



U.S. DEPARTMENT
OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress, No. 62

OFFICE OF INSPECTOR GENERAL

Kathleen S. Tighe

Inspector General

May 2011

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Message to Congress

On behalf of the U.S. Department of Education (Department) Office of Inspector General (OIG), I present this Semiannual Report on the activities and accomplishments of this office from October 1, 2010, through March 31, 2011. The audits, inspections, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness in Department programs and operations.

Over the past 6 months, OIG issued 19 audit products that identified nearly \$40 million in financial recommendations. We also closed 88 investigations of fraud and corruption involving Department programs and operations and secured more than \$69 million in settlements, fines, restitutions, forfeitures/seizures, and savings.

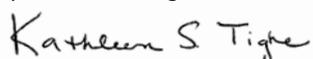
I have just completed my first year as the Inspector General of this agency and I am pleased with the results we have accomplished thus far and the direction in which we are heading. Last September, we developed and issued a new Strategic Plan that sets the stage for accomplishing our mission and maximizing the effectiveness of our efforts and resources over the next 5 years. We also issued our Annual Plan for FY 2011, which follows the direction of our Strategic Plan and presents the major initiatives and priorities my office has planned to undertake to assist the Department in fulfilling its responsibilities to America's taxpayers, families, and students. In this Semiannual Report, we present our most significant activities completed over the past 6 months by strategic goal to best show how each of these individual efforts contributes. Each goal and examples of related work are summarized as follows:

- *Improve the Department's ability to effectively and efficiently implement its programs to promote educational excellence and opportunity for all students.* Under this goal, we highlight our work involving some of the larger Federal education programs and funding related to promoting educational excellence and opportunity, including the *American Recovery and Reinvestment Act of 2009* (Recovery Act) and the *Elementary and Secondary Education Act of 1965*, as amended. Our audit of Oklahoma's use of Recovery Act funds resulted in a finding that the State could not account for how Recovery Act funds of more than \$16 million were expended. Our investigative efforts resulted in action against a former school official for his role in a fraudulent high school diploma scam.
- *Strengthen the Department's efforts to improve the delivery of student financial assistance.* Our work in this area continued to garner attention, particularly with the release of our audit of Ashford University's compliance with selected provisions of the *Higher Education Act of 1965*, as amended (HEA), in its distance education programs. We identified a number of deficiencies in the school's administration of the HEA programs, including that it designed a compensation plan for enrollment advisors that provided incentive payments

based on success in securing enrollments. One of our inspection reports issued during this period found that the Federal Student Aid office (FSA) did not always take appropriate action when it had identified that an institution was potentially not in compliance with financial responsibility requirements. Our investigative work in the area of Federal student aid also led to prison sentences for the former owners of Centurion Professional Training, a proprietary school in New York, who were also ordered to pay more than \$1.3 million in restitution for Federal student aid fraud, and to a guilty plea by the former Vice President of Finance at Iona College for embezzling more than \$850,000.

- *Protect the integrity of the Department's programs and operations by detecting and preventing vulnerabilities to fraud, waste, and abuse.* Our efforts over the past 6 months included an audit that found that the Puerto Rico Department of Education could not reconcile a \$15 million discrepancy between data in its financial accounting and payment systems due to insufficient internal controls and oversight. Our investigations identified a number of school officials who used their positions of trust for personal financial gain, including the former Superintendent of California's El Centro Elementary School District and two San Diego State University professors for allegedly diverting \$395,000 in Department funds for their personal use.
- *Contribute to improvements in Department business operations.* Under this goal, we highlight our statutory reviews of the Department's and FSA's financial statement audits and the results of our FY 2010 *Federal Information Security Management Act* (FISMA) review. Both the Department and FSA earned clean opinions on their FY 2010 financial statements; however, the audit reports, prepared by an independent public accountant (IPA), noted several repeat deficiencies involving credit reform estimation, reporting processes, and controls surrounding information systems. Our required FISMA review found that although the Department had taken steps in strengthening its agency-wide information security program, we also identified areas still needing improvement, including configuration management, incident response and reporting, remote access, account and identity management, and continuous monitoring. In addition, as a result of our investigative work, an FSA employee and six contractor employees were sentenced for exceeding their access to the National Student Loan Data System.

As you will read in the pages of this report, the OIG is committed to helping the Department and its program participants, grantees, and subrecipients to address weaknesses and improve stewardship of the taxpayer dollars with which they are entrusted. We greatly appreciate the interest and support of this Congress, Secretary Duncan, and Deputy Secretary Miller in our efforts. We look forward to working with you in meeting the challenges and opportunities that lie ahead.



Kathleen S. Tighe
Inspector General

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Goal 1: Improve the Department's Ability to Effectively and Efficiently Implement Its Programs to promote Educational Excellence and Opportunity for all Students.

Our first strategic goal addresses the core of our statutory mission -- to promote the efficiency, effectiveness, and integrity of the U.S. Department of Education's (Department) programs and operations. Work conducted by the Office of Inspector General (OIG) over the past 6 months in the area of promoting educational excellence and opportunity includes specific efforts related to the *American Recovery and Reinvestment Act of 2009* (Recovery Act) as well as the *Elementary and Secondary Education Act of 1965*, as amended (ESEA). Although our work involving the Federal student aid programs also contributes to this goal, we discuss those efforts under Goal 2.

Recovery Act

With the passage of the Recovery Act in February 2009, we initiated our first phase of work to determine whether the State educational agencies (SEA) and local educational agencies (LEA) charged with overseeing Recovery Act funds had designed systems of internal control that are sufficient to provide reasonable assurance of compliance with applicable laws, regulations, and guidance. In FY 2010, we initiated the second phase of Recovery Act audits to determine whether the States and their subrecipients used and reported Recovery Act funds in accordance with applicable laws, regulations, and guidance. In FY 2011, we initiated our third phase of work, which, as a natural progression from our first two phases, will have more of a program results focus and provide a national perspective on the use of Recovery Act funds. We are initiating work at a number of LEAs in a nationwide review to determine how selected LEAs are using Recovery Act and Education Jobs funds (stimulus funds); assess whether stimulus funds can or will be spent by the end of the respective grant periods; determine whether actual or planned uses of stimulus funds could result in unsustainable continuing commitments after the Recovery Act funding expires; and identify the factors impacting an LEA's ability to strategically invest stimulus funding versus simply using the funds to maintain the status quo. We have also initiated a review of States' oversight of Recovery Act funding under the School Improvement Grants program and a review of Centers for Independent Living fiscal controls over Recovery Act funds. Also

in progress are our review of the Department's data quality processes for Recovery Act recipient reporting, our review of the adequacy of the Department's monitoring of recipients' use of funds awarded under the State Fiscal Stabilization Fund, and the Department's plans for monitoring performance under the Investing in Innovation Funds and the Race to the Top programs. We will report the findings of these efforts once completed.

During this reporting period, OIG staff continued to work with Department leaders and our counterparts in the Government Accountability Office (GAO) and other Federal agencies to evaluate whether Recovery Act dollars are expended in accordance with applicable laws, regulations, and Department guidance. We continued to participate as a member of the Recovery Accountability and Transparency Board and in an advisory capacity on the Department's internal Recovery Act teams. We issued three reports involving Recovery Act recipients, which we summarize below. Finally, OIG investigators continue to examine allegations of waste, fraud, and abuse involving Recovery Act funds and to take appropriate action to ensure that anyone who steals or intentionally misuses Recovery Act funds is held accountable for those unlawful actions.

Recovery Act Audits

Phase II Audit - Oklahoma

The results of our audit of Oklahoma's use of

Recovery Act funds found that the Governor's Office, the Oklahoma Office of State Finance (OSF), and the Oklahoma State Department of Education (OSDE) did not demonstrate that all Recovery Act funds were expended in accordance with applicable laws, regulations, and guidance. We identified \$16 million in State Fiscal Stabilization Fund (SFSF) Government Services Funds (GSF) for which OSF was unable to account. We also identified more than \$68,000 in unallowable expenses and more than \$81,000 in unsupported costs at two of the three Oklahoma LEAs we examined. OSDE and OSF had also not followed applicable cash management regulations to ensure that subrecipients did not receive funds in advance of need. OSDE advanced \$124 million available under the Recovery Act to two LEAs without regard to their immediate funding needs; and OSF drew down approximately \$19.2 million in SFSF Education Stabilization Funds in excess of the LEAs' needs. OSDE and OSF did not ensure that data reported were accurate, reliable, and complete. We made several recommendations to address these issues, including that OSF provide sufficient documentation and/or accounting transactions to support that SFSF GSF funds were expended appropriately or return \$16 million in SFSF GSF funds. Oklahoma officials did not concur with all of our findings.

Phase I Audit - Pennsylvania

We examined internal controls of education-related Recovery Act funds in the Commonwealth of Pennsylvania and found that the agencies reviewed had systems of internal control in place to provide for the proper administration and use of those funds. We did, however, identify areas in which controls needed to be strengthened or established in order to provide reasonable assurance of subrecipient compliance with applicable laws, regulations, and guidance. Specifically, we found that the Pennsylvania Department of Education (PDE) and the Comptroller's Office needed to provide clearer guidance to LEAs regarding excess cash and excess interest earned on Federal funds, as well as with Recovery Act job creation and retention data to ensure that such data are accurate and complete. PDE also needed to conduct additional monitoring and provide LEAs with additional guidance to help ensure fiscal controls

are adequate and to ensure that LEA policies and procedures in this area are adequate, as we found that two of the three LEAs reviewed did not have written policies and procedures for several fiscal areas. Based on these findings, we made a number of recommendations to enhance controls over Recovery Act funds. State officials did not agree with all of our findings or recommendations.

Phase I Audit - Puerto Rico

The results of our audit of internal controls over education-related Recovery Act funds in Puerto Rico found that although the Governor's Office and its subgrantees, including the Puerto Rico Department of Education (PRDE), worked to ensure proper administration of Recovery Act funds, there were areas that needed to be strengthened. Specifically, the Governor's Office had insufficient controls over cash management; PRDE and the Governor's Office did not sufficiently monitor their use of Recovery Act funds and subgrantees to ensure adequate oversight and had insufficient internal controls for safeguarding information. Further, PRDE was not effectively monitoring the procurement process, and it lacked documentation to support payments made with Recovery Act funds for programs under the *Individuals with Disabilities Education Act of 1975* and compliance with the contract awarding requirements included in the Recovery Act. We made a number of recommendations to address the weaknesses identified. Puerto Rico officials did not agree with all of our findings or recommendations.

Recovery Act Investigations

Federal Student Aid Fraud

The following case involves Federal student aid funding, a portion of which was either applied for or obtained after passage of the Recovery Act. The Recovery Act increased funding for the Pell Grant program.

Florida - Former Admissions Counselor at American Institute Sentenced.

The former school official was sentenced to 3 years of probation, 250 hours of community service, and was ordered to pay \$156,000 in restitution for his role in a fraudulent high school diploma scam at the school. The former official created false high school diplomas that were placed

into prospective student files in order to make the students appear eligible for admission to the school and to support false applications for Federal student aid. As a result of his fraudulent efforts, ineligible students at the school received approximately \$156,000 in Federal student aid to which they were not entitled, of which approximately \$5,100 involved Recovery Act funds.

Recovery Act Whistleblower Retaliation

The Recovery Act extends whistleblower protections to employees who reasonably believe that they are being retaliated against for reporting allegations of misuse of Recovery Act funds received by their non-Federal employers. This includes State and local government employees, contractors, subcontractors, grantees, professional

membership organizations, or any person acting in the interest of Recovery Act fund recipients. During this reporting period, OIG received 22 Recovery Act-related whistleblower reprisal complaints. One complaint met the Recovery Act's criteria and we completed an investigation of that complaint. Our investigation substantiated the allegations and we submitted our investigative report to the Secretary. The Secretary agreed that reprisal had occurred and issued an order to the employer to reinstate the whistleblower and provide other relief. The complainant was reinstated on March 30.

Complaints about Recovery Act whistleblower reprisal related to Recovery Act funds should be reported to the OIG by following the instructions on our Web site at <http://www2.ed.gov/about/offices/list/oig/recoveryact.html#whistleblower1>.

ESEA

With the significant increase in education funding that the States, SEAs, and LEAs are receiving through the Recovery Act and the Education Jobs Fund in addition to their annual allotments, effective accountability is vital in how these entities expend all Federal education funds they receive. Based on our Recovery Act work at one LEA last year, we took a closer look at its use of other Federal education funds and describe our findings below.

New York - Kiryas Joel Union Free School District

A 2010 audit found that the Kiryas Joel Union Free School District (Kiryas Joel) lacked adequate internal controls to ensure compliance with Recovery Act reporting requirements, safeguard payroll checks, and minimize the risk of funds being improperly disbursed. Based on this finding, we took a closer look at Kiryas Joel to determine whether its expenditures of selected Federal funds were in accordance with applicable laws and regulations. We found that Kiryas Joel used more than \$276,000 in ESEA Title I funds to supplant non-Federal funds in lease payments related to its public school building and estimated that an additional \$5.2 million in potential charges to the Title I grant over

the remaining life of the lease could be better used to serve the students of Kiryas Joel. We noted conflicts of interest related to this lease as well as another lease agreement for which Kiryas Joel made payments using Title I funds. A 2009 report by the Office of the New York State Comptroller indicated that Kiryas Joel's Board President and Vice President did not properly disclose their affiliations with the groups leasing the building. As a result, there was no assurance that the decisions made relating to the leases were in the best interests of the students of Kiryas Joel. Based on our findings, we recommended that the Department instruct the New York State Department of Education (NYSED) to require Kiryas Joel to return more than \$276,000 in unallowable Title I funds that it used for leasing the building and implement and adhere to policies and procedures to ensure compliance with Federal requirements related to conflicts of interest. We also recommended that Kiryas Joel provide adequate documentation to support more than \$191,000 in unsupported Title I salary expenditures or return the funds. NYSED generally concurred with our findings and recommendations.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Departmental Groups

- ◆ *Department Recovery Act Metrics and Monitoring Team* - OIG participates in an advisory capacity on this team that meets regularly to coordinate Recovery Act funds oversight efforts and develop reports for posting on the Recovery.gov Web site.

Inspector General Community

- ◆ *Recovery Accountability and Transparency Board (Recovery Board)* - Inspector General Tighe is a member of the Recovery Board and is Chair of the Accountability Committee of the Board, which provides advice and recommendations to the Board regarding preventing and detecting fraud, waste, abuse, and mismanagement and with regard to the Recovery Operations Center. OIG staff also participate in a work group composed of all of the Offices of Inspectors General that provide Recovery Act oversight, and a subgroup focused on Recovery Act grant funds.

Federal and State Law Enforcement-Related Groups

- ◆ *The Recovery Act Fraud Working Group of the U.S. Department of Justice's Financial Fraud Enforcement Task Force* - OIG

participates in this working group focused on improving efforts across the government to investigate and prosecute significant financial crimes involving Recovery Act funds.

Federal and State Audit-Related Groups

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

- ◆ *Interagency Coordination Group of Inspectors General for Guam Realignment* - OIG participates in this group to provide input on education-related issues impacting the realignment of approximately 8,000 Marines and their approximate 9,000 dependents from Okinawa to Guam.

Review of Legislation, Regulations, Directives, and Memoranda

- ◆ *Annual Report on Guam Realignment* - We provided input to the Annual Report on challenges facing the educational systems in Guam associated with the realignment of military personnel from Okinawa to Guam.

Goal 2: Strengthen the Department's Efforts to Improve the Delivery of Student Financial Assistance.

Our second strategic goal addresses an area that has long been a major focus of our audit, inspection, and investigative work—the Federal student financial assistance (SFA) programs. These programs are inherently risky because of their complexity, the amount of funds involved, the number of program participants, and the characteristics of student populations. The programs underwent a significant change in 2010 with the passage of legislation prohibiting the origination of new Federal Family Education Loan Program (FFELP) loans after June 30, 2010, and requiring that all new Federal student loans be originated under the William D. Ford Federal Direct Loan (Direct Loan) Program. The Department must have the capacity to originate and service the increased Direct Loan volume and ensure that participants in the Federal student aid programs comply with all applicable laws, regulations, and guidance. In our last Semiannual Report to Congress, we highlighted our work involving the Department's Direct Loan capacity. During this reporting period, our work included examining SFA program participants' compliance with Federal statutes, regulations, and agreements with the Department and with other *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) program participants. Summaries of these efforts follow, as well as those of our more significant investigative cases involving Federal student aid funds.

Internal Operations

Review of FSA's Monitoring of Financial Responsibility

Our inspection determined that the Federal Student Aid office (FSA) did not always take appropriate action when it had identified that an institution was potentially not in compliance with financial responsibility requirements. The *Higher Education Act of 1965*, as amended (HEA), and implementing regulations require that an institution demonstrate financial responsibility in order to participate in the Federal student aid programs. We found that FSA's procedures did not define when an institution's failure to submit its annual financial statement and compliance audit would result in a determination that the institution is not financially responsible. In addition,

before implementing its current procedures, FSA did not enforce the financial responsibility requirement that institutions must submit letters of credit in order to continue participation after being cited for untimely audit submissions. We recommended that FSA establish a reasonable timeframe in its policies and procedures to address untimely financial statement and compliance audits according to 34 Code of Federal Regulations (C.F.R.) § 668.174(a)(3). This regulation specifies that an institution is not financially responsible if it has been cited during the preceding 5 years for failure to submit in a timely fashion acceptable compliance and financial statement audits. FSA did not disagree with our findings and concurred with our recommendations.

Federal Student Aid Program Participants

Audits

Ashford University's Compliance with Selected Provisions of the HEA

The audit determined that, for its distance education

programs, Ashford University (Ashford), a proprietary school located in Clinton, Iowa:

- Designed a compensation plan for enrollment advisors that provided incentive payments

based on success in securing enrollment and did not establish that its plan and practices qualified for the regulatory safe harbors from the incentive compensation prohibition;

- Did not properly perform return of Federal student aid calculations, resulting in the improper retention of more than \$29,000 of Federal student aid program funds for 38 of the 85 students in our samples (we estimated that Ashford improperly retained at least \$1.1 million of 2006-2007 Federal student aid program funds);
- Did not return Federal student aid program funds timely;
- Retained student credit balances without proper authorizations;
- Did not always disburse Federal student aid program funds in accordance with Federal regulations or its own policy (we estimated that Ashford made between \$3.7 and \$8.9 million in ineligible disbursements); and
- Did not maintain supporting documentation for students' leaves of absence.

We recommended a number of actions, including that FSA require Ashford to provide records of all adjustments to the salaries of its enrollment advisors made during our audit period and that FSA take appropriate administrative action for all salary adjustments that did not qualify for the safe harbor. We also recommended that Ashford be required to return student aid funds that it was not entitled to retain and that it cease drawing, disbursing, and holding credit balances for which there are no currently assessed institutional charges. Because of the seriousness of our findings, we also recommended that FSA consider taking appropriate administrative action under 34 C.F.R. Part 668, Subpart G, to fine Ashford or to limit, suspend, or terminate its participation in the SFA programs. Ashford officials disagreed with our findings and recommendations.

Educational Credit Management Corporation

We reviewed the compliance of Educational Credit Management Corporation (ECMC)—an FFELP guaranty agency—with selected terms of its June 29, 2006, agreement with the Department.

Under the agreement, ECMC serviced and monitored bankruptcy cases filed on student loans, provided specialty student loan services (such as inactive portfolio maintenance and administrative wage garnishment), maintained a “standby capacity,” and performed other services for the Department. All of the assignments under the agreement were carried out by ECMC’s Federal Services Bureau (FSB) and financed by the FSB Federal Reserve Fund. Although we found that ECMC generally complied with certain sections of the agreement, we also found that, contrary to the agreement, ECMC: (1) used the FSB account as a “checking account” to pay the monthly expenses of ECMC Group and all of its subsidiaries except one; (2) had a cost allocation plan (CAP) that did not fully explain the allocation of costs; and (3) did not provide an annual cost allocation report to the Department. In general, we recommended that FSA require ECMC to correct the violations we identified and review all expenses charged to the FSB, making appropriate adjustments if the expenditures did not benefit the FSB line of business, and include in the CAP a detailed explanation of the basis for its cost allocations and submit the annual cost allocation report to the Department. We also recommended that FSA revise the agreement in order to remove a requirement that an independent auditor approve the CAP, because only FSA has the authority to approve ECMC management’s CAP. ECMC agreed to implement all of our recommendations.

Wells Fargo Bank and Zions First National Bank

Using authority provided by ECASLA, the Department established a Loan Participation Purchase (LPP) Program to ensure that lenders had reliable sources of funds to originate new FFELP loans. During the 2-year life of the LPP Program, the Department purchased interests totaling more than \$70 billion in FFELP loans. Over the last 6 months, we completed audits of two of the Department-approved custodians under the 2008-2009 LPP Program that provided trust and custody services for FFELP loans in which the Department purchased a participation interest. Below are summaries of our findings.

Wells Fargo Bank

Wells Fargo had controls to reasonably ensure that its management of collection account funds complied with the terms and conditions of the Master Participation Agreement (MPA) and applicable Departmental guidance. However, we also found that it did not sufficiently monitor and provide oversight of its sponsors and servicers and, therefore, could not ensure that it adequately performed its duties as a custodian. We recommended that FSA hold Wells Fargo responsible, to the extent permitted under the MPA, for any liabilities arising from its noncompliance. Wells Fargo officials did not concur with our findings or recommendations.

Zions First National Bank

Zions generally had adequate controls to ensure that its management of collection account funds complied with the terms and conditions of the MPA and applicable Department guidance. However, we also found that: (1) its policies and procedures did not include a requirement to obtain a security release executed by the sponsor and secured party before submitting the Participation Purchase Request (PPR) to the Department; (2) it transferred PPR proceeds to secured parties prior to obtaining the required, executed security releases; (3) it did not routinely submit the executed security releases to the Department within the required submission period; (4) it did not invest collection account funds in permitted investments; and (5) its oversight of servicers' activities needed improvement. Based on our finding, we made several recommendations, including that FSA hold Zions responsible, to the extent permitted under the MPA, for any liabilities arising from its noncompliance. Zions officials did not explicitly concur with our findings or recommendations.

last SAR period, the former owner agreed to a civil settlement of more than \$4.9 million and a lifetime debarment from all Federal procurement and non-procurement programs. During this reporting period, he was criminally sentenced to home confinement and probation and was fined \$30,000 for fraud. These actions are a result of our investigation which found that the former owner enrolled students who did not have the required high school diploma or GED by paying Ability-to-Benefit (ATB) administrators to falsify ATB results in order to increase enrollment and the amount of Federal student aid the school would receive. The former owner also instructed at least one witness to provide false information to the OIG special agents who conducted the investigation.

Missouri - Former University President Indicted.

The former president and CEO of the Kansas City University of Medicine and Biosciences was indicted by a Federal grand jury for embezzling more than \$1.5 million from the school. The former official allegedly obtained more than \$1.4 million in unauthorized additional pay for herself from October 2002 to December 2009; allegedly submitted numerous fraudulent vouchers to receive more than \$50,000 purportedly for business purposes, when in reality the expenditures were for her personal travel and entertainment; and allegedly falsified Federal tax returns for 2003 through 2006 by claiming itemized deductions for charitable contributions totaling more than \$65,000 that she did not make.

New Jersey - A New Jersey City University Employee and Three Others Pled Guilty.

A former office manager for the New Jersey City University Student Government Organization (SGO), her husband, and two associates each pled guilty for their roles in an embezzlement scheme involving hundreds of thousands of dollars. Between 2007 and 2010, the former employee issued more than 200 checks from an SGO bank account made payable to her husband and to the other scheme participants. Over 3 years, the scheme participants embezzled more than \$500,000, which they used to purchase goods and services for their own benefit, including entertainment and gambling in Atlantic City.

Investigations

Schools and School Officials

Illinois - Former Owner of the Cannella School of Hair Design Sentenced. During the

New York - Former School Owners and Admission Officer of Centurion Professional Training Sentenced.

The former owners and officials of this proprietary school were sentenced to home confinement and/or probation, community service, and were ordered to pay restitution ranging from \$952,000 to more than \$1.3 million for Federal student aid fraud. In addition, in a prior reporting period, the former owners paid more than \$1.14 million in a forfeiture money judgment as part of their plea agreement. Our investigation revealed that the school officials fraudulently created documentation in order to obtain Federal and State grants for students who did not attend the school or who were enrolled in ineligible programs. Additionally, one of the owners directed his staff to falsify records in connection with an FSA program review.

New York - Former Vice President of Iona College Pled Guilty to Embezzlement.

The former Vice President of Finance pled guilty to embezzling more than \$850,000 from the school. From 1999 to 2009, the former official submitted false vendor invoices and credit card bills for personal expenses to be paid by the school.

Washington State - Actions Taken Against Two Former Officials of Defunct Crown College.

The former vice president was sentenced and former financial aid director pled guilty for their roles in a scheme where they and other officials of the now-defunct proprietary school falsely represented themselves and others as students in order to apply for and receive Federal financial aid. They did so believing that the school would be closed shortly after they received the aid and planned to apply for loan discharges once the school officially closed. When the school remained open, they attempted to conceal their activity by making it appear as though they were attending classes. As a result of their fraudulent efforts, the officials and others received more than \$65,000 in Federal student aid to which they were not entitled. The former vice president was sentenced to 4 months of home confinement, 3 years of probation, and was ordered to pay \$21,000 in restitution.

Fraud Rings

Alabama - Actions Taken Against Conspirators in Fraud Scheme at Several Schools.

Two individuals were sentenced for their roles in a student aid fraud scheme involving several colleges and universities in Alabama and elsewhere, including Troy State University, Amridge University (formerly known as Regions University), Jacksonville State University, Auburn University at Montgomery, and Ashford University. The individuals completed fraudulent Federal student aid application forms for individuals they knew never intended to attend the institutions, falsely claiming that these individuals had undergraduate degrees and /or high school diplomas or GEDs. Based on this fraudulent information, Federal student aid checks were issued, which the conspirators deposited into their personal bank accounts. One of the individuals was sentenced to 2 years in prison, 3 years of supervised release, and was ordered to pay more than \$264,000 in restitution, while the other was sentenced to 11 months in prison, 3 years of probation, and was ordered to pay \$34,566 in restitution. During the last reporting period, another scheme participant, who was a former Tuskegee University employee, was sentenced to 6 months of home confinement, 3 years of probation, and was ordered to pay more than \$122,000 in restitution.

California - Actions Taken Against Participants in Fraud Scheme at Los Rios Community College District.

In our last Semiannual Report, we reported that six individuals were indicted, two of whom pled guilty for their roles in a \$200,000 fraud scheme at the Los Rios Community College District, an accredited higher education district with campuses that include American River College, Cosumnes River College, and Sacramento City College. The scam involved individuals with no intention of attending any of the Los Rios schools applying for admission to the schools in order to fraudulently obtain Federal student aid. During this reporting period, three of the individuals were sentenced and the ringleader pled guilty for the roles they played. The individuals received sentences ranging from 3 months of home confinement to 2 years in prison, and were ordered to pay restitution ranging from approximately \$23,000 to more than \$118,800.

Iowa - Actions Taken Against Participants in Fraud Scam at Kirkwood Community College.

One man was sentenced to 3 years in prison and was ordered to pay nearly \$139,000 in restitution and another pled guilty for their roles in a fraud scheme at Kirkwood Community College. The scheme involved the fraudulent enrollment of students in the school for the purposes of obtaining Federal student aid and arranging for the Federal loan proceeds to be directed to post office boxes under their control.

Missouri - Actions Taken Against 10 Individuals for Roles in GED Fraud Scam.

One individual pled guilty to fraud and nine others entered into pretrial diversion agreements for their roles in a GED fraud scam. The individuals purchased fake GED certificates that they used to apply for admission into institutions of higher education in order to obtain Federal student aid. The individuals purchased the fake certificates from a former admissions representative at Vatterott College-St. Ann, Missouri campus, who in 2008, was sentenced to 11 years in prison and was ordered to pay over \$653,000 in restitution for manufacturing and selling fake GED certificates. The nine individuals agreed to pay restitution ranging from \$1,150 to more than \$7,000. The individual who pled guilty received more than \$4,300 as a result of the fraud and assisted at least two other individuals in obtaining counterfeit certificates, which enabled them to receive more than \$10,000 in Federal student aid.

Pennsylvania - Identity Theft Ring Members Charged.

Six individuals were charged in a 41-count indictment for their roles in an identity theft scam involving several student loan lenders. The indictment alleges that the individuals engaged in a scheme to defraud lenders of more than \$600,000 by submitting false certifications of employment, educational enrollments, and stolen identities.

Other Individuals

Minnesota - Actions Taken Against Individuals for Stealing Student Data from ECMC.

Two individuals were charged and another pled guilty for their roles in stealing two safes from ECMC, a guaranty agency of Federal student loans. The safes contained computer discs that held personally identifiable information of more than 3 million student loan borrowers. The individuals discarded the safes and computer discs in a dumpster in Minneapolis shortly after the theft after realizing money was not in the safes.

Wisconsin - Individual Sentenced for Fraud.

A man was sentenced to 2 years in prison and was ordered to pay more than \$340,000 in restitution for student aid fraud. The individual, who had previously graduated from the University of Durham in England, forged documents in order to continue to receive student loans by claiming he was still attending the school. Over the course of several years, the man defaulted on the loans and used several different social security numbers to obtain additional loans.

Other Activities

OIG Testifies Before Two Committees on Higher Education Issues

Senate Health, Education, Labor, and Pensions Committee

Inspector General Tighe testified before the U.S. Senate Committee on Health, Education, Labor, and Pensions on our audit of Ashford University's administration of selected Federal student aid programs. Inspector General Tighe explained that Ashford was chosen for audit because of the tremendous growth in the amount of Federal

student aid it disbursed to its students, its rapid expansion into distance education, and the significant increase in the number of enrollment advisors it employed over a short period of time. These were all risk factors that could impact an institution's ability to adequately administer the Federal student aid programs. She presented the findings of our audit, which identified deficiencies in Ashford's administration of selected Federal student aid programs, as described previously in this Semiannual Report. Inspector General Tighe also updated the Committee on OIG investigative work in the distance education arena and shared with them

information on other work the OIG is conducting involving distance education. This includes an audit to determine what the Department has done and can do to help reduce the risks associated with distance education at all institutions, and a report on the vulnerabilities OIG investigative work has identified that will also recommend program enhancements to help mitigate these vulnerabilities.

House Education and the Workforce Subcommittee on Higher Education and Workforce Training

Inspector General Tighe testified before the House Education and the Workforce Subcommittee on Higher Education and Workforce Training on our work involving the definition of a credit hour—a critically important issue in Federal student aid programs, because the amount of Federal aid a student can receive is based on the number of credit

hours for which the student is enrolled. Inspector General Tighe told the Subcommittee that this issue has become more significant in recent years because of the explosion of on-line education, the difficulty of making credit hour assignment, the challenge of comparing it to traditional classroom delivery, and ensuring that its value is increasingly important so that students and taxpayers get what they are paying for. The Inspector General provided the Subcommittee with information on our work involving accrediting agencies, which found that none of the regional accrediting agencies reviewed defined a credit hour or provided guidance on the minimum requirements for the assignment of credit hours. She explained that this could result in the over-awarding of Federal student aid and excessive borrowing by students especially with distance, accelerated, and other programs not delivered through the traditional classroom format.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

OIG-FSA Risk Project - OIG staff work with FSA staff to identify risks and reduce fraud and abuse in Federal student aid programs.

Review of Legislation, Regulations, Directives, and Memoranda

- ◆ *Purchase of Outstanding FFELP Loans*
- We provided technical comments to the Department on proposed legislation to authorize the Secretary to purchase certain FFELP loans.

- ◆ *Program Integrity Regulations*
- We provided comments to the Department on its final program integrity regulations published on October 29, 2010, that established the process under which an institution will apply for approval to offer an educational program that leads to gainful employment in a recognized occupation. We also provided suggestions to the

Department's Dear Colleague Letter, GEN-11-05, *Implementation of Program Integrity Regulations*. The Department accepted many of our suggestions for improvement but did not agree to change part of its guidance on changes to the incentive compensation regulations that go into effect on July 1, 2011. As a result, we non-concurred on that portion of the guidance that permits third parties that provide a bundle of services to an institution, including recruiting, to be compensated by a percentage of revenue earned by the institution. We do not believe that the existing statutory ban on incentive compensation allows any incentive payments to entities involved in recruiting based on their success in enrolling students. As noted in Semiannual Report No. 45, we similarly non-concurred with the Department's 2002 incentive compensation regulations that created a safe harbor permitting such payments.

Goal 3: Protect the Integrity of the Department's Programs and Operations by Detecting and Preventing Vulnerabilities to Fraud, Waste, and Abuse.

Our third strategic goal focuses on our commitment to aggressively root out waste, fraud, and abuse involving Department programs and operations. Through our audit and investigative work, proactive data analyses, and other reviews, we assess fraud risk, evaluate fraud indicators, and perform testing to detect waste, fraud, and abuse. This work can result in criminal and civil investigations of fraud in the Department's programs and operations. Summaries follow of our more significant investigative efforts. In addition, below we provide information on our work involving the Puerto Rico Department of Education's noncompliance with appropriate statutes and regulations in its awarding of personal services contracts and the \$57.75 million settlement agreement between the Federal Government and four student lenders.

Audit-Related Actions

Puerto Rico - Puerto Rico Department of Education Award and Administration of Personal Services Contracts

We issued two reports related to PRDE's awarding and administration of personal services contracts (PSCs). In January, we issued an audit report that found that PRDE lacked sufficient controls to ensure compliance with State and Federal laws in awarding PSCs and in ensuring that those services were allowable and adequately supported. PRDE did not maintain adequate information to reconcile data in its financial accounting and payment systems. The total expenditures recorded in PRDE's financial accounting system for PSCs paid with Department funds were about \$15 million less than the total payments recorded in PRDE's paper-based and other payment systems. Also, PRDE did not provide adequate support for more than \$147,600 of the more than \$459,000 it expended for services under the PSCs reviewed. Without adequate and reliable documentation in support of payments, PRDE cannot ensure that the services were allowable. Based on the results of our review, we consider PSCs a high-risk contracting vehicle, and made a number of recommendations, including that the Department require PRDE to reconcile the \$15 million discrepancy. PRDE did not agree with all of our findings or recommendations.

Two months later, we issued a report to the Department to apprise it of the continuing risks associated with PRDE's use of Department funds for PSCs. Our report highlighted an investigation that identified more than \$450,000 in fraudulent PSCs. We recommended that the Department prohibit PRDE from using Department funds for any PSCs until PRDE demonstrates that it has implemented sufficient controls to assure those funds are used for the intended purpose. The Department agreed that the issues with PRDE's award and administration of PSCs are significant and warrant corrective actions, and it stated it had requested that PRDE provide evidence of the controls implemented over PSCs to ensure that Department funds are safeguarded. It also requested that PRDE direct its Internal Audit Office to review the PSC controls and their effectiveness to determine any necessary further action.

Lenders Agree to \$57.75 Million Settlement

During this reporting period, there was subsequent development related to a prior OIG audit. The student lender Nelnet and three other lenders agreed to a \$57.75 million settlement to resolve allegations that they improperly inflated their entitlement to special allowance payments in violation of the *False Claims Act*. As part of the settlement, Nelnet agreed to pay \$47 million to the

Federal government, Southwest Student Services Corp. \$5 million, Brazos Higher Education Authority and Brazos Higher Education Services Corp. \$4 million, and Panhandle Plains Higher Education Authority and Panhandle Plains Management and Servicing Corp. \$1.75 million. The settlement resolved a whistleblower action filed by a former Department of Education employee who alleged that several lenders participating in the Federal student aid programs created billing systems that allowed them to receive improperly inflated interest rate subsidies from the Department. He will receive

\$16.65 million from the settlements. According to the complaint, our 2006 audit of Nelnet established that it had made illegal claims for special allowance payments. Our audit had found that Nelnet was improperly paid more than \$278 million in special allowance payments for loans from the quarter ended March 31, 2003, through the quarter ended June 30, 2005. We also had estimated that Nelnet could be improperly paid about \$882 million for the ineligible loans after June 2005, if its billings were not corrected.

Investigations

Schools and School Officials

American Samoa – Territorial Education Official Pled Guilty. In January, the director of the school bus division of the American Samoa Department of Education pled guilty to conspiracy to commit bribery. The official admitted to participating in a scheme that involved other American Samoa Department of Education employees as well as the owner and operator of a company that sold school bus parts to the American Samoa government. The official and others arranged to order “phantom” bus parts that were never received and parts that were purchased at inflated prices. In exchange for these fraudulent orders, the official and the co-conspirator received approximately \$300,000.

California - Former El Centro Elementary School District Superintendent and Two Former San Diego State University Professors Indicted. The former superintendent and two former professors at San Diego State University’s Imperial Valley Campus were indicted for allegedly diverting Federal grant money for their own use and benefit. As a part of the scheme, the superintendent allegedly authorized the payment of \$395,000 for an independent external evaluation of a teacher training project at the university, all of which was directed to an entity controlled by one of the professors. The entity paid \$90,000 to the superintendent for work that he did not perform and \$152,750 to the other professor.

District of Columbia - Financial Executive Agrees to Settlement. Accused in 2006 of defrauding the District of Columbia of funds designated for charter schools, the chairman/CEO/president of SBM Investment Certificates, Inc. (SBMIC) agreed to pay \$130,000 to settle the matter. The settlement resulted from our investigation with the U.S. Securities and Exchange Commission (SEC) Office of Enforcement, which found that the District invested more than \$21 million with SBMIC using District and Federal funds earmarked for the District of Columbia Charter School Credit Enhancement Fund. The executive failed to disclose that he invested most of the money in companies related to SBMIC in an effort to keep them afloat. The SEC also alleged that his businesses maintained insufficient reserves and misled investors about the safety of the investments and that the executive failed to disclose that he had business relationships with people who were involved in the D.C. government’s decision to invest with him. The executive agreed to pay a penalty of \$130,000 for violating SEC rules that required investment companies to disclose all material facts related to financial conditions and operations of a company’s investments.

Florida - Former Polk County School Board Official Pled Guilty. The former Polk County School Board Assistant Superintendent for Facilities and Operations pled guilty to conspiracy to

commit bribery. The former official played a key role in awarding school construction contracts and used his position to influence the process. Between 2004 and 2008, the former official received nearly \$50,000 in bribes from a vendor in exchange for his support on contract awards.

Kentucky - Former Not-For-Profit Executive Director Sentenced. The former president of the National Center on Public Education and Prevention (NCPEP) was sentenced to 46 months of imprisonment and 2 years of supervised release for his role in a criminal scheme involving a former University of Louisville Dean of Education. The two conspired to embezzle and to launder Federal funds belonging to the University of Rhode Island, the University of Louisville, and additional funds designated for the Illinois Rock Island County Council on Addiction. The two accomplished their scheme by claiming payment for work performed by NCPEP when no actual services were provided. As a result of their fraudulent efforts, more than \$2 million in funds was deposited into bank accounts that were controlled by the two conspirators. The former dean was sentenced for his role in the scheme last year.

Louisiana - Former Southern University Associate Professor and IT Director Indicted. Two officials of the Southern University and Agricultural and Mechanical College (Southern University) were charged in a 17-count indictment for allegedly using their positions at the school to commit fraud. The two allegedly formed two shell companies purportedly offering computer equipment and then initiated the purchase of equipment from those companies for the school, but the equipment was never received as ordered. As a result of these fraudulent efforts, the two allegedly received more than \$157,300.

Texas - Six School District Officials and Five Contractors Sentenced. A former school superintendent from the Pharr-San Juan-Alamo Independent School District (PSJA-ISD), a trustee of the Edcouch Elsa Independent School District, four PSJA-ISD school board trustees and five contractors were sentenced for their roles in a bribery and extortion scheme. The former school officials accepted bribes in exchange for favorable votes

on district construction contracts. The individuals' sentences ranged from 2 years probation to 3 years in prison and fines from \$3,000 to \$25,000.

Contractors

Connecticut - Woman Posing as an Autism Therapist Sentenced. A woman claiming to be an autism therapist was sentenced to 8 years in prison for forging fraudulent credentials and college degrees with which she fleeced more than \$400,000 from the Norwalk and Weston Public School systems and families with autistic children. As a result of this case, the Connecticut State Legislature recently introduced legislation aimed at increasing penalties for individuals who fraudulently represent themselves as board certified behavior analysts.

New Jersey - Two Former School Officials Pled Guilty. The former athletic director of Long Branch High School and the former equipment manager for Elizabeth Public Schools pled guilty to charges related to a conspiracy scam involving a company once known as Circle Systems Group (CSG), a nationally recognized sports equipment and reconditioning company. The two officials accepted bribes from the company in exchange for awarding contracts to CSG. We reported previously that the former president and part owner of CSG pled guilty for submitting hundreds of fraudulent invoices and other paperwork to schools, sometimes with the knowledge of school purchasing officials, and routinely double-billed schools in an effort to increase CSG's sales and revenue.

Texas - Former El Paso School District Official and Contractor Indicted. The former Associate Superintendent of the El Paso Independent School District and the owner of the now-defunct Strategic Governmental Solutions, Inc. (SGS), a school district contractor, were indicted for their roles in a bribery and fraud scheme. The contractor allegedly bribed the former administrator in order to obtain a contract with the school district worth several million dollars. In exchange for his support in the contracting process, the former administrator allegedly received cash, campaign contributions, other bribes, and kickbacks.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Northern Virginia Cyber Crime Working Group
- OIG participates in a work group of various Federal, State, and local law enforcement agencies conducting cyber crime investigations in Northern Virginia. The purpose is to share intelligence and collaborate on matters that may impact multiple agencies.

Review of Legislation, Regulations, Directives, and Memoranda

Council of Inspectors General on Integrity and Efficiency (CIGIE)

- ◆ *Draft Legislation* - Inspector General Authority Improvement Act - We commented that testimonial subpoena authority for IGs could be a useful tool, particularly in audits or investigations of third parties, such as contractors or grantees.
- ◆ *U.S. Department of Justice/OMB Proposal Regarding Grant Fraud* - We commented that grantees should report grant overpayments that are not fraudulent to the grant program officer with a copy to the OIG but should report knowing retention of overpayments directly to the OIG.

Goal 4: Contribute to Improvements in Department Business Operations.

Effective and efficient business operations are critical to ensure the Department effectively manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. Our reviews of the Department's financial management, IT security, and other Departmental operations seek to help the Department accomplish its objectives by ensuring the reliability, integrity, and security of its data, its compliance with applicable policies and regulations, and that it is effectively, efficiently, and fairly using the taxpayer dollars with which it has been entrusted. Below you will find summaries of our efforts in this area over the last 6 months.

Financial Management

Financial Statement Audits

In November 2010, OIG transmitted the final audit reports covering the Department's and FSA's FY 2010 financial statements. Both the Department and FSA earned unqualified (clean) opinions on their financial statements; however, the Report on Internal Control for both audits noted modified repeat significant deficiencies relating to credit reform estimation and financial reporting processes and to controls surrounding information systems. Although the audits, both of which were prepared by an IPA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended, they did note that

the Department's financial management systems did not substantially comply with certain systems requirements of the *Federal Financial Management Improvement Act* because of control weaknesses surrounding information systems. The Department and FSA concurred with the findings and recommendations in the reports.

FY 2010 Special Purpose Financial Statements

In November 2010, OIG also transmitted the final audit report covering the Department's FY 2009 and FY 2010 special purpose financial statements. The Department earned a clean opinion on the statements. There were no material weaknesses in internal controls and no instances of noncompliance reported.

IT Security Management

FISMA Reviews

FISMA requires each Federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency. It also requires Inspectors General to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of the agency's compliance with FISMA. In support of our FY 2010 FISMA requirement, we found that the Department had taken steps in strengthening

its agency-wide information security program. For instance, the Department established and is maintaining programs for certification and accreditation, tracking and monitoring known information security weaknesses, and contingency planning that are generally consistent with National Institute of Standards and Technology and OMB requirements. In addition, we found that policy and procedures were developed for security awareness and specialized security training. However, we also identified areas where the Department could improve its agency-wide information

security program. These program areas included configuration management, incident response

and reporting, remote access, account and identity management, and continuous monitoring.

Other Departmental Operations

Review of the Department's Compliance with Restrictions on the Use of Appropriated Funds for Lobbying

At the request of Representative John Kline, then Ranking Member of the U.S. House of Representatives Committee on Education and the Workforce, we conducted an inspection to determine whether the Department violated the lobbying restrictions of 18 U.S.C. § 1913 (Section 1913) by improperly using appropriated funds for lobbying activities related to pending amendments to the HEA in the *Student Aid and Fiscal Responsibility Act of 2009*. We also reviewed whether the Department violated the lobbying restrictions of the *Omnibus Appropriations Act, 2009*. Based on existing guidance from the U.S. Department of Justice and the GAO, we found that the correspondence and statements by Department officials that we reviewed did not violate the prohibitions on the use of funds for lobbying contained in Section 1913 or the *Omnibus Appropriations Act, 2009*. In response to our findings, the Department stated that it would continue to uphold the "highest standards" with respect to prohibiting lobbying activities and the proper use of appropriated funds, and that it would incorporate an analysis of our report into future training of key Department employees.

Inspector General Testifies before House Appropriations Subcommittee on Improper Payments

Inspector General Tighe testified before the House of Representatives Committee on Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies on our work regarding improper payments. She shared with the Subcommittee that our improper payments work has evolved and increased over the years with passage of measures requiring OIG to intensify its monitoring of the Department's activities related to improper payments and recovery audits. OIG efforts have included evaluating specific Department controls to prevent and detect improper payments, reviewing and providing recommendations on the Department's improper payment risk assessments, auditing FSA's methodology for estimating improper payments in the FFELP, and conducting audits and other reviews of major recipients of Federal funds. The Inspector General noted that where we have identified improper payments, we have provided recommendations for improvement to which the Department generally has been receptive and has taken corrective actions to address identified weaknesses, which in some cases, has led to the recapture of improperly disbursed funds.

Non-Federal Audit Activities

Quality Control Reviews

OMB Circular A-133 requires entities, such as State and local governments, universities, and non-profit organizations that expend \$500,000 or more in Federal funds in one year to obtain an audit, referred to as a "single audit." Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in the FFELP are required to undergo annual audits performed by

IPAs in accordance with audit guides issued by the OIG. These audits assure the Federal government that recipients of Federal funds comply with laws, regulations, and other requirements that are material to Federal awards. To help assess the quality of the thousands of single audits performed each year, OIG conducts quality control reviews (QCRs) of a sample of audits. During this reporting period, we completed 26 QCRs of audits conducted by 26 different IPAs, or offices of firms with multiple offices.

We concluded that 12 (46 percent) were acceptable or acceptable with minor issues, and 14 (54 percent) were technically deficient.

Audit Guides

In accordance with HEA regulations, OIG produces guides to assist IPAs in performing audits of participants in the Federal student aid programs. These audits must be performed in accordance with *Government Auditing Standards* and help the Federal Government ensure that entities participating in the Federal student aid programs and their third-party servicers provide reliable financial data and have internal controls in place to provide reasonable assurance that participants are managing the Federal student aid programs in compliance with applicable laws and regulations. During this reporting period, the OIG Non-Federal

Audit Team issued two audit guides related to the Federal student aid programs.

Lender Compliance Attestation Engagement Guide for Lenders Holding Federal Family Education Program Loans - provides IPAs with updated guidance for testing lenders' compliance with laws and regulations pertaining to FFELP.

Lender Servicer Financial Statement Audit and Compliance Attestation Engagement Guide for Lender Servicers Servicing Federal Family Education Loan Program Loans - provides guidance to IPAs for performing financial statement audits and provides updated guidance for testing compliance with laws and regulations pertaining to FFELP by third-party servicers who provide services on behalf of lenders participating in FFELP.

Investigations

Unlawful Access to National Student Loan Data System (NSLDS)

Department Employee

Employee Sentenced. An FSA employee was sentenced to one year probation and was ordered to pay a \$500 fine for exceeding her access to NSLDS without authorization. The employee admitted that between April 2006 and May 2009, she logged into NSLDS and repeatedly searched for and viewed the confidential student loan records of several hundred people, including musicians, actors, family members, friends, and other individuals. The employee admitted she had no official government reason to access and to view these student loan records applications, and her sole purpose in accessing and viewing these records was idle curiosity.

Department Contractors

Iowa - Actions Taken Against Former Contractor Employees. Six former FSA Call Center contractor employees were sentenced for unlawfully accessing NSLDS. All were employees of Vangent, Inc., a contractor responsible for maintaining a call center for student borrowers and for the debt collection of student loans. The individuals, who were located in Vangent's Iowa City office, exceeded their authorized access into NSLDS when they used their accounts to look up the personal information of President Obama and/or the First Lady without a legitimate business need or appropriate authority. Five of the former contractor employees were sentenced to one year of probation; one received a sentence of 6 months of home confinement and 2 years of probation.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Department

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

Inspector General Community

- ◆ *CIGIE* - OIG staff play an active role in CIGIE efforts. Inspector General Tighe is a member of CIGIE's Audit Committee, Investigations Committee, Information Technology (IT) Committee, and also the Interagency Coordination Group for Guam Realignment. In addition, Inspector General Tighe is a member of the Suspension and Debarment Working Group, which is a Subcommittee of the Investigations Committee. OIG staff also chair the AIGI Investigations Subcommittee, the IT Subcommittee for Investigations, the Audit Committee's Financial Statement Audit

Network Work Group, the CIGIE Cyber Security Working Group, and CIGIE's Federal Audit Executive Council's (FAEC) Professional Development Committee. OIG also participates in the FAEC Financial Statement Audit Committee, the Financial Audit Manual Revisions Workgroup, the FAEC IT Committee, the Council of Counsels to the Inspectors General, the Cloud Computing Working Group, and the newly-formed CIGIE New Media Working Group.

- ◆ *CIGIE/GAO Financial Statement Audit Conference* - During this reporting period, an OIG audit director chaired the planning committee for the CIGIE/GAO Financial Statement Audit Conference. The conference provided free continuing professional education for more than 500 IG, GAO, and contracted IPA staff. The conference training covered current issues related to the annual financial statement audits and related standards, including topics on accountability issues, accounting standards updates, and Federal financial management.
- ◆ *New Auditor Training* - During this reporting period, OIG led coordination of the first three sessions of CIGIE-sponsored Introductory Auditor Training. The training provides entry-level IG auditors with the concepts, practices, skills, and standards that Federal government auditors apply in their work. The staff from several OIGs have worked together to train 89 new auditors as of April 8, and they plan to hold three more sessions this fiscal year.

Office of Management and Budget

- ◆ *Interagency Task Force on Reporting Fraud, False Claims, and Significant Overpayments*

- OIG participates in this task force that is analyzing and will make recommendations related to a proposal to mandate the reporting of fraud, false claims, and significant overpayments by grantees in Federal regulations.

Federal and State Audit-Related Groups and Entities

- ◆ *Chief Financial Officers Council Federal Reporting Model Work Group* - OIG participates in this work group, which focuses on developing and implementing revisions to the Federal financial reporting model in order to better deliver financial information needed by taxpayers and decision makers.
- ◆ *Comptroller General's Advisory Council on Government Auditing Standards* - OIG staff serve on this council, which provides advice and guidance to the Comptroller General on government auditing standards.
- ◆ *Intergovernmental Audit Forums* - OIG staff chair and serve as officers for a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work to improve audit education and training and exchange information and ideas regarding the full range of professional activities undertaken by government audit officials. OIG staff chair the Midwestern Forum, the Southeastern Forum, and serve as officers on the Southwestern Forum and the New Jersey-New York Forum.
- ◆ *Interagency Working Group for Certification and Accreditation* - OIG participates in this working group, which exchanges information relating to Federal forensic science programs that share intergovernmental responsibilities to

support the mission of the National Science and Technology Council's Subcommittee on Forensic Science.

Reviews of Legislation, Regulations, Directives, and Memorandum

Legislative Measures

- ◆ *OMB Draft Guidance on Improper Payments* - We provided comments regarding OMB's draft requirements for effective measurement and remediation of improper payments, including clarifying terms and definitions, reporting fraud to OIGs, and requiring contracted auditing firms to be familiar with agency policies for safeguarding confidential financial information.
- ◆ *S. 372, Whistleblower Protection Enhancement Act of 2009* - We provided comments regarding the Act's requirement that each Inspector General designate a Whistleblower Protection Ombudsman to advocate for the interests of agency employees or applicants who make protected disclosures. We commented that IGs are required to be neutral under the IG Act, and thus should not advocate for any individual's interest, and also that an Ombudsman is not needed because IGs already provide outreach and information on whistleblower protection.
- ◆ *Ethics in Government Modernization Act* - We provided comments related to the measure's proposed requirement that OIGs report violations of conflicts of interest laws to the Office of Government Ethics.
- ◆ *Executive Order* - We provided technical comments to a proposed Executive Order on the Executive Branch Pay Freeze.

Annexes

Annex A - Contract-Related Audit Products with Significant Findings

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

OIG did not issue any contract-related reports that contained significant findings during this reporting period.

Annex B - Peer Review Results

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

During this reporting period, a peer review was conducted of our investigative processes, but no report has yet been issued. As indicated in our previous Semiannual Report, the last peer review completed of our investigative processes was in February 2008, and we implemented all recommendations from that peer review. The last peer review of our audit processes was conducted in July 2008 and there were no recommendations. During this reporting period, the OIG conducted a peer review with the assistance of several other Offices of Inspector General of the Tennessee Valley Authority Office of Inspector General Audit Organization. Our peer review report did not make any recommendations and there were no outstanding recommendations from any previous peer review.

Required Tables

Reporting Requirements of the Inspector General Act, as amended

Section	Requirement (Table Title)	Table Number
5(a)(1) and 5(a)(2)	Significant Problems, Abuses, and Deficiencies	N/A
5(a)(3)	Uncompleted Corrective Actions <i>Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed</i>	1
5(a)(4)	Matters Referred to Prosecutive Authorities <i>(October 1, 2010, through March 31, 2011)</i>	6
5(a)(5) and 6(b)(2)	Summary of Instances where Information was Refused or Not Provided	N/A
5(a)(6)	Listing of Reports <i>Audit, Inspection, and Evaluation Reports on Department Programs and Activities (October 1, 2010, through March 31, 2011)</i>	2
5(a)(7)	Summary of Significant Audits	N/A
5(a)(8)	Questioned Costs <i>Audit, Inspection, and Evaluation Reports with Questioned Costs</i>	3
5(a)(9)	Better Use of Funds Audit, Inspection, and Evaluation Reports with Recommendations for Better Use of Funds	4
5(a)(10)	Unresolved Reports <i>Unresolved Reports Issued Prior to October 1, 2010</i>	5-A
	Summary of Unresolved Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5-B
5(a)(11)	Significant Revised Management Decisions	N/A
5(a)(12)	Significant Management Decisions with which OIG Disagreed	N/A
5(a)(13)	Unmet Intermediate Target Dates Established by the Department Under the <i>Federal Financial Management Improvement Act of 1996</i>	N/A

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

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

Report Number	Report Title (Prior Semiannual Report (SAR) Number and Page)	Date Issued	Date of Management Decision	Number of Significant Recommendations		Projected Action Date
				Open	Completed	

AUDIT REPORTS

Federal Student Aid (FSA)

A11J0001	Security over Certification and Accreditation for Information Systems <i>(Report is also addressed to the Office of the Deputy Secretary (ODS), and some recommendations are made jointly to FSA and the Office of the Chief Information Officer (OCIO))</i> (SAR 60, page 38)	10/13/2009	11/18/2009	2	20	10/31/2011
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Office of the Chief Financial Officer (OCFO)

A17H0003	Financial Statement Audits for FY 2007 and FY 2006 -U.S. Department of Education and FSA <i>(FSA also designated as an action official)</i> (SAR 56, page 25)	11/15/2007	9/26/2008	1	3	8/2/2011
A17I0001	Financial Statement Audits for FY 2008 and FY 2007 - U.S. Department of Education <i>(FSA also designated as an action official)</i> (SAR 58, page 31)	11/14/2008	5/15/2009	2	4	10/3/2011

OCIO

A11I0006	Incident Handling and Privacy Act Controls over External Web Sites (SAR 59, page 42)	6/10/2009	9/9/2009	1	17	9/30/2011
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INSPECTION REPORTS

Office of Postsecondary Education (OPE)

I13I0001	Review of OPE's Awarding of Prior Experience Points in the 2006 Educational Opportunity Centers and Talent Search Grant Competitions (SAR 57, page 27)	9/8/2008	3/3/2009	2	4	12/31/2011
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Table 2: Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (October 1, 2010, through March 31, 2011)
Section 5(a)(6) of the IG Act, as amended, requires a listing of each report completed by OIG during the reporting period.

Report Number	Report Title	Date Issued	Questioned Costs ¹	Unsupported Costs	Number of Recommendations
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AUDIT REPORTS

FSA

A04J0019	Wells Fargo Bank, National Association's Management of Collection Account Funds and Oversight Activities under the ECASLA Loan Participation Purchase Program	2/3/11			1
A05I0014	Ashford University's Administration of the Title IV HEA Programs	1/21/11	\$29,036		13
A05K0001	Educational Credit Management Corporation's 2006 Agreement with the U.S. Department of Education	3/3/11	\$225,542 ²		10
A09J0009	Zions First National Bank's Management of Collection Account Funds and Oversight Activities under the ECASLA Loan Participation Purchase Program	10/18/10			2
A17K0002	Financial Statement Audits FY 2010 and FY 2009 - FSA	11/15/10			7

OCFO

A17K0001	Financial Statement Audits for FY 2010 and FY 2009 - U.S. Department of Education	11/15/10			7
A17K0003	Financial Statement Audits for FY 2010 and FY 2009 - U.S. Department of Education Special Purpose Financial Statements	11/15/10			None

ODS

A03K0003	Commonwealth of Pennsylvania's Local Educational Agencies' Systems of Internal Controls over Recovery Act Funds (<i>OCFO, Office of Elementary and Secondary Education (OESE), Office of Special Education and Rehabilitative Services (OSERS), and Risk Management Service (RMS) are also designated as action officials</i>)	12/21/10	\$4,568 ³	\$438,835	11
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Report Number	Report Title	Date Issued	Questioned Costs ¹	Unsupported Costs	Number of Recommendations
A04K0001	Systems of Internal Controls over Selected Recovery Act Funds in Puerto Rico (<i>OCFO, OESE and OSERS are also designated as action officials</i>)	12/16/10		\$2,051,000	16
A06K0002	Oklahoma: Use of Funds and Data Quality for Selected Recovery Act Programs (<i>OESE and OSERS are also designated as action officials</i>)	2/18/11	\$69,728	\$16,081,075	10

OESE

A02K0003	Kiryas Joel Union Free School District Title I, Part A of the ESEA and Individuals with Disabilities Education Act Part B Expenditures	2/2/11	\$276,443	\$191,124	5 ⁴
A04J0005	Puerto Rico Department of Education's Award and Administration of Personal Services Contracts (<i>Office of Vocational and Adult Education (OVAE), Office of Safe and Drug-Free Schools (OSDFS), and RMS are also designated as action officials</i>)	1/24/11	\$15,046,816	\$147,652	10

INSPECTION REPORTS

FSA

I13K0001	Review of FSA's Monitoring of Financial Responsibility	3/28/11			2
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ODS

I13K0003	Review of the Department of Education's Outreach Activities Related to the <i>Student Aid and Fiscal Responsibility Act of 2009</i> for Compliance with Restrictions on Use of Appropriated Funds for Lobbying	12/29/10			None
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OTHER REPORTS AND PRODUCTS

OCIO

S11K0002	2010 Annual FISMA Report (<i>Special Project</i>)	11/12/10			None
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Office of Management (OM)

A19I0005	Closure of OIG Audit of the Appropriateness, Accuracy, and Timeliness of Processing Personnel Actions (<i>Audit Closure Memorandum</i>)	3/24/11			None
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Report Number	Report Title	Date Issued	Questioned Costs ¹	Unsupported Costs	Number of Recommendations
Office of Planning, Evaluation, and Policy Development (OPEPD)					
B19L0001	OIG Independent Report on the U.S. Department of Education's Detailed Accounting of FY 2010 Drug Control Funds (<i>Attestation Report</i>)	1/31/11			None
Office of the Secretary (OS)					
L04K0018	Insufficient Controls for the Puerto Rico Department of Education's Use of Education Funds for Personal Services Contracts (<i>Alert Memorandum</i>)	3/18/11			2
OSDFS					
B19L0001A	OIG Independent Report on the U.S. Department of Education's Performance Summary Report for FY 2010 (<i>Attestation Report</i>)	1/31/11			None
TOTALS:			\$15,652,133	\$18,909,686	96

¹ For purposes of this table, questioned costs may include other recommended recoveries. Please see footnotes 2 and 3 under Table 3 for additional information regarding questioned and unsupported costs. During this reporting period, 1 OIG report identified an annual better use of funds (BUF) of \$5.2 million. (See footnote ⁴ below.)

² The entire \$225,542 is "monetary recoveries" made during audit A05K0001.

³ The entire \$4,568 is "monetary recoveries" made during audit A03K0003.

⁴ Audit report A02K0003 identified an annual BUF of \$5.2 million.

DESCRIPTION OF PRODUCTS

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

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

Audit Closure Memoranda are used to notify the audited entity of OIG's decision to terminate the audit without issuing an audit report.

Inspections are analyses, evaluations, reviews, or studies of the Department's programs. The purpose of an inspection is to provide Department decision makers with factual and analytical information, which may include an assessment of the efficiency and effectiveness of their operations and vulnerabilities created by their existing policies or procedures. Inspections may be conducted on any Department program, policy, activity, or operation.

Typically, an inspection results in a written report containing findings and related recommendations. Inspections are performed in accordance with quality standards for inspections approved by CIGIE.

Investigative Program Advisory Reports are used to report any systemic program or regulatory weaknesses, abuses, or deficiencies in the administration of Department programs or operations that are identified at any time during an investigation.

Special Projects are those by which OIG staff may perform work that is not classified as an audit, attestation, inspection, or any other type of alternative product. Depending on the nature and work involved, the special project may result in a report issued outside OIG. Information presented in the special project report varies based on the reason for the special project (e.g., response to congressional inquiry, other evaluation and analysis, etc.). The report may contain suggestions.

OIG Product Web Site Availability Policy

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

Table 3: Audit, Inspection, and Evaluation Reports with Questioned or Unsupported Costs¹

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

		Number	Questioned ² Costs	Unsupported ³ Costs
A.	For which no management decision has been made before the commencement of the reporting period	46	\$712,676,814	\$442,988,622
B.	Which were issued during the reporting period	7	\$34,561,819	\$18,909,686
Subtotals (A + B)		53	\$747,238,633	\$461,898,308
C.	For which a management decision was made during the reporting period	11	\$164,867,985	\$104,525,756
	(i) Dollar value of disallowed costs		\$145,354,842	\$104,521,933
	(ii) Dollar value of costs not disallowed		\$19,513,143	\$3,823
D.	For which no management decision was made by the end of the reporting period	42	\$582,370,648	\$357,372,552

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

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

³Unsupported costs are costs that, at the time of the audit, inspection, or evaluation, were not supported by adequate documentation.

Table 4: Audit, Inspection, and Evaluation Reports with Recommendations for Better Use of Funds¹

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

		Number	Dollar Value
A.	For which no management decision was made before the commencement of the reporting period	2	\$13,327,577
B.	Which were issued during the reporting period	1	\$5,200,000
Subtotals (A + B)		3	\$18,527,577
C.	For which a management decision was made during the reporting period		
	(i) Dollar value of recommendations that were agreed to by management	1	\$327,577
	(ii) Dollar value of recommendations that were not agreed to by management	0	\$0
D.	For which no management decision has been made by the end of the reporting period	2	\$18,200,000

¹None of the products reported in this table were performed by the Defense Contract Audit Agency and no inspection or evaluation reports identifying better use of funds were issued during this reporting period.

Table 5-A: Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to October 1, 2010

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

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
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NEW SINCE LAST REPORTING PERIOD

AUDIT REPORTS

FSA

A05I0012	Baker College's Compliance with Selected Provisions of the HEA and Corresponding Regulations	8/24/10	\$9,790	5
	Current Status: FSA informed us that it received OIG's comments to draft audit determination/program determination letter (PDL) and the audit clearance document on 3/30/2011. FSA is currently working on getting final audit determination/PDL approved and signed by FSA management.			

ODS

A02K0005	Use of Recovery Act Funds and Reporting in Wisconsin (OSERS also designated as an action official)	9/29/10		7
	Current Status: We did not receive a response from ODS/Implementation and Support Unit (ODS/ISU) on this audit during this reporting period.			
A06K0001	Systems of Internal Control Over Selected Recovery Act Funds in Louisiana (OSERS also designated as an action official)	9/29/10		8
	Current Status: We did not receive a response from ODS/ISU on this audit during this reporting period.			
A19J0001	Department's Implementation of the State Fiscal Stabilization Fund Program	9/24/10		4
	Current Status: We did not receive a response from ODS/ISU on this audit during this reporting period. OESE informed us that this audit is assigned to ISU.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A19K0006	Department's Process for Screening and Selecting Peer Reviewers for the Race to the Top Grant Program	8/16/10		1
	Current Status: We did not receive a response from ODS/ISU on this audit during this reporting period. OESE informed us that this audit is assigned to ISU.			
OPEPD				
A04J0003	Georgia Department of Education's Controls Over Performance Data Entered in ED Facts (OSDFS, OESE, and OSERS also designated as action officials.)	4/7/10		9
	Current Status: We did not receive a response from OPEPD on this audit during this report period.			
Office of Vocational and Adult Education (OVAE)				
A06J0001	Arkansas' Adult Education and Family Literacy Act Program	5/28/10	\$583,403	7
	Current Status: AARTS shows that OVAE's administrative stay was approved by OCFO on 2/23/2011. OVAE informed us that this audit is currently with the Office of General Counsel (OGC) for review.			

REPORTED IN PREVIOUS SARs

AUDIT REPORTS

FSA				
A02H0007	Technical Career Institutes, Inc.'s Administration of the Federal Pell Grant and FFELP (SAR 57, page 25)	5/19/08	\$6,458	13
	Current Status: AARTS shows that FSA's administrative stay was approved by OCFO on 3/17/2011. FSA informed us that it is currently working on this audit.			
A03I0006	Special Allowance Payments to Sallie Mae's Subsidiary, Nellie Mae, for Loans Funded by Tax-Exempt Obligations (SAR 59, page 41)	08/03/09	\$22,378,905	3
	Current Status: AARTS shows that FSA's administrative stay was approved by OCFO on 3/28/2011.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A04B0019	Advanced Career Training Institute's Administration of the Title IV HEA Programs (SAR 47, page 13)	9/25/03	\$7,472,583	14
	Current Status: FSA is working on getting this audit closed in AARTS. The required documents needed for resolution of this audit must be certified through AARTS.			
A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown (SAR 49, page 14)	9/23/04	\$2,458,347	7
	Current Status: FSA informed us that it is waiting for OGC to review and provide comments to draft audit determination/PDL.			
A05G0017	Capella University's Compliance with Selected Provisions of the HEA and Corresponding Regulations (SAR 56, page 25)	3/7/08	\$589,892	9
	Current Status: FSA is working with OGC on revising the audit determination/PDL.			
A05H0018	Walden University's Compliance with Selected Regulations and Department Guidance (SAR 58, page 31)	1/21/09	\$1,185,473 ¹	10
	Current Status: Final audit determination letter was issued on 2/25/2011 and FSA informed us that it was uploaded into AARTS on 3/31/2011. However, the required documents needed for resolution of this audit must be certified through AARTS.			
A05I0011	Special Allowance Payments to the Kentucky Higher Education Student Loan Corporation for Loans Made or Acquired with the Proceeds of Tax-Exempt Obligations (SAR 59, page 41)	05/28/09	\$9,018,400	4
	Current Status: AARTS shows that FSA's administrative stay was approved by OCFO on 3/28/2011.			
A0670005	Professional Judgment at Yale University (SAR 36, page 18)	3/13/98	\$5,469	3
	Current Status: FSA informed us it is waiting for outcome of Secretary's decision regarding Saint Louis University's appeal of Professional Judgment finding before it can resolve this audit.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A0670009	Professional Judgment at University of Colorado (SAR 37, page 17)	7/17/98	\$15,082	4
	Current Status: FSA informed us it is waiting for outcome of Secretary's decision regarding Saint Louis University's appeal of Professional Judgment finding before it can resolve this audit.			
A06D0018	Audit of Saint Louis University's Use of Professional Judgment from July 2000 through June 2002 (SAR 50, page 21)	2/10/05	\$1,458,584	6
	Current Status: AARTS shows that FSA's administrative stay was approved by OCFO on 2/23/2011. FSA informed us it is waiting for Secretary's decision on school's appeal of this audit's Professional Judgment finding.			
N0690010	Inspection of Parks College's Compliance with Student Financial Assistance Requirements (SAR 40, page 18)	2/9/00	\$169,390	1
	Current Status: We did not receive a response from FSA on this audit report during this reporting period.			
OCFO				
A09H0019	Los Angeles Unified School District's Procedures for Calculating and Remitting Interest Earned on Federal Cash Advances (SAR 58, page 31)	12/2/08	\$6,302,406 ²	15
	Current Status: OCFO informed us that resolution activities continue to be in process.			
A09H0020	California Department of Education Advances of Federal Funding to LEAs (SAR 58, page 31)	3/9/09	\$728,651 ³	10
	Current Status: OCFO informed us that resolution activities continue to be in process.			
A09I0010	Center for Civic Education's Administration of the We the People Program and Cooperative Civic Education and Economic Education Exchange Program (OSDFS also designated as an action official) (SAR 60, page 38)	11/20/09	\$5,938,537	30
	Current Status: OCFO informed us that resolution activities continue to be in process.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
ODS				
A02J0009	New York State LEAs Systems of Internal Control Over Recovery Act Funds (SAR 60, page 39)	2/17/10		16
	Current Status: We did not receive a response from ODS/ISU on this audit report during this reporting period. OESE informed us that resolution activities continue to be in process.			
A03J0010	Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds (OSERS, OS/RMS, and OCFO also designated as action officials) (SAR 60, page 39)	3/15/10		8
	Current Status: We did not receive a response from ODS/ISU on this audit report during this reporting period. OESE informed us that resolution activities continue to be in process.			
A04J0010	Tennessee Recovery Act Audit Internal Controls over Selected Funds (Recommendations were made to OESE in conjunction with OSERS) (SAR 60, page 39)	12/15/09		2
	Current Status: We did not receive a response from ODS/ISU on this audit report during this reporting period. OESE informed us that resolution activities continue to be in process.			
A05J0011	Systems of Internal Control Over Selected Recovery Act Funds in the State of Indiana (OSERS also designated as an action official) (SAR 60, page 40)	1/14/10		7
	Current Status: We did not receive a response from ODS/ISU on this audit report during this reporting period. OESE informed us that resolution activities continue to be in process.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A05J0012	Systems of Internal Control Over Selected Recovery Act Funds in the State of Illinois (OSERS also designated as an action official) (SAR 60, page 40)	2/23/10		4
	Current Status: We did not receive a response from ODS/ISU on this audit report during this reporting period. OESE informed us that resolution activities continue to be in process.			
A06J0013	Systems of Internal Control Over Selected Recovery Act Funds in the State of Texas (SAR 60, page 40)	1/27/10		5
	Current Status: We did not receive a response from ODS/ISU on this audit report during this reporting period. OESE informed us that resolution activities continue to be in process.			
A09J0006	State and Local Controls Over Recovery Act Funds in California (OCFO and OSERS also designated as action officials) (SAR 60, page 40)	1/15/10		7
	Current Status: We did not receive a response from ODS/ISU on this audit report during this reporting period. OESE informed us that resolution continue to be in process.			
OESE				
A02G0002	Audit of New York State Education Department's Reading First Program (SAR 54, page 31)	11/3/06	\$215,832,254	8
	Current Status: OESE informed us that the PDL is with OGC, and the program team continues to work with OGC to resolve issues.			
A02I0034	Tennessee Department of Education Controls Over State Assessment Scoring (OPEPD also designated as an action official) (SAR 59, page 42)	05/28/09		9
	Current Status: Draft PDL is currently with OIG for review.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A03G0006	The Department's Administration of Selected Aspects of the Reading First Program (OCFO also designated as an action official) (SAR 54, page 31)	2/22/07		3
	Current Status: OESE informed us that the program team is working with OGC on resolution.			
A03H0010	Philadelphia School District's Controls Over Federal Expenditures (OSERS, OSDFS, and OPE also designated as action officials) (SAR 60, page 39)	1/15/10	\$138,769,898	27
	Current Status: OESE issued the PDL on 3/29/2011 for findings 2, 4, and 5. It will issue a PDL for the remaining findings (1 and 3) in the future. The required documents needed for resolution of this audit also must be certified through AARTS.			
A04G0012	Audit of Mississippi Department of Education's Emergency Impact Aid Program Controls and Compliance (SAR 55, page 28)	8/8/07	\$3,192,395	4
	Current Status: OESE informed us that resolution activities are in process.			
A04G0015	Audit of Georgia Department of Education's Emergency Impact Aid Program Controls and Compliance (SAR 56, page 26)	10/30/07	\$9,977,242	9
	Current Status: OESE informed us that resolution activities are in process.			
A04H0011	Puerto Rico Department of Education's Administration of Contracts Awarded to Excellence in Education, Inc. and the University of Puerto Rico's Cayey Campus (SAR 57, page 26)	5/20/08	\$189,011	10
	Current Status: OESE informed us that the PDL is currently with OGC for review.			
A04H0017	Puerto Rico Department of Education's Administration of Title I Services Provided to Private School Students (SAR 58, page 31)	10/9/08	\$821,714	15
	Current Status: OESE informed us that the PDL is clearing OESE internal review process.			
A04I0041	Puerto Rico Department of Education's Compliance with Title I - Supplemental Educational Services (SAR 59, page 42)	04/21/09	\$16,092	8
	Current Status: OESE informed us that the PDL is clearing OESE internal review process.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A04I0042	Virgin Islands Department of Education's Administration of Property Purchased with Federal Funds (SAR 59, page 42)	08/17/09	\$4,304	10
	Current Status: OESE informed us that the PDL is currently with OGC for review.			
A04I0043	Florida Department of Education Controls Over State Assessment Scoring (SAR 59, page 42)	09/30/09		8
	Current Status: OESE issued the PDL on 3/31/2011. However, the required documents needed for resolution of this audit must be certified through AARTS.			
A04J0004	Virgin Islands Department of Education's Current Efforts to Address Prior Audit Findings (SAR 60, page 39)	11/13/09		3
	Current Status: OESE informed us the PDL is clearing the internal review process.			
A05G0020	Audit of the Alabama State Department of Education's and Two Selected LEAs' Compliance with Temporary Emergency Impact Aid Program Requirements (SAR 55, page 28)	9/27/07	\$4,579,375	5
	Current Status: OESE informed us that resolution activities are in process.			
A05H0010	The School District of the City of Detroit's Use of Title I, Part A Funds Under the ESEA (SAR 57, page 26)	7/18/08	\$53,618,859	21
	Current Status: OESE informed us that resolution activities are in process.			
A05H0025	Harvey Public Schools District's Use of Selected Department Grant Funds (OSERS and OCFO also designated as action officials) (SAR 58, page 31)	11/25/08	\$317,093 ⁴	9
	Current Status: OESE informed us that the PDL is currently with OGC for review.			
A05I0016	Illinois State Board of Education's Oversight of Subrecipients (OSERS also designated as an action official) (SAR 59, page 42)	09/23/09	\$667,876	9
	Current Status: OESE informed us that the PDL is clearing the internal review process.			
A06F0016	Arkansas Department of Education's Migrant Education Program (SAR 53, page 25)	8/22/06	\$877,000	2
	Current Status: OESE informed us that the PDL is currently with OGC for review.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A06G0009	Audit of the Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable LEAs (SAR 55, page 29)	9/18/07	\$10,270,000	4
	Current Status: OESE informed us that resolution activities are in process.			
A06G0010	Louisiana Department of Education's Compliance with Temporary Emergency Impact Aid for Displaced Students Requirements (SAR 55, page 29)	9/21/07	\$6,303,000	4
	Current Status: OESE informed us that resolution activities are in process.			
A06H0011	Adequacy of Fiscal Controls Over the Use of Title I, Part A Funds at Dallas Independent School District (SAR 59, page 42)	04/14/09	\$3,524,636	6
	Current Status: OESE informed us that the PDL is currently with OGC for review.			
A07H0017	St. Louis Public School District's Use of Selected Department Grant Funds (OSERS also designated as an action official) (SAR 57, page 26)	9/29/08	\$765,001	7
	Current Status: OESE issued the PDL on March 31, 2011. However, the required documents needed for resolution of this audit must be certified through AARTS.			
A09I0012	Wyoming Department of Education Controls Over State Assessment Scoring (SAR 59, page 42)	07/10/09		2
	Current Status: OESE informed us that the PDL is clearing the internal review process.			
A09J0004	Colorado Department of Education's Use of Federal Funds for State Employee Personnel Costs (OSERS, OVAE, Office of English Language Acquisition, Office of Innovation and Improvement, OSDFS, and National Center for Educational Statistics also designated as action officials) (SAR 60, page 40)	2/26/10	\$23,961,710	5
	Current Status: AARTS shows that OESE's administrative stay was approved by OCFO on 1/6/2011. OVAE informed us this audit is currently in discussion/under review with OGC.			

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A19I0002	Office of Indian Education's Management of the Professional Development Grant Program (SAR 60, page 40)	2/2/10		14
	Current Status: OESE program team is working to complete the corrective action plan.			

OSERS

A02B0014	Audit of the Puerto Rico Vocational Rehabilitation Administration (SAR 45, page 18)	6/26/02	\$15,800,000	5
	Current Status: OSERS/Rehabilitation Services Administration informed us that it will continue working with OGC to resolve this audit.			

INSPECTION REPORTS

REPORTED IN PREVIOUS SARs

OGC

I13I0004	Inspection to Evaluate the Adequacy of the Department's Procedures in Response to Section 306 of the FY 2008 Appropriations Act – Maintenance of Integrity and Ethical Values Within the Department (OGC was designated as the action official by OS) (SAR 57, page 27)	4/21/08	\$0	2
	Current Status: We did not receive a response from OGC on this inspection during this reporting period.			
Total			\$547,808,830	428

¹Audit Report A05H0018 identified a total of \$1,185,473 (\$1,129,970 in questioned costs and \$55,503 in unsupported costs). As \$912,430 of the \$1,185,473 was recovered from the auditee during the audit, \$273,043 remains to be recovered.

²Audit Report A09H0019 identified \$6,302,406 in other recommended recoveries and no questioned costs.

³Audit Report A09H0020 identified \$728,651 in other recommended recoveries, \$13,000,000 in annual better use of funds, and no questioned costs.

⁴Audit Report A05H0025 identified \$33,726 in other recommended recoveries and no questioned costs.

Table 5-B: Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Period (October 1, 2010, through March 31, 2011) Where Management Decision Has Not Yet Been Made

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

Report Title, Number, and Date Issued	Summary
<p>Federal Student Aid-Related</p> <p>Baker College's Compliance with Selected Provisions of the HEA and Corresponding Regulations.</p> <p>ED/OIG: A05I0012</p> <p>Issued: 8/24/2010</p>	<p>We found that for distance education students who officially withdrew or dropped out, Baker College, a non-profit institution based in Michigan, did not correctly identify when students began and ceased attendance when (1) determining students' eligibility for Federal student aid disbursements; and (2) performing return of Federal student aid calculations. We found that Baker College had not maintained records that adequately supported its determination of attendance for its distance education students during award year 2006-2007 and that it had incorrectly identified when distance education students who unofficially withdrew or dropped out began and ceased attendance during award year 2007-2008. We recommended that FSA require Baker College to develop and implement written policies and procedures for its automated attendance system and to return \$9,790 of Federal student aid funds it disbursed to ineligible students and to students for whom the school's attendance records did not support retention of all Federal student aid funds after student withdrawal. We also recommended that the school be required to review its records for distance education students who received Federal student aid for other years and (1) identify students with unsupported periods of attendance; (2) determine the amount of Federal student aid disbursed to students who were not entitled to receive the funds because of insufficient attendance documentation; (3) identify the amount of Federal student aid program funds disbursed to students who were not entitled to receive the funds because of reduced student eligibility; and (4) return those amounts to the Department and lenders, as appropriate. Baker College officials disagreed with all of our findings and recommendations.</p> <p>Current Status: <i>FSA informed us that a final audit determination/PDL is in process.</i></p>

Report Title, Number, and Date Issued	Summary
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Elementary, Secondary, and Adult Education Program-Related

OPEPD

<p>Georgia Department of Education's Controls Over Performance Data Entered in ED Facts.</p> <p>ED/OIG: A04J0003</p> <p>Issued: 4/7/2010</p>	<p>We found that that neither the Georgia Department of Education (GADOE) nor the Clayton County Public School District (Clayton) had sufficient internal controls in place to ensure that they had provided accurate information into ED Facts. As a result, GADOE and Clayton reported inaccurate or unsupported data on dropout rates, graduation rates, and discipline incidents. Without sufficient controls to ensure the accuracy of data, GADOE and the Department could be making planning, policy, and management decisions based on inaccurate or unreliable data. To address the weaknesses identified in our report, we made a number of recommendations, including that the Department require GADOE to establish and implement systems of internal control to ensure that LEAs identify and report accurate data. GADOE did not concur with all of our findings or recommendations.</p> <p>Current Status: <i>We did not receive a response from OPEPD on this audit during this reporting period.</i></p>
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OVAE

<p>Arkansas' Adult Education and Family Literacy Act Program.</p> <p>ED/OIG: A06J0001</p> <p>Issued: 5/28/2010</p>	<p>We found that the Arkansas Department of Career Education (ADCE) did not adequately monitor the performance of providers receiving Federal adult education funds and did not ensure that Federal adult education funds were awarded in compliance with the <i>Adult Education and Family Literacy Act</i> (AEFLA) for the time period reviewed. According to the AEFLA, to be considered an eligible provider, a literacy council's program must show demonstrated effectiveness. Despite this, ADCE awarded seven literacy councils new grants even though they did not meet the definition of effectiveness during the previous grant period. In addition, ADCE did not ensure that more than \$521,000 in adult education funds was expended in accordance with the AEFLA, regulations, and guidance. As a result, neither the State nor the Department was assured that the providers met the requirements of the grant. Our recommendations included that the Department require ADCE to enhance its monitoring process to assure that providers meet the required benchmarks before being awarded new grants and that ADCE take appropriate actions if providers do not meet the required benchmarks. We also recommended that ADCE return to the Department more than \$13,000 in unallowable costs identified through our audit and provide adequate documentation to support more than \$508,000 in inadequately documented costs or return the inadequately documented amount to the Department. ADCE did not agree with all of our findings or recommendations.</p> <p>Current Status: <i>AARTS shows that OVAE's administrative stay was approved by OCFO on 2/23/2011. OVAE informed us that the audit is currently with OGC for review.</i></p>
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Report Title, Number, and Date Issued

Summary

Recovery Act-Related

Department's Process for Screening and Selecting Peer Reviewers for the Race to the Top Grant Program.

ED/OIG: A19K0006

Issued: 8/16/2010

We found that the Department's process for screening and selecting peer reviewers for Phase 1 of the Race to the Top (RTT) discretionary grant program competition was generally appropriate and effective in identifying conflicts of interest. However, we found that the Department did not perform a check of selected RTT peer reviewers against the General Services Administration's Excluded Parties List System (EPLS) or adequately document formal approval of its peer reviewer roster before it began the application review process. The verification and documentation processes the Department did perform occurred only after the initial application review and rating were completed and after the Department had publically announced the RTT finalists. The Department agreed that an issue existed with the timeliness of the EPLS verification; however, it did not believe that the issue impacted the integrity or quality of either the competition or the review process. Although we acknowledge that no RTT peer reviewers were found in the EPLS, the integrity of the review process could have been compromised if one of the peer reviewers had been debarred or suspended from doing business with the Federal Government.

Current Status: *We did not receive a response from ODS/ISU on this audit during this reporting period. OESE informed us that this audit is assigned to ISU.*

Department's Implementation of the State Fiscal Stabilization Fund Program.

ED-OIG: A19J0001

Issued: 9/24/2010

We found that the Department's initial implementation was generally appropriate in the three areas we examined. Those three areas were: (1) calculation of State allocations; (2) review of applications for initial funding; and (3) program staffing and monitoring plans. We did, however, identify where the Department's processes could be improved. While the Department's process indicated that reviewers verified that all required data and related information were provided, it did not provide assurance that steps were taken to assess whether the data were reasonably supported. This lack of assurance could impact the Department's ability to determine whether States are complying with maintenance-of-effort requirements. We noted that our audit found that 3 of the 16 States/Commonwealth reviewed appeared to have insufficient or questionable supporting data. Further, although it appeared that Department staffing efforts had been adequate during the initial implementation of the program, we noted that the time required to implement and monitor the SFSF program could impact the ability of the staff to effectively manage existing programs. Finally, we found that complete documentation was not maintained in the official grant file; doing so ensures that all relevant matters are considered. The Department did not concur with our overall findings or recommendations.

Current Status: *We did not receive a response from ODS/ISU on this audit during this reporting period. OESE informed us that this audit is assigned to ISU.*

Report Title, Number, and Date Issued	Summary
<p>Systems of Internal Control Over Selected Recovery Act Funds in Louisiana.</p> <p>ED-OIG: A06K0001</p> <p>Issued: 9/29/2010</p>	<p>We found that the agencies reviewed had systems of internal control in place or were designing control systems to provide for the proper administration and use of education-related Recovery Act funds. However, we also found that the Louisiana Department of Education could improve oversight of LEAs and improve controls over data quality; the Office of Governor’s Division of Administration needed to perform reviews of its subrecipients; the Office of Louisiana Rehabilitation Services lacked sufficient controls over tracking Recovery Act funds; and the Algiers Charter School Association, one of four LEAs we reviewed, used sole-source contracting without sufficient justification and did not verify whether vendors were debarred or suspended from receiving Federal funds. We made a number of recommendations to enhance controls over Recovery Act requirements. State officials did not agree with all of our findings or recommendations.</p> <p>Current Status: <i>We did not receive a response from ODS/ISU on this audit report during this reporting period.</i></p>
<p>Use of Recovery Act Funds and Reporting in Wisconsin.</p> <p>ED-OIG: A02K0005</p> <p>Issued: 9/29/2010</p>	<p>We found that although the Wisconsin Department of Public Instruction (DPI) made a proactive effort to ensure compliance with Recovery Act requirements, DPI’s distribution of SFSF funds did not allow for proper tracking of expenditures at the State and LEA levels as required by the Recovery Act. This occurred because DPI was instructed by the State legislature to distribute SFSF funds to LEAs expeditiously and in doing so, DPI did not properly account for two components of the SFSF program and it reimbursed LEAs for expenditures based only on pools of cost categories. In addition, we found that DPI needed to improve its monitoring of Recovery Act funds and implement comprehensive subrecipient monitoring procedures for the SFSF program. We also determined that DPI and the Wisconsin Governor’s Office needed to improve their procedures to ensure all required data are accurate, reliable, and complete. We made several recommendations to address these issues, including that the Department require the Governor’s Office and DPI to implement procedures to ensure its Recovery Act funds are properly accounted for and tracked. We also recommended that they be required to conduct reviews on the SFSF funds distributed to LEAs in FY 2008-2009 to determine whether the funds were used for allowable activities and accrued within the period of availability and return any unallowable cost. Wisconsin officials did not fully agree or disagree with our findings or recommendations.</p> <p>Current Status: <i>We did not receive a response from ODS/ISU on this audit during this reporting period.</i></p>

Table 6: Statistical Profile: October 1, 2010, through March 31, 2011

Audit Reports Issued	12
Inspection Reports Issued	2
Questioned Costs	\$15,652,133
Unsupported Costs	\$18,909,686
Recommendations for Better Use of Funds	5,200,000
Other Products Issued (1 Alert Memorandum, 2 Attestation Reports, 1 Audit Closure Memorandum, and 1 Special Project Report)	5
Audit Reports Resolved By Program Managers ¹	18
Questioned Costs Sustained	\$40,832,909
Unsupported Costs Sustained	\$104,521,933
Additional Disallowances Identified by Program Managers	\$1,204
Management Commitment to the Better Use of Funds	\$327,577
Investigative Cases Opened	77
Investigative Cases Closed	88
Investigative Cases Active at the End of the Reporting Period	427
Prosecutorial Decisions	
Accepted	73
Declined	90
Indictments/Informations	55
Convictions/Pleas	46
Fines Ordered	\$124,525
Restitution Payments Ordered	\$4,900,534
Civil Settlements/Judgments (number)	3
Civil Settlements/Judgments (amount)	\$57,896,500
Recoveries	\$3,589,082
Forfeitures/Seizures	\$54,910
Estimated Savings	\$2,572,727
Suspensions Referred to Department	21
Debarments Referred to Department	38

¹ No inspection reports were resolved during the SAR 62 reporting period. Five other OIG products were resolved during the SAR 62 reporting period.

FY 2011 Management Challenges

The *Reports Consolidation Act of 2000* requires the OIG to identify and summarize the most significant management challenges facing the Department each year. Below are the management challenges OIG identified for FY 2011:

1. Implementation of New Programs and Statutory Changes, including the Recovery Act and changes to the student financial assistance (SFA) loan programs;
2. Oversight and Monitoring, including SFA program participants, distance education, grantees, and contractors;
3. Data Quality and Reporting, including program data and Recovery Act reporting requirements; and
4. Information Technology Security.

For a copy of our FY 2011 Management Challenges report, visit our Web site at www.ed.gov/offices/oig.



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