



**U.S. DEPARTMENT  
OF EDUCATION**

**OFFICE OF INSPECTOR GENERAL**

# FY 2011 Management Challenges

OFFICE OF INSPECTOR GENERAL

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*Inspector General*

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The Inspector General's FY 2011 Management Challenges is available on the ED/OIG Web site at [www.ed.gov/offices/oig](http://www.ed.gov/offices/oig)

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# EXECUTIVE SUMMARY

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires OIG to identify and summarize the most significant management challenges facing the Department each year.

Last year, we reported three management challenges: the *American Recovery and Reinvestment Act of 2009* (Recovery Act); student financial assistance (SFA) programs, with a focus on the *Ensuring Continued Access to Student Loans Act of 2008*; and information security and management. All three have been updated as challenges for fiscal year (FY) 2011, and Data Quality and Reporting, previously a sub-area, is presented as a separate challenge. The FY 2011 management challenges are:

- (1) Implementation of New Programs/Statutory Changes, including the Recovery Act and changes to the 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.

**(1) Implementation of New Programs and Statutory Changes.** New programs or changes to existing programs often require the development of new guidance, grant applications or other documents, new competitions, and other activities. Technical assistance and outreach activities are needed to ensure that recipients and/or other program participants understand the new requirements and any new responsibilities. Internal training efforts are required to ensure that responsible U.S. Department of Education (Department) staff fully understand the requirements. These activities often must take place within very short timeframes and generally without additional resources. This places a strain on Department staff to absorb the increased workload.

- **Recovery Act.** The Recovery Act provided significant additional funding to help improve the economy and enhance education reforms. This included funding for new educational programs and existing programs. The OIG and the Government Accountability Office (GAO) have conducted significant amounts of work at the Department, State agencies, and Local Educational

Agencies (LEAs). This work identified a number of control weaknesses related to the use of funds, cash management, subrecipient monitoring, and impacts on maintaining levels of funding for education programs. We made recommendations to improve implementation of Recovery Act programs. The Department has taken proactive measures to coordinate the effective implementation of the Recovery Act and to provide technical assistance to recipients. Additional oversight and monitoring could enhance the Department's ability to ensure that Federal funds are effectively managed and that deficiencies noted in audits and other reviews are corrected timely. Congress recently authorized an additional \$10 billion for the Education Jobs Fund to be administered by the Department. The Department must provide further guidance and assistance to recipients on this new program, which includes Recovery Act reporting provisions as well as the previously authorized Recovery Act programs, identify and obtain additional resources for program monitoring, and take timely corrective actions to address issues noted in audits and other reviews.

- **Changes to the Student Financial Assistance Loan Programs.** The *Student Aid and Financial Responsibility Act (SAFRA)* prohibited the making (origination) of new Federal Family Education Loan Program (FFELP) loans after June 30, 2010. New loans will be originated under the William D. Ford Federal Direct Loan Program (Direct Loan Program). The Department's challenge is to expand its capacity to originate and service the increased Direct Loan volume, train and monitor schools new to the program, and continue oversight of FFELP lenders and guaranty agencies that service the existing portfolios. If the Department's implementation of SAFRA is not successful, the availability and delivery of student loans may be disrupted, impacting students and their families. The Department has taken actions to prepare for the transition, including providing outreach and technical support to schools, enhancing the key information systems, contracting with additional loan servicers, hiring additional staff, and developing contingency plans. We suggested that the Department establish effective contract monitoring practices and require appropriate system testing to ensure that systems perform adequately under the increased loan volume.

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

- **Student Financial Assistance Program Participants.** Effective oversight and monitoring of participants in the SFA programs under Title IV of the *Higher Education Act of 1965*, as amended (HEA) are needed to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. Under the President's budget, the Department expects to provide more than \$173.6 billion in grants, loans, and work-study assistance in FY 2011. Each year, approximately 14.8 million students and their families—47 percent of all students and 62 percent of full-time undergraduates—rely on the SFA programs to help fund their postsecondary educations. Participants in the SFA programs include postsecondary institutions, lenders, guaranty agencies, and third-party servicers. Our work has identified weaknesses in the Department's oversight and monitoring of these participants. The Department has taken corrective actions to address many of the recommendations contained in our prior reports. However, the Department needs to continue to assess and improve its oversight and monitoring of program participants and take effective actions when problems are identified.

■ **Distance Education.** Distance education refers to courses or programs offered through telecommunication, such as through Internet connection with a postsecondary institution. The flexibility offered is popular with students pursuing education on a non-traditional schedule. Many institutions offer distance education programs as a way to increase their enrollment. Management of distance education programs presents a challenge for the Department and school officials because of limited or no physical contact to verify the student's identity or attendance. OIG audit work has found that for distance education programs, schools face a challenge in determining when a student attends, withdraws from or drops a course. Attendance is critical because it is used to determine the student's eligibility for Federal student aid and to calculate the return of Federal student aid if the student withdraws from or drops out. Our investigative work has also found that those interested in defrauding the Federal student aid programs find it easier to enroll numerous times under different names, to falsify information on the Free Application for Federal Student Aid, and to initiate other schemes to receive funds illegally. Also, some program requirements for residential programs do not translate clearly for distance education programs, and guidance is not available to address these issues. The Department needs to develop requirements specific to distance education and to increase its oversight of schools providing programs through distance education.

■ **Grantees.** Effective monitoring and oversight is essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our work has identified a number of weaknesses in grantee oversight and monitoring. We have found pervasive fiscal control weaknesses at a number of grantees, weaknesses in grant payback programs, as well as fraud committed by LEA and charter school officials. The Department is responsible for monitoring the activities of grantees to ensure compliance with applicable Federal requirements and achievement of performance goals. The Department has taken corrective actions to address many of the recommendations contained in our reports. However, the Department needs to continue to assess and improve its oversight and monitoring of grantees and take effective actions when issues are identified.

■ **Contractors.** The Department relies heavily on contractor support to accomplish its mission and to ensure the effective operations of its many systems and activities. The Department spends more than \$1 billion each year on contracts for products and services. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. OIG reports have included numerous deficiencies in the area of contract monitoring and recommendations for corrective action. The Department has taken action to address many of the issues noted. A critical issue hampering significant improvement, however, is the shortage of appropriately qualified staff to adequately monitor contractor performance. The Department needs to ensure its human capital plans address this critical area.

**(3) Data Quality and Reporting.** The Department, its grantees, and subrecipients must have controls in place and effectively operating to ensure that accurate, reliable data are reported. Data are used by the Department to make funding decisions, to evaluate program performance, and to support a number of management decisions. Under the Recovery Act, data reported provide transparency and allow access by the general public as to how funds are being spent. Two areas are included in this management challenge—program data reporting and Recovery Act reporting requirements.

- **Program Data Reporting.** State Educational Agencies (SEAs) annually collect data from LEAs and report various program data to the Department. The Department evaluates program data to make critical funding and other management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. Establishing more consistent definitions for data terms will enhance reporting accuracy and comparability.
  
- **Recovery Act Reporting Requirements.** The Recovery Act places a heavy emphasis on accountability and transparency, including reporting requirements related to the awarding and use of funds. All recipients and subrecipients are mandated to provide information about their awards on a publicly available Web site authorized by the statute. The new reporting requirements required Federal, State, and local agencies to quickly develop the systems and infrastructure to collect and report the required information. The Department must educate recipients about the reporting requirements, assess the quality of the reported information, and use the collected information effectively to monitor and oversee Recovery Act programs and performance. Our initial work has noted a number of weaknesses in controls over data quality and reporting, both externally at SEAs and LEAs, and internally at the Department. Ensuring that accurate and complete data are reported is critical to achieving the transparency goals of the Recovery Act.

**(4) Information Technology Security.** The Department collects, processes, and stores a large amount of personally identifiable information regarding employees, students, and other program participants. OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. For the last 3 years, OIG's IT audits have identified management, operational, and technical security controls that need improvement to adequately protect the confidentiality, integrity, and availability of Department systems and data. We have identified security weaknesses in the incident handling process and procedures, personnel security controls, and configuration management. Compromise of the Department's data would cause substantial harm and embarrassment to the Department and may lead to identity theft or other fraudulent use of the information.

#### **An Additional Area of Emphasis—Improper Payments**

One additional area will be a focus of Department and OIG activity for FY 2011 and beyond—improper payments. Across the Federal Government, agencies reported nearly \$100 billion in improper payments for FY 2009. The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. A number of new requirements related to improper payments were issued in FY 2010. In November 2009, the President signed an Executive Order entitled, *Reducing Improper Payments*, to reduce improper payments by holding agencies accountable. In March 2010, a Presidential Memorandum entitled, *Finding and Recapturing Improper Payments*, was issued to expand the use of recovery audits. In July, the *Improper Payments Elimination and Recovery Act of 2010* was passed to amend the *Improper Payments Information Act of 2002*, incorporating changes to requirements for identifying and reporting improper payments. In addition to actions required by the Department, there are new requirements for OIG to monitor and evaluate Department activities related to improper payments.

# FY 2011 MANAGEMENT CHALLENGES

## (1) IMPLEMENTATION OF NEW PROGRAMS AND STATUTORY CHANGES

New programs or changes to existing programs often require the development of new guidance, grant applications or other documents, new competitions, and other activities. Technical assistance and outreach activities are needed to ensure that recipients and/or other program participants understand the new requirements and any new responsibilities. Internal training efforts are required to ensure that responsible Department staff fully understand the requirements. These activities often must take place within very short timeframes and generally without additional resources. This places a strain on Department staff to absorb the increased workload.

Two areas are included in this management challenge—the Recovery Act and changes to the SFA Loan Programs.

### RECOVERY ACT—NEW PROGRAMS AND NEW REQUIREMENTS FOR EXISTING PROGRAMS

#### SUMMARY

The Recovery Act provided significant additional funding to help improve the economy and enhance education reforms. This included funding for new educational programs and existing programs. The OIG and the GAO have conducted significant amounts of work at the Department, State agencies, and LEAs. This work identified a number of control weaknesses related to the use of funds, cash management, subrecipient monitoring, and impacts on maintaining levels of funding for education programs. We made recommendations to improve implementation of Recovery Act programs. The Department has taken proactive measures to coordinate the effective implementation of the

Recovery Act and to provide technical assistance to recipients. Additional oversight and monitoring could enhance the Department's ability to ensure that Federal funds are effectively managed and that deficiencies noted in audits and other reviews are corrected timely. Congress recently authorized an additional \$10 billion for the Education Jobs Fund to be administered by the Department. The Department must provide further guidance and assistance to recipients on this new program, which includes Recovery Act reporting provisions as well as the previously authorized Recovery Act programs, identify and obtain additional resources for program monitoring, and take timely corrective actions to address issues noted in audits and other reviews.

## BACKGROUND

The Recovery Act was signed into law on February 17, 2009, authorizing \$787 billion in government spending and tax cuts to stimulate the economy, save and create jobs, and invest in education reforms. The Department received \$96.8 billion for new and existing programs. This additional funding represents more than one and one-half times the Department's FY 2009 regular budget of \$62.6 billion.

More than 80 percent of the Department's Recovery Act funds were designated for five programs:

- State Fiscal Stabilization Fund (SFSF)—\$48.6 billion for this new program to stabilize State and local budgets and advance education reforms;
- Title I, Part A of the *Elementary and Secondary Education Act of 1965* (ESEA) as amended (Title I)—\$13 billion in education for the disadvantaged;
- Part B of the *Individuals with Disabilities Education Act* (IDEA)—\$12.2 billion for special education programs;
- Race to the Top—\$4.35 billion for this new program to advance education reforms; and
- Investing in Innovation—\$650 million for this new program to expand innovative practices and bring promising reforms to scale.

In August 2010, Public Law 111-226 authorized a new Federal program, the Education Jobs Fund Program (Ed Jobs). The Ed Jobs program provides \$10 billion in assistance to States to save or create education jobs for the 2010-2011 school year. Jobs funded under this program include those that provide educational and related services for early childhood, elementary, and secondary education.

Although responsible for administering significantly more than its annual budget, the Department did not receive additional resources to accomplish this task. The fact that many recipients of Recovery Act funds are facing difficult economic situations increases the risk that Federal funds could be misused. The increased risk requires additional monitoring and oversight efforts by the Department.

For the three largest programs, recipients must obligate all funds by September 30, 2011. The Department has to ensure that funds are available, so that the SEAs could make subgrants to LEAs to effectively obligate funding by the deadlines. In addition, the Department is charged with working with SEAs and LEAs to ensure Recovery Act funds are spent timely while also exercising prudent oversight. The Department must strike a balance between its management of Recovery Act funds and the guidance and technical assistance that it provides to recipients.

## RESULTS OF WORK PERFORMED

OIG has performed audit work at States and LEAs related to the Recovery Act. We have also been coordinating closely with GAO on its work related to Recovery Act education programs. OIG's first audits involved seven States and Puerto Rico and evaluated internal control activities of prime recipients and subrecipients over use of funds, cash management, subrecipient monitoring, and data quality. We also evaluated maintenance of effort (MOE) requirements (related to maintaining minimum levels of education funding) under the SFSF program and corrective actions taken to address prior audit findings in programs that subsequently received Recovery Act funding. Issues noted with respect to data quality are discussed under reporting requirements in the third challenge. The results of our reviews in the other areas are summarized below:

- **Use of Funds.** One of the biggest challenges facing the Department in administering the Recovery Act programs is monitoring recipients to ensure that funds are used in accordance with the applicable laws, regulations, and guidance. We found weaknesses in most recipients' controls over uses of funds. We identified the need for the Department to work with recipients to ensure that (1) Recovery Act funds are accounted for separately from other Federal and non-Federal funding sources, (2) Recovery Act contracts are effectively monitored, (3) written policies and procedures are in place, and (4) effective controls are in place over payroll processing.

■ **Cash Management.** We identified instances of weak controls over cash management by recipients and subrecipients of education grants that could result in additional borrowing costs to the Federal Government. Specifically, our work found that SEAs did not always have effective controls in place to minimize the time between the receipt and disbursement of funds. We also found that SEAs did not always have policies and procedures in place to correctly calculate and timely remit interest earned on Federal cash advances to the Federal treasury. We issued an alert memorandum to the Department to provide advance notice of this area of concern.

■ **Subrecipient Monitoring.** The Department has overall responsibility for monitoring its programs; however, prime recipients must monitor subrecipient activities to ensure compliance with applicable Federal requirements. Our Recovery Act audits have identified that the Department needs to ensure prime recipients: (1) modify monitoring methods to include oversight of Recovery Act funds that adequately address fiscal issues, (2) conduct review of supporting documentation or verification on a risk basis that allowable expenditures were made prior to making Recovery Act payments to subrecipients, and (3) establish clear responsibilities for monitoring SFSF funds. We issued a management information report on issues that the Department should consider in its future risk assessments and monitoring visits. GAO also issued a report recommending that the Department take action such as collecting and reviewing documentation of State monitoring plans to ensure that States understand their responsibility to monitor subrecipients of SFSF funds and consider providing training and technical assistance to help States develop and implement monitoring plans.

■ **Maintenance of Effort.** Flexibility inherent in the SFSF program MOE requirements may result in SEAs reducing funding for public education. The MOE assurances provide

flexibility for States in various budget situations. A State facing a large deficit can avoid reductions in total education funding while a State with a stronger budget situation can increase total education spending to work toward the education reforms of the Recovery Act. However, we concluded that this flexibility may be resulting in a reduction in some States' funding for public education. We issued an alert memorandum to the Department on the potentially adverse impact to the achievement of the education reform objectives of the SFSF program. We recommended that the Department take action to address these potential consequences by tracking SEA funding for public education and using these data to ensure compliance with the MOE assurances in their SFSF applications. GAO also issued a report in this area, recommending that the Department require States to include in their SFSF applications an explanation of any changes and the reasons for changes to the calculations or MOE levels.

■ **Corrective Actions to Address Prior Audit Findings.** We evaluated the Department's progress in implementing corrective actions for OIG prior audits of programs that subsequently received Recovery Act funding. We found that although some resolution activities for these audits were underway, the Department had not made significant progress in issuing its management decisions to resolve the findings. As a result, weaknesses noted in prior audits may have continued in the administration of additional program funding. We recommended that the Department take actions to expedite corrective actions for these prior audits to safeguard Recovery Act and other program funds.

OIG has also evaluated the Department's implementation of the SFSF program, focusing exclusively on the formula grant portion of the program which comprises over 90 percent of the funding. We found that the Department's initial implementation of the program was generally appropriate. The Department calculated State

allocations in accordance with statutory requirements, and the funding applications we sampled included all required information and underwent multiple levels of review. However, although the Department's process indicates that reviewers verified that all required data and related information were *provided*, it does not provide assurance that steps were taken to assess whether the data were *reasonably supported*, which could impact the Department's ability to determine whether States are complying with MOE requirements. In our sample of 16 States, we noted that 3 States appeared to have insufficient or questionable supporting data. Department officials stated they believed that current staff, plus planned contractor assistance, would be adequate to manage the SFSF program and monitor recipients. Although it appears that staffing has been adequate during the initial implementation of the program, the time required to implement and monitor the SFSF program could impact the Department's ability to effectively manage existing programs. The Department has not yet contracted for assistance, as discussed in its SFSF monitoring plan, or conducted on-site monitoring of recipients as of the time of this audit. We made recommendations to enhance the Department's SFSF monitoring processes.

Our work continues in this area. We are currently reviewing the use of funds and data quality in additional States and LEAs. In FY 2011, we will continue our reviews of Recovery Act programs and funding, including the new Ed Jobs program, and continue to coordinate with GAO on its efforts in this area. We will also review the timeliness and effectiveness of the Department's resolution process for external audits.

## **DEPARTMENT ACTIONS/PLANS**

The Department has taken a number of actions to ensure the successful implementation of the Recovery Act. The Department issued extensive guidance on each of the programs funded under the Recovery Act. These guidance documents included information on appropriate uses of funds and reporting requirements along with other program specific issues. In June 2010, the Department sent a memorandum to all Department grant and

cooperative agreement recipients reminding them of cash management requirements and to ensure that subrecipients are also aware of the requirements. The Department also issued guidance explaining the cash management requirements in more detail.

The Department also started, and continues to provide, a series of technical assistance webinars to communicate with recipients and subrecipients on how to successfully administer Recovery Act programs. Webinar topics include issues such as internal controls, cash management, allowable activities, subrecipient monitoring, and data quality. Past webinars are available for viewing on the Department's website.

The Department established an internal Metrics and Monitoring Team that meets weekly to discuss issues in Recovery Act program areas. The team includes representatives from all of the program offices that received Recovery Act funding, as well as other key functions such as Budget Service, the Office of the Chief Financial Officer, the Office of the Chief Information Officer, and Risk Management Service (RMS). The Department also established the Programmatic Risk Management Group responsible for developing a risk management and monitoring process that it plans to pilot during FY 2011. The Department is developing an organizational assessment measure to improve monitoring. The measure would require grant making offices to develop a monitoring plan that would address risk. The Department also required all staff that review grant applications or oversee grants to attend fraud awareness training developed and presented by OIG staff.

Additionally, in accordance with Office of Management and Budget (OMB) guidance, RMS developed a risk mitigation plan for Recovery Act implementation. This plan analyzes both programmatic and financial risk factors associated with implementing the Recovery Act through all levels of the grant process. RMS has a risk assessment tool for its regular programs that can also be applied to recipients of Recovery Act funds.

The Department reported that it requires States to include in their SFSF applications explanations of the changes to calculations to MOE, as recommended

by GAO, and posts on its website when a State files an amended application. With respect to the issues noted in our SFSF audit, the Department reported that it has a detailed monitoring schedule and protocol for SFSF monitoring and that it has competed and awarded a contract to provide additional support to this effort. In addition, the Department stated it is conducting on-site monitoring and has added five additional staff who spend a substantial portion of their time monitoring the program.

### **FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE**

Further guidance and technical assistance are required to address issues as they arise with specific programs and recipients. These issues are likely to center on the need for recipients to obligate funding by statutory deadlines and ensure appropriate use of funds. Effective oversight and monitoring are needed to ensure that the goals of the Recovery Act and those of previously established programs are achieved and that Federal funds are expended in accordance with Federal requirements.

The Department needs to ensure that external entities take timely corrective actions to resolve weaknesses reported in audits related to the use of funds, cash management, and subrecipient monitoring. As of September 30, 2010, the Department had not issued its decision to any of the SEAs from our Recovery Act audits (see Appendix B for listing) on the corrective actions that should be taken. The Department needs to continue to provide guidance and outreach to leverage the audit results so that issues are proactively being addressed in all States, SEAs, and LEAs.

Also, as of September 30, 2010, the Department had not yet developed the corrective actions it plans to take to address the recommendations made in our alert memorandum related to the potential impact on maintaining levels of funding for education programs or the recently issued audit on the SFSF program. For the alert memoranda regarding corrective actions to address prior audit findings, the Department needs to ensure it implements planned corrective actions in a timely manner.

## **CHANGES TO THE STUDENT FINANCIAL ASSISTANCE LOAN PROGRAMS**

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### **SUMMARY**

The SAFRA prohibited the making (origination) of new FFELP loans after June 30, 2010. New loans will be originated under the Direct Loan Program. The Department's challenge is to expand its capacity to originate and service the increased Direct Loan volume; train and monitor schools new to the program; and continue oversight of FFELP lenders and guaranty agencies that service the existing portfolios. If the Department's implementation of SAFRA is not successful, the availability and delivery of student loans may be disrupted, impacting students and their families. The Department has taken actions to prepare for the transition, including providing outreach and technical support to schools, enhancing the key information systems, contracting with additional loan servicers, hiring additional staff, and developing contingency plans. We suggested that the Department establish

effective contract monitoring practices and require appropriate system testing to ensure that systems perform adequately under the increased loan volume.

### **BACKGROUND**

SAFRA was signed into law on March 30, 2010, as part of the *Health Care and Education Reconciliation Act of 2010*. It amends the HEA, to prohibit the making of new FFELP loans after June 30, 2010. All loans previously made under the FFELP will subsequently be made under the Direct Loan Program. The FFELP and Direct Loan Program represent by far the largest volume of Federal student loans. Under the Direct Loan Program, funding is provided by the Federal Government while loan origination and servicing are handled by postsecondary institutions and public and private entities under contract with the Department.

Historically, more student loans have been made each year under the FFELP than the Direct Loan Program. As of September 30, 2009, there were \$487 billion in FFELP loans and \$149 billion in Direct Loans outstanding. For FY 2009, lenders made 14.5 million FFELP loans totaling \$67 billion and the Department made 6.1 million Direct Loans totaling \$30 billion. As a result of SAFRA's provisions, the Department estimates that in FY 2011 it will originate 24.3 million Direct Loans totaling \$116 billion. This represents a threefold increase over the number of Direct Loans the Department originated in FY 2009.

## **RESULTS OF WORK PERFORMED**

OIG has conducted reviews of the Department's readiness for expansion of the Direct Loan Program. We evaluated the Department's plans for increasing the volume of loans made and serviced under the Direct Loan Program and ability to monitor the resulting increased participation of postsecondary institutions to ensure compliance with program requirements. We found that Federal Student Aid (FSA) had taken actions to expand existing Direct Loan processing systems and awarded four additional contracts to assist in servicing potential volume increases. We also found that FSA was providing appropriate on-going technical assistance to schools and has reasonable plans in place to accommodate schools that experience difficulties in transitioning to the Direct Loan program. FSA has provided technical assistance through training opportunities and other activities conducted by its Transition Team and technical assistance contractor. FSA is also actively monitoring schools transitioning to the Direct Loan program to assess their related progress and initiate follow-up activities where necessary. FSA appeared to have access to sufficient resources to assist schools with the transition to the Direct Loan Program and that the transition did not appear to impact FSA's ability to sustain its current level of compliance monitoring activities. However, we noted in one review that FSA will rely heavily on contractor support in key areas to ensure the effective operation of the Direct Loan Program. FSA must ensure that effective contract monitoring is established, including appropriate system testing, to ensure that systems perform adequately.

We also assessed the adequacy of both capacity and contingency planning of the Direct Loan origination system to address the increase in loan volume. We concluded that if FSA's estimate of the number of originations is accurate and its contingency plans are implemented as written, it appears that the level of risk in exceeding Direct Loan origination capacity is low. FSA should promptly review the actual origination volume when it is available, and if a significant increase in actual originations over projected originations is noted, revise plans accordingly.

Our work continues in this area. In FY 2011, we will evaluate the structure, oversight, and performance of the new servicing contractors. We also plan further work to evaluate the transition to the Direct Loan Program, including monitoring of guaranty agency and lender efforts related to servicing existing portfolio of FFELP loans, and FSA's management and oversight of the Direct Loan Program.

## **DEPARTMENT ACTIONS/PLANS**

In addition to the activities noted above, FSA acquired the services of a technical assistance contractor to provide services such as consulting activities and support and to develop a tracking system for the status of each school. This contractor will also provide a "Virtual Financial Aid Office" to assist schools that fall behind in the transition process or have insufficient staff to effectively transition. Telephone or on-site support from its technical assistance contractor is available to help a school in its transition process.

As mentioned above, to accommodate the expansion of the Direct Loan Program, the Department has contracted with four additional loan servicers, all of which also participate as loan servicers in the FFELP. Under their contracts, these loan servicers currently service FFELP loans acquired by the Department under loan purchase programs. The loan servicers will provide a full range of servicing functions: customer service, processing loan payments, debt collection, loan consolidation, and other services. The Department also modified contracts for its key information systems for the

Direct Loan Program, including the origination system and the servicing system, and modified the current Direct Loan origination system contract to allow for additional volume. Finally, the Department began to hire and train new staff to support the expansion of the Direct Loan Program. FSA's planned staff usage has increased from 1,058 full-time employee equivalent (FTE) positions in FY 2009 to 1,194 FTE in FY 2010. In its FY 2011 budget request, the Department requested an additional increase of 263 FTE for FSA.

### **FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE**

Although the Department has taken contractual actions to expand the Direct Loan Program's capacity to both originate and service the increased loan volume, it must also ensure effective contract

monitoring practices and require appropriate system testing to ensure that systems perform adequately under increased processing requirements (see also the discussion below related to the challenge on contract monitoring and oversight). New staff hired by the Department to support the expansion of the Direct Loan Program must be trained so as to provide effective support and monitoring (see also the discussion below on the weaknesses noted in FSA staff training and qualifications). Although no new FFELP loans can be originated, FSA must continue to manage the operational functions supporting the FFELP. These functions include its responsibility to monitor the participation of FFELP lenders, servicers, and guaranty agencies that continue to hold and service FFELP loans (see also the discussion below on weaknesses noted in FSA's oversight of lenders, servicers, and guaranty agencies).

## (2) OVERSIGHT AND MONITORING

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

### STUDENT FINANCIAL ASSISTANCE PROGRAM PARTICIPANTS

#### SUMMARY

Effective oversight and monitoring of participants in the SFA programs under Title IV of the HEA are needed to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. Under the President's budget, the Department expects to provide more than \$173.6 billion in grants, loans, and work-study assistance in FY 2011. Each year, approximately 14.8 million students and their families—47 percent of all students and 62 percent of full-time undergraduates—rely on the SFA programs to help fund their postsecondary educations. Participants in the SFA programs include postsecondary institutions, lenders, guaranty agencies, and third-party servicers. Our work has identified weaknesses in the Department's oversight and monitoring of these participants. The Department has taken corrective actions to address many of the recommendations contained in our prior reports. However, the Department needs to continue to assess and improve its oversight and monitoring of program participants and take effective actions when problems are identified.

#### BACKGROUND

Federal SFA programs are administered under complex legal and regulatory requirements and rely on the participation of numerous non-Federal entities to deliver large amounts of Federal student aid funds to students and parents. More than 6,200 postsecondary institutions, more than 2,900 FFELP lenders, 34 guaranty agencies, and numerous third-party servicers participate in the SFA programs.

Although the SAFRA ended the origination of FFELP loans after June 30, 2010, lenders, guaranty agencies, and their third-party servicers will continue to service FFELP loans; there were \$487 billion in outstanding FFELP loans as of September 30, 2009. FSA's Program Compliance service area is responsible for oversight and monitoring of postsecondary institutions, FFELP lenders, guaranty agencies, and third-party servicers.

#### RESULTS OF WORK PERFORMED

Our audits and inspections have identified serious weaknesses in FSA's oversight and monitoring of SFA program participants. In FY 2006, we reported weaknesses in FSA's monitoring of guaranty agencies, lenders, and servicers. We updated this audit work in FY 2009 and found that many of the same weaknesses persisted. In FY 2007, we performed an inspection which reported inadequate corrective actions taken regarding oversight of guaranty agency Federal and operating funds—issues reported in a prior audit. Issues noted in internal audits and inspections of FSA's oversight and monitoring of the SFA program participants have included the following:

- **FSA Control Environment Weaknesses.** We identified internal control weaknesses in each of the GAO standards for internal control for the Government. The most significant control environment weakness was a management philosophy that emphasized partnership over compliance and monitoring.

■ **Lack of Sufficient and Appropriately Qualified Staff.** We found that FSA had not dedicated sufficient resources to effectively monitor the FFELP participants and had not established mandatory training requirements for the program reviewers. We found that FSA staff did not have the requisite knowledge to effectively review the Federal and operating funds that are used for various guaranty agencies activities. We also found that sufficient resources were not provided to complete the reviews.

■ **Risk Assessment.** Our review of FSA's Enterprise Risk Management Program noted that the organization had not fully implemented enterprise risk management. FSA's enterprise risk management function was intended to develop risk assessments and provide a more strategic view of future risks. The function was also designed to better equip senior management to anticipate, analyze, and manage risks inherent in the SFA programs. However, the program had not yet included any of the business units directly responsible for administering the SFA programs.

■ **Monitoring Activities.** We found that program reviews of FFELP participants were not properly supervised or performed consistently and that FSA did not consistently quantify and document liabilities. As a result, funds that were inappropriately used were not always recovered. We also found that delegations of authority were not current with respect to FSA staff who could waive liabilities noted in program reviews, and lenders' submissions of required annual compliance audit reports were not monitored. Some of these weaknesses were also reported in the prior audit of this area, indicating that effective corrective actions were not taken.

GAO found that although students must meet certain eligibility requirements to demonstrate that they have the ability to succeed in school before they receive Federal loans, weaknesses in the Department's

oversight of these requirements place students and Federal funds at risk of potential fraud and abuse at proprietary schools.

We have recommended that FSA establish an effective system of internal controls to provide sufficient oversight and monitoring of SFA program participants and make certain it has staff with the appropriate knowledge and training to successfully carry out and manage its programs and operations.

Our external audits of individual SFA program participants frequently identify noncompliance, waste, and abuse of SFA program funds. For example, recent audits of postsecondary institutions have identified disbursements of SFA funds at ineligible locations and for ineligible programs, noncompliance with institutional eligibility requirements, SFA funds awarded to ineligible students, inaccurate returns of SFA funds for students who withdraw from classes, improper manipulation of default rates, and other issues. (See also discussion below on issues noted related to distance education.) Our audits of four FFELP lenders identified noncompliance with requirements for special allowance billings that resulted in improper payments of hundreds of millions of Federal dollars.

OIG investigations have identified various schemes by SFA program participants to fraudulently obtain Federal funds. In several recent cases, proprietary school officials created documentation in order to receive Federal grants and loans for students that did not attend the school or were enrolled in ineligible programs. In another case, proprietary school officials provided false general equivalency diplomas and falsified financial aid forms to obtain Federal student grants and loans for ineligible students. An organization managing a group of schools in one State failed to meet State licensing requirements—a requirement for receiving Federal student aid. The organization agreed to repay \$7 million to the Government for funds it was not eligible to receive.

Our work continues in this area. In FY 2011, we plan to conduct additional work related to the Department's oversight of participants in the SFA programs. Planned work includes a review of FSA's oversight of schools

participating in the Direct Loan Program and a review of FSA's oversight of FFELP guaranty agencies. Additional reviews of the transition from the FFELP to the Direct Loan Program are also planned.

## DEPARTMENT ACTIONS/PLANS

Among other actions taken in response to our audits, the Department agreed to improve its control environment for oversight and monitoring, its risk assessment process, and its control activities. FFELP lenders were required to undergo audits to determine the eligibility of loans funded by tax-exempt obligations for certain special allowance payments, potentially saving millions of dollars in improper payments. FSA completed program reviews at 22 guaranty agencies, identifying more than \$33 million in potential recoveries to the Federal fund.

To address issues noted with respect to risk management, FSA changed leadership in its Enterprise Risk Management Group and hired a new chief risk officer. The Department has developed plans to hire 182 FTE staff within FSA for FY 2011. Of this number, 64 FTE are planned to be allocated to increase the level of oversight of SFA program participants.

The Department reported that, as of September 2010, it has more than doubled, from 13 to 29, the number of staff responsible for conducting program reviews of guarantors, lenders, and servicers. FSA reported it has also filled supervisory positions, established a mandatory training program for all review staff, and implemented program review procedures that ensure proper supervision and

consistency in decision making. FSA also reported that it implemented similar procedures for its audit resolution process.

## FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE

FSA needs to evaluate the risks within its programs and develop strategies to address risks identified to ensure effective operations. Priority should be given to its program operations over its internal administrative operations. FSA needs to assess its control environment, using information from OIG reviews, internal employee surveys, and other sources as appropriate, and implement actions for improvement.

As of September 30, 2010, the Department had not yet issued its decisions on 5 of the 6 specific schools and lenders we have identified in the appendix under this challenge to require corrective actions to address weaknesses related to student and program eligibility and appropriateness of lender billings. The Department should ensure that appropriate returns of program funds are made where appropriate.

Our work continues to identify serious problems with the Department's oversight of participants in the SFA programs. The Department needs to continue to assess and improve its oversight and monitoring of postsecondary institutions, FFELP guaranty agencies, lenders, and servicers, and other SFA program participants, and to act effectively when issues are identified. As part of this effort, FSA must make certain it has knowledgeable staff on board to successfully monitor and oversee participants in the SFA programs.

## DISTANCE EDUCATION

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### SUMMARY

Distance education refers to courses or programs offered through telecommunication, such as through Internet connection with a postsecondary institution. The flexibility offered is popular with students pursuing education on a non-traditional

schedule. Many institutions offer distance education programs as a way to increase their enrollment. Management of distance education programs presents a challenge for the Department and school officials because of limited or no physical contact to verify the student's identity or attendance. OIG audit work has found that for distance education

programs, schools face a challenge in determining when a student attends, withdraws from or drops a course. Attendance is critical because it is used to determine the student's eligibility for Federal student aid and to calculate the return of Federal student aid if the student withdraws from or drops out. Our investigative work has also found that those interested in defrauding the Federal student aid programs find it easier to enroll numerous times under different names, to falsify information on the Free Application for Federal Student Aid, and to initiate other schemes to receive funds illegally. Also some program requirements for residential programs do not translate clearly for distance education programs and guidance is not available to address these issues. The Department needs to develop requirements specific to distance education and to increase its oversight of schools providing programs through distance education.

## **BACKGROUND**

The *Higher Education Reconciliation Act of 2005* amended the HEA to allow students to receive SFA program funds for programs offered entirely through telecommunication. Previously, a school was subject to a 50 percent limitation on distance education courses and distance education enrollment. The Department does not maintain data that identify which students receive Federal student aid to attend distance education programs. However, Departmental surveys of postsecondary institutions show the use of distance education significantly increasing. The percentage of postsecondary institutions offering distance education courses has increased from 56 percent in the 2000-2001 academic year to 66 percent in the 2006-2007 academic year. During the same period, the total enrollment in all distance education courses increased 295 percent—from 3 million students to more than 12 million students. For the 2006-2007 academic year, distance education programs were offered by 97 percent of the public 2-year institutions, 89 percent of all public 4-year institutions, 70 percent of all for-profit private 4-year institutions, and 53 percent of all non-profit private 4-year institutions.

Distance education—both at proprietary and nonprofit institutions—is an area that is placing increased demands on OIG audit and investigative resources and highlights the need for greater oversight and statutory or regulatory change. The primary issue is determining whether students in distance education are “regular students” as defined by the HEA and are actually in attendance for Federal student aid purposes. Institutions are obligated to return any Federal student aid received if a student does not begin attendance during the period for which aid was awarded. Determining what constitutes a class and class attendance in the on-line environment is a challenge in the absence of defined class times or delivery of instruction by instructors. On-line instruction typically consists of posted reading materials and assignments, chat-room and email exchanges, and posting of completed student work. The point at which a student progresses from on-line registration to actual on-line academic engagement or class attendance is often not defined by institutions and is not defined by Federal statute or regulation. Without such definition, or adequate controls at the institutions themselves, Federal student aid funds are at significant risk of being disbursed to ineligible students in on-line programs, and inadequate refunds will be made for students who cease attendance in these programs.

## **RESULTS OF WORK PERFORMED**

OIG has found that institutions did not have adequate procedures and/or information systems to capture attendance information for on-line students. In some cases, the information captured did not represent academically related activities, such as exams, tutorials, computer-assisted instruction, academic counseling or advising, and/or turning in assignments. As a result, the institutions could not correctly identify when the students began attendance to determine eligibility for Federal student aid. For students who did not officially withdraw from classes or the overall program, the institutions could not determine when the students ceased attendance to calculate the amount of aid to be returned. We recommended that FSA require the schools to review their files, return improperly retained Federal student aid, and develop and implement policies and procedures to provide reasonable assurance that funds are not disbursed to students

who are not enrolled. In addition, for one institution reviewed where we estimated that more than 10 percent of the aid disbursed was provided to either ineligible students or not earned by students that withdrew, we recommended that the Department consider taking action, as appropriate, to fine, limit, suspend, or terminate that institution's participation in the SFA programs.

OIG has seen a significant increase in the number of investigations involving distance education. These investigations have uncovered a number of schemes used to fraudulently obtain Federal student aid through on-line programs. Ringleaders recruit individuals to act as "straw students." Either the ringleaders or the straw students complete admission forms, financial aid applications, and other required documentation. The ringleaders then access on-line classes, posing as the straw students, to generate records of participation in the classes. When the straw students receive financial aid checks, they kick back a portion of the proceeds to the ringleader. Ringleaders may also receive a fee up-front to lead the straw students through the enrollment and application process. In a slightly different scheme, a ringleader and others recruited other willing participants to supply their names, dates of birth, and social security numbers. The ringleader then used the information to obtain Federal student aid for attendance in both on-line and on-site courses. None of the straw students who provided their personal information had any intention of attending the school. Instead, the financial aid checks were cashed and the proceeds split between the straw students, the ringleader, and the recruiters. Without requirements for verifying a student's identity and for procedures to ensure applications and attendance are completed by actual students, the schools involved in these cases, and the SFA programs overall, are vulnerable to these fraudulent schemes.

Our work continues in this area. During FY 2011, we plan to initiate a comprehensive audit of distance education requirements, Department monitoring of distance education programs at postsecondary institutions, and compliance by those institutions with requirements in administering the programs.

## **DEPARTMENT ACTIONS/PLANS**

During FY 2010, FSA participated in a joint project with OIG to identify risk indicators and schools participating in the SFA programs that may not be complying with program requirements. The project focused on schools offering distance education because of the recent, significant increase in enrollment numbers and funding. FSA and OIG jointly performed extensive data analysis to identify potential high volume schools offering distance education programs with potential risk of noncompliance. The joint group has also developed distance education program review procedures and has initiated program reviews at high-risk schools identified by the joint project. OIG will continue to work with FSA on this project.

## **FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE**

As of September 30, 2010, the Department had not yet issued its decisions to the specific schools to require corrective actions to address weaknesses noted related to eligible students and programs. We have identified in the appendix under this challenge. The Department should ensure that appropriate returns of program funds are made where appropriate. FSA also needs to increase its monitoring and oversight of schools providing distance education.

The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs—and gather other information as needed—in order to analyze the differences between traditional education and distance education. Based on this analysis, the Department should develop requirements specifically to address potential problems inherent in distance education and publish those requirements. These requirements should include (1) definitions of instruction and attendance in an on-line environment (2) processes for verifying the identities of students receiving Federal student aid for attendance in distance education courses, and (3) clarification of the calculation of return of Federal student aid in a telecommunications environment.

### SUMMARY

Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our work has identified a number of weaknesses in grantee oversight and monitoring. We have found pervasive fiscal control weaknesses at a number of grantees, weaknesses in grant payback programs, as well as fraud committed by LEA and charter school officials. The Department is responsible for monitoring the activities of grantees to ensure compliance with applicable Federal requirements and that performance goals are being achieved. The Department has taken corrective actions to address many of the recommendations contained in our reports. However, the Department needs to continue to assess and improve its oversight and monitoring of grantees and take effective actions when issues are identified.

### BACKGROUND

The Department is responsible for administration, oversight, and monitoring of more than 200 different programs awarded through grants to 56 SEAs, 13,800 public school districts, and 99,000 public elementary and secondary schools. The Department is responsible for ensuring that the grants are executed in compliance with requirements and that program objectives are being met. The funding for many grant programs flows through primary recipients such as SEAs, to subrecipients such as LEAs or other entities. The primary recipients are responsible for oversight and monitoring of the subrecipients' activities to ensure compliance with Federal requirements.

The funds provided under the Recovery Act nearly doubled the annual appropriations for these programs. As previously discussed in the first challenge, the Department did not receive resources to absorb the workload created by the Recovery Act—its already limited resources were further stretched to accommodate these additional responsibilities.

GAO has identified "Improving Student Achievement in Elementary and Secondary Schools" as a management challenge for the Department. GAO stated that many States have struggled to meet key requirements of the *No Child Left Behind Act*, including implementing provisions designed to improve student achievement in low-performing schools, increasing the number of highly qualified teachers, and implementing Statewide assessment systems. GAO stated the Department has not taken sufficient action to ensure that States and school districts help low-performing schools improve student achievement.

### RESULTS OF WORK PERFORMED

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These weaknesses involve LEA fiscal control issues, payback program weaknesses, and fraud perpetrated by LEA and charter school officials as follows:

- **LEA Fiscal Control Issues.** In a series of audit reports issued during FY 2003 through FY 2009, we reported fiscal control issues representing approximately \$182 million in questioned costs and an additional \$1.4 billion in funds determined to be at risk in 41 LEA reports. In 27 of these LEA audits, we found pervasive fiscal issues such as unallowable or inadequately documented expenditures. Despite the amount of guidance available to SEAs and LEAs, we suggested that the guidance be enhanced given the high percentage of audits that included the pervasive issues.
- **Payback Program Weaknesses.** We found significant weaknesses with the Department's management and oversight of a payback grant program. This program required individuals who received funding for training under the program to perform work related to the training received (work payback) or repay all or a prorated part of the financial assistance received (cash payback). We found the

program office did not maintain adequate records on students receiving assistance under the program and subsequently did not ensure these students fulfilled their payback obligations.

■ **Fraud by LEA Officials.** We evaluated 13 criminal investigations resulting in convictions during FY 2003 through December 2008 to identify the types of fraud for which LEA officials were convicted. The fraud schemes included: (1) kickbacks from consultants, contractors, and employees; (2) fictitious vendors; (3) false expenditure reports and checks; (4) use of dormant or unknown bank accounts; and (5) misuse of procurement cards. More effective internal control systems at the SEAs and LEAs could have mitigated the risk of these fraud schemes.

■ **Fraud by Charter School Officials.** Charter schools generally operate as independent entities that fall under oversight of a LEA or authorizing chartering agency. Our investigations have found that LEAs or chartering agencies often fail to provide adequate oversight to ensure that Federal funds are properly used and accounted for. From January 2005 to March 2010, we opened more than 40 charter school investigations. To date, these investigations have resulted in 18 indictments and 15 convictions of charter school officials. The cases that have been fully settled have resulted in \$4.3 million in criminal restitution. The type of fraud identified generally involved some form of embezzlement of funds from the school by school officials.

GAO has also conducted work related to grantee oversight and monitoring. GAO reported that Department monitoring staff has limited financial expertise and training, which hinders effective monitoring of grantees' compliance with financial requirements. GAO found the Department has monitoring tools that aid in reviewing basic financial compliance, but the lack of staff expertise limits the ability to probe more deeply into grantees'

use of funds. In addition, GAO reported that the Department lacks a systematic means of sharing information on grantees and on promising practices in grant monitoring. GAO recommended that the Department increase financial expertise among its grants monitoring staff and develop an accessible mechanism to share information.

OIG continues its work in this area. As part of our current Recovery Act work, we are reviewing SEA oversight of SFSF, Title I, and IDEA funds in additional States and localities. In FY 2011, we plan a significant amount of work related to grantee oversight and monitoring, as well as further reviews of SEA oversight of LEA expenditures for the Recovery Act and other programs. We also plan work related to charter schools and another payback program.

## DEPARTMENT ACTIONS/PLANS

The Department is currently developing financial monitoring training for program staff members that will be designed to complement other resources that the agency uses to provide financial monitoring. The Department is also exploring the establishment of a dedicated group of financial monitoring experts. The Department's program offices are currently increasing their coordination through activities including a forum for ongoing discussion of their monitoring strategies, and the Department is evaluating alternatives for improving the sharing of information about monitoring.

The Department is also developing a technical assistance plan and training curricula to provide enhanced guidance and training to SEAs and LEAs. The technical assistance plan and training curricula will include administrative requirements for implementation of Federal grants and will convey the importance of complying with those requirements. The Department has also participated in a number of conferences, training workshops, and webinars to provide additional technical assistance to SEAs and LEAs.

## **FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE**

The Department should continue to improve its monitoring efforts for recipients of formula and discretionary grant funds. This includes pursuing efforts to enhance risk management, increase financial expertise among its grants monitoring staff, and develop mechanisms to share information regarding risks and monitoring results. As of September 30, 2010, the Department had not developed corrective actions to address the issues noted related to the payback program to address weaknesses noted related to internal controls over the program, including tracking recipients and their payback status.

The ESEA does not address minimum requirements for SEA monitoring of LEA administration of ESEA programs. Education Department General Administrative Regulations (EDGAR) require grantees to monitor grant and subgrant-supported activities

to ensure compliance with applicable Federal requirements achievement of performance goals but do not address minimum requirements for monitoring. IDEA does address some minimum monitoring requirements and establishes requirements for SEA monitoring, enforcement, and annual reporting. Similar to requirements under the Recovery Act, the Department should consider adding language to its regulations, so that prime recipients are fully cognizant of their responsibilities related to and minimum requirements for, monitoring subrecipients.

The Department should pursue including a reporting requirement for fraud and criminal misconduct in connection with all ESEA-authorized programs when the EDGAR is revised. Modeled on reporting requirements for programs administered by FSA, such a regulatory provision would require any government entity, grantee, or subgrantee participating in an ESEA program to refer to OIG for investigation any information related to fraud or other criminal misconduct.

## **CONTRACTORS**

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### **SUMMARY**

The Department relies heavily on contractor support to accomplish its mission and to ensure the effective operations of its many systems and activities. The Department spends more than \$1 billion each year on contracts for products and services. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. OIG reports have included numerous deficiencies in the area of contract monitoring and recommendations for corrective action. The Department has taken action to address many of the issues noted. A critical issue hampering significant improvement, however, is the shortage of appropriately qualified staff to adequately monitor contractor performance. A concerted effort is needed to develop and implement an aggressive human capital plan to address this issue.

### **BACKGROUND**

Contract monitoring is an integral part of the Federal acquisition life cycle. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-upon obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations. These services include the following primary areas: (1) systems development, operation, and maintenance; (2) loan servicing and debt collection; (3) technical assistance for grantees; (4) administrative and logistical support; and (5) education research and program evaluations. Responsibility for oversight and monitoring of contracts and contractor performance at the Department is shared by staff in the program offices and the Department's Contracts and Acquisition Management (CAM), a component of the Office of the Chief Financial Officer (OCFO). The FSA program office has delegated authority for its own

procurement function. FSA follows the policies and procedures established by OCFO/CAM as well as applicable Federal requirements in conducting their contracting operations. The Department's Chief Acquisition Officer is the CFO. The CFO is responsible for oversight management for all procurement activities at the Department.

## RESULTS OF WORK PERFORMED

OIG has identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance, primarily related to the appropriateness of contract prices and payments, and the effectiveness of contract management. OIG investigations have noted inappropriate activities by contractor employees that resulted in improper billings and payments.

- **Appropriateness of Contract Prices and Payments.** We have noted issues with respect to the prices paid under contracts and with the review of contractors' invoices for payment. For the Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract—the contract that provides the IT infrastructure for the Department—we found that the Department may not have effectively established contract pricing. As a result, the prices charged under the contract may not be reasonable. For another contract, we found more than \$100,000 in unallowable and unsupported costs charged to the contract. In audits of the contract monitoring process for the two principal offices that represent the highest volume and dollar value of Department contracts—FSA and the Institute of Education Sciences (IES)—we also noted weaknesses in invoice review and appropriateness of payments made.
- **Contract Management.** In an audit of the Department's management of one contract, we found that the contract structure and subsequent changes were not effective in managing contractor performance. We also found that a contract modification was not

fully evaluated to consider whether a reduction in cost was appropriate for the reduced level of effort required by the contractor to meet acceptable levels of performance. Department controls did not ensure the contractor provided the quality and services required by the contract. In another area, we found that the Department had not effectively implemented contracts to detect and report violations and incidents regarding the security processes related to the Department's IT infrastructure. Specifically, the Department terminated the initial contract due to contractor performance problems, and the subsequent contractor has been unable to provide the level of service required by the contract. As a result, the Department has paid for services it has not received and has still not ensured that its IT network is adequately protected.

Reviews of the contract monitoring processes in FSA and IES also noted weaknesses in contract management. We found FSA's contract monitoring process did not always ensure that contractors adhered to requirements and that FSA received the intended products and services. We reported that FSA staff did not always appropriately communicate acceptance or rejection of deliverables or issue modifications for contract changes. We found similar issues in IES' contract management. All of the issues noted for IES were also reported in a prior audit of IES contract monitoring issued several years previously. Corrective actions taken by the Department for these items in the prior audit were not always effective, and further corrective actions were needed to improve monitoring in these areas.

OIG investigative work resulted in settlements of approximately \$1 million over the last year as a result of illegal actions taken by employees of a contractor involved in servicing loans. We found that the employees fraudulently consolidated \$3.8

million of Federal student loans. The contractor received a collection fee from the Department for the consolidations, and the employees earned bonuses from the contractor. Recoveries were also made from the guaranty agency for monies it received from the Department as a result of the unlawful consolidations.

OIG work in this area continues. We are currently reviewing the Department's evaluations of contractor performance prior to payment of invoices for the EDUCATE contract. Work on other aspects of this contract is also planned for FY 2011, including an evaluation of systems security controls. As mentioned previously under the first challenge, we plan to review the new Direct Loan servicing contracts.

### **DEPARTMENT ACTIONS/PLANS**

The Department has provided corrective action plans to address the issues noted in our audit work above, and in FY 2007 the Department and FSA hired consultants to review their acquisition processes and make recommendations for improvement. The Department revised its Contracting Officer's Representative Training Program to incorporate more stringent certification, training, and recordkeeping requirements. The Department also stated it would work with applicable principal offices to ensure all future performance-based contracts include appropriate contractor incentives and disincentives to enhance contract management. In August 2009, the Department updated its Directive on *Contract Monitoring for Program Officials*.

The Department implemented a procedure requiring that contract monitoring plans be developed for all new and existing contracts. It also developed a training program reinforcing the Department's contracting processes and applicable laws and regulations. Senior managers, contracting personnel, and relevant program office personnel were required to attend this training. Program offices were directed to implement immediate steps and take personal responsibility for ensuring that contracts are awarded properly and effectively monitored.

### **FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE**

Because the Department relies on its contractors to help run its various programs and operations, effective contract management is critical to ensuring effective performance by the contractors, that the Department receives the specified level and quality of products or services, and payments made are appropriate. The numbers of Department staff responsible for contract oversight and monitoring are limited. The Department needs to ensure its human capital plans address this critical area and ensure that contracting and program offices have an appropriately qualified staff in sufficient numbers to ensure effective oversight of the Department's contracts.

The Department needs to ensure that timely corrective actions are taken to address weaknesses in contract monitoring noted in OIG reviews. As of September 30, 2010, the Department needs to complete corrective actions related to the EDUCATE desktop services pricing, including whether a decreased price should be negotiated.

## (3) DATA QUALITY AND REPORTING

The Department, its grantees, and subrecipients must have controls in place and effectively operating to ensure that accurate, reliable data are reported. Data are used by the Department to make funding decisions, evaluate program performance, and to support a number of management decisions. Under the Recovery Act, data reported provide transparency and allow access by the general public as to how funds are being spent. Two areas are included in this management challenge—program data reporting and Recovery Act reporting requirements.

### PROGRAM DATA REPORTING

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#### SUMMARY

SEAs annually collect data from LEAs and report various program data to the Department. The Department evaluates program data to make critical funding and other management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. Establishing more consistent definitions for data terms will enhance reporting accuracy and comparability.

#### BACKGROUND

The Department operates systems to collect data regarding its programs. SEAs submit data from LEAs and SEA programs through the Education Data Exchange Network (EDEN) to the EDFacts system. EDFacts is a central repository that consolidates kindergarten through 12<sup>th</sup> grade education (K-12) information collected from SEAs. This internet-based collection process simplifies reporting and improves the timeliness of the K-12 information that is required for the *Government Performance and Results Act*, annual and final grant reporting, and specific program mandates. Some of the data included in Department systems involve the number of persistently dangerous schools, graduation and dropout rates, State academic assessments, and the number of schools identified in need of improvement. The Department has also collaborated with SEAs and other industry partners to centralize the SEA-reported data with other data within the Department, such as financial grant information. This collaboration enables better analysis and use of the data in policy development, planning, and program management at the Federal, State, and local levels. Reporting through EDFacts was mandated beginning with the 2006-2007 school year.

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

#### RESULTS OF WORK PERFORMED

OIG and GAO have identified weaknesses in controls over data accuracy and reliability, as well as inconsistent definition and application of data terminology, as follows:

- **Inadequate Controls over Data Accuracy and Reliability.** We found that internal controls were not always sufficient to ensure accurate, reliable data are reported. One SEA underreported the numbers of dropouts and discipline incidents and did not have adequate controls to ensure the accuracy of the data reported by the LEAs. One LEA reviewed provided inaccurate or unsupported data to the SEA, and the SEA then included that data in its reports to the Department. In a series of audits, we found that graduation and dropout rates at four SEAs were not always accurate, consistent, complete, and verifiable. Our work on migrant child counts at a

number of SEAs found that a significant number of students were misidentified as eligible for funding, because recruiters either misinterpreted the eligibility requirements or intentionally falsified documents to count ineligible students.

- **Inconsistent Definition and Application of Data Terminology.** In a series of audits related to persistently dangerous schools (PDS), we found that SEAs were not using effective criteria to identify PDS. Nationwide, we found that more than 50 percent of the SEAs did not follow Departmental nonregulatory guidance to determine PDS. As a result, transparency was lacking and students may not have been provided the option to transfer to safe schools. In the review of graduation/dropout rates, we found that student enrollment status was incorrectly classified, a student group was not included in some calculations, qualifying dropouts were not reported, and graduation or dropout rates did not meet required definitions. GAO also issued a report related to inconsistent graduation rate calculations, stating that the Department could do more to help States define graduation rates and ensure consistency across States.

OIG continues its work in this area. In FY 2011, we are planning additional work to evaluate data reported in EDFacts. (See also the next section for discussion on data quality and reporting issues and planned work related to the Recovery Act.)

## DEPARTMENT ACTIONS/PLANS

In April 2006, the Department issued nonregulatory guidance titled *Improving Data Quality for Title I Standards, Assessments, and Accountability Reporting* to address data quality issues associated with data reported by SEAs and LEAs. The guidelines focus on the collection and reporting of information on academic assessments, Adequate Yearly Progress results, and teachers' qualifications, and were tailored to address recommendations in prior OIG and GAO reports.

As previously mentioned, SEA reporting through EDEN/EDFacts was mandated beginning with the 2006-2007 school year. The Department also now

requires some management certifications regarding the accuracy of SEA-submitted data. When SEAs submit data to the Department's EDEN system and for their annual Consolidated State Performance Report, the Department requires an authorized SEA official to certify that the reported data are accurate. For migrant child counts, the official must also certify that the data are true, reliable, and valid. The Department has also instituted data validation and verification steps and requires States to address their data issues before it will officially accept an SEA's data in the EDEN system.

The Department also worked with a task force of Federal, State, and local experts to develop a resource document entitled, *Forum Curriculum for Improving Education Data: A Resource for Local Education Agencies*, which was published in July 2007. Although the document provides information for LEAs to improve data quality, it does not address the use of management certifications regarding data quality.

In 2008, the Department released new regulations to address some of the migrant education program issues identified in our audits. The regulations provided enhanced definitions regarding program eligibility and a requirement for SEAs to re-document the eligibility of all program participants.

## FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE

As of September 30, 2010, the Department has not yet resolved the audit related to the EDFacts program. The Department should issue its decision to the SEA on the corrective actions to be taken to address deficiencies identified with respect to controls over data accuracy, reliability, and completeness.

Although the Department has increased its use of data certifications, there is not a general requirement for management certifications for all submitted data. In addition, further guidance and clarification may be needed to ensure consistent data definitions are used. Our work continues to find problems with reported data, further supporting the need for the Department and grantees to implement controls to ensure data accuracy and reliability.

## RECOVERY ACT REPORTING REQUIREMENTS

### SUMMARY

The Recovery Act places a heavy emphasis on accountability and transparency, including reporting requirements related to the awarding and use of funds. All recipients and subrecipients are mandated to provide information about their awards on a publicly available website authorized by the statute. The new reporting requirements required Federal, State, and local agencies to quickly develop the systems and infrastructure to collect and report the required information. The Department must educate recipients about the reporting requirements, assess the quality of the reported information, and use the collected information effectively to monitor and oversee Recovery Act programs and performance. Our initial work has noted a number of weaknesses in controls over data quality and reporting, both externally at SEAs and LEAs, and internally at the Department. Ensuring that accurate and complete data are reported is critical to achieving the transparency goals of the Recovery Act.

### BACKGROUND

To ensure transparency and accountability of Recovery Act spending, recipients are required to submit quarterly reports on awards, spending, and job impact. According to OMB, the reports, which contain specific detailed information on the projects and activities funded by the Recovery Act, provide the public with an unprecedented level of transparency into how Federal dollars are being spent. The reports will also help drive accountability for the timely, prudent, and effective spending of Recovery Act funds. OMB is the lead agency responsible for implementing the requirements by defining the required data elements and the reporting process. Each agency that is charged with administering Recovery Act funds must work with its recipients to ensure that the reported data are as accurate and complete as possible. The Department is also required to draft and publish implementation plans and periodic updates on the implementation status for all of the Recovery Act programs that it administers.

### RESULTS OF WORK PERFORMED

We performed work to evaluate compliance with Recovery Act reporting requirements by the Department, SEAs, and LEAs. GAO has also performed work in this area. A number of issues were noted related to data quality and reporting by recipients, disclosure of known data deficiencies, Department actions to ensure data quality, and guidance on data quality as follows:

#### ■ **Data Quality and Reporting by Recipients.**

As previously mentioned under the first challenge, OIG's first audits of Recovery Act implementation involved seven States and Puerto Rico. We evaluated internal control activities of prime recipients and subrecipients of Recovery Act education grants, including controls over data quality. Our work identified several data quality issues including lack of separate tracking of Recovery Act funds for reporting; lack of changes made to tracking and reporting systems to accommodate new reporting requirements; inadequate planning and guidance on the collection of data and systems to monitor data for accuracy and completeness; and lack of policies and procedures to ensure that known data deficiencies are disclosed to the Department.

#### ■ **Department Actions to Ensure Data Quality.**

As part of the Recovery Accountability and Transparency Board's data quality initiative, we conducted an audit and found that the Department had established a process to perform limited data quality reviews of recipient reporting to identify material omissions and/or significant reporting errors. It has also established processes to notify the recipients of the need to make appropriate and timely changes. We subsequently performed a limited evaluation of the data submitted for the first reporting period and identified categories where data appeared to be unreasonable or where data

appeared incomplete. We also noted some instances where correlations between jobs and expenditure data did not appear reasonable and where some data relationships appeared unusual and may warrant further review. The number of occurrences noted within each area was limited; however, the occurrences could increase in number in future reporting cycles. Our results were provided to the Department with the suggestion that it consider appropriate measures to enhance its related controls in order to provide greater assurance over the quality of Recovery Act recipient reporting.

- **Guidance on Data Quality.** In two separate reports, GAO recommended that the Department and/or OMB improve the consistency of FTE calculations by issuing clarifying guidance to recipients. (Note: This guidance was issued by OMB in December 2009.)

OIG continues its work in this area. We are currently reviewing data quality issues in additional States and localities across the country. We are conducting a further audit of the Department's data quality review process for recipient-reported data. In FY 2011, we will continue our reviews of Recovery Act programs and funding, including data quality and reporting.

## **DEPARTMENT ACTIONS/PLANS**

The Department did establish a process to conduct data quality reviews. In addition to this ongoing process, the Department issued several guidance documents to all recipients of Recovery Act education funds concerning issues relating to data quality. These guidance documents answered questions and clarified issues that specifically pertain to Recovery Act education programs and the related required reports. The Department issued clarifying guidance on Recovery Act reporting requirements that instructed recipients to report any known data deficiencies to the Department along with actions being taken to correct the deficiencies. In July 2010, the Department issued policy regarding action on recipients that have failed to comply with reporting requirements.

Along with guidance, the Department has provided and continues to provide technical assistance to recipients. The Department conducted technical assistance webinars addressing data reporting and data quality issues. These webinars are available on the Department's Recovery Act website. Department representatives also continue to provide technical assistance to recipients that contact the Department with specific questions.

As previously mentioned, the Department has established a Metrics and Monitoring Team that meets weekly to discuss issues, including data quality issues, in Recovery Act programs across the Department. The Department stated that its data quality review process documents decreasing occurrences of suspect or incorrect data since the OIG reviews were conducted. The Department further stated that "SEAs have very successfully implemented procedures to report under Section 1512."

## **FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE**

The Department is working to ensure that required data are reported as accurately and completely as possible, but there is still work that can be accomplished. The Department must continue to identify recipients that fail to report and prepare to take appropriate actions to ensure compliance with requirements. Along with new requirements, Recovery Act funds will continue to be spent and more data will be reported, requiring more quality control reviews and technical assistance. The Department should continue to enhance its controls and reviews of data quality to ensure data reported are accurate and reliable.

As mentioned earlier, the Department should timely issue its decisions regarding corrective actions needed to address the external Recovery Act audits. As of September 30, 2010, the Department had not issued its decision to any of the SEAs, detailing the actions needed to address OIG findings related to improvements in controls over the accuracy and reliability of data and reporting, and disclosing known deficiencies in data reported.

## (4) INFORMATION TECHNOLOGY SECURITY

The Department collects, processes, and stores a large amount of personally identifiable information regarding employees, students, and other program participants. OIG has identified repeated problems in IT security and noted increasing threats and vulnerabilities to Department systems and data. For the last 3 years, OIG's IT audits have identified management, operational, and technical security controls that need improvement to adequately protect the confidentiality, integrity, and availability of Department systems and data. We have identified security weaknesses in the incident handling process and procedures, personnel security controls, and configuration management. Compromise of the Department's data would cause substantial harm and embarrassment to the Department and may lead to identity theft or other fraudulent use of the information.

### BACKGROUND

The EDUCATE contract serves as the Department's infrastructure services (i.e. email, network, desktop, security, printer, etc.) vehicle. Additionally, the Department has a second large Data Center contract called the Virtual Data Center (VDC) that provides IT support for Federal Student Aid (FSA) data processing. Specifically, the VDC serves as the host facility for FSA systems that process student financial aid applications (grants, loans, and work study), provide schools and lenders with eligibility determinations, and support payments from and repayment to lenders.

Most of FSA's major business applications are located at the VDC, except for one other major application called Common Origination and Disbursement (COD). The COD production support/processing is located at a contractor's facility in Columbus, Georgia. The COD processing system initiates, tracks, and disburses funds to eligible students and schools for Title IV financial aid programs.

The Department has seen an increase in sophisticated attacks to its IT systems, including hostile Internet browsing and phishing campaigns resulting in malware infections. Many of the computers that are compromised are not Department systems but the home/work computers of our students, contractors, and program participants such as schools, lenders, guaranty agencies, and servicers. Although the Department can specify security controls for its contractors, it has little influence in the malware detection practices of these other parties.

### RESULTS OF WORK PERFORMED

Recent audit work continues to identify certain control weaknesses within IT security and systems that need to be addressed. The Department's financial statement auditor has identified IT controls as a significant deficiency for the past 3 years based on weaknesses related to access controls, noncompliant passwords, and administrator account monitoring. OIG has found these same issues through its own work, as well as noncompliance with certification and accreditation requirements, inadequate change controls, Privacy Act implementation, incident response, patch management, and inaccurate systems inventories. Also, as noted under the challenge related to contractor oversight, the Department has not effectively implemented a process to detect and report violations of its security processes to ensure its network is adequately protected. OIG has made recommendations to (1) increase areas of security awareness training; (2) improve incident response, including staffing an incident response team; (3) improve controls over contractors and other outside system users, including conducting security screenings and performing background investigations; and (4) implement two-factor authentication to mitigate the risks associated with the security breaches the Department has already experienced.

OIG work continues in this area. We are currently evaluating security controls over a financial management system and of a data center. In FY 2011, we plan to continue evaluating system security controls over other Department and FSA systems,

including several of the external sites which host systems that support a wide variety of business operations.

### **DEPARTMENT ACTIONS/PLANS**

In response to our audits, the Department provided corrective action plans to address the recommendations, and work is in process to implement these actions. Although there have been some plans to implement an incident response team, to date, no such enhanced capability has emerged. The Department has procured services to provide additional intrusion detection capabilities for its primary enterprise environment and related EDUCATE data center. The Department has also begun the implementation of two-factor authentication for Government and contractor employees in an effort to comply with requirements, but no significant progress has been made with regard to the external business partners and the major business applications operated by FSA at the VDC data center.

### **FURTHER ACTIONS NEEDED TO ADDRESS THE CHALLENGE**

Vulnerabilities continue to exist in the programs intended to identify and protect critical technologies. We are still finding instances of the same deficiencies in our current audits. Security breaches have already permitted malware to be installed on end-users computers resulting in the compromise of usernames and passwords for Department systems. Because anti-virus detection software oftentimes lags behind the most current sophisticated malware by some period of time, and malware code can be rapidly changed to prevent identification, the Department must have a robust capability to identify and respond to malware installations. Since the Department cannot control the security of computer systems used by outside entities, two-factor authentication should be deployed to external business partners.

The Department needs to develop more effective capabilities to respond to potential IT security incidents. The current response process generally does not attempt to identify other systems impacted by an incident nor does it attempt to identify the damage done to the Department. The Department needs to effectively address and eliminate IT security deficiencies where possible, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.



# APPENDIX A

## ABBREVIATIONS AND ACRONYMS USED IN THIS REPORT

CAM	Contracts and Acquisition Management
CFO	Chief Financial Officer
COD	Common Origination and Disbursement
Department	U.S. Department of Education
Direct Loan Program	William D. Ford Federal Direct Loan Program
EDEN	Education Data Exchange Network
EDGAR	Education Department General Administrative Regulations
Ed Jobs	Education Jobs Fund Program
EDNet	Education Network
EDUCATE	Education Department Utility for Communications, Applications, and Technology Environment
ESEA	<i>Elementary and Secondary Education Act of 1965</i>
FFELP	Federal Family Education Loan Program
FSA	Federal Student Aid
FTE	Full-Time Employee Equivalent
GAO	Government Accountability Office
HEA	<i>Higher Education Act of 1965</i>
IDEA	<i>Individuals with Disabilities Education Act</i>
IES	Institute of Education Sciences
IT	Information Technology
K-12	Kindergarten through 12 <sup>th</sup> Grade
LEA	Local Educational Agency
MOE	Maintenance of Effort
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PDS	Persistently Dangerous Schools
Recovery Act	<i>American Recovery and Reinvestment Act of 2009</i>
RMS	Risk Management Service
SAFRA	<i>Student Aid and Financial Responsibility Act of 2010</i>
SEA	State Educational Agency
SFA	Student Financial Assistance
SFSF	State Fiscal Stabilization Fund
Title I	Title I of ESEA
Title IV	Title IV of the HEA, SFA programs
VDC	Virtual Data Center

# APPENDIX B

## Work Discussed Under the Challenges

The following audits, inspections, investigative cases and other work are discussed under the challenge areas.<sup>1</sup>

### Challenge: Implementation of New Programs and Statutory Changes— Recovery Act

#### OIG Internal Reports

- *The Department's Implementation of the State Fiscal Stabilization Fund Program*, September 2010
- *Alert Memorandum—Department Progress in Implementing Corrective Actions for Prior Audits of Programs that Subsequently Received Funding under the Recovery Act*, July 2010
- *Management Information Report—Subrecipient Monitoring under the American Recovery and Reinvestment Act of 2009*, June 2010
- *Alert Memorandum—State Educational Agencies' Implementation of Federal Cash Management Requirements under the American Recovery and Reinvestment Act*, October 2009
- *Alert Memorandum—Potential Consequences of the Maintenance of Effort Requirements under the Recovery Act State Fiscal Stabilization Fund*, September 2009

#### OIG External Audits Reports

- *Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds*, March 2010
- *New York State Local Educational Agencies Systems of Internal Control Over Recovery Act Funds*, February 2010
- *Systems of Internal Control Over Selected Recovery Act Funds in the State of Illinois*, February 2010
- *State and Local Controls over Recovery Act Funds in California*, January 2010
- *Systems of Internal Control Over Selected Recovery Act Funds in the State of Indiana*, January 2010
- *Systems of Internal Control Over Selected Recovery Act Funds in the State of Texas*, January 2010
- *Puerto Rico Administration of Recovery Act Vocational Rehabilitation Funds*, December 2009
- *Tennessee Internal Controls over Selected Recovery Act Funds*, December 2009
- *Tennessee Recovery Act Internal Controls at Three LEAs*, December 2009
- *New York State System of Internal Control over Recovery Act Funds*, November 2009

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<sup>1</sup> OIG reports may be found on our website at this link: <http://www2.ed.gov/about/offices/list/oig/reports.html>. Unless otherwise noted, dates referenced for investigative activities relate to the ending period for the OIG Semiannual Reports to Congress where the activities are discussed: <http://www2.ed.gov/about/offices/list/oig/sarpages.html>. Investigative press releases noted are available at this link: <http://www2.ed.gov/about/offices/list/oig/ireports.html>. GAO reports may be found on GAO's website, [www.gao.gov](http://www.gao.gov).

#### GAO Reports

- *Recovery Act: Planned Efforts and Challenges in Evaluating Compliance with Maintenance of Effort and Similar Provisions*, November 2009
- *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities While Accountability and Reporting Challenges Need to Be Fully Addressed*, September 2009

#### Challenge: Implementation of New Programs and Statutory Changes— Changes to the SFA Loan Programs

- *Management Information Report, Federal Student Aid's Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program*, September 2010
- *Technical Assessment Review of the William D. Ford Federal Direct Loan Program's Origination Process*, June 2010
- *Audit of the Department's Oversight of the Direct Loan Program*, November 2009

#### Challenge: Oversight and Monitoring—SFA Program Participants

##### OIG Internal Reports

- *Review of Federal Student Aid's Enterprise Risk Management Program*, May 2009
- *Federal Student Aid's Oversight and Monitoring of Guaranty Agencies, Lenders, and Servicers Needs Improvement*, April 2009
- *Review of Federal Student Aid's Monitoring of Guaranty Agency Compliance with the Establishment of the Federal Fund and the Operating Fund*, September 2007
- *Review of Financial Partners' Monitoring and Oversight of Guaranty Agencies, Lenders, and Servicers*, September 2006

##### OIG External Audit Reports

- *Community Care College's Administration of Title IV Federal Student Aid Programs*, August 2009
- *Special Allowance Payments to Sallie Mae's Subsidiary, Nellie Mae, for Loans Funded by Tax-Exempt Obligations*, August 2009
- *Special Allowance Payments to the Kentucky Higher Education Student Loan Corporation for Loans Made or Acquired with the Proceeds of Tax-Exempt Obligations*, May 2009
- *Touro College's Title IV, Higher Education Act Programs, Institutional and Program Eligibility*, October 2008
- *Technical Career Institutes, Inc.'s Administration of the Federal Pell Grant and Federal Family Education Loan Programs*, May 2008
- *Wilberforce University's Administration of the Title IV, Higher Education Act Programs*, March 2008

#### OIG Investigations

- Harrison Career Institute, September 2009
- Centurion Professional Training, March 2010
- Willsey Institute, March 2010
- Vatterott College, Press Release, April 2010
- Alta Colleges, Press Release, April 2009

#### GAO Reports

- *Federal Student Loan Programs: Opportunities Exist to Improve Audit Requirements and Oversight Procedures*, July 2010
- *Proprietary Schools: Stronger Department of Education Oversight Needed to Help Ensure Only Eligible Students Receive Federal Student Aid*, August 2009
- *Federal Family Education Loan Program: Increased Department of Education Oversight of Lender and School Activities Needed to Help Ensure Program Compliance*, July 2007

### Challenge: Oversight and Monitoring—Distance Education

- *Audit of Baker College's Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations*, August 2010
- *Audit of TUI University's Administration of Higher Education Act, Title IV Student Financial Assistance Programs*, August 2009
- *Audit of Capella University's Compliance with Selected Provisions of the Higher Education Act of 1965 and Corresponding Regulations*, March 2008
- Investigation of American River College, Press Release, June 2010
- Investigation of Lansing Community College, March 2010
- Investigation of Rio Salado Community College, March 2010

### Challenge: Oversight and Monitoring—Grantees

#### OIG Reports

- *Charter School Vulnerabilities*, March 2010
- *Office of Indian Education's Management of the Professional Development Grant Program*, February 2010
- *Fiscal Issues Reported in ED-OIG Work Related to LEAs and SEAs*, July 2009
- *An OIG Perspective on Improving Accountability and Integrity in ESEA Programs*, October 2007

#### OIG Investigations

- Rehab Specialist, Inc., September 2009
- Lone Pine Indian Education Center, Press Release, December 2009
- Doniphan R-1 School District Vocational Technical School, March 2010

#### GAO Report

- *Grant Monitoring: Department of Education Could Improve Its Processes with Greater Focus on Assessing Risks, Acquiring Financial Skills, and Sharing Information*, November 2009

## Challenge: Oversight and Monitoring—Contractors

- Alert Memorandum, *Implementation of the Managed Security Services Provider Contract*, September 2010
- Alert Memorandum, *Desktop Services Pricing Under the EDUCATE Contract*, June 2010
- Alert Memorandum, *Untimely Resolution of Issues Impacting Performance Validation and Payment Calculations Under the EDUCATE Contract*, March 2010
- *Audit of the National Assessment of Educational Progress Contract*, May 2009
- *Department's Management of the Education Network (EDNet) Contract*, April 2007
- *Controls over Contract Monitoring for Federal Student Aid Contracts*, August 2007
- *Controls over Contract Monitoring for Institute of Education Sciences Contracts*, December 2006
- Investigation of NCO Financial Systems, Inc., March 2010

## Challenge: Data Quality and Reporting—Performance Data Reporting

### OIG Reports

- *Georgia Department of Education's Controls Over Performance Data Entered in EDFacts*, April 2010
- *An OIG Perspective on the Unsafe School Choice Option*, August 2007

### GAO Report

- *No Child Left Behind Act: Education Could Do More to Help States Better Define Graduation Rates and Improve Knowledge about Intervention Strategies*, September 2005

## Challenge: Data Quality and Reporting—Recovery Act Reporting

### OIG Reports

- *Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds*, March 2010
- *New York State Local Educational Agencies Systems of Internal Control Over Recovery Act Funds*, February 2010
- *Systems of Internal Control Over Selected Recovery Act Funds in the State of Illinois*, February 2010
- *State and Local Controls over Recovery Act Funds in California*, January 2010
- *Systems of Internal Control Over Selected Recovery Act Funds in the State of Indiana*, January 2010
- *Systems of Internal Control Over Selected Recovery Act Funds in the State of Texas*, January 2010
- *Puerto Rico Administration of Recovery Act Vocational Rehabilitation Funds*, December 2009
- *Tennessee Internal Controls over Selected Recovery Act Funds*, December 2009
- *Tennessee Recovery Act Internal Controls at Three LEAs*, December 2009
- *New York State System of Internal Control over Recovery Act Funds*, November 2009
- *The Department's Process to Ensure Data Quality Under the Reporting Requirements of the American Recovery and Reinvestment Act of 2009*, October 2009

#### GAO Reports

- *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability, May 2010*
- *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability, March 2010*

#### Challenge: Information Technology Security

Due to the sensitivity of IT security issues, OIG reports in this area are generally not publicly available.





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