registered during the payment period or stopped attending school during the payment period, which could potentially affect the amount of Title IV funds for which they are eligible.

In our FY 2012 audit of Saint Mary-of-the-Woods College's administration of the Title IV programs, we found that the college was not eligible to participate in the Title IV programs and had not been eligible since at least July 1, 2005, because it exceeded the statutory limitation on the percentage of students who can be enrolled in correspondence courses. The report concluded the college received nearly \$42.4 million in Title IV funds from award years 2005–2006 through 2009–2010 that it was not eligible to receive.

In addition to work in the SFA programs, we have performed work identifying fiscal issues at SEAs and LEAs. In July 2013, we issued an audit report relating to our review of final expenditures under the American Recovery and Reinvestment Act of 2009 (Recovery Act) for selected educational agencies. We found that the LEAs generally obligated and spent Recovery Act funds we reviewed in accordance with applicable laws, regulations, guidance, and program requirements. However, we identified instances in which LEAs paid for obligations they made after the obligation deadline, unallowable expenditures at three LEAs, fiscal and management control issues at another LEA, and internal control weaknesses at two LEAs. We identified more than \$292,000 in questioned costs and issued separate reports to four SEAs providing details on these items and specific recommendations.

In January 2013, we issued an audit report on Maryland's use of funds and data quality for selected Recovery Act programs. We found that expenditures we reviewed were generally allowable, reasonable, and accounted for in accordance with the recipients' plans, approved applications, and other applicable laws and regulations. However, we identified more than \$700,000 in unallowable, unsupported, or inadequately supported expenditures. These included expenditures for items such as travel, entertainment events, awards, professional services, utility payments, items for personal use, food, and giveaway items for noneducational events.

In January 2013, we completed a risk analysis that demonstrated that student aid fraud ring activity is a rapidly growing problem. Using our E-Fraud Data Analytical System, we determined that the population of recipients considered as potentially participating in fraud activity had increased 82 percent from award year 2009 (18,719 students) to award year 2012 (34,007 students). We identified more than 85,000 recipients who may have participated in student aid fraud ring activity and

who received more than \$874 million in Federal student aid from award year 2009 through award year 2012. Further, applying a statistical model to these results, we estimated a probable fraud loss of \$187 million of the \$874 million as a result of these criminal enterprises.

OIG work continues in this area as we monitor the Department's quarterly reports on high-dollar overpayments and evaluate actions being taken in response to improper payments noted. For all high-dollar overpayment amounts reported on the quarterly reports through June 30, 2014, the Department has reported that it has or will take actions to recover the funds. The Department has also reported that it has taken action or has plans to implement adequate control activities that will mitigate the risk of future improper payments. In FY 2015, we will perform our annual review of the Department's compliance with the improper payment reporting requirements and its performance in reducing and recapturing improper payments. We will also review lifetime Pell limits and perform a required risk assessment of the Department's purchase card program and, if deemed necessary, conduct an audit of Department purchase card transactions.

## Department Actions and Plans

The Department reported that it is committed to preventing improper payments with front-end controls and detecting and recovering them if they occur. It has implemented controls at many levels of the payment process that are designed to help prevent and detect improper payments and fraud. These controls are periodically assessed for design and operating effectiveness as part of the Department's self-assessments of internal controls. Overall, the Department concluded that it has the internal controls, human capital, information systems, and other infrastructure needed to reduce improper payments to targeted levels.

The Department's FY 2013 AFR provided information on the annual review and assessment of programs and activities to identify those susceptible to significant improper payments. The FY 2012 AFR reported that FSA implemented new estimation methodologies for all risk-susceptible programs reported (Pell, Direct Loan, and FFEL). The AFR stated that the new estimation methodologies would produce statistically valid estimates with a higher level of confidence than the prior methodologies. OMB agreed to the Department's use of the proposed methodologies to estimate Direct Loan and FFEL program improper payments for FY 2013 AFR reporting, but it did not approve the Department's use of the alternative methodology for the Pell program.

The Department's FY 2013 AFR identified root causes for improper payments that included documentation and administrative errors (Pell, Direct Loan, and FFEL) and verification errors (Pell and Direct Loan). Documentation and administrative errors identified as contributing to improper payments included items such as incorrect awards based on expected family contribution, incorrect processing of student data, and account data changes not applied or processed correctly. Verification errors that were identified as contributing to improper payments included ineligibility for Pell or Direct Loan, failure to achieve satisfactory academic progress, and incorrect calculations.

The Department identified numerous corrective actions intended to strengthen controls and lessen the risks of improper payments within its programs. For example, the Department continues to use the IRS Data Retrieval Tool, which



enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS Web site directly to their online FAFSA. In addition, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. It also identified additional corrective actions such as enhanced system edits with its Central Processing System, Common Origination and Disbursement system, and National Student Loan Data System; continued use of data analytics; program reviews; and compliance audits.

With respect to the Pell and Direct Loan programs, the Department reported that institutions with findings in root cause areas will be required to perform activities in response that included items such as conducting staff training; implementing standards of care and diligence in administering and accounting for Title IV funds; improving policies, procedures, and controls; and performing semiannual audits.

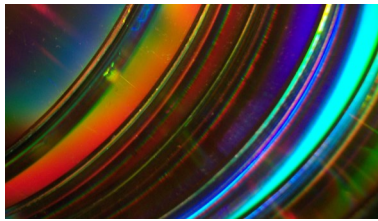
The Department identified more than \$170 million in its quarterly high-dollar overpayment reports from March 31, 2010, through June 30, 2014. The Department further reported that it has, or is in the process of, completing both recovery actions and activities to mitigate the risk of future improper payments. The Department reported corrective actions taken or planned that included recovering funds, providing technical assistance, updating certification processes, completing system enhancements, conducting training, reviewing quality control procedures, and implementing new procedures.

## Further Actions Needed to Address the Challenge

The Department needs to continue to explore additional opportunities for preventing improper payments. This includes effectively addressing root causes of improper payments that span multiple years of improper payment reporting. As noted earlier, our audit reports continue to note weaknesses in the Department's estimation methodologies for its programs designated as susceptible to significant improper payments. Overall, the Department needs to develop estimation methodologies that are complete and adequately address recommendations made in our audit work.

The Department needs to effectively monitor SFA program recipients, SEAs, and LEAs to ensure Federal education funds are properly spent and accounted for. The Department further needs to effectively resolve related audits. The OIG issued 16 audits that identified questioned or unsupported costs between April 1, 2011, and March 31, 2014. As of September 2014, 6 of the 16 audits (37.5 percent) were reported as unresolved within the Department's audit tracking system. Each of these audits was overdue for resolution with respect to the OMB A-50 requirement that audits are resolved within of 6 months of final report issuance.





# INFORMATION TECHNOLOGY SECURITY

The Department's systems contain and protect an enormous amount of confidential information such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

The OIG has identified repeated problems in IT security and noted increasing threats and vulnerabilities to the Department's systems and data. For the last several years, IT security audits performed by the OIG with contractor assistance, OIG investigative work, and audits performed by the Department's independent public accountant for its financial statement audits have identified security controls that need improvement to adequately protect the Department's systems and data.

## Background

The IT infrastructure for the Department is provided through the Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract. Services such as email, network, desktop, security, and printers are provided under this contract. Additionally, the Department has a large Virtual Data Center contract that provides IT support for FSA data processing. Specifically, the Virtual Data Center serves as the host facility for FSA systems that process student financial aid applications (grants, loans, and work-study), provides schools and lenders with eligibility determinations, and supports payments from and repayment to lenders.

Most of FSA's major business applications are located at the Virtual Data Center, except for the Common Origination and Disbursement system. The production support and processing for this application is located at the facility of another Department contractor. The Common Origination and Disbursement system initiates, tracks, and disburses funds to eligible students and schools for SFA programs.

The Department has experienced sophisticated attacks to its IT systems, including hostile Internet browsing and phishing campaigns resulting in malware infections, as well as unauthorized accesses accomplished by credentials stolen through employees entering their credentials on fake sites or through keystroke loggers. Many of the computers that are compromised are not Department systems but the home or work computers of its students, contractors, and program participants such as schools, lenders, guaranty agencies, and servicers. Although the Department can specify security controls for its contractors, it has little authority in the malware detection practices of these other parties.

## Results of Work Performed

Projects relating to this area include IT security audits performed by the OIG with contractor assistance, OIG investigative work, and audits performed by the Department's independent public accountant for its financial statement audits. Overall, this work has continued to identify control weaknesses within IT security and systems that need to be addressed. The results of this work are presented in the sections below.

### OIG IT Security Audit Work Found Recurring Control Weaknesses

As discussed in a September 2014 management information report, we found that FSA was not effectively overseeing and monitoring private collection agency (PCA) and guaranty agency security controls. We specifically noted that FSA did not process PCA system reauthorizations before their 3-year expiration, resolve findings of security control deficiencies timely, or collect and validate PCA training certificates. We further found that FSA has inadequate assurance that guaranty agency information system security complies with Federal Information Security Management Act for FY 2013 (FISMA) requirements. The issues noted could result in increased vulnerability of the PCAs' and Department's systems to attack and limit the assurance of guaranty agencies' information security and data integrity.

In November 2013, the OIG issued an audit report on the Department's compliance with the FISMA. The audit report identified findings in 7 of the 11 OMB reporting metrics or control areas, including configuration management, identity and access management, incident response and reporting, risk management, security training, remote access management, and contingency planning. Findings in the seven reporting metrics contained repeat or modified repeat findings from OIG reports issued during the prior 3 years.

Similarly, in our audit of the Department's compliance with FISMA for FY 2012, we identified findings in 8 of the 11 OMB reporting metrics or controls areas, including configuration management, identity and access management, incident response and reporting, risk management, security training, plan of action and milestones, remote access management, and contingency planning. With the exception of incident response and plan of action and milestones, the other control areas contained repeat findings from OIG reports issued during the prior 3 years.

In 2012, we issued an audit report for work independent auditors performed under contract. This report covered information technology security controls and management controls over the Education Central Automated Processing System. The independent auditors concluded that the Department's controls needed improvement to address numerous operational, managerial, and technical security control weaknesses. Specific areas of weaknesses identified in this report included risk management, patch management, hardware and software security management, and configuration management.

## OIG IT Security Investigative Work Identified Security Weaknesses in Areas Such as Authentication, Mobile Devices, and Incident Response

Investigative work performed by the OIG has identified additional IT security control weaknesses. In September 2013, we informed the Department of vulnerabilities in the FSA personal identification number system. The security measures used were old and inadequate for the current environment. The authentication system could sometimes be easily defeated, and users frequently shared their credentials since they had no easy alternatives for what they wanted to accomplish. This resulted in a number of unauthorized accesses to private information and, in one case, the denial of aid.

In March 2013, we informed the Department of an incident involving mobile IT devices. This incident could have been avoided if the Department had implemented some of the defensive measures outlined in an earlier OIG report and if Department employees were better informed of existing policy designed to prevent such an incident from occurring.

In September 2012, we informed the Department that an investigation earlier that year determined that malware was successfully installed on a Department server because the system was running software that had not been patched in more than 2 years. Additionally, our investigation discovered that the Department did not follow its incident response procedures. Specifically, the Department did not analyze the incident and therefore did not properly remediate the issue, leaving the agency vulnerable to additional infections from the original malicious email.

In June 2012, we provided the Department with a report analyzing data from a computer crime investigation conducted the previous year. In the report, we discussed the targeting of senior Department personnel in email spear phishing and the broader threat against the Department IT infrastructure.

## Independent Public Accountant Performed Financial Statement Audit Work That Continued to Highlight the Need to Improve Information System Controls

The Department's independent public accountant for its financial statement audits identified the need to enhance controls surrounding information systems as a significant deficiency for the past 5 years. The independent public accountant's review of general IT controls in performing the audit of the Department's FY 2013 financial statements identified weaknesses that included (1) security management, (2) personnel security, (3) access controls, (4) incident response, (5) configuration management, and (6) contingency planning. Prior reports cited weaknesses in areas such as activity monitoring, access termination, revalidations, password configuration, and change management.

OIG work continues in this area with primary area of focus on completing work to assess the Department's compliance with the FISMA.

## Department Actions and Plans

The Department provided corrective action plans to address the recommendations in our audits. As of September 2014, the Department reported that some corrective actions are completed and work is in process to implement the remaining activities. For example, the Department reported it has or will complete actions such as resolving critical findings identified during vulnerability testing; improving reporting and monitoring of outstanding system patches; establishing a framework and process for developing, maintaining and updating information security policy documents; validating inactivity settings; ensuring that reportable incidents are responded to in a timely manner; distributing two-factor authentication tokens to all guaranty agency users and all other external business partners with privileged accounts; implementing a solution for remote email access to require two-factor authentication; scanning all removable storage devices by antivirus software before connecting to government-furnished equipment laptops; reviewing and updating information system contingency plans for systems that have missing elements; and developing plans to ensure contractors and third-party servicers remediate their control deficiencies.

The Department has procured services to provide additional intrusion detection capabilities for its primary enterprise environment and related EDUCATE data center. The Department also awarded a contract for a continuous monitoring program of its enterprise infrastructure that will provide feedback of cyber activity to the Department's Cyber Security Operations team. The Department published guidance in February 2011 that generally requires multifactor authentication for all information systems processing sensitive data and for remote access to Department information systems.

In response to our findings, the Department has developed plans to replace the personal identification number system that will address significant vulnerabilities in the current system. In October 2014, the Department reported that integrated deployment of the new system was scheduled for April 2015.

The Department reported that FSA continued to strengthen its IT systems security. To ensure that potential threats are appropriately tracked, identified, and managed, FSA developed the FSA Security Operations Center, to work in conjunction with the Department's own security center. The Security Operations Center allows real-time threat detection and tracking, comprehensive reporting of security events and incidents, vulnerability identification and trending, and incident and remediation tracking. It further reported that FSA enhanced the capabilities of the Access and Identity Management System to strengthen authentication security and reduce potential network access fraud; provided FSA users with a simplified logon for major systems; expanded two-factor authentication token distribution; and enhanced the Enterprise Identity Management Solution to consolidate, centralize, and migrate authentication services and identification management of FSA system users.

## Further Actions Needed to Address the Challenge

The Department needs to develop more effective capabilities to respond to potential IT security incidents. The current response process generally does not attempt to identify other systems impacted by an incident nor does it attempt to identify the damage done to the Department. Although the Department and FSA have begun to implement their own incident response teams and establish Security Operations Centers, this capability is still being developed.

The Department also has not fully implemented or enforced the use of two-factor authentication when accessing its systems to comply with applicable guidance. While the Department is in the process of implementing and enforcing the use of two-factor authentication for all Federal employees, contractors, and other authorized users, allowing users to sign on to web email without two-factor authentication could expose user accounts and lead to cyber attacks.

Vulnerabilities continue to exist in the programs intended to identify and protect critical technologies. We are still finding instances of the same deficiencies in our current audits. Security breaches have already permitted malware to be installed on users' computers, resulting in the compromise of user names and passwords for the Department's systems. The Department must strive towards a robust capability to identify and respond to malware installations because antivirus detection software often lags behind the most current sophisticated malware by some period of time, and malware code can be rapidly changed to prevent identification.

The Department needs to effectively address and eliminate IT security deficiencies where possible, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.







## OVERSIGHT AND MONITORING

### SFA Program Participants

The Department must provide effective oversight and monitoring of participants in the SFA programs under the Higher Education Act of 1965, as amended, (HEA) to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. The Department's FY 2015 budget request dedicates \$169.8 billion to Federal student aid, including \$29.2 billion in Pell Grants and more than \$133.7 billion in student loans. Nearly 12.8 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

Participants in the SFA programs include postsecondary institutions, lenders, guaranty agencies, and third-party servicers. Our work has identified weaknesses in the Department's oversight and monitoring of these participants. The Department has taken corrective actions to address many of the recommendations contained in our prior reports. However, the Department needs to continue to assess and improve its oversight and monitoring of program participants and take effective actions when problems are identified.

#### Background

FSA performs a vital service within the system of funding postsecondary education in the United States by ensuring that all eligible Americans have access to Federal financial assistance for education or training beyond high school. FSA is responsible for implementing and managing Federal student financial assistance programs authorized under the HEA. These programs provide grants, loans, and work-study funds to students attending colleges or career schools to assist with expenses such as tuition and fees, room and board, books and supplies, and transportation.

Stakeholders in the student aid delivery system include students and parents, lenders, guaranty agencies, postsecondary institutions, contracted servicers, and collection agencies. One of FSA's responsibilities is to coordinate and monitor the activity of the large number of Federal, State, nonprofit, and private entities involved in Federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department.

The Federal SFA programs collectively represent the nation's largest source of Federal financial aid for postsecondary students. To help ensure that students and their families benefit from its programs, FSA performs functions that include informing students and families of the availability of the Federal student aid programs and on the process of applying for and receiving aid from those programs; managing the outstanding Federal student loan portfolio and securing repayment from Federal student loan borrowers; offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and providing oversight and monitoring of all program participants—schools, financial

entities, and students—to ensure compliance with the laws, regulations, and policies governing the Federal student aid programs. In FY 2013, FSA processed almost 21 million FAFSAs, resulting in the delivery of \$137.6 billion in Title IV aid to about 14 million postsecondary students and their families. These students attend more than 6,200 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

The Student Aid and Fiscal Responsibility Act of 2010 (SAFRA) ended the origination of new FFEL program loans after June 30, 2010. New Stafford, PLUS, and Consolidation loans are originated under the Direct Loan program. Under the Direct Loan program, the Federal Government provides funding through postsecondary institutions. Public and private entities under contract with the Department handle loan origination and servicing. Although SAFRA ended the origination of FFEL program loans, lenders, guaranty agencies, and their third-party servicers will continue to service FFEL program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL program loan portfolio of about \$423 billion as of September 30, 2013. FSA reported in its FY 2013 Annual Report that it oversaw more than \$1 trillion in outstanding Direct, FFEL program, and Federal Perkins loans.

Both the total student debt level and payment delinquency rate continue to generally trend upward. The Federal Reserve Bank of New York reported that outstanding student loan balances, including data from banks, credit unions, other financial institutions, and Federal and State governments, were \$1.12 trillion as of August 2014. This represents an increase of \$877 billion since the first quarter of 2003. The Federal Reserve Bank's data showed that while many forms of consumer debt declined over the past 3 years, including mortgage (-5.2 percent), home equity (-18.7 percent), and credit card (-3.9 percent) debt, student loan debt had increased by 33.2 percent over that time. As of the second quarter of 2014, student loans made up 9.6 percent of aggregate consumer debt, compared to 3.3 percent in the first quarter of 2003.

The Federal Reserve Bank reported that 10.9 percent of student loan balances were 90 or more days delinquent as of the second quarter of 2014. While this delinquency rate has been relatively stable since the third quarter of 2012, it has risen from about 6.1 percent in the first quarter of 2003 and 8.96 percent in the first quarter of 2011.

Given the rise in student loan debt, the amount of time it takes to repay loans may increase, borrowers may use more deferments and forbearances, and more borrowers may default. These changes may increase the administrative and subsidy cost of operating the loan programs. We believe that the most significant financial risk to the Department is an increase in loan volumes and defaults affecting the Department's ability to effectively collect on loan defaults.

## Results of Work Performed

OIG work within this area includes activities relating to (1) audits and inspections of FSA's oversight and monitoring of SFA program participants and (2) audits and investigations of SFA program participants. The results of our recent work are presented in the sections below.

## Audits and Inspections Found That FSA Could Improve Its Oversight and Monitoring of SFA Program Participants

Our audits and inspections continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants.

In September 2014, we issued an audit report on FSA's oversight of guaranty agencies during the phase-out of the FFEL program. We determined that the methodology FSA used to calculate a guaranty agency's current reserve ratio did not comply with applicable requirements, resulting in the overstatement of the financial position of the guaranty agencies. We also found that although FSA monitored the guaranty agencies' ability to perform their duties, FSA did not establish criteria for them to use in developing financial projections and did not act on guaranty agency-reported information that identified conditions of possible financial stress.

As discussed in our September 2014 report on direct assessment programs,<sup>2</sup> we found that the Department did not adequately address the risks that schools offering direct assessment programs pose to the Title IV programs and did not establish sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV-eligible. Not adequately addressing risks increases the likelihood that schools might create direct assessment programs that are not Title IV-eligible, such as those that are really correspondence programs. Not establishing sufficient processes increases the risk that the Department will not obtain enough information to sufficiently evaluate the merits of all direct assessment program applications. During our audit, we also identified two instances where the Department could have obtained additional information from the school or the accrediting agency before making decisions about whether the programs were Title IV-eligible direct assessment programs.

In February 2014, we issued an inspection report on FSA's plans for school closures by a for-profit entity. We found that some of FSA's risk mitigation strategy action items had not been fully incorporated into its work processes and implemented. We also noted that information posted to FSA's public Web site was difficult to find and not as comprehensive as it could have been. Additionally, we found that procedures developed for handling school closures did not provide clear guidance on how schools should perform student outreach, nor do they provide a process that should be followed in the event of a precipitous school closure.

In July 2013, we issued an audit report on the transparency of proprietary schools' financial statement data for FSA programmatic decision making. We determined that the presentation of instruction and marketing expenses in the audited financial statements was not consistent and did not allow for comparison across schools. The ability to identify the amount spent on instruction is an important measure because this activity represents the primary mission of all schools. The amount spent on marketing is important because proprietary schools may devote significant resources to recruiting and enrolling students and can be indicative of

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<sup>2</sup> According to Title 34, Code of Federal Regulations, Section 668.10, direct assessment is a measure—such as a paper, exam, or portfolio—that shows what a student knows and can do and provides evidence that a student has command of a specific subject, content area, or skill.

a school's focus. We determined that the financial statements submitted by 78 percent of publicly traded schools and an estimated 58 percent of privately held schools did not present the amounts spent on instruction and marketing.

Our FY 2012 audit of FSA's oversight of foreign medical school pass rates found weaknesses that included a lack of timely actions against schools that failed to submit the required pass rate data or meet the pass rate threshold, inconsistent application of the methodology for calculating pass rates, and acceptance of incomplete data from schools. We also completed an inspection report during FY 2012, at the request of Congress, and found that FSA's oversight process did not provide assurance that institutes of higher education were in compliance with drug and alcohol abuse prevention requirements of the HEA.

## Audits and Investigations of SFA Program Participants' Activities Identify Noncompliance and Fraud

Our external audits and investigations of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. While not the subject of these reviews, FSA's Program Compliance office is responsible for administering a program of monitoring and oversight of the institutions (schools, guarantors, lenders, and servicers) participating in the Department's Federal student aid programs. The office establishes and maintains systems and procedures to support the eligibility, certification, and oversight of program participants. More effective monitoring and oversight by groups within the Program Compliance office could limit occurrences of noncompliance and fraud, while strengthening the accountability, success, and value of SFA programs.

In March 2014, we completed a management information report on third-party servicer use of debit cards to deliver Title IV funds, in response to an inquiry from Congress. We reported that the Department should take action to better ensure that student interests are served when schools use servicers to deliver credit balances. We determined that three of four schools that outsourced credit balance delivery did not routinely monitor all servicer activities, including compliance with all Title IV regulations and student complaints. These schools also did not prevent their servicers from persuading students to select their debit card, which could include fees that were unique or higher than those of alternative financial service providers. Additionally, three of four schools had financial incentives in their contracts with servicers that created the potential for conflicts of interest. Finally, three of four schools provided third-party servicers with student information that they did not need to deliver credit balances and did not monitor servicer activities for compliance with Federal requirements for handling personally identifiable information.

In February 2014, the U.S. Government Accountability Office (GAO) issued a report, "College Debit Cards Actions Needed to Address ATM Access, Student Choice, and Transparency," relating to this area. GAO reported that college debit cards can be convenient for students and provide cost savings and efficiency for schools, but identified a number of related concerns. These included certain providers charging fees not typically charged by mainstream debit cards, lack of a specific definition of "convenient access" to fee-free ATMs, and the appearance

that some schools or card providers encouraged students to enroll in a college card without providing information about all payment options.

Our FY 2012 audit of Metropolitan Community College identified instances of noncompliance across multiple areas that included disbursing Title IV funds to students who had not established eligibility, had not maintained satisfactory academic progress, had exceeded the maximum number of remedial credit hours, and had enrolled in ineligible nondegree programs. The audit also reported that the institution did not administer its Federal work-study program in compliance with Federal regulations and did not properly identify students who never attended its courses and properly calculate related amounts to return to the Title IV programs.

OIG investigations have identified various schemes by SFA program participants to fraudulently obtain Federal funds. This included the following examples.

- In May 2014, a test administrator for student admissions at the All-State Career School was sentenced to a year and a day in prison, followed by 3 years of supervised release for conspiring to defraud a student financial aid program. The former test proctor changed test scores for about 170 students, 72 of whom received financial aid totaling \$572,255.
- In February 2014, the former president of Galiano Career Academy was sentenced to 4 years in Federal prison for theft of government property, obstruction of a Federal audit, and aggravated identity theft. He was also ordered to pay \$2,105,761. The former academy president admitted that he knowingly used a high school “diploma mill” owned and operated by his wife to make students eligible for financial aid when they otherwise would not have been eligible. He also admitted that he secretly used a recording device to monitor conversations of FSA staff as they conducted a program review at his school, tampered with student records during the review, and used the name and Social Security number of a student to illegally obtain student aid. Galiano Career Academy received more than \$1.9 million in Federal student aid funds for students who were ineligible to receive them.
- In February 2014, four Montgomery Alabama residents were sentenced for conspiracy to defraud the United States Department of Education and ordered to pay restitution of more than \$895,000. The defendants defrauded the government, colleges, and universities of \$1,152,994 in financial aid by using false diplomas or GED certificates to enroll themselves or recruited individuals at various schools. Ultimately, the financial aid funds they received were used for noneducational purposes, such as buying personal items or paying for personal expenses.
- In February 2014, three defendants pled guilty to conspiring to commit financial aid fraud and wire fraud. The defendants assisted recruited individuals in preparing, signing, and transmitting fraudulent FAFSAs knowing that many of the individuals were not eligible to obtain Title IV funds because they had not obtained high school diplomas or a recognized equivalent or had no intention of attending school or using the funds for educational purposes. Overall the defendants defrauded the Department of more than \$1 million.

- In August 2013, ATI Enterprises, Inc., agreed to pay the Government \$3.7 million to resolve False Claims Act allegations that it falsely certified compliance with Federal student aid programs' eligibility requirements and submitted claims for ineligible students.
- In May 2013, American Commercial Colleges, Inc., agreed to pay the United States up to \$2.5 million, plus interest, to resolve allegations that it violated the civil False Claims Act by falsely certifying that it complied with certain eligibility requirements of the Federal student aid programs. The civil settlement resolves allegations that the entity orchestrated certain short-term private student loans that it repaid with Federal Title IV funds to artificially inflate the amount of private funding counted for purposes of the 90/10 Rule.
- In April 2013, United States University agreed to pay a civil settlement in the amount of \$686,720, and the school's former financial aid director pled guilty to financial aid fraud. This resolved allegations that between December 2008 and February 2011, the school submitted falsified financial aid applications to the Department to obtain Pell Grant funds for ineligible students.
- In March 2013, the vice president of Prism Education Group, Inc., was sentenced in the District of New Jersey to serve 24 months in prison and ordered to pay more than \$550,000 in restitution. From January 2008 through about March 30, 2011, she misused her position of trust and diverted between \$400,000 and \$1,000,000 by submitting fraudulent reimbursement requests for purchases of supplies, furniture, equipment, and other items that the school never received. She created false invoices to generate checks, using the chief executive officer's forged signature, which were payable to herself and deposited into her personal bank account.
- In December 2012, the New York Institute of Technology and Cardean Learning Group, LLC, settled a civil fraud lawsuit and agreed to pay a combined \$4 million to the Government for submitting false claims in connection with Federal student loans and grants.

OIG work continues in this area, including reviews of oversight of schools participating in the Direct Loan program, student loan debt and repayment, and enforcement of the incentive compensation ban. Additional planned work for FY 2015 includes projects relating to the Department's oversight of misrepresentation regulations, the effectiveness of FSA's enterprise risk management program, incentive compensation at postsecondary institutions, and FSA's program review quality assurance process.

## Department Actions and Plans

FSA reported that schools are responsible and held accountable for recipient verification for need-based aid. As part of this process, FSA certifies a school's eligibility for participation in Title IV programs, conducts periodic program reviews of schools to verify compliance, and evaluates school financial statement and compliance audits to ensure any potential compliance issues or control weaknesses are resolved. In addition, FSA reported that offices, managers, and



staff responsible for these programs are accountable for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made and promptly detects and recovers any improper payments that may occur. FSA stated that offices and managers are held accountable through a variety of mechanisms and controls, including annual performance measures aligned to the strategic plan, organizational performance review criteria, and individual annual performance appraisal criteria. FSA has avenues to hold its contractors accountable such as contract management and oversight activities, control assessments, and audits.

FSA further reported numerous initiatives that were completed, in progress, or under consideration to help ensure that it delivers SFA funds accurately and efficiently. The Department makes software and updates available to SFA program participants to assist them in managing federal funds. These include (1) Direct Loan Tools that provides functionality that includes the tracking of drawdowns and refunds of cash and assists in the monitoring of Direct Loan records; (2) EDEExpress, an application that processes, packages, and manages Title IV student financial aid record; and (3) Guaranty Agency Data Prep, software designed to assist guaranty agencies in reporting FFEL loans to the National Student Loan Data System.

FSA also provides training opportunities to financial aid professionals that are intended to enhance their ability to effectively implement the Department's student aid programs. FSA maintains a Web site that includes materials such as webinars and interactive online courses on subject matter such as fundamentals of Federal student aid administration, default prevention and management, institutional eligibility, satisfactory academic progress, and general student eligibility.

FSA reported that recently developed new tools and resources help student borrowers manage their financial obligations and mitigate the incidence of default and delinquency. For example, the Repayment Estimator allows student borrowers to view and compare repayment plans, providing comparisons between monthly payment amounts, total amounts paid, and total interest paid based on each plan. FSA also introduced the Pay As You Earn Plan, which may help borrowers manage their student loan burden by limiting monthly payments to 10 percent of their discretionary income. FSA reported that more than 60,000 borrowers have taken advantage of this plan since its introduction.

The Department also worked to develop new resources like the Model Award Letter, also known as the Shopping Sheet, to make it easier for students and their families to compare college costs and make informed decisions about higher education. It also helped produce the College Scorecard by providing the data that delivers easy-to-understand information about each college's graduation rate, net price, the median amount of funds borrowed, and the share of students who default on their loans.

FSA reported that it performed additional work with schools to better equip them to manage the Title IV programs on their campuses. This included conducting workshops, webinars, and its annual training conference for financial aid professionals. The December 2013 conference sessions focused on topics such as

FASFA and application processing, verification, Pell Grant duration of eligibility limitation, and an overview of FSA's most common audit and program review findings along with ideas, solutions, and resources to help institutions prevent these errors.

FSA also reported that it strengthened its monitoring and oversight activities by developing a new unit focused solely on oversight of third-party school servicers. The new unit conducted 42 site visits at servicers and their clients in FY 2014. It also established a central office to receive and manage school compliance complaints from students and parents to more effectively respond to the needs of its customers and highlight to schools areas of noncompliance as needed.

The Department reported that it created a Direct Assessment Workgroup to review direct assessment program applications and to provide technical assistance to schools and other entities that have questions related to direct assessment. This workgroup includes subject matter experts from FSA's office of Program Compliance, the Office of Postsecondary Education, and the Office of General Counsel.

As mentioned under the Improper Payments challenge, the Department offers the IRS Data Retrieval Tool to applicants who complete their FAFSA online. The applicant can use this tool to securely transfer IRS information into the FAFSA, significantly increasing the accuracy of the data submitted.

In response to our report on FSA's oversight of foreign medical school pass rates, FSA reported that it had implemented all corrective actions to include strengthening review procedures, training staff, and completing focused program reviews at a sample of institutions. Additionally, FSA reported it had incorporated related risk mitigation strategy items into its work processes in response to our report on FSA's plans for school closures by a for-profit entity.

FSA's FY 2013 Annual Report identified numerous areas that contributed to the development of its strategic goals. OIG's Management Challenges and the results of OIG and GAO audit reports were identified as key strategic drivers that require Department and FSA senior management's consideration for establishing priorities. In its FY 2013 Annual Report, FSA identified ensuring program integrity and safeguarding the taxpayers' interests as one of its strategic goals. In support of this goal, FSA reported that it has continued to develop its risk management processes during FY 2013, enhancing the agency's analytical capabilities and strengthening its ability to recognize and mitigate risks in its operational and credit portfolios. FSA has developed a risk diagnostic tool that categorizes all key business processes under five major risk types. It shares the results of this tool monthly with senior leadership to improve executive decision making.

## Further Actions Needed to Address the Challenge

Our work continues to identify serious problems with the Department's oversight of participants in the SFA programs. The Department needs to continue to assess and improve its oversight and monitoring of postsecondary institutions; FFEL program guaranty agencies, lenders, and servicers; and other SFA program participants and to act effectively when it identifies issues.

FSA needs to effectively oversee and monitor participants in the Title IV programs to ensure funds are disbursed for only eligible students and to effectively manage

the performance of the Federal student loan portfolio. FSA also needs to evaluate the risks within its programs, develop strategies to address risks identified, and implement those strategies to ensure effective operations. It further needs to assess its control environment, using information from OIG reviews and other sources as appropriate, and implement actions for improvement.

# Distance Education

Distance education refers to courses or programs offered through a technology, such as the Internet, that supports regular and substantive interaction between postsecondary students and instructors, either synchronously or asynchronously. The flexibility offered is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment. Management of distance education programs presents a challenge for the Department and school officials because of few or no in-person interactions to verify the student's identity or attendance.

OIG audit work has found that for distance education programs, schools face a challenge in determining when a student attends, withdraws from school, or drops a course. These factors are critical because they are used to determine the student's eligibility for Federal student aid and to calculate the return of funds if the student withdraws or drops out. Our investigative work has also identified numerous instances of fraud involving distance education programs. These cases involved the exploitation of vulnerabilities in distance education programs to fraudulently obtain Federal student aid. Also, some requirements for residential programs do not translate clearly for distance education programs, and guidance is not available to address these issues. The Department needs to develop requirements specific to distance education and increase its oversight of schools providing programs through distance education.

## Background

The Department does not collect and maintain data that identify which students receive Federal student aid to attend distance education programs. However, Departmental surveys of postsecondary institutions show the use of distance education significantly increasing. For example, FSA reported in its Strategic Plan FY 2012–2016 that nearly 30 percent of students took at least one online course in 2009. This was nearly three times greater than in 2002.

The growth in distance education highlights the need for greater oversight and statutory or regulatory change. The key risk areas posed by distance education include verifying a student's identity, determining a student's academic attendance, and calculating cost of attendance for students enrolled in distance education programs. The Department has taken some steps to mitigate these risks, but further actions are needed. The primary issue is determining whether students in distance education are "regular students" as defined by regulation and are actually in attendance for Federal student aid purposes. A regular student is a person who is enrolled at a school for purpose of obtaining a degree, certificate, or other credential offered by the school. The Department required schools to have a process in place to verify that the student who registers in a distance education course is the same student who participates in the course, effective July 2010. In addition, starting in 2013, for selected applicants, schools are required to obtain a statement of education purpose from the student. The Department clarified the definition of attendance, effective July 2011. The definition currently is mentioned only in the regulatory provision regarding the treatment of Title IV funds for students who withdraw from school, but it is not expressly cross-referenced in other regulations covering attendance-dependent

requirements, which is important because the proper determination of attendance also affects a student's entitlement to receive or retain initial disbursements, as well as to receive or retain subsequent disbursements of Title IV funds.

Another issue is the definition of a credit hour—a critically important issue in the SFA programs, as the amount of Federal aid a student receives is based on the number of credit hours in which the student is enrolled. This issue has become even more significant as online education has dramatically increased in recent years. The definition of a credit hour protects students and taxpayers from inflated credit hours, the improper designation of full-time student status, the overawarding of SFA program funds, and excessive borrowing by students—especially those enrolled in distance education programs.

In addition, the cost components included in students' cost of attendance budgets might not accurately reflect students' actual costs of attendance. Distance education students and students attending classes on campus often have different costs of attendance. Cost of attendance budgets may not always reflect the costs associated with each student's actual educational needs and may include costs that are unnecessary to complete his or her program of study.

## Results of Work Performed

OIG work within this area include investigative work that informed the Department of the increasing risk in distance education programs and identified significant instances of individuals fraudulently obtaining Federal funds. We have also completed audits that identified issues with noncompliance in distance education programs. The results of our recent work are presented in the sections below.

### Investigations Identify an Increasing Risk of Fraud Involving Distance Education Programs

The unique characteristics and growth of distance education pose significant challenges to the Department. Through our investigative work, we have noted an increasing risk of people attempting to fraudulently obtain Federal student aid from distance education programs.

As noted previously in the Improper Payment section, in FY 2012, we issued an investigative program advisory report based on our work involving fraud rings. In the report, we point out that the number of complaints we receive regarding potential fraud rings has grown. In 2005, the OIG had opened 16 distance education fraud ring investigations; as of September 19, 2014, the OIG had opened 136. All aspects of distance education—admission, student financial aid, and course instruction—may take place through the Internet, so students may not be required to present themselves in person at any point. Because institutions offering distance education are not required to verify all prospective and enrolled students' identities, fraud ringleaders use the identities of others (with or without their consent) to target distance education programs. These fraud rings mainly target lower cost institutions because the Federal student aid awards are sufficient to satisfy institutional charges and result in disbursement of the balance of an award to the student for other educational expenses. We reported that nearly all the individuals identified as participants in fraud rings failed to meet

the basic eligibility requirement of enrollment for the purpose of obtaining a degree, certificate, or other recognized credential. Many also did not have a high school diploma or its recognized equivalent. Lastly, some fraud rings have enrolled incarcerated inmates who are ineligible to receive Title IV funds. The report provided information on how fraud rings operate and offered nine recommendations that, if implemented, would help mitigate the risks inherent to distance education programs.

OIG investigations have identified numerous other activities involving fraud in distance education programs where participants fraudulently obtained Federal funds. These included the following examples.

- In July 2014, six people were charged for participating in a fraud ring that sought to obtain more than \$2.7 million in student aid, mortgages, bank, and small business loans. According to the indictment, between 2010 and 2012, the ring submitted at least 40 fraudulent applications for admission and Federal student aid. Some of the applications were completed using stolen identities that the ring obtained through a credit card fraud scheme. The ring allegedly caused the financial aid checks to be sent to certain addresses that they controlled, then cashed the checks and used the proceeds for themselves and others.
- In July 2014, nine people were arrested for allegedly participating in a fraud ring that targeted online courses. The ringleader allegedly recruited people to act as straw students and submitted false admission and financial aid applications to the school on their behalf, as the straw students had no intention of attending classes. The ring allegedly paid a portion of the student aid refund award to the straw student for the use of his or her identity and kept the rest. As a result of their fraudulent actions, the ring allegedly obtained more than \$300,000 in Federal student aid.
- In June 2014, an individual pled guilty to engaging in fraud in connection with Federal financial aid to attend an online college. The individual forged documents, made false statements, and submitted false and fraudulent documents to the Department in order to obtain Federal financial aid for people who otherwise would not have qualified for such aid. The individual agreed to make restitution in the amount of \$117,840 as part of their plea agreement with the Government.
- In February 2014, three members of an Oakland-based fraud ring pled guilty to stealing more than \$1 million in Federal student aid. The three recruited straw students to participate in the scam and assisted them in preparing, signing, and transmitting fraudulent admissions and student aid applications, knowing that many of the straw students were not eligible to receive student aid because they did not have a high school diploma or GED and had no intention of attending classes or using the funds for educational purposes. After receiving the student aid refund balances, the three would share the proceeds with one another and sometimes with the straw students. In pleading guilty, one defendant admitted to fraudulently receiving more than \$114,700 in Federal student aid; a second, \$136,000; and the third, more than \$771,200.

- In August 2013, two people pled guilty to mail fraud for their roles in a distance education scheme to defraud various educational institutions. They did not possess a high school diploma or certificate of high school equivalency and knowingly provided their personal information to one of the ring leaders to apply for Federal student aid at various postsecondary institutions. The total estimated loss from this fraud scheme exceeds \$500,000.
- In July 2013, two people were sentenced for their jury trial convictions on charges of conspiracy, embezzlement, and aggravated identity theft relating to their participation in distance education fraud and U.S. Treasury check schemes. They were each sentenced to 133 months incarceration and 3 years supervised release and were ordered to pay \$713,000 in restitution. Overall, this fraudulent activity caused Federal student aid to be awarded in an amount in excess of \$335,000.
- In June 2013, a woman and seven coconspirators were indicted for conspiracy, mail fraud, student loan fraud, and aggravated identity theft. She allegedly submitted false FAFSAs and other loan applications on behalf of her coconspirators for online courses. The conspirators allegedly had no intention of attending the college. The woman and her coconspirators caused more than \$753,000 in Federal student aid to be disbursed.
- In April 2013, an individual pled guilty to one count of student financial aid fraud. Between 2006 and 2010, the individual recruited about 40 people to apply for Federal student aid funds for purported attendance at 2 online schools and caused the disbursement of about \$650,000 in Federal student aid. The recruited people were not students and did not intend to complete their online courses. Some of people did not possess a high school diploma or GED.
- In January 2013, a Florida man was sentenced to 9 years in Federal prison for conspiring to commit student loan fraud, committing student loan fraud, and aggravated identity theft. In addition, he was ordered to pay \$464,269 in restitution to the Department. He carried out a student loan fraud scheme with a coconspirator by helping people fraudulently enroll for admission and apply for Federal student financial aid.

## Audits Find Noncompliance in Distance Education Programs

Our audits have identified weaknesses in the oversight and monitoring of distance education program participants. As mentioned in the Improper Payments section, our February 2014 audit determined that the oversight provided by the Department, accrediting agencies, and States has not been adequate to mitigate the risk of schools not complying with the requirements that are unique to the distance education environment. The Department issued regulations and provided guidance to accrediting agencies and schools to address distance education issues associated with verification of student identity, attendance, and fraud. However, the regulations and guidance as they relate to verifying the identity of distance education students and the definition of attendance do not sufficiently mitigate the risks of fraud, abuse, and noncompliance. Additional requirements are



needed to ensure that schools verify a student's identity as part of the enrollment process, define attendance applicable to the distance education environment, and to ensure that cost of attendance budgets reflect the costs associated with each student's actual educational needs.

As noted previously in the Improper Payment section, our FY 2012 audit of Saint Mary-of-the-Woods College's Administration of the Title IV Programs found that the College was not eligible to participate in the Title IV programs and had not been eligible since at least July 1, 2005. We found the school had inappropriately designated its programs as distance education programs, when, in fact, they were correspondence programs. As a result, the school exceeded the statutory limitation on the percentage of students who can be enrolled in correspondence courses. The report concluded the College received nearly \$42.4 million in Title IV funds from award years 2005–2006 through 2009–2010 that it was not eligible to receive.

We conducted an audit in 2012 to determine whether Colorado Technical University Online, which is Colorado Technical University's component that delivers educational programs entirely through the Internet, complied with selected provisions of Title IV and Federal regulations. We found that Colorado Technical University Online did not ensure students were eligible for Title IV funds at the time of disbursement, identify students who had unofficially withdrawn, or obtain proper authorizations to retain student credit balances.

In FY 2012, GAO reported that the Department lacked data to adequately identify institutions' level of risk based on the extent to which they offered distance education and the amount of Federal student aid they received for those programs or courses. GAO further reported that the Department's Integrated Postsecondary Education Data System can show institutions that offer distance education, but it lacks information on the extent of a school's offerings and enrollment levels. The GAO report stated that the Department's National Center for Education Statistics will start collecting survey data on the extent to which schools offer distance education, as well as enrollment levels. However, FSA was not involved in the process of deciding what distance education information would be collected and therefore did not provide input on what types of data could be helpful in its program oversight.

## Department Actions and Plans

In its FY 2013 Annual Report, FSA identified key trends and conditions in the financial aid environment that include increased distance learning enrollment. FSA's plans include a focus on data gathering and analysis to better understand and manage its student aid portfolio. FSA further stated that it plans to concentrate its limited resources on those areas that have been identified as having the greatest potential risk for fraud and abuse.

The Department has taken or plans to take numerous actions in response to our work in this challenge area. For example, starting in the January 2013 FAFSA cycle (for the 2013–2014 award year), applicants selected for verification who are in a distance education program must produce a copy of a government-issued identification, copied and notarized and sent to the schools. For the same FAFSA cycle, the Department began screening applicants for unusual attendance, such as enrolling at several schools, receiving aid, and withdrawing. Schools will follow



up with these applicants to ensure they are attending school with an educational purpose, or the Department will not disburse aid. In response to our investigative program advisory report on e-fraud rings, the Department has begun tracking applicants using the same email and IP addresses.

In response to our audit of how the Department's managed risks to the Title IV programs that are unique to the distance education environment, the Department plans include (1) developing a decision memo for the Secretary's Executive Team that will address whether to include modifying student financial assistance regulations related to confirmation of student identity on the Department's negotiated rulemaking schedule; (2) reviewing the statutory framework that governs the determination of financial need among student aid recipients and the direct and indirect educational costs of attendance incurred by students pursuing postsecondary education, and communicate the results and recommendations of its assessment to Congress; (3) issuing guidance to remind institutions of higher education that they should develop and use different standard costs of attendance for different categories of students, such as a cost of attendance for students enrolled exclusively in distance education programs that do not include expenses that other categories of students might otherwise incur; and (4) evaluate the modification of National Student Loan Data System to add distance education indicators for each program that a student is enrolled in to strengthen school risk assessments and improve targeting of schools for program reviews.

In July 2012, the Department issued guidance that established new verification items for Federal student aid applicants. Certain applicants will be required to verify their identity and their high school diploma or certificate of high school equivalency with their school before disbursing Title IV aid to them. The Department uses data-based statistical analysis to select for verification those applicants with the highest probability of error on their FAFSA submissions.

In October 2011, the Department issued a Dear Colleague Letter to address potential fraud in the Federal student aid programs at institutions of higher education that offer distance education programs. The letter described actions that institutions can take and that the Federal Government is committed to taking to address the relevant issues. Other Department activities included initiating contact with the Department of Justice to begin discussions exploring the feasibility of identifying incarcerated applicants.

In October 2010, the Department issued regulations to improve the integrity of the SFA programs. These regulations generally took effect on July 1, 2011. While not specific to distance education, the regulations provided a definition of a credit hour and clarified what constitutes attendance at an academically related activity for purposes of the return of SFA program funds when a student withdraws.

## Further Actions Needed to Address the Challenge

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs—and gather other information as needed—to analyze the differences between traditional education and distance education. Based on this analysis, the

Department should develop requirements specifically to address potential problems inherent in distance education and publish those requirements. These requirements should include items such as definitions of instruction and attendance in a distance education environment and clarification of the calculation of return of Federal student aid in a distance education environment.

Overall the Department should develop regulations that require schools offering distance education to establish processes to verify the student's identity as part of the enrollment process. Once these regulations are implemented, the Department should establish requirements for independent public accountants to assess the effectiveness of schools' processes for verifying distance education student's identity. Finally, the Department should also work with Congress to amend the Higher Education Act to specify that a school's cost of attendance budget for a distance education student should include only those costs that reflect actual educational expenses.

# Grantees

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. Our work on numerous grant programs has identified a number of weaknesses in grantee oversight and monitoring. Our audits identified concerns with LEA fiscal controls, SEA controls, and the Department's oversight processes. In addition, our investigative work has identified fraud by officials at SEAs, LEAs, and charter schools.

The Department is responsible for monitoring the activities of grantees to ensure compliance with applicable Federal requirements and that performance goals are being achieved. The Department has taken corrective actions to address many of the recommendations contained in our reports. However, the Department needs to continue to assess and improve its oversight and monitoring of grantees and take effective actions when issues are identified.

## Background

The Department is responsible for administering education programs authorized by Congress and signed into law by the President. This responsibility involves developing regulations and policy guidance that determine exactly how programs are operated, determining how program funds are awarded to recipients, ensuring that programs are operated fairly and in conformance with both authorizing statutes and laws prohibiting discrimination in Federally funded activities, collecting data and conducting research on education, and helping to focus attention on education issues of national importance.

The Department is responsible for administering, overseeing, and monitoring about 120 programs. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,900 public school districts and 50 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include the Title I program, which under the President's FY 2015 budget request would deliver \$14.4 billion to help 23 million students in high-poverty schools make progress toward State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide \$11.6 billion to help States and school districts meet the special educational needs of 6.6 million students with disabilities.

The Department is responsible for ensuring that grants are executed in compliance with requirements and that grantees are meeting program objectives. The funding for many grant programs flows through primary recipients, such as SEAs, to subrecipients, such as LEAs or other entities. The primary recipients are responsible for overseeing and monitoring the subrecipients' activities to ensure compliance with Federal requirements.

## Results of Work Performed

OIG work has identified a number of weaknesses that could be limited through more effective oversight and monitoring. These involve LEA fiscal control issues, SEA control issues, and fraud perpetrated by officials at SEAs, LEAs, and charter schools. We also noted internal control weaknesses with the Department's oversight processes through our audits and inspections.

- **LEA Fiscal Control Issues.** As noted in the Improper Payments section above, we issued multiple reports providing additional details and recommendations relating to our work performed at LEAs as part of the review of final expenditures under the Recovery Act for selected educational agencies. This included the following.
  - *Florida: Final Recovery Act Expenditures Supplemental Report (June 2013).* We reported that an LEA did not perform due diligence when reviewing and approving a transaction, which resulted in an improperly classified Title I expenditure in excess of \$400,000. We also found that the LEA could not reconcile the Recovery Act Title I and Individuals with Disabilities Education Act grants for our audit period.
  - *Puerto Rico: Final Recovery Act Expenditures Supplemental Report (February 2013).* We found that \$3.5 million in computer equipment was not used as intended because the required software had not been installed and that the Puerto Rico Department of Education overpaid \$7,000 of its Title I Recovery Act funds for professional services not rendered. We further identified control weaknesses in the Puerto Rico Department of Education's procurement process for equipment purchases using Recovery Act funds that totaled more than \$3.4 million.
  - *Arkansas: Final Recovery Act Expenditures Supplemental Report (December 2012).* We questioned one LEA's use of \$237,302 for a purpose prohibited by the Recovery Act. The LEA spent this money to repair the roof on a former high school building that was being converted for other uses and was no longer being used to educate students. We also identified control weaknesses in a second LEA's asset inventory system that resulted in the district not properly accounting for and safeguarding equipment purchased with Recovery Act funds (and potentially other Federal funds) in a timely manner.
  - *Delaware: Final Recovery Act Expenditures Supplemental Report (December 2012).* We identified an internal control weakness in an LEA's payroll adjustment process that resulted in the LEA obligating Recovery Act funds for personnel services that occurred after the September 30, 2011, obligation deadline.

During FY 2012, we issued an audit report stating that we found the Camden City Public School District's accounting system did not accurately reflect its expenditures under the Elementary and Secondary Education Act of 1965, as amended (ESEA). We further reported that the LEA did not have an adequate equipment inventory system to ensure proper control over equipment purchased with ESEA funds and that it did not always adhere to State law requirements in its procurement of goods and services for purchases that exceeded the statutory bid threshold.

- **SEA Control Issues.** In FY 2014, we issued a management information report to alert the Department's Office of Elementary and Secondary Education to serious fraud and corruption in Title I-funded tutoring

programs. The report states that the OIG has experienced a significant increase in cases of fraud and corruption involving Supplemental Educational Services providers. In 2009, we had only 1 such investigation; since then, we have received complaints for an additional 31 matters for investigation. These investigations have uncovered cases of falsification of billing and attendance records, corruption by public officials, conflicts of interest related to recruiting students, conflicts of interest related to public school officials who are employed by a Supplemental Educational Services provider in noninstructional positions, and the use of improper financial incentives to enroll students. The report made recommendations that will help reduce the incidence of fraud and corruption and improve the ability of the OIG and others to identify and prosecute violators.

Our FY 2014 report on the Ohio Department of Education's administration of its Race to the Top grant found that the SEA did not accurately report grant performance data for the two areas reviewed on its 2011–2012 annual performance report. In addition, we found that Ohio did not regularly monitor LEAs' Race to the Top fiscal activity and as a result, did not ensure that the two LEAs reviewed spent grant funds only on allowable activities and in accordance with program requirements and the approved application.

Our FY 2012 audit of School Improvement Grants was conducted to identify monitoring plans related to School Improvement Grants funds at selected SEAs and determine whether selected SEAs used award processes that resulted in allocating funds to LEAs with schools having the greatest need and strongest commitment to use funds to raise student achievement. We concluded that the SEAs we reviewed generally awarded funds to LEAs with schools having the greatest need. However, we noted one SEA awarded funds to an LEA for uses that would not benefit the students who made the LEA eligible for funds. We also found one SEA awarded funds to LEAs that did not initially demonstrate commitment to required elements of the selected turnaround model.

Our audits of States' use of Recovery Act funds and data quality (reports issued from FY 2010 through FY 2013) found that most of the States and LEAs we reviewed generally used Recovery Act funds appropriately. However, we identified multiple instances in which State and local recipients and subrecipients made charges to Recovery Act funds that were improper, unallowable, or not appropriately documented. We also noted other weaknesses in selected States that included insufficient controls to ensure that a grant award selection process was fair and equitable, inadequate tracking of award and disbursement of Federal funds, and insufficient monitoring of subrecipients to ensure they complied with Federal fiscal requirements related to use of and accounting for Federal funds.

- **Fraud by SEA and LEA Officials.** Since FY 2008, we have opened 106 investigations of either SEA or LEA officials related to allegations of fraud and corruption in Department programs. More effective internal control systems at the SEAs and LEAs could have mitigated the risk of these fraud schemes. These investigations have identified fraud schemes that

included (1) bribery and kickbacks involving consultants, contractors, and employees; (2) use of fictitious vendors to generate payments; (3) false expenditure reports and checks; (4) use of dormant or unknown bank accounts; and (5) misuse of procurement credit cards. The following are some examples of these investigations.

- In April 2014, two people were indicted on multiple counts of Federal program bribery and four school officials in two States were indicted for accepting bribes in exchange for recruiting students and steering Federal and State funds from school districts. The people allegedly obtained between \$8 million and \$13.6 million for themselves and their families from the more than \$33 million they fraudulently obtained from school districts around the country. They allegedly misrepresented the quality of tutoring their companies provided under the Supplemental Educational Services program, provided substandard educational materials to children, inflated invoices for tutoring services provided, and created false student progress and improvement reports. The school officials allegedly received items that included money, Caribbean cruise vacations, and meals and services at a gentlemen's club.
- In August 2013, former Detroit Public Schools accountant and teacher were convicted on charges of program fraud conspiracy, money laundering conspiracy, and tax charges. Between 2004 and 2008, they obtained more than \$530,000 from the Detroit Public Schools through a fraudulent scheme in which orders were placed with a sham company for books and educational materials never provided to the schools.
- In May 2013, an employee of the Shorewood School District pled guilty to theft concerning programs receiving public funds. Over a 13-year period, the employee, an administrative assistant who handled purchasing for her department, created bogus purchase orders to use school district funds for vacations and household items. She converted more than \$300,000 in school district funds for personal use.
- In April 2013, a former associate superintendent and acting chief financial officer of Pontiac Schools was sentenced to 12 months in Federal prison and ordered to pay \$336,000 in restitution to Pontiac Schools after having been convicted of one count of defrauding a program receiving Federal funding. The former associate superintendent directed a subordinate to issue a check for \$236,000 to his "International Leadership Academy" that he in turn used to finance luxury vehicles, travel, and other personal items.
- In March 2012, the former superintendent of the El Centro Elementary School District pled guilty to mail fraud charges in two related cases alleging fraud in elementary school math and science grants. He admitted to fraud causing losses of more than \$325,000, which included receipt of payment from grant funds for positions he

did not fill, payment to friends for work that was not completed, and receipt of duplicate payments for travel.

- **Fraud by Charter School Officials.** Charter schools generally operate as independent entities that fall under oversight of a LEA or authorizing chartering agency. Our investigations have found that LEAs or chartering agencies often fail to provide adequate oversight to ensure that Federal funds are properly used and accounted for. From January 2005 through September 19, 2014, the OIG has opened 65 charter school investigations. To date, these investigations have resulted in 41 indictments and 33 convictions of charter school officials. The cases that have been fully settled have resulted in over \$11.3 million in restitution, fines, forfeitures, and civil settlements.

The type of fraud identified generally involved some form of embezzlement of funds from the school by school officials, such as the following examples.

- In August 2013, the former chief executive officer of Harambee Institute of Science and Technology Charter School pled guilty to two counts of wire fraud. The former chief executive officer admitted to improperly obtaining funds from a scholarship fund and Harambee Institute. The former chief executive officer improperly withdrew \$9,000 from the scholarship fund to purchase a house for himself in Philadelphia and converted about \$79,000 from Harambee Institute for his own personal use.
- In June 2013, a woman pled guilty to a Federal charge stemming from the theft of more than \$75,000 from a charter school where she worked as a temporary accounting employee. She accessed the school's accounting system, changed names of legitimate vendors on pending checks to those of fictitious vendors, and then forged the signature of the director of finance on the checks. These checks were then cashed and used for personal benefit.

Also within this area, the Department faces the emerging challenge of fraud involving cyber charter schools.

- In August 2013, the founder and chief executive officer of the Pennsylvania Cyber Charter School was indicted on three counts of mail fraud, two counts of theft concerning programs receiving Federal funds, one count of conspiracy, and five counts of fraud and false statements on a tax return. His accountant was also indicted on one count of conspiracy. The school's chief executive officer allegedly created a series of connected for-profit and not-for-profit entities to siphon taxpayer funds out of the school and to avoid Federal income tax liabilities. From 2006 through 2012, he and the accountant allegedly shifted more than \$8,000,000 in income attributable to the chief executive officer to the Federal income tax returns of other persons so that the chief executive officer's true income was concealed from legitimate taxing authorities.



- In March 2013, the former business manager of Agora Cyber Charter School, Ad Prima Charter School, Planet Abacus Charter School, and Laboratory Charter School pled guilty to charges of conspiracy to obstruct justice and obstruction of justice in a Federal investigation. The former business manager and four coconspirators were indicted in July 2012 for allegedly falsifying documents such as board meeting minutes, board resolutions, financial records, and contracts that resulted in \$5.6 million in fraudulent payments to one of coconspirator's private management companies.
- **Internal Control Weaknesses in the Department's Oversight Processes.** Our January 2014 audit report on the Department's monitoring of the Race to the Top program recipient performance found that the five States reviewed did not always adhere to timelines and achieve performance measures and goals. We also concluded that Department oversight of the Race to the Top program could be improved with additional analysis of overall program implementation and enhanced project management processes.

In August 2013, we issued an audit report on the Office of Elementary and Secondary Education's process of awarding discretionary grants. We concluded that for the grant programs in our review, the Office of Elementary and Secondary Education complied with applicable laws, regulations, and guidance when selecting recipients to be awarded discretionary grants. We found no significant deviations in the award process from the procedures detailed in Department policy; however, we noted some discrepancies in the retention of required documentation in the competition files. We concluded that the Office of Elementary and Secondary Education's internal controls were sufficient to ensure a fair and objective competition; however, we noted the absence of additional documentation in the competition file that would demonstrate transparency and fully document the required steps of the award process.

Our February 2013 audit report on the Teacher Incentive Fund stakeholder support and planning period oversight found weaknesses in the Department's process for monitoring Teacher Incentive Fund planning period grantees. We concluded that monitoring activities were inadequate for 13 of 14 (93 percent) Teacher Incentive Fund planning period grantees randomly selected for review. The Department did not begin to monitor grantees' progress toward the development of lacking core elements until almost 6 months after awards were made, and subsequent monitoring activities were both insufficient and inconsistent.

In October 2012, we issued an audit report on the Department's management of the Federal Real Property Assistance Program. We conducted the audit in part to evaluate the Department's monitoring processes for this program. We identified weaknesses in the monitoring process that included grantees not consistently submitting required reports when due, the Department not always documenting or completing follow up activities in a timely manner, and incomplete file documentation.



In September 2012, we completed an audit of Office of Innovation and Improvement's oversight and monitoring of the Charter Schools Program's SEA and non-SEA Planning and Implementation Grants. We found that the Office of Innovation and Improvement did not effectively oversee and monitor the grants and did not have an adequate process to ensure SEAs effectively oversaw and monitored their subgrantees. Specifically, it did not have an adequate corrective action plan process in place to ensure grantees corrected deficiencies noted in annual monitoring reports, did not have a risk-based approach for selecting non-SEA grantees for monitoring, and did not adequately review SEA and non-SEA grantees' fiscal activities. In addition, we found that the Office of Innovation and Improvement did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct to comply with applicable Federal laws and regulations. We also identified internal control deficiencies in the monitoring and oversight of charter schools that received the SEA grant at all three of the SEAs we reviewed.

Our FY 2012 audit of the Department's implementation of the Teacher Incentive Fund grant program determined that improvements were needed in the Department's processes to oversee recipient performance. We found the Department did not always effectively ensure that recipients met applicable requirements before making continuation awards and implemented their programs consistently with major design elements of their approved proposals.

Our FY 2012 audit of the Centers for Independent Living program found that the Department's Rehabilitation Services Administration had not provided adequate monitoring and oversight of the centers. We further identified issues that included incomplete documentation of program performance and unsupported use of grant funds. Weaknesses in the Department oversight process included an inadequate number of onsite monitoring reviews; use of a risk-based approach for selection of Centers for Independent Living for site visits, which was inconsistent with legislative requirements; and using inconsistent methodologies to validate report data during site visits.

Another FY 2012 audit determined that the Department's audit resolution system for external OIG audits was not effective and audits were not resolved timely. We found that 90 percent of these audits issued from January 1, 2007, through December 31, 2010, had not been resolved within 6 months as required by OMB's Circular A-50, "Audit Followup." Weaknesses in the resolution process impacted the potential recovery of funds because of the statute of limitations, likely created delays in the development and implementation of corrective actions by auditees, and may have a negative impact on the achievement of the Department's mission and the anticipated results of individual programs. An FY 2012 inspection report found that the Department had not formalized processes for managing the designation and monitoring of high-risk formula grantees.

GAO has also conducted work related to grantee oversight and monitoring. For example, in a June 2014 report on the Department's Promise Neighborhoods grants, GAO reported that the Department did not

communicate clearly to grantees about its expectations for the planning grants and the likelihood of receiving implementation grants. As a result, some grantees experienced challenges sustaining momentum in the absence or delay of implementation grant funding.

Ongoing work in this area includes reviews of compliance, measurement, and outcomes of the Vocational Rehabilitation State Grant Program; effectiveness and accountability of online charter schools; and oversight of SEA's use of adult education State grant program funds and the reliability of the program's performance data. Planned projects for FY 2015 include work relating to the Department's and selected States' oversight of career and technical education programs; review of SEAs' and LEAs' use of schoolwide funds to achieve improvement in student education; calculating and reporting graduation rates; and SEAs' verification of single audit finding resolution.

## Department Actions and Plans

The Department has planned or completed numerous corrective actions in response to our audits.

This includes multiple items intended to improve direction in various programs such as enhancing guidance to applicants and reviewers, updating and clarifying internal guidance and policy, and developing formal monitoring plans and review checklists as control mechanisms.

The Department also identified several items intended to enhance the effectiveness of its programmatic monitoring in certain programs to include strengthening its standardized sampling and analysis methodologies for onsite reviews, conducting supervisory review of site visits to ensure consistency, developing and implementing a plan to ensure grantees develop corrective action plans, and providing technical assistance to help address monitoring issues and deficiencies identified in monitoring reports.

In addition, the Department cited ongoing or planned training efforts to improve the effectiveness of operations in this area. For example, it intends to develop training for SEA grantees on effective monitoring and fiscal controls for tracking funds. To enhance the knowledge and effectiveness of its staff, the Department offers several grant oversight and monitoring training opportunities. This includes individual courses in areas such as cost analysis and budget review, administration of discretionary and formula grants, internal controls, monitoring grant financial performance, and assessing applicant and grantee risk.

The Department plans to develop a working group to consider potential regulations and other measures to address SEA monitoring issues. Additionally, the Department issued a Dear Colleague letter in March 2014 in response to our management information report on fraud in Title I-funded tutoring programs. The letter provides suggested measures that may be useful in preventing and prosecuting fraud and abuse in the use of Federal education funds. It highlights the importance of (1) more rigorous subrecipient monitoring; (2) encouraging the reporting of fraud to SEAs, LEAs, and the OIG, taking steps to minimize conflicts of interest that could result in harm to the programs or the public interest; (3) establishing limitation on financial or other incentives to encourage enrollment in Supplemental Educational Services; and (4) requiring recipients of

Federal funds to certify that they are not committing fraud in their applications or requests for payment.

The Department has issued or updated policy documents to enhance its business operations, to include the following.

- In June 2014, the Department revised its guidance on assessing grant applicant and grantee risk before making awards. The guidance provided program staff with updated processes for identifying, assessing, and mitigating entity risks during the pre-award and post-award phases of the discretionary grants process. For example, it identifies issues that program staff may consider as they conduct risk assessments prior to making new, continuation, or supplemental awards. The guidance also identifies Department resources available to aid program staff in identifying, assessing, and mitigating risks and sharing risk information across Department offices. This includes the (1) Entity Risk Review Report which is intended to inform the Department's grant administration, oversight, and monitoring through the use of a standardized set of risk indicators; and (2) Enterprise Business Collaboration site that is intended to foster Department-wide collaboration on grant risk management and mitigation strategies.
- In June 2013, the Department issued a guidance memorandum to help ensure that current grantees comply with the timely audit submission requirements in OMB Circular A-133 and the Education Department General Administrative Regulations. This includes collaboration between multiple Department offices to identify and notify applicable recipients that have not met reporting requirements. The guidance requires an office within the Department's Office of the Chief Financial Officer to notify applicable Department offices should the grantee remain nonresponsive.

## Further Actions Needed to Address the Challenge

The Department should continue to improve its monitoring efforts for recipients of formula and discretionary grant funds. This includes pursuing efforts to enhance risk management, increasing financial expertise among its grants monitoring staff, and developing mechanisms to share information regarding risks and monitoring results.

The Department should pursue several regulatory or statutory changes to help mitigate fraud and abuse in its programs. These include

- mandating minimum requirements for SEA monitoring of LEA administration of ESEA programs;
- requiring the reporting of suspected ESEA-related fraud, other criminal misconduct, waste, and abuse to OIG;
- prohibiting SEA and LEA employees who are in a position to influence the award and administration of Federal funds from using their office for private gain; and
- changing data retention periods to coincide with Federal criminal, civil, and administrative statute of limitation periods.

# Contractors

The Department relies heavily on contractor support to accomplish its mission and to ensure the effective operations of its many systems and activities. As of May 2014, over \$6.6 billion has been obligated towards the Department's active contracts. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. OIG reports have included numerous deficiencies in the area of contract monitoring, and we have made recommendations for corrective action. The Department has taken action to address many of the issues noted.

## Background

Contract monitoring is an integral part of the Federal acquisition life cycle. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-on obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations. These services include systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations. Responsibility for oversight and monitoring of contracts and contractor performance at the Department is shared by staff in the program offices and the Department's Contracts and Acquisition Management, a component of the Office of the Chief Financial Officer. The Department has delegated authority to FSA to operate its own procurement function. FSA follows the policies and procedures established by Contracts and Acquisition Management as well as applicable Federal requirements in conducting its contracting operations. The Department's Chief Acquisition Officer is the Chief Financial Officer. The Chief Financial Officer is responsible for oversight management for all procurement activities at the Department.

## Results of Work Performed

The OIG has identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance, particularly concerning the appropriateness of contract payments and the effectiveness of contract management.

- **Appropriateness of Contract Payments.** We have noted issues with respect to the prices paid under contracts and with the review of contractors' invoices for payment. Our August 2013 audit report on FSA's award and administration of Title IV additional servicers (TIVAS) contracts found that FSA appears to have negotiated the most efficient and cost-effective servicing rates for loan servicing under the base contract, but we could not determine whether FSA selected the most efficient and cost-effective prices for changes to the contracts. Although the final awarded contracts included negotiated rates that were generally lower than the lowest proposed bid, we could not determine whether FSA selected the most efficient and cost-effective prices for changes made to the contracts for several reasons. FSA modified the TIVAS contracts to include a requirement for cohort default rate challenges that should have been included in the base contracts. This modification resulted in a separate

cost of more than \$600,000 from June 17, 2009, the start of the contracts, through December 31, 2012, that was possibly more than it would have been if the requirement was included initially. Also, FSA officials did not properly document their decisions for 18 of 21 changes to the prices or terms of the TIVAS contracts; these 18 changes cost more than \$1.2 million.

- **Contract Management.** The audit of FSA's award and administration of TIVAS contracts also determined that FSA did not adequately monitor TIVAS compliance with the contract requirements because the contracting officer's representatives did not sufficiently validate TIVAS invoices and confirm the timeliness and adequacy of deliverables. Additionally, we found that FSA used inadequate criteria in its monitoring of the TIVAS contracts.

In July 2014, we reported that the Department did not effectively monitor borrower complaints against PCAs and ensure that corrective actions were taken. Overall, we concluded that the Department did not place sufficient emphasis on the importance of identifying, tracking, and resolving borrower complaints. We specifically noted that the Department did not ensure that (1) all complaint-receiving entities used a consistent definition of a complaint against a PCA, (2) PCAs timely submitted complaints, or (3) PCAs took corrective action in response to complaints filed against them and their collectors. We also reported that the Department did not receive all borrower complaints against the PCAs and did not effectively ensure that the PCAs are abiding by the Federal debt collection laws and the related terms of their contractual agreements.

In May 2013, we reported on the Department's lack of enforcement of a contract requirement that PCAs report verbal complaints from borrowers to FSA. Because none of the PCAs included in our review tracked or reported verbal complaints, FSA was not notified of the complaints or whether they were resolved unless the borrower followed up by submitting a written complaint. As a result, FSA is unaware of the number or severity of verbal complaints that are filed by borrowers against PCAs and how these complaints are resolved.

In FY 2012, we reported that improvements are needed in the Department's controls relating to cost management of the EDUCATE contract. We found that the Department did not establish a complete and accurate baseline of costs related to operations being transitioned to the EDUCATE contract, adequately document its calculations of anticipated cost savings over the life of the contract, or implement an oversight structure that emphasized cost control. As a result, the Department may not always identify opportunities to reduce costs, hold individuals accountable for cost performance in relation to initial expectations, and seek to assess and address cost performance variances where applicable. We also found that the Department's actual costs for four of the eight EDUCATE contract line items varied significantly from projected costs during the first 3 years of the EDUCATE contract, which may limit the Department's ability to meet projected savings.

In FY 2012, we issued a consulting report prepared by an independent public accountant to perform work related to the TIVAS contracts. The objective of the review was to assess the current status of the TIVAS servicers to handle the volume of servicing for all new Direct Loan program originations, consolidations, and Ensuring Continued Access to Student Loans Act of 2008 loan purchases. The independent public accountant noted that although FSA has been able to successfully engage the services of the four TIVAS, FSA should develop more formal retention and management of documentation related to contract requirements and clarifications to allow FSA improved oversight of the contract requirements.

OIG work continues in this area. This includes an ongoing audit of monitoring school turnaround contractors and FSA's policies and procedures for contract oversight and monitoring. Planned work for FY 2015 includes a review of FSA's controls over private collection agency invoice reconciliations.

## Department Actions and Plans

The Department has provided corrective action plans to address the issues noted in our audit work above. In FY 2012, the Department completed numerous corrective actions in response to weaknesses noted in controls relating to cost management of the EDUCATE contract. These corrective actions included updating its Information Technology Information Management Process Guide, centralizing the location of all supporting documents, issuing procedures to ensure controls are in place regarding retention of IT costs for assessing anticipated savings, and modifying a responsibilities manual to formally define cost savings and monitoring standards.

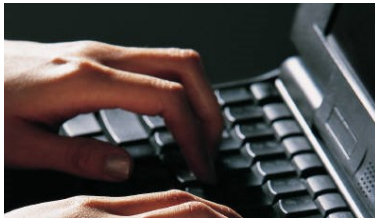
The Department also reported that FSA Acquisitions has worked with FSA's Technology Office to develop an Information Resource Program Elements Guide. The guide is intended to help address the inclusion of security requirements in future solicitations and contracts.

In response to our report on the Department's monitoring of borrower complaints against PCAs, the Department reported that FSA had taken a number of steps to improve related oversight. This included providing specific guidance and customer-related criteria concerning the types of activities that fall within the definition of a complaint. FSA also revised the PCA Procedures Manual to expand the definition of unacceptable PCA behavior in attempt to collect a debt and to require the PCAs to develop internal controls around identifying and reporting all complaints. Finally the Department reported that it has increased the number of on-site PCA reviews.

## Further Actions Needed to Address the Challenge

Because the Department relies on its contractors to help run its various programs and operations, effective contract management is critical for ensuring effective performance by the contractors, that the Department receives the specified level and quality of products or services, and that payments made are appropriate. As reported in prior Management Challenges reports, the numbers of Department staff responsible for contract oversight and monitoring are limited. The Department still needs to work to ensure that it has an appropriately qualified staff in place and in sufficient numbers to provide effective oversight of its contracts.





# DATA QUALITY AND REPORTING

The Department, its grantees, and its subrecipients must have controls in place and effectively operating to ensure that accurate, reliable, and complete data are reported. Data are used by the Department to make funding decisions, evaluate program performance, and support a number of management decisions. SEAs annually collect data from LEAs and report various program data to the Department. The Department evaluates program data to inform critical funding and other management decisions.

Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. Establishing more consistent definitions for data terms will enhance reporting accuracy and comparability.

## Background

The Department operates systems to collect data regarding its programs. For example, SEAs submit data through the Education Data Exchange Network to the EDFacts system. EDFacts is a central repository that consolidates kindergarten through 12th grade education information collected from SEAs. This Internet-based collection process simplifies reporting and improves the timeliness of the kindergarten through 12th grade education information that is required for the Government Performance and Results Modernization Act, annual and final grant reporting, and specific program mandates. Some of the data included in Department systems involve the number of persistently dangerous schools, graduation and dropout rates, State academic assessments, and the number of schools identified in need of improvement. The Department has also collaborated with SEAs and other industry partners to centralize the SEA-reported data with other Department data, such as financial grant information. This collaboration enables better analysis and use of the data in policy development, planning, and program management at the Federal, State, and local levels.

The Department uses data in a number of other systems and from a number of other sources for funding allocation, performance evaluation, and other management decisions. For example, States are required to implement a set of annual academic assessments. The assessments are used as the primary means of assessing the academic progress of the State and each of its LEAs and schools in enabling all children to meet the State's student academic achievement standards. Assessments are used to hold schools accountable for student achievement and, as such, must meet requirements for accuracy, reliability, and quality. Funding to SEAs and LEAs may be directly impacted by the results of the scoring assessments. Funding for other programs, such as the Migrant Education Program, is allocated based on the numbers of students eligible for the programs.

## Results of Work Performed

Work completed by OIG has identified weaknesses in controls over the accuracy and reliability of program performance and student testing data.

- **Program Performance Data.** Our September 2014 audit report of the Ohio Department of Education's administration of its Race to the Top Grant noted that Ohio did not accurately report or provide supporting documentation for the results that it reported to the Department in its 2011–2012 annual performance report for 5 of the 11 (45.4 percent) measures within 2 reporting areas. The report further noted that Ohio could improve the accuracy of its annual performance reports by (1) ensuring that it reports data for the appropriate period, (2) obtaining supporting documentation from LEAs and charter schools for applicable performance data so that Ohio can verify the LEAs' and charter schools' progress towards those measures, (3) disclosing in its annual performance report when it has not verified or does not have documentation to support the reported performance data, and (4) retaining documents used to support reported performance data.

In April 2014, we issued an audit report on payback provisions of the Rehabilitation Long Term Training program. We found that while the majority of Rehabilitation Long Term Training scholars who received training under the grants in our sample are working in acceptable employment, we are concerned about the data quality with regard to grantee reporting. We also found that further improvements are needed in the process for identifying and referring noncompliant scholars for financial repayment. We identified 31 out of 106 scholars who were not on track to complete their service obligation within the number of years required.

In January 2014, we issued an audit report on the Department's implementation of the Government Performance and Results Act Modernization Act. We determined that the Department needs to improve its process for verifying and validating data. Specifically, we found that the Department has not accurately or adequately disclosed relevant information in its Annual Performance Plan or Annual Performance Report. As a result, the public may have less confidence that Congress and the Department are in agreement on the immediate priorities of the agency and the data presented in performance reports are credible, and they may be unaware of any limitations of the data that would provide important context for understanding it.

In our June 2013 audit report on the Department's and selected States' oversight of the 21st Century Community Learning Centers program, we noted that the Department could more effectively monitor and track SEAs' 21st Century Community Learning Centers program performance measures by ensuring that SEAs develop processes sufficient to provide reasonable assurances of the accuracy, reliability, and completeness of the performance information provided. We found that neither the Department nor three of the four SEAs we reviewed validated the performance data that the subgrantees submit. As a result, the Department is unable to ensure grantees have met program objectives because it cannot be sure of



the accuracy, reliability, and completeness of the performance data that SEAs report. In addition, although the Department monitored the SEAs' processes to award and monitor subgrants, the Department did not identify internal control weaknesses that we found at the selected SEAs. We also identified areas in which the Department can improve its oversight of the SEAs' award and monitoring processes.

- **Student Testing Data.** In March 2014, we issued an audit report on the Department's and five SEA's systems of internal control over statewide test results. We concluded that corrective action was not always required by SEAs when indicators of inaccurate, unreliable, or incomplete statewide test results were found. Specifically, the Department has not always required SEAs to provide explanations for test results flagged by the EDFacts system. We also noted that four of the five SEAs reviewed either did not incorporate or incorporated only limited forensic analyses in their risk assessment and monitoring procedures. In addition to forensic analyses, we identified several ways SEAs could improve their oversight of test administration. These included onsite monitoring, follow-up and resolution of test administration irregularities, and enhancements to test security environments and administration practices. As part of this project, we also issued audit reports on both the Texas Education Agency's and the Michigan Department of Education's systems of internal control over statewide test results. The reports noted that the two SEAs could improve their systems of internal control designed to prevent, detect, and require corrective action if they find indicators of inaccurate, unreliable, or incomplete statewide test results.

In June 2013, we issued an audit report on the El Paso Independent School District's compliance with the accountability and academic assessment requirements of the Elementary and Secondary Education Act of 1965. The report noted that adequate yearly progress results for 2009, 2010, and 2011 cannot be relied on because all required students did not take the 10th grade Texas Assessment of Knowledge and Skills test. In addition, the graduation rate data for the 2012 adequate yearly progress calculation cannot be relied on because student files contained incomplete or no withdrawal documentation.

Also in June 2012, former superintendent of the El Paso Independent School District pled guilty to Federal charges in connection with schemes to defraud the school district and the Federal Government. One of the charges alleged that the former superintendent directed staffers to manipulate State and Federal mandated annual reporting statistics to keep the school district compliant with requirements of the No Children Left Behind Act. By pleading guilty, the former superintendent admitted that to achieve his contractual bonuses, he caused material, fraudulent misrepresentations regarding the school district's performance to be submitted to the Texas Education Agency and the U.S. Department of Education to make it appear as though the district was meeting and exceeding adequate yearly progress.

OIG work continues in this area. This includes ongoing work on the compliance, measurements, and outcomes of the Vocational Rehabilitation State Grant program and the Department oversight of SEAs' use of Adult Education State Grant Program funds and the reliability of the program's performance data, as well as of management certifications of data reliability. Additional planned work for FY 2015 includes an audit of calculating and reporting graduation rates.

## Department Actions and Plans

The Department has taken action or developed plans to address many of the issues noted in our reports. For example, during FY 2014, the Department completed corrective actions to address issues with implementation of the Government Performance and Results Act Modernization Act. These included developing internal guidance related to the formulation of strategic goals and plans and the quarterly performance review process and including disclosures related to data limitations in all applicable performance reports.

The Department reported that it is phasing out the data collection system for the 21st Century Community Learning Centers program, built in 1998, to develop a new system that will employ advanced data collection methods to improve the data entry and validity processes.

The Department has also reported several planned corrective actions to correct deficiencies in internal controls over assessment results. The Department will require SEAs to respond to all flagged comments related to assessments and accountability, update its monitoring plan to include a section on data integrity and test administration, and revise the peer review manual. Additionally, the Department will issue Dear Colleague letters to address the identification and monitoring of high-risk schools, timely reporting and resolution of test irregularities, implementation of test security procedures and strengthening of test administration practices.

The Department reported that it has incorporated updates to its monitor review protocol to include questions and prompts for staff to evaluate SEA monitoring of subgrantees relating to the reliability of performance data.

The Department requires management certifications regarding the accuracy of some SEA-submitted data. The Department has also instituted edit checks and a data quality assessment for completeness and format of SEA submitted to EdFacts. In addition, the Department has designated a data steward, a Department staff member responsible for the day-to-day data collection, quality, and use, for each EDFacts data set.

The Department has taken steps toward enhancing its ability to provide more timely and consistent information to the public by improving its use of education data through a variety of electronic formats. The Department has implemented a data dashboard that contains high-level indicators of education outcomes, ranging from student participation in early learning through completion of postsecondary education.

The Department has a contract through 2015 to review data and provide technical assistance to improve the quality and reporting of outcomes and impact from Department grant programs. The Department reported that the contractor conducts validity checks and flags inconsistent data.

The Department has also established a Data Strategy Team to coordinated strategies for public-facing data among the various principal offices within the Department. The Data Strategy Team supports States' use of education data through data Web sites and technical assistance and identifies best practices for the use and promotion of data policy.

## Further Actions Needed to Address the Challenge

Data quality will continue to have a significant and far-reaching impact on the efficiency of various Department operations and in the Department's assessments of the performance of its programs and activities. The Department identified enabling evidence based decisions as one of its FY 2014–2015 Priority Performance Goals. However, the Department acknowledged that the process to collect data and track progress against the goal is still under development. It further noted that while grantees vary in their comfort with and understanding of evaluation and use of evidence, the Department has limited resources to support grantees in conducting rigorous evaluations that would produce evidence of effectiveness.

The Department is committed to improving staff and internal system capabilities for analyzing data and using it to improve programs. It must continue to work to ensure that effective controls are in place at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data are reported.





# INFORMATION TECHNOLOGY SYSTEMS DEVELOPMENT AND IMPLEMENTATION

The Department's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department's activities in relation to this mission include executing administrative responsibilities related to Federal education funding, including the distribution of funds and monitoring their use. With respect to these activities, America's elementary, secondary, and postsecondary schools are serving a growing number of students as the population increases and enrollment rates rise. As of the fall of 2013, about 50.1 million students attend public elementary and secondary schools and a record 21.8 million students attend the nation's 2-year and 4-year institutions of higher education. The Department identified that between 2003 and 2013, its total loan originations increased by 78 percent and the number of FAFSA applications increased by 67 percent.

In addition to the increasing number of students and associated workload, the Department reported that certain responsibilities have grown substantially over the past decade. This includes legislation impacting its activities and services such as the Recovery Act, the Ensuring Continued Access to Student Loans Act of 2008, and SAFRA legislation of 2010, as well as expanded administrative requirements relating to information security, financial management, and information technology management.

Overall, the Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with declining staffing levels. The Department reported that its overall administrative budget, when adjusted for inflation, is about the same as it was 10 years ago while its full-time equivalents have declined by 9 percent. This makes effective information systems development and implementation and the greater efficiencies such investments can provide critical to the success of its activities and the achievement of its mission. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development that have negatively impacted operations and may have resulted in improper payments.

## Background

The Department's current IT investments include systems that support business process, such as student application processing and eligibility determination for Federal student financial assistance; grant and loan award processing; procurement and acquisition; and the collection, storage, and reporting on Title IV aid disbursements and aid recipients. Data from the Federal IT Dashboard<sup>3</sup> reported the Department's total IT spending for FY 2014 was

<sup>3</sup> The IT Dashboard is a Web site enabling Federal agencies, industry, the general public, and other stakeholders to view details of Federal information technology investments. The IT Dashboard provides information on the effectiveness of government IT programs and supports decisions regarding the investment and management of resources.

\$682.9 million, with FSA's IT spending accounting for \$477.7 million of the total. FSA reported that over the next few years, it will be recompeting contracts associated with many of its major business processes, including processing financial aid applications, originating and disbursing financial aid, as well as major infrastructure functions. In FY 2012, FSA further reported that it has experienced significant deficiencies in the conversion to a new debt management and collection system and a new direct loan servicing system.

## Results of Work Performed

Recent work performed by the Department's financial statement auditor and the OIG have identified weaknesses in the Department's processes to oversee and monitor IT system development and implementation. Additionally, in FY 2012, the Department self-reported two material weaknesses with Federal student aid servicing systems. These weaknesses reflect, in aggregate, a number of internal control deficiencies that resulted from system functionality issues occurring after large-scale system conversions in October 2011.

The Department's independent public accountant for its financial statement audits identified controls surrounding the Department's Debt Management Collection System (DMCS2) and ACS, Inc., Education Servicing System (ACES) as a material weakness in its November 2012 report. In its December 2013 report, the independent public accountant found that a number of the underlying system issues were addressed. However, some of the FY 2012 issues, including new issues identified in FY 2013, continued to impact the reliability of borrower account information and related financial statement balances throughout FY 2013.

- **DMCS2.** FSA uses a debt management collection system to manage defaulted student loans and grant overpayments that require reimbursement. The system facilitates the storage, retrieval, and editing of debtor information and uses this information to help collect defaulted loans and grant overpayments. The Department began transitioning from its legacy debt collection system to DMCS2 in late FY 2011, with the system conversion largely occurring in October 2011.

The independent public accountant reported that FSA experienced significant difficulties with DMCS2 during FY 2012, including the inability of the system to process certain types of transactions, the untimely preparation of certain reconciliations, inadequate transaction processing related to reporting of Fund Balance with Treasury, untimely reporting of transactions from DMCS2 to the Financial Management System, and ineffective oversight of the Department's contractors responsible for the servicing system. In addition, IT general controls and business process controls were considered ineffective.

The independent public accountant subsequently reported that although the most significant functionality issues were identified and addressed in FY 2012, the Department continued to experience difficulties in resolving their effects throughout FY 2013. The independent public accountant also noted that the Department identified additional programming errors affecting borrower balances during its efforts to implement corrective actions. The independent public accountant reported that issues experienced by the Department could be directly related to the effect of

not properly testing a new information system before putting the system into production.

- **ACES.** The Department's legacy direct loan servicer transitioned from its legacy servicing system to a new loan servicing system, ACES, at the beginning of FY 2012. The independent public accountant reported that Department has experienced difficulties with the transition to ACES during FY 2012, including incorrect processing of certain types of transactions, untimely preparation of certain reconciliations, and inadequate transaction processing related to the reporting of Fund Balance with Treasury. In FY 2013, the independent public accountant reported programming errors related to the truncation of accrued interest on large nondefaulted loan balances.

In May 2013, we issued an alert memorandum regarding the Department's payment of estimated commissions and bonuses to PCAs because of system modification delays with DMCS2. Because FSA was unable to calculate the actual commissions and bonuses earned by PCAs, it paid an estimated \$448 million in commissions without reviewing supporting documentation and an estimated \$8.3 million in bonuses based on a revised methodology. FSA's revised methods for paying commissions and bonuses may have resulted in overpayments or underpayments to the PCAs.

In December 2012, we reported concerns with issues surrounding the inability of DMCS2 to accept transfer of defaulted student loans from FSA loan servicers. We found that DMCS2 was unable to accept transfer of more than \$1.1 billion in defaulted student loans to the Department for management and collection. As a result, the Department was not applying all collection tools and borrowers were unable to take some steps to remove their loans from default status. In its December 2013 report, the independent public accountant stated that these defaulted student loans had not been transferred to the new system as of September 30, 2013.

OIG work continues in this area. This includes ongoing audits of DMCS2 implementation, FSA's evaluation of DMCS2 functionality, and FSA's oversight of the development and enhancement of IT products.

## Department Actions and Plans

In 2012, FSA identified and reported two material weaknesses related to the ACES and DMCS2 system conversion and functionality issues that impacted Direct Loan and FFEL servicing and default systems and processes. The Department has since reported that corrective actions taken in FY 2012 and FY 2013 sufficiently remediated the underlying conditions such that, by September 30, 2013, the remaining deficiencies no longer aggregated to a material weakness.

To correct inaccurate loan balances, FSA implemented a number of system fixes and researched and corrected borrower balances. For the defaulted loan servicing system, FSA awarded an operations and maintenance contract to a new vendor. FSA conducted and eliminated a backlog of portfolio and cash reconciliations and evaluated and corrected suspense account balances by adjusting the matching process. FSA also implemented other internal control improvements that resulted in system fixes, restored system functionality, and reduced backlogs.

The Department reported it has completed other corrective actions to include transferring all borrower accounts off of ACES to other loan servicers, defining the various roles in DMCS2 contract monitoring and establishing a process to document roles and responsibilities and capture the outcomes of contract monitoring activities across business units in a central location, executing bilateral contract modifications regarding performance payment calculations, and identifying and documenting each problem related to DMCS2 loan transfers and the populations affected by those problems.

In May 2013, the Department issued its Enterprise Modernization Roadmap. The document is a tool used for sequencing Department modernization initiatives to support organizational transformation. The Roadmap documents the Department's current state, future state, and steps to achieve the future state. It further outlines the alignment of strategic goals to business services and how technology solutions are integrated across all of the Department's lines of business.

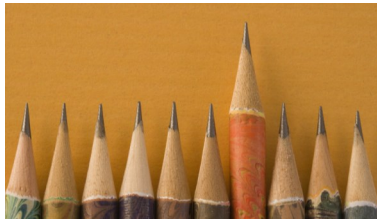
The Department's IT Investment Management Guide is intended to provide a systematic investment management process to manage the risks and returns for IT initiatives in support of the Department's strategic goals and objectives. It is designed to provide guidance on how various aspects of IT Investment Management function within the Department and seeks to provide managers and staff with the information needed to better understand, participate in, and implement IT Investment Management processes, requirements, and guidance.

## Further Actions Needed to Address the Challenge

The Department needs to continue to monitor contractor performance to ensure that system deficiencies are corrected and that system performance fully supports the Department's financial reporting and operations. Similarly, the Department should ensure that all agreed-on corrective actions are completed timely.

Further actions needed to address this challenge includes improving management and oversight of system development and life cycle management (to include system modifications and enhancements) and ensuring that appropriate expertise to managing system contracts (to include acceptance of deliverables) is obtained.





## APPENDICES

### Appendix A. Work Discussed Under the Challenges

The following audits, inspections, investigative cases, and other work are discussed under the challenge areas.<sup>4</sup>

#### Challenge: Improper Payments

##### OIG Internal Reports

“Compliance with Executive Order 13520 for FY 2012 and FY 2013,” September 2014 (A03N0004)

“U.S. Department of Education’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2013,” April 2014 (A19O0002)

“U.S. Department of Education’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2012,” March 2013 (A03N0001)

“Student Aid Fraud Ring Assessment,” January 2013, (X18M0001)

“U.S. Department of Education’s Compliance With Executive Order 13520, ‘Reducing Improper Payments’ for Fiscal Year 2011,” October 2012 (A03M0004)

“U.S. Department of Education’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2011,” March 2012 (A03M0001)

“Review of the Department’s Process for Identifying and Reporting High-Dollar Overpayments Required Under Executive Order 13520,” April 2012 (I13L0003)

##### OIG External Reports

“Title IV of the Higher Education Act Programs: Additional Safeguards Are Needed to Help Mitigate the Risks That Are Unique to the Distance Education Environment,” February 2014 (A07L0001)

“Review of Final Expenditures Under the American Recovery and Reinvestment Act for Selected Educational Agencies,” July 2013 (A04M0001)

“Maryland: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs,” January 2013 (A03K0009)

<sup>4</sup> OIG reports may be found on our Web site at <http://www2.ed.gov/about/offices/list/oig/reports.html>. Unless otherwise noted, dates referenced for investigative activities relate to the ending period for the OIG Semiannual Reports to Congress where the activities are discussed: <http://www2.ed.gov/about/offices/list/oig/sarpages.html>. Investigative press releases noted are available at <http://www2.ed.gov/about/offices/list/oig/ireports.html>. GAO reports may be found on GAO’s Web site at [www.gao.gov](http://www.gao.gov).

“Saint Mary-of-the-Woods College’s Administration of the Title IV Programs,”  
March 2012 (A05K0012)

## Challenge: Information Technology Security

### IG or Contractor Internal Reports

Because of the sensitivity of IT security issues, some OIG reports have been redacted.

“Review of Federal Student Aid’s Oversight and Monitoring of Private Collection Agency and Guaranty Agency Security Controls,” September 2014 (X11N0003)

“Fiscal Year 2013 Financial Statements U.S. Department of Education,”  
December 2013 (A17N0001)

“The U.S. Department of Education’s Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2013,” November 2013  
(A11N0001)

“PIN Security Vulnerabilities,” September 2013 (X21L0002)

“Audit of the U.S. Department of Education’s Compliance with the Federal Information Security Management Act for Fiscal Year 2012,” November 2012  
(A11M0003)

“Financial Statement Audits - Fiscal Years 2012 and 2011 - U.S. Department of Education,” November 2012 (A17M0001)

“Education Central Automated Processing System (EDCAPS) Information Security Audit,” September 2012 (A11M0002)

## Challenge: Oversight and Monitoring—SFA Program Participants

### OIG Internal Reports

“Oversight of Guaranty Agencies During the Phase-Out of the Federal Family Education Loan Program,” September 2014 (A06L0003)

“Direct Assessment Programs: Processes for Identifying Risks and Evaluating Applications for Title IV Eligibility Need Strengthening to Better Mitigate Risks Posed to the Title IV Programs,” September 2014 (A05N0004)

“Review of Federal Student Aid’s Plans for School Closures by a For-Profit Entity,”  
February 2014 (I13N0001)

“Transparency of Proprietary Schools’ Financial Statement Data for Federal Student Aid Programmatic Decisionmaking,” July 2013 (A09L0001)

“Federal Student Aid’s Oversight of Foreign Medical School Pass Rates,”  
January 2012 (A19L0004)

### OIG External Reports

“Third-Party Servicer Use of Debit Cards to Deliver Title IV Funds,” March 2014  
(X09N0003)

“Metropolitan Community College’s Administration of the Title IV Programs,”  
May 2012 (A07K0003)

## OIG Investigations

“School Proctor Sentenced to Prison in Student Financial Aid Fraud Scheme,” Press Release, May 2014

“Former President of Galiano Career Academy Sentenced for Theft of Federal Funds, Obstruction of a Federal Audit, and Aggravated Identity Theft,” Press Release, February 2014

“Four Montgomery Residents Sentenced for Conspiracy to Defraud the United States Department of Education,” Press Release, February 2014

“Three Defendants Plead Guilty in Federal Student Aid Fraud Scheme,” Press Release, February 2014

“Texas-Based School Chain to Pay Government \$3.7 Million for Submitting False Claims for Federal Student Financial Aid,” Press Release, August 2013

“For-Profit School in Texas to Pay United States Up to \$2.5 Million for Allegedly Submitting False Claims for Federal Student Financial Aid,” Press Release, May 2013

“San Diego College Pays \$700,000 and Former Financial Aid Director Pleads Guilty to Resolve Allegations of Financial Aid Fraud,” Press Release, April 2013

“Manhattan U.S. Attorney Announces \$4 Million Fraud Settlement With New York Institute of Technology and Cardean Learning Group, LLC,” Press Release, December 2012

## GAO Report

“Actions Needed to Address ATM Access, Student Choice, and Transparency,” February 2014 (GAO-14-91)

### Challenge: Oversight and Monitoring— Distance Education

## OIG External Reports

“Title IV of the Higher Education Act Programs: Additional Safeguards Are Needed to Help Mitigate the Risks That Are Unique to the Distance Education Environment,” February 2014 (A07L0001)

“Saint Mary-of-the-Woods College’s Administration of the Title IV Programs,” March 2012 (A05K0012)

“Colorado Technical University’s Administration of Title IV, Higher Education Act Student financial Assistance Programs,” September 2012 (A09K0008)

## GAO Reports

“Use of New Data Could Help Improve Oversight of Distance Education,” GAO-12-39, November 2011

## Challenge: Oversight and Monitoring— Grantees

### OIG Investigations

“Six Defendants Charged in Separate Fraud Schemes to Obtain \$2.7 Million in Mortgages, Student Aid, Bank and Small Business Loans,” Press Release, July 2014

“Nine Individuals Indicted for Wire Fraud and Student Loan Fraud the Defendants are Facing a Forfeiture Allegation of \$351,333,” Press Release, July 2014

“New York City Woman Pleads Guilty in Manhattan Federal Court to Fraud in Connection with Federal Financial Aid to Attend Online State College,” Press Release, June 2014

“Three Defendants Plead Guilty In Federal Student Aid Fraud Scheme,” Press Release, February 2014

“Pinellas County Man Sentenced to Nine Years in Federal Prison for Student Loan Fraud,” Press Release, January 2013

### OIG Internal Reports

“The Department’s Monitoring of Race to the Top Program Recipient Performance,” January 2014 (A19M0003)

“The Office of Elementary and Secondary Education’s Process of Awarding Discretionary Grants,” August 2013 (A03M0002)

“Teacher Incentive Fund Stakeholder Support and Planning Period Oversight,” February 2013 (A19L0005)

“School Improvement Grants: Selected States Generally Awarded Funds Only to Eligible Schools,” March 2012 (A05L0002)

“The Department’s Management of the Federal Real Property Assistance Program,” October 2012 (A19L0006)

“The Office of Innovation and Improvement’s Oversight and Monitoring of the Charter Schools Program’s Planning and Implementation Grants,” September 2012 (A02L0002)

“Centers for Independent Living Compliance, Performance, Recovery Act Reporting, and Monitoring,” September 2012 (A06K0011)

“The Department’s External Audit Resolution Process,” July 2012 (A19K0009)

“U.S. Department of Education’s Process to Identify and Monitor High-Risk Grantees,” March 2012 (I13K0002)

“Department’s Implementation of the Teacher Incentive Fund Grant Program,” December 2011 (A19I0007)

### OIG External Reports

“Ohio Department of Education’s Administration of its Race to the Top Grant,” September 2014 (A05N0009)

“Fraud in Title I-Funded Tutoring Programs,” October 2013 (X42N0001)

“Florida: Final Recovery Act Expenditures Supplemental Report,” June 2013 (A02M0009)

“Puerto Rico: Final Recovery Act Expenditures Supplemental Report,” February 2013 (A04M0014)

“Arkansas: Final Recovery Act Expenditures Supplemental Report,” December 2012 (A09M0003)

“Delaware: Final Recovery Act Expenditures Supplemental Report,” December 2012 (A03M0005)

“Camden City Public School District’s Administration of Non-Salary Federal Education Funds,” March 2012 (A02K0014)

#### Second Phase Recovery Act Work—Use of Funds and Data Quality

- Maryland, January 2013 (A03K0009)
- Alabama, February 2012 (A04K0007)
- South Carolina Governor’s Office, August 2011 (A04K0006)
- Virginia, June 2011 (A03K0008)
- Missouri, June 2011 (A07K0002)
- Illinois, June 2011 (A05K00005)
- Utah, May 2011 (A09K0001)
- California, April 2011 (A09K0002)
- Louisiana, April 2011 (A06K0003)
- South Carolina, April 2011 (A04K0005)
- Wisconsin, Milwaukee Public Schools, April 2011 (A02K0009)
- Oklahoma, February 2011 (A06K0002)
- Wisconsin, September 2010 (A02K0005)

#### GAO Report

“Promise Neighborhoods Promotes Collaboration but Needs National Evaluation Plan,” June 2014 (GAO-14-432)

#### OIG Investigations

“Niles-Based Education Firms and Executives Indicted in Alleged \$33 Million Fraud; Bribes Allegedly Paid to Four School Officials,” Press Release, April 2014

“Former Detroit Public Schools Accountant, Teacher Found Guilty of Fraud and Money Laundering Charges,” Press Release, August 2013

“Head of Charter School Pleads Guilty to Fraud,” Press Release, August 2013

“Former CEO of PA Cyber and CPA Charged in Elaborate Fraud Scheme,” Press Release, August 2013

“Former Accounting Employee Pleads Guilty to Stealing More Than \$75,000 From Charter School,” June 2013

“Former Pontiac Schools Associate Superintendent and Chief Financial Officer Sentenced to 12 Months in Federal Prison,” Press Release, April 2013

“Former El Centro School Superintendent Pleads Guilty To More Than \$325,000 in Federal Grant Fraud,” Press Release, March 2012

## Challenge: Oversight and Monitoring— Contractors

### OIG Internal Reports

“Handling of Borrower Complaints Against Private Collection Agencies,” July 2014 (A06M0012)

“Federal Student Aid’s Award and Administration of Title IV Additional Servicers Contracts,” August 2013 (A02L0006)

“Verbal Complaints Against Private Collection Agencies,” May 2013 (L06M0012)

“Department’s Controls Over EDUCATE Contract Costs,” March 2012 (A19L0003)

Consulting Report, “Title IV Additional Servicers Capacity Assessment,” December 2011 (S15L0001)

## Challenge: Data Quality and Reporting

### OIG Internal Reports

“Payback Provisions of the Rehabilitation Long-Term Training Program,” April 2014 (A19M0004)

“The Department’s Implementation of the Government Performance and Results Act Modernization Act,” January 2014 (A19M0005)

“U.S. Department of Education’s and Selected States’ Oversight of the 21st Century Community Learning Centers Program,” June 2013 (A04L0004)

### OIG External Reports

“Ohio Department of Education’s Administration of its Race to the Top Grant,” September 2014 (A05N0009)

“The U.S. Department of Education’s and Five State Educational Agencies’ Systems of Internal Control Over Statewide Test Results,” March 2014 (A07M0001)

“The Texas Education Agency’s System of Internal Control Over Statewide Test Results,” September 2013 (A05N0006)

“El Paso Independent School District’s Compliance With the Accountability and Academic Assessment Requirements of the Elementary and Secondary Education Act of 1965,” June 2013 (A06L0001)

“Michigan Department of Education’s System of Internal Control Over Statewide Test Results,” May 2013 (A07M0007)

### OIG Investigations

“Former El Paso Independent School District Superintendent Pleads Guilty to Federal Charges,” Press Release, June 2012

**Challenge:  
Information  
Technology Systems  
Development and  
Implementation**

**OIG Internal Reports**

“Fiscal Year 2013 Financial Statements U.S. Department of Education,”  
December 2013 (A17N0001)

“Federal Student Aid Paid Private Collection Agencies Based on Estimates,”  
May 2013 (L02N0002)

“Financial Statement Audits - Fiscal Years 2012 and 2011 - U.S. Department of  
Education,” November 2012 (A17M0001)

“Debt Management Collection System 2,” December 2012 (L02M0008)



## Appendix B. Acronyms and Abbreviations

ACES	ACS, Inc., Education Servicing System
AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DMCS2	Debt Management Collection System 2
EDUCATE	Education Department Utility for Communications, Applications, and Technology Environment
ESEA	Elementary and Secondary Education Act of 1965, as Amended
FAFSA	Free Application for Federal Student Aid
FFEL	Federal Family Education Loan
FSA	Federal Student Aid
FY	Fiscal Year
GAO	Government Accountability Office
HEA	Higher Education Act of 1965, as Amended
IRS	Internal Revenue Service
IPERA	Improper Payments Elimination and Recovery Act of 2010
IT	Information Technology
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCA	Private Collection Agency
Pell	Federal Pell Grant
Recovery Act	American Recovery and Reinvestment Act of 2009
SAFRA	Student Aid and Fiscal Responsibility Act of 2010
SEA	State Educational Agency
SFA	Student Financial Assistance
Title I	Title I of the ESEA
Title IV	Title IV of the Higher Education Act of 1965, as Amended
TIVAS	Title IV Additional Servicer





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