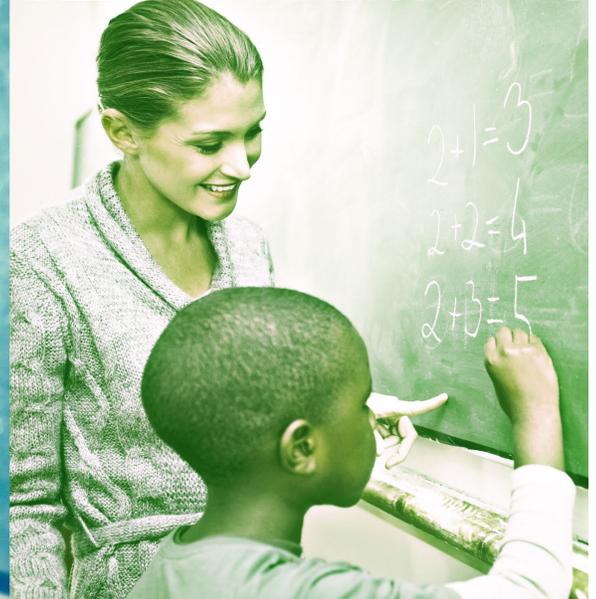
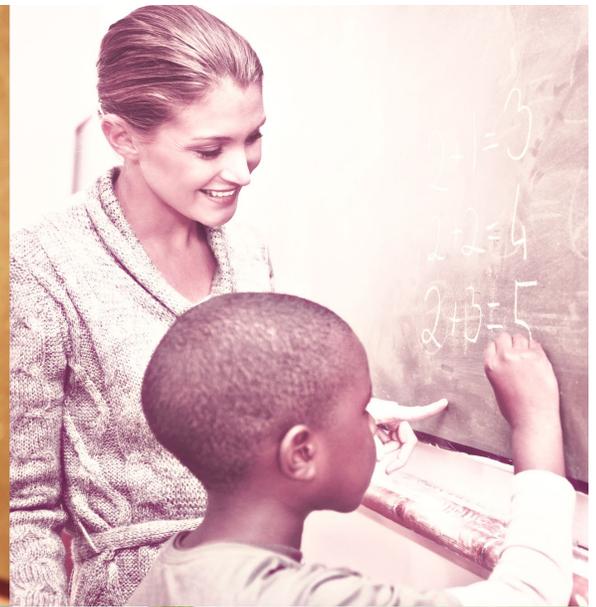




# Semiannual Report to Congress, No. 72

October 1, 2015–March 31, 2016



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Office of Inspector General  
Kathleen S. Tighe  
Inspector General

May 2016

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# Message to Congress

On behalf of the U.S. Department of Education (Department) Office of Inspector General (OIG), I present this Semiannual Report on the activities and accomplishments of this office from October 1, 2015, through March 31, 2016. The audits, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness through our oversight of the Department's programs and operations.

Over the last 6 months, we completed 48 investigations involving fraud or corruption related to the Department's programs and operations, securing more than \$185.7 million in settlements, fines, recoveries, forfeitures, and savings. In addition, as a result of our investigative work, criminal actions were taken against a number of people, including school officials and service providers who cheated the students they were in positions to serve. We also issued 17 audit and other reports that contained recommendations to improve program operations. The following are some examples of the results of our audits and investigations over the last 6 months.

- Education Management Corporation, the second largest for-profit educational company in the country, agreed to pay \$95.5 million to settle allegations that it violated the incentive compensation ban by paying admissions personnel based on the number of students they recruited to the schools. This landmark settlement also resolved three additional False Claims Act claims filed against the corporation and a consumer fraud complaint filed by 40 State Attorneys General involving deceptive and misleading recruiting practices.
- Our examination of the Department's reviews of student loan servicers' compliance with the Servicemembers Civil Relief Act requirement to provide eligible servicemembers with an interest rate reduction on certain Federal student loans identified flaws and errors in the Department's review processes that rendered statements made in a Department press release on the success of the program unsupported and inaccurate.
- A Federal court ordered the Lacy School of Cosmetology, a chain of now-closed for-profit schools in South Carolina, and its owner to pay \$9.2 million for failing to comply with numerous Federal student aid program requirements.
- Our audit of the Department's Office for Civil Rights found that the office resolved discrimination complaints in a timely and efficient manner and in accordance with applicable policies and procedures and did not have a large backlog of unresolved cases. We did note, however, that increasing workload and decreasing resources could have a negative impact on its complaint resolution over time.
- Our FY 2015 Federal Information Security Management Act review found that the Department and the Federal Student Aid office (FSA) made progress in strengthening their information security programs; however, weaknesses remained and the Department-wide information systems continued to be vulnerable to security threats.
- Bard College, a nonprofit school based in New York, agreed to pay \$4 million to resolve allegations that it received funds under the Teacher Quality Partnership Program despite failing to comply with the conditions of the grant and that it awarded, disbursed, and received Federal student aid funds at campus locations before such locations were accredited or before notifying the Department, which violated regulations as well as the school's Program Participation Agreement.
- Our audit of actions the Department has taken, including the use of management certifications, to ensure the accuracy and reliability of K-12 data reported in its Annual Performance Report and select Office of Elementary and Secondary Education K-12 data found that although the Department took actions to ensure the completeness and reasonableness of the data it reported, it needs to improve controls to support the accuracy of data reported by State educational agencies.

- Enterprise Recovery Systems, Inc., a for-profit debt collection agency under contract with the Department, agreed to pay more than \$1.3 million to settle allegations that its loan processors designated some student loan accounts as having a signed rehabilitation agreement when, in fact, it had not obtained those agreements, resulting in it making false claims for payment from the Department.
- Our investigations led to criminal actions against 67 K–12 school officials, vendors, and service providers. This includes 51 people affiliated with Rocket Learning tutoring company for participating in a nearly \$1 million fraud scheme in Puerto Rico, and the son of a U.S. Congressman who was sentenced to 5 years in prison and was ordered to pay more than \$1.1 million in restitution for fraud in Pennsylvania.
- For FY 2015, although the Department and FSA received a clean audit opinion on their financial statements, auditors identified a significant deficiency involving information technology security, which can increase the risk of unauthorized access to the Department’s systems.
- Actions taken in 29 investigations into student aid fraud led to settlements, fines, restitutions, recoveries, and forfeitures totaling more than \$120 million and led to criminal actions against 52 people.

In this report, you will find more information on these efforts, as well as summaries of other audits issued and investigative actions taken over the last 6 months. I am very proud of the results of this work, that criminals are behind bars, and that the Department has before it recommendations for improvements from our reports. Our recommendations, when implemented, will help prevent fraud and abuse, protect student interests, improve oversight and monitoring, and recoup taxpayer dollars.

In closing, I want to thank you for your support of this office. I look forward to continuing to work with you, the Department, and my colleagues in the inspector

general community to provide our nation’s taxpayers with assurance that the Federal Government is using their hard-earned money effectively and efficiently.



Kathleen S. Tighe  
Inspector General

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Improve the Department's ability to effectively and efficiently implement its programs.

# Goal 1



Our first strategic goal reflects our mission to promote the efficiency and effectiveness of the U.S. Department of Education's (Department) programs. To achieve this goal, we conduct audits, investigations, and other activities that examine Department programs impacting its mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. In our audit work, the Office of Inspector General (OIG) evaluates program results compared to program objectives, assesses internal controls, identifies systemic weaknesses, identifies financial recoveries, and makes recommendations to improve the Department's programs and operations. In our investigative work, we focus on serious allegations of fraud and corruption and work with prosecutors to hold accountable those who steal, abuse, or misuse education funds.

## Audits

During this reporting period, we issued five audits specific to this goal, including four reports focused on data quality. Three of these reports involved the quality of data included in State vocational rehabilitation agency performance reports. States that receive Department vocational rehabilitation funding must submit annual performance reports to the Department's Rehabilitation Services Administration (RSA) that include required data to show whether the vocational rehabilitation agency is meeting minimum levels of performance levels established by the grant program. Our audits sought to determine whether the State agencies and local educational agencies (LEAs) included in our review had adequate internal controls to ensure that the data they reported to RSA were accurate, complete, and supported. The fourth report involved data quality associated with the \$1 billion Carl D. Perkins Career and Technical Education Improvement Act of 2006 (Perkins IV). States that participate in the Perkins IV program are required to annually report aggregate data on core indicators of the performance of students receiving these funds. We examined whether the Department had developed and implemented control activities that provided reasonable assurance that States submitted reliable Perkins IV program performance data and whether States took corrective action when the Department or others identified unreliable data or inadequate program performance results.

Our fifth audit related to this goal was an audit of the Massachusetts Department of Elementary and Secondary Education's efforts to ensure that LEAs took timely and appropriate action to correct single audit findings. The Massachusetts Department of Elementary and Secondary Education is responsible for advising LEAs of the requirements associated with the use of the funds and ensuring that they comply with those requirements. As single audits are often the only on-site review of how

LEAs spend Federal dollars, correcting any findings identified in single audits is a critical tool in protecting Federal funds from fraud, waste, and abuse. Summaries of these audits follow.

### Internal Controls Over Quality of Vocational Rehabilitation Data Included in Performance Reports

We performed three audits that sought to determine whether State agencies and LEAs had adequate internal controls in place to ensure that the data reported to RSA was accurate, complete, and supported. The reports we issued covered performance reports submitted by vocational rehabilitation agencies in California, Ohio, and Pennsylvania.

#### *California*

We found that the California Department of Rehabilitation did not have adequate data quality controls to ensure that information it reported to RSA was accurate, complete, and adequately supported. Specific control weaknesses we identified were (1) lack of an adequate control to prevent staff from changing the date that a participant's case was closed in its case management system; (2) insufficient requirements that personnel maintain documentation to corroborate key dates for application, eligibility, case closure, and employment data; (3) lack of guidance for determining effective dates for participants' plans; and (4) insufficient manager oversight to provide assurances that data were accurate and required documentation was maintained. Our testing of data that California Department of Rehabilitation reported to RSA showed that most of the data elements in our review contained significant data errors (estimated error rates exceeding 5 percent) that could undermine RSA's ability to effectively evaluate the California Department of Rehabilitation's performance or a significant unverifiable data rate (estimated unverifiable data rate exceeding 5 percent) that would raise questions about the reliability of data that it reported. We made seven recommendations to address the weaknesses identified, including that the Commissioner of RSA require the California Department of Rehabilitation to implement system controls that prevent vocational rehabilitation staff from altering closure dates and establish and implement controls that ensure that the dates from the notices of eligibility and closure reports are accurate. The California Department of Rehabilitation disagreed with many parts of our findings but agreed with many of our recommendations.

#### *Ohio*

For the time period reviewed, we determined that the Opportunities for Ohioans with Disabilities (Ohio) had adequate internal controls to ensure that the data it reported to the RSA were complete; however, it did not have adequate internal controls to ensure that the data it reported in its Case Services Report (RSA-911) were accurate and adequately supported. Specifically, we found that Ohio (1) lacked policies and procedures to require verification of the data entered into participants' case files and (2) lacked an adequate monitoring process to ensure that data were accurate and required documentation was maintained in participant case files. In addition, our testing of the data that Ohio reported to RSA found a significant number of incorrect and unverifiable data entries used to calculate Ohio's performance indicator results. Consequently, we have no assurance that the performance indicator results that RSA

calculated were reliable. RSA uses the performance indicator results to determine whether Ohio meets RSA's established evaluation standards. As a result, RSA may have improperly determined Ohio's successful performance on the evaluation standards. We made several recommendations to address these findings, including that Ohio establish and implement enhanced data quality controls, such as establishing and implementing policies and procedures to ensure that all required vocational rehabilitation case documents are completed and maintained in participants' case files and all required vocational rehabilitation case data recorded in its database are supported by adequate source documentation. Ohio partially agreed with our findings and agreed to all of our recommendations.

### *Pennsylvania*

For the time period reviewed, we found that the Pennsylvania Department of Labor and Industry, Office of Vocational Rehabilitation (Pennsylvania) had adequate internal controls to provide reasonable assurance that the data it reported in its RSA-911 were complete, but it did not have adequate internal controls to ensure that the data were accurate and adequately supported. Specifically, we found that Pennsylvania lacked policies and procedures to require verification of the data entered into participants' case files and for its RSA-911 reporting process and lacked an adequate monitoring process to ensure that data were accurate and required documentation was maintained in participant case files. In addition, we found that Pennsylvania did not have written policies and procedures for its RSA-911 reporting process. Our testing of data that Pennsylvania reported to RSA found a significant number of unverifiable data entries for data elements that RSA used to calculate Pennsylvania's performance indicator results. Consequently, we have no assurance that the performance indicator results that RSA calculated were reliable. RSA uses the performance indicator results to determine whether Pennsylvania meets RSA's established evaluation standards. As a result, RSA may have improperly determined Pennsylvania's successful performance on the evaluation standards for the reporting period. We made several recommendations, including that Pennsylvania establish and implement enhanced data quality controls, such as establishing and implementing policies and procedures to ensure that all of its required vocational rehabilitation case documents are completed and maintained in participants' case files and that all required case data recorded in the vocational rehabilitation database agrees to source documentation. We also recommended that Pennsylvania develop written policies and procedures for its RSA-911 reporting process. Pennsylvania did not agree with all of our findings or recommendations.

## Internal Control Over Quality of Perkins IV Program Performance Data

Based on our audit of the Department's Office of Career, Technical, and Adult Education and five States (Arkansas, Arizona, Minnesota, Vermont, and West Virginia), we concluded that the Department had developed and implemented control activities that provided reasonable assurance that States submitted reliable Perkins IV program performance data to the Department. We also found that the Department had developed and implemented control activities that provided reasonable assurance that States and subrecipients took corrective action when the Department or others identified unreliable Perkins IV program performance data

or inadequate Perkins IV program performance results. However, we determined that the Department did not retain all required documentation pertaining to its monitoring of States' implementation of corrective actions for Perkins IV program findings that it identified in its monitoring reports issued on or before January 26, 2015. Based on this finding, we suggested that the Department ensure that it adheres to its policies and procedures for obtaining and retaining monitoring and oversight documentation. The Department generally agreed with our finding and our recommendation.

### Massachusetts Department of Elementary and Secondary Education's Oversight of Local Educational Agency Single Audit Resolution

We found that the Massachusetts Department of Elementary and Secondary Education's (Massachusetts) oversight of LEA single audit resolution was not sufficient. Specifically, we found the following.

- Massachusetts did not always work collaboratively or communicate effectively with LEAs that had audit findings to ensure that the LEAs took timely and appropriate corrective action. We found this to be the case even for those LEAs that had significant audit findings that repeated over many years.
- Massachusetts did not have internal controls that were sufficient to ensure that it provided adequate oversight of the LEA audit resolution process. Massachusetts did not have written policies and procedures identifying the Federal requirements for SEA oversight of LEA single audit resolution and did not track individual audit findings or follow up on the status of corrective actions. Massachusetts also did not have a quality assurance process to periodically evaluate its oversight of LEA single audit resolution and thus had no means to systematically detect errors, control weaknesses, or noncompliance with regulatory requirements.
- Massachusetts did not appear to make LEA audit resolution a high priority, as only one staff person worked on audit resolution activities and only on a part-time basis.

Because of weaknesses in its oversight of LEA single audit resolution, Massachusetts did not always identify and require LEAs to implement appropriate corrective actions, sometimes resulting in lengthy delays in LEAs implementing necessary corrective actions that would correct past deficiencies. Further, repeat audit findings may have occurred unnecessarily and Federal funds may not have been collected and remitted back to the U.S. Treasury. In addition, none of the management decision letters issued by Massachusetts that we reviewed met all Federal requirements for content.

We made a number of recommendations to the Department to require Massachusetts to bring its oversight of LEA single audit resolution into compliance with applicable Federal requirements and improve associated internal controls. This included that Massachusetts work proactively with all LEAs that have single audit findings and expand its audit resolution activities for repeat findings, especially when repeat findings have or may have significant program or fiscal impacts. Massachusetts

acknowledged shortcomings in its oversight of LEA single audit resolution but disagreed with some parts of our finding. Massachusetts stated that it intended to review all of our recommendations and make improvements to its processes as warranted.

## Recovery Act Investigations

Since the enactment of the Recovery Act, the OIG has initiated 227 criminal and civil fraud investigations of various schemes involving improper use of Recovery Act funds. These investigations have resulted in more than 380 criminal convictions and more than \$1.3 million in recoveries. Below is an example of one of our Recovery Act investigations.

### Civil Complaint Filed Against School and its Former Superintendent (Texas)

A False Claims Act complaint was filed against the superintendent of Sendero Academy, a prekindergarten through 12th grade charter school with two campuses in Texas. The complaint alleges that the superintendent and the school violated the False Claims Act by failing to disclose the superintendent's felony conviction on the school's charter school application and governance forms. The superintendent and the school also allegedly submitted a fraudulent voucher for payment of Recovery Act funds to a bogus vendor to cover the cost of playground equipment that the superintendent purchased separately at auction. During the time period of the complaint, Sendero Academy received more than \$117,200 in Recovery Act funds.



## Investigations of Charter Schools

We have conducted a significant amount of investigative work involving charter schools. From January 2005 through March 31, 2016, the OIG opened 71 charter school investigations. To date, these investigations have resulted in 44 indictments and 34 convictions of charter school officials. The cases that have been fully settled have resulted in more than \$12.6 million in restitution, fines, forfeitures, and civil settlements. Below is an example of one of our charter school investigations.

### Former Charter School Officials Sentenced (Pennsylvania)

In previous Semiannual Reports, we highlighted our criminal investigation involving the founder of four charter schools in the Philadelphia area and three of her associates, all of whom were indicted on charges of conspiracy and fraud. During this reporting period, her former business manager and the chief executive officer of Planet Abacus, one of the charter schools, were sentenced for working with the founder to create, alter, and falsify contacts, financial records, board meeting minutes, board resolutions, and other records in order to cover up more than \$6.5 million they stole from the schools' coffers. The former business manager was sentenced to serve 3 years of probation and was ordered to pay a fine of \$3,500, and the former school chief executive officer was sentenced to 3 years of probation and was ordered to pay more than \$69,100 in restitution.

## Investigations Involving Other Program Funding

Below is an example of our work involving abuse of 21st Century Community Learning Center funding.

### Federal Jury Convicts 21st Century Community Learning Centers Grantee (Arkansas)

The owner of Askia Learning Concepts, a for-profit organization, was found guilty of theft. The owner embezzled more than \$149,200 of the school's 21st Century Community Learning Center program funds, funds that were awarded to the company to provide educational services to students at Strong High School.

# OTHER ACTIVITIES

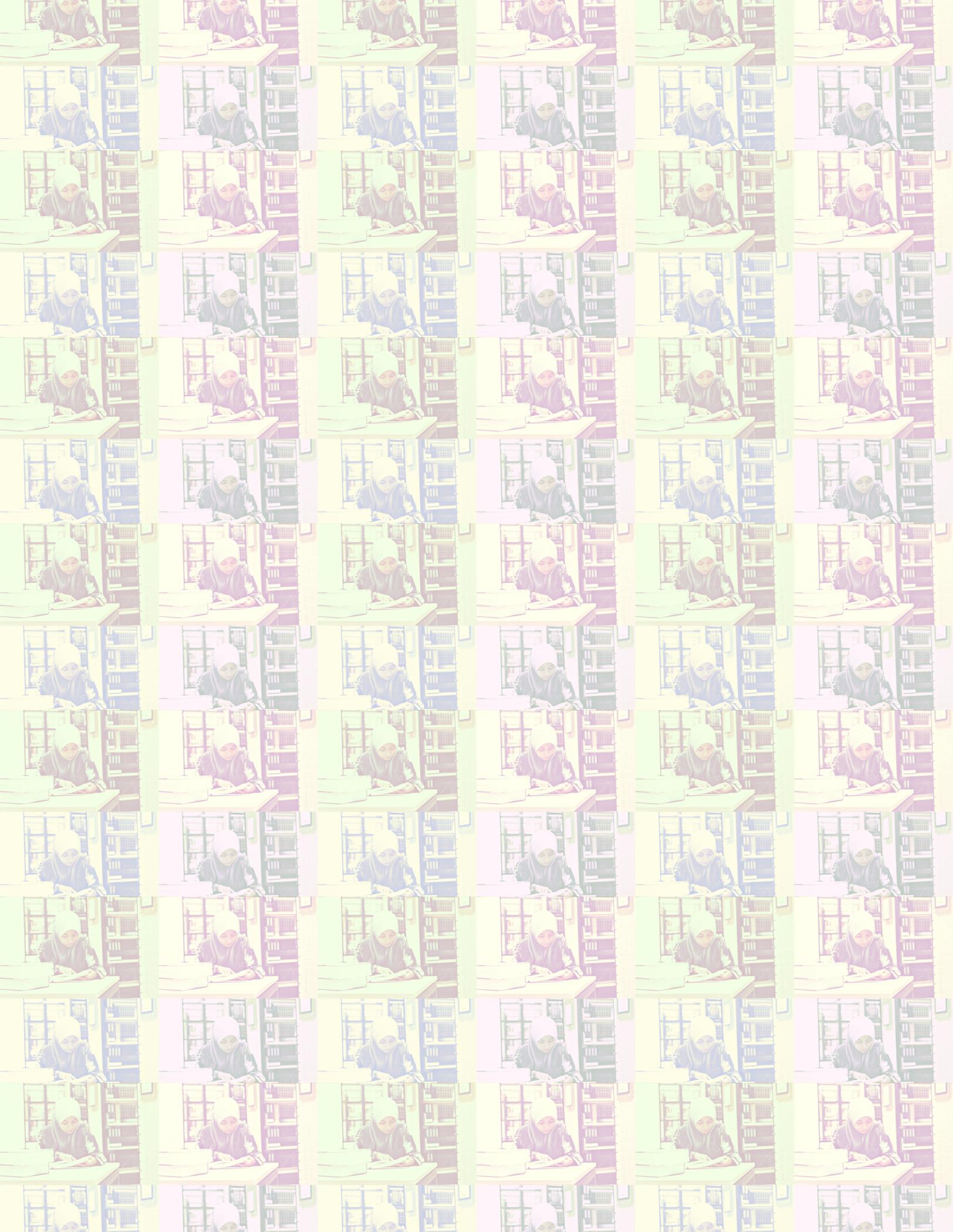
## Participation on Committees, Work Groups, and Task Forces

### *Inspector General Community*

- **Data Act Interagency Advisory Committee.** Inspector General Tighe is a member of this committee that provides strategic direction in support of the implementation of the Digital Accountability and Transparency Act of 2014.

## Review of Legislation, Regulations, Directives, and Memoranda

- **H.R.4180, the Fraud Reduction and Data Analytics Act of 2015.** The OIG provided comments to OMB suggesting the bill's data collection provisions be clarified so it is consistent with the Inspector General Act of 1978, 5 U.S.C. app. 3 § 7, which requires OIGs not to disclose the identity of a complainant without consent unless the Inspector General determines that disclosure is unavoidable during the course of an investigation.
- **Data Sharing Toolkit for Communities: How to Leverage Community Relationships While Protecting Student Data.** The OIG suggested to the Department that the toolkit could benefit from additional discussion of districts', States', and others' responsibilities from a systems security standpoint, as unauthorized access and disclosure of students' personally identifiable information is a violation of their privacy and can lead to fraud and abuse if such information is obtained by bad actors.



Strengthen the Department's efforts to improve the delivery of student financial assistance.

# Goal 2





This goal addresses an area that has long been a major focus of our audit and investigative work—the Federal student financial aid programs. These programs are inherently risky because of their complexity, the amount of funds involved, the number of program participants, and the characteristics of student populations. Our efforts in this area seek not only to protect Federal student aid funds from fraud, waste, and abuse, but also to protect the interests of the next generation of our nation’s leaders—America’s students.

## Audits and Reviews

The Department disburses about \$150 billion in student aid annually and manages an outstanding loan portfolio of \$1.2 trillion. This makes the Department one of the largest financial institutions in the country. As such, effective oversight and monitoring of its programs, operations, and program participants are critical. Within the Department, the Office of Postsecondary Education and the Federal Student Aid (FSA) office are responsible for administering and overseeing the student aid programs. The Office of Postsecondary Education develops Federal postsecondary education policies, oversees the accrediting agency recognition process, and provides guidance to schools. FSA disburses student aid, authorizes schools to participate in the student aid programs, works with other participants to deliver services that help students and families finance education beyond high school, and enforces compliance with program requirements. During this reporting period, OIG work identified actions FSA should take to better protect the interest of students. Summaries of these reports follow.

### Servicemembers Civil Relief Act

In August 2015, U.S. Senators Patty Murray, Elizabeth Warren, and Richard Blumenthal requested that the OIG conduct an independent examination of the adequacy and accuracy of the Department’s reviews of student loan servicers’ compliance with the Servicemembers Civil Relief Act requirement to provide eligible servicemembers with an interest rate reduction on certain Federal student loans. Concerns were raised about the Department’s conclusion contained in its May 26, 2015, press release that “in less than 1 percent of cases, borrowers were incorrectly denied the 6 percent interest rate cap required by the laws.” Based on our review, we identified flaws in the Department’s sampling design that resulted in the Department testing few borrowers eligible for the Servicemembers Civil Relief Act benefit, errors in the

program reviews it conducted, and inconsistent and inadequate corrective actions for the errors it identified for the period reviewed. As a result, we determined that the Department's press release of May 26, 2015, was unsupported and inaccurate. In response to our review, the Department stated that it was a management decision to not require further corrective actions for periods reviewed due to limited servicing errors identified and that the decision was not primarily based on a statistical analysis. To address the issues with servicemembers' benefits, the Department designed new procedures that, if properly implemented, should provide for all eligible borrowers to receive the Servicemembers Civil Relief Act benefit as of July 2014.

## Functionality of the Debt Management Collection System 2

The audit sought to determine whether FSA accurately assessed the operating status of its Debt Management Collection System 2 (DMCS2), FSA's system for managing defaulted student loans, which it indicated to be fully or partially functioning, including through workaround procedures. We found that FSA did not always accurately assess the operational status of the fully or partially operational DMCS2 functions, processes, and subprocesses. In addition, FSA did not sufficiently document its validation assessments. As a result, there is a risk that FSA did not accurately assess the operational status of additional DMCS2 functions, processes, and subprocesses reported as fully or partially operational. Further, inaccurately assessed statuses could hamper FSA's new DMCS2 contractor's efforts to make DMCS2 fully operational.

We also found that FSA did not provide consistent and effective instructions to servicers to correct inaccurate loan balances in DMCS2 and, as a result, inaccurate loan balances remained in DMCS2. Finally, FSA did not adequately oversee debt accounts in DMCS2 that were not assigned to a private collection agency and, as a result, there was no assurance that debt accounts were properly processed in DMCS2.

Inaccurately assessed statuses could hamper the new contractor's efforts to make DMCS2 fully operational.

We made a number of recommendations to address the weaknesses identified, including that FSA adequately monitor and validate the implementation and operational statuses of DMCS2 functions, processes, and subprocesses; that it develop and implement validation procedures, including documentation requirements for assessing the operational statuses of all DMCS2 functions, processes, and subprocesses; and that it test and validate that the procedures for correcting inaccurate loan balances in DMCS2 operate as intended. FSA agreed with our findings and our recommendations and stated that it had taken steps to ensure the full functionality of DMCS2 operations. This was the third audit of DMCS2 that the OIG had conducted over 3 years. The two earlier reports were highlighted in previous Semiannual Reports to Congress and were discussed at Congressional hearings.

## Investigations of Schools and School Officials

Identifying and investigating fraud in the Federal student financial assistance programs has always been a top OIG priority. The results of our efforts have led to

prison sentences for unscrupulous school officials and others who stole or criminally misused Title IV funds, significant civil fraud actions against entities participating in the Title IV programs, and hundreds of millions of dollars returned to the Federal Government in fines, restitutions, and civil settlements.

### Landmark \$95 Million Civil Settlement Reached With Education Management Corporation (Pennsylvania)

In November, the U.S. Department of Justice reached a landmark global settlement with Education Management Corp., the second largest for-profit educational company in the country. The \$95.5 million settlement resolved allegations that Education Management Corporation unlawfully paid admissions personnel based on the number of students they recruited, in violation of the incentive compensation ban included in the Higher Education Act of 1965, as amended. The settlement also resolved three other False Claims Act claims filed against the corporation and a consumer fraud complaint filed by 40 State Attorneys General involving deceptive and misleading recruiting practices. Education Management Corporation operates nationwide under the names of The Art Institutes, South University, Argosy University, and Brown-Mackie College. More than 100,000 students are enrolled at those schools.

### Owner of the Lacy School of Cosmetology Ordered to Pay \$9.2 Million (South Carolina)

A Federal court ordered the Lacy School of Cosmetology, a chain of now-closed for-profit schools in South Carolina, and its owner to pay \$9.2 million for failing to comply with numerous Federal student aid program requirements. The school knowingly failed to comply with numerous Federal program requirements, made unauthorized disbursements of Federal student aid funds, failed to refund student credit balances, and concealed its actions by submitting false statements of compliance.

### Former FastTrain Owner Convicted, Other Officials Sentenced (Florida)

In previous Semiannual Reports, we highlighted our criminal investigation of FastTrain College, a now-defunct for-profit school that operated seven campuses in Florida. The massive fraud case involved the school owner and a number of employees who recruited students to the school who had not earned a valid high school diploma or its equivalent, obtained fake high school diplomas for them, and falsified their student aid applications and related information to make it appear that the students were eligible to attend the school and receive Federal student aid when in fact they were not. Further, the school used exotic dancers as admissions officers in an effort to lure young male students to the school. As a result of their fraudulent recruiting practices, more than 1,300 Free Applications for Federal Student Aid containing falsified information were submitted to the Department, which yielded some \$6.5 million in Federal student aid that the owner used to fund a lavish lifestyle. During this reporting period, a Federal jury convicted the school owner on multiple counts of fraud, while three more school employees were sentenced for their roles in the scheme. The employees received sentences ranging from 9 to 33 months in prison, 1 to 3 years of supervised release, and were ordered to pay restitution and

finances ranging from about \$460 to more than \$145,500. The former owner of the school will receive his sentence later this year.

### Bard College Agrees to Pay \$4 Million (California)

Bard College, a nonprofit school based in New York, agreed to pay \$4 million to resolve allegations that it received funds under the Teacher Quality Partnership Program despite failing to comply with the conditions of the grant and that it awarded, disbursed, and received Federal student aid funds at campus locations before such locations were accredited or before notifying the Department, which violated regulations as well as the school's Program Participation Agreement. The settlement stems from a whistleblower complaint filed by two former students of Bard's Master of Arts in Teaching Program at Paramount Bard Academy in Delano, California.

### Senior Executives, Employees of Micropower Career Institute Sentenced (New York)

Three senior executives and two other employees of Micropower Career Institute, a for-profit school with related locations in New York and New Jersey, were sentenced for their roles in a widespread student aid and student visa fraud scheme. The executives fabricated student financial aid records for the school to remain eligible to participate in the Federal student aid programs. They also directed school employees to falsify student records in anticipation of scheduled program reviews by FSA. The schools have received nearly \$20 million in Pell grants and other Federal student aid since 2008. Two of the executives were sentenced to serve 1 year and 1 day in prison; the third executive was sentenced to 6 months of home confinement. The three executives were ordered to pay \$1 million in restitution and \$7.4 million in forfeiture. The two employees included the son of one of the executives, who was sentenced to time served, 6 months of home confinement, and 2 years of supervised release and was ordered to pay a fine of \$5,000; the other employee was sentenced to time served and 2 years of supervised release and was ordered to perform 200 hours of community service. Further, in late March, one of the imprisoned senior executives pled guilty in New York State Criminal Court to felony possession of a weapon on school grounds. The firearm was discovered at the school's Mineola campus during this investigation.

### Former Webster University Official Sentenced (Missouri)

The former assistant financial aid director at Webster University was sentenced on charges of student loan fraud. The former official created false and fraudulent information to receive student aid from the school on behalf of herself and her husband. She then used her position to process the student aid forms and inflated their cost of attendance to increase the amount of Federal student aid they would receive. As a result of her fraudulent efforts, the former official and her husband received more than \$82,500 to which they were not entitled. The former official was sentenced to serve 5 years of probation and was ordered to pay more than \$82,500 in restitution.

## Former Wilson Community College TRIO Director Pled Guilty (North Carolina)

The former TRIO programs director at Wilson Community College pled guilty to charges related to theft and fraud. The former director concocted false requisition forms, vouchers, and contracts; made payments to her boyfriend for financial literacy workshops and services that he never provided; and submitted reimbursement forms for work-related travel that she never attended. She also assisted her boyfriend in stealing eight computers from the school's TRIO offices; several of the computers were pawned, and others were found in the home the couple shared.

## Investigations of Fraud Rings

Below are summaries of actions taken over the last 6 months against people who participated in Federal student aid fraud rings. Fraud rings are large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. The cases below are just a sample of the large number of actions taken against fraud ring participants during this reporting period.

In addition, we continued with a proactive investigative project to identify student aid fraud rings. The project uses an E-Fraud Query System risk model that we developed, as well as other investigative and analytical tools and data sources, to identify the scope of each fraud ring, estimate the total potential fraud, and establish grounds for initiating criminal investigations. To date, this project has identified more than \$31 million in potential fraud.

## Criminal Actions Taken Against Members of \$2.7 Million Fraud Ring (Illinois)

Criminal actions have been taken against members of a fraud ring that sought to obtain more than \$2.7 million in student aid, mortgages, bank, and small business loans. During this reporting period, three more members of the ring were sentenced for their roles in the schemes. Between 2010 and 2012, the ring submitted at least 40 fraudulent applications for admission to and Federal student aid from Harper College, Elgin Community College, and Joliet Junior College. For some of the applications, the ring used stolen identities that it obtained through credit card and mortgage fraud schemes. The ring caused the financial aid checks to be sent to addresses they controlled and then cashed the checks and used the proceeds for themselves and others. One of the ring members received a prison sentence of time served, 2 years of supervised release, and was ordered to pay nearly \$589,000 in restitution; the other two members were sentenced to 3 years of probation and community service and were ordered to pay \$24,490 and more than \$49,200 in restitution, respectively.

## More Actions Taken Against Members of \$680,000 Fraud Ring (South Carolina)

In our last Semiannual Report, we shared that actions were taken against five members of a fraud ring that targeted online courses and more than \$400,000 in

Federal student aid at the University of Phoenix, Grand Canyon University, and Capella University. During this reporting period, two members of the ring were sentenced. From 2006 through 2010, the two ring members provided their personally identifiable information to the fraud ringleaders and recruited other people to do the same. The ringleaders used the information to apply for admission and receive Federal student aid even though they were ineligible to receive aid because they did not possess high school diplomas or equivalents and did not intend to attend classes or otherwise use the money for educational purposes. One of the fraud ring members was sentenced to 3 years of probation and was ordered to pay more than \$4,900 in restitution; the second member was sentenced to time served and 3 years of supervised release and was ordered to pay more than more than \$2,500 in restitution.

### Three Members of \$500,000 Fraud Ring Indicted (Colorado)

Three people were indicted on charges related to student aid fraud. Between 2010 and 2012, the three allegedly used the stolen identities of prison inmates to apply for admission to and receive Federal student aid from various community colleges in Colorado. As a result of their alleged efforts, the ring received more than \$500,000 in Federal student aid to which they were not entitled.

### Leader of \$461,600 Fraud Ring Sentenced (California)

The leader of a fraud ring that targeted online classes and Federal student aid at Rio Salado College was sentenced to 6 months in prison followed by 3 years of supervised release and was ordered to pay more than \$461,600 in restitution. The leader used the identities of people, with and without their consent, to act as straw students—none of them had any intention of attending classes. She completed admissions forms and student aid applications for them that included false information on the number of claimed dependents to increase the potential financial aid award. The ring leader also took online classes for the straw students until the student aid refund checks were disbursed.

### Leader of \$350,000 Fraud Ring Sentenced (California)

A woman who orchestrated a fraud ring that targeted online courses at the University of Phoenix and Capella University was sentenced to serve 4 years and 8 months in prison and 36 months of supervised release and was ordered to pay about \$350,000 in restitution. The woman submitted fraudulent admissions and student aid application forms to the schools on behalf of students who did not intend to attend either school. She also used stolen identities to apply for college financial aid in the names of people who did not know their information was being used in the scheme. All ring members have now been sentenced for their roles in this scam.

### Couple Sentenced to Prison for Orchestrating \$260,000 Fraud Ring (Colorado)

A couple who lived together were sentenced to prison for orchestrating a fraud ring that targeted online classes and student aid at five Colorado community colleges. The couple used the names and identities of 39 people—both with and without their permission—that they used to apply for admissions to the schools for the sole purpose of receiving Federal student aid. They completed and submitted all

admissions forms and student aid applications, all of which included fraudulent information that enabled them to receive more than \$260,000 in Federal student aid. The woman was sentenced to serve 54 months in prison and 3 years of supervised release and was ordered to pay more than \$183,800 in restitution; the man was sentenced to serve 45 months in prison and 3 years of supervised release and was ordered to pay more than \$183,800 in restitution.

### Leader of \$134,000 Fraud Ring Sentenced (Michigan)

The leader of a fraud ring that targeted online classes and Federal student aid at the University of Phoenix, Ashford University, and Capella University was sentenced to prison. The woman recruited people to act as straw students, completed admissions and student aid forms on their behalf, and received a portion of the student aid once received. As a result of her fraudulent efforts, the ring obtained more than \$130,000. The woman was sentenced to serve 12 months and 1 day in prison and 2 years of supervised release and was ordered to pay more than \$134,000 in restitution.

### Leader of \$126,700 Fraud Ring Sentenced (Michigan)

A man with a criminal record going back to 1994 was sentenced to serve 40 months in prison and 24 months of supervised release and was ordered to pay more than \$145,900 in restitution for fraud. The man enrolled people for classes at various colleges and submitted applications for student aid on their behalf, knowing that the people had no intention of attending classes or were otherwise ineligible to receive student aid. As a result of his fraudulent actions, the ring obtained more than \$126,700 in Federal student aid. He also used the identities of others to open new lines of credit, which he used to make more than \$19,000 in merchandise and cash advances.

### Repeat Student Aid Fraud Offender Pled Guilty (Florida)

A man who was sentenced to prison for student aid fraud in 2004 pled guilty in January to charges related to student aid fraud. The man and an accomplice used the identities of numerous people, some without knowledge or permission, to fraudulently apply for admission to attend online classes and receive Federal student aid from American Public University, Art Institute of Pittsburgh, Colorado Technical University, Full Sail University, Grand Canyon University, Liberty University, and Westwood College. In the 2004 case, he was sentenced to 37 months in prison and was ordered to pay more than \$62,500 in restitution for stealing the identities of former prison inmates that he used to fraudulently apply for and receive Federal student aid at an online community college.

### Wife of Imprisoned Fraudster Pled Guilty (California)

In 2014, a man was sentenced to prison and was ordered to pay more than \$66,700 in restitution for orchestrating a student aid fraud scheme that targeted Federal student aid at various community colleges. During this reporting period, his wife pled guilty for her role in the scheme. From 2009 through 2011, the couple recruited people to act as straw students, completed school admissions and student aid forms on their behalf, and received a portion of the student aid once received. In her plea agreement, the woman agreed to pay more than \$66,700 in restitution.

### Actions Taken Against Three-Person Fraud Ring (Virginia)

Criminal actions were taken against three women for their roles in a student aid and insurance company fraud scheme. Between 2011 and 2014, the women submitted fraudulent admissions and student aid applications to schools, including Liberty University, to obtain Federal student aid funds for online classes they never intended to take. Two of the women were also involved in a scheme to defraud insurance companies by submitting insurance claims for fictitious car accidents. The ringleader was sentenced to serve 7 years in prison and 3 years of supervised release and was ordered to pay a \$400 assessment; another woman was sentenced to 3 months of home confinement and 3 years of probation and was ordered to pay more than \$12,000 in restitution; the final participant pled guilty and awaits sentencing.

## Investigations of Other Student Aid Fraud Cases

The following are summaries of the results of additional OIG investigations into abuse or misuse of Federal student aid. Although some of these cases involve criminals who used the identities of others (with and without consent) to exploit distance education programs in order to obtain Federal student aid, they are not fraud rings because they do not involve multiple fraud perpetrators.

### More Actions Taken in Terrorism Investigation (Minnesota)

In our last Semiannual Report, we noted that seven men were indicted for conspiracy to provide material support to the Islamic State in Iraq and Syria (ISIS). Two of them were also charged for allegedly using Federal student aid funds to do so. During this reporting period, one of those men pled guilty to that charge. The man made a series of cash withdrawals from his Federal student aid account totaling \$2,400. He deposited those funds into a personal account that he used to purchase a round-trip airline ticket to Greece with the intention of traveling to Syria to fight for ISIS. Another member of the group was also indicted for attempting to use \$5,000 in Federal student aid funds to travel to Turkey and eventually to Syria to join and fight with ISIS.

### Graduate Student Pled Guilty in Million Dollar Student Loan Scheme (New York)

A New York University graduate student pled guilty and agreed to pay more than \$1.7 million in restitution for fraud. From 2008 through 2013, the student submitted fraudulent letters and bills from doctors and others falsely claiming that he required special assistance to attend school in order to obtain Federal student loan funds. As a result of his fraudulent efforts, the student obtained more than a million dollars in Federal student aid and loans to which he was not entitled.

### Man Sentenced in \$236,000 Student Aid Fraud Scheme (Michigan)

A man was sentenced to prison for using the identities of others to target online classes and Federal student aid at Baker College, the University of Phoenix, Colorado

Technical College, and Centura College. As a result of his fraudulent efforts, the man obtained more than \$236,000 in Federal student aid. The man was sentenced to serve 30 months in prison and 1 year of supervised release and was ordered to pay more than \$236,200 in restitution.

### Woman Pled Guilty in \$240,000 Student Aid Fraud Scheme (Pennsylvania)

A woman pled guilty to charges related to student aid fraud. From August 2005 through November 2007, the woman submitted fraudulent student loan documents purportedly for her son to go to college. She received more than \$240,000 that she used for her own purposes.

### Man Who Stole Identity of Military Veteran Pled Guilty to Fraud (Missouri)

A man pled guilty to student aid fraud. The man used the stolen identity of a military veteran to apply for and receive Federal grants and benefits, including nearly \$15,000 in student aid. From 2012 through 2014, the man used the stolen identity a U.S. Navy veteran to apply for and receive Federal Pell grant funds and student loans, as well as health care benefits and retraining assistance from the U.S. Department of Veterans Affairs.

### Woman Pled Guilty to Using Multiple Social Security Numbers to Obtain \$100,000 in Student Aid (Texas)

A woman who obtained three Social Security numbers in her own name used those identification numbers as well as the identity of her mother and her ex-boyfriend to apply for and receive nearly \$100,000 in Federal student aid. From 2006 through 2014, the woman applied for multiple sources of financial aid at multiple schools, funds that she did not use for educational purposes.

### Man Sentenced for Role in Fraud Scam at Lone Star College (Texas)

In a previous Semiannual Report, we noted that a former Lone Star College employee was sentenced for orchestrating a student aid fraud scam at the school. The former employee accessed the school's computer system, obtained student personally identifiable information and student loan data, and used that information to divert the student financial aid refund checks to bank accounts under her and her conspirators' control. As a result of their criminal actions, more than \$100,000 in Federal student aid was stolen from unwitting Lone Star College students. During this reporting period, another participant was sentenced for his role in the scam. The man received a sentence of 2 years of community supervision and was ordered to pay more than \$4,600 in restitution.

### Four People Indicted for Roles in Series of Fraud Schemes (Kansas)

An online business owner and three other people were indicted for their roles in fraud schemes involving more than \$1 million in false tax refunds, false unemployment

benefits, mortgage fraud, food stamp fraud, and student aid fraud. For the student aid fraud portion of the schemes, the indictment alleges that from 1991 through 2007, the woman received about \$132,200 under one name and Social Security number and defaulted on those loans. In 2009, she legally changed her name and Social Security number, which she used to apply for and receive about \$74,500 in student aid through 2014, failing to disclose that she had previously defaulted on student loans.

### Woman Who Used Sister's Identity Ordered to Pay \$66,000 (Oklahoma)

A woman applied for and received more than \$66,000 in student aid using her sister's identity after exhausting her available Federal student financial aid benefits. She was ordered to pay more than \$66,000 for fraud.

### Store Owner Pled Guilty to Theft of Government Funds (Michigan)

The owner of Detroit Fish Express pled guilty to theft of government funds. The store owner and his spouse completed and submitted applications for Federal program funds that underreported or omitted the ownership of his business and his true income. As a result, the man received more than \$204,000 in Federal funds to which he was not entitled, including more than \$57,100 in Federal student aid.

### Brother and Sister, Other Family Members Convicted in \$300,000 Fraud Scam (Nevada)

A brother and sister were convicted on multiple felony counts for using false identities to steal almost \$300,000 in Federal funds, including Federal student aid. The two falsely claimed to be U.S. citizens when in fact they were from Belize, and they used false identities to apply for and receive the aid. Two other family members were also convicted of fraud for their part in the scheme to unlawfully obtain unemployment compensation funds.

### Department of Defense Interpreter, Husband Sentenced for Benefits Fraud (Arizona)

A former Department of Defense interpreter and her husband were each sentenced to 2 years of probation and were ordered to pay restitution of \$50,700 and \$57,300, respectively, for fraud. The woman and her husband made false claims regarding their income to State and Federal Government agencies for the sole purpose of gaining financial benefits to which they were not entitled, including Federal student aid. As a result of their fraudulent efforts, their son received a Pell grant and a Supplemental Educational Opportunity Grant he otherwise would not have been eligible to receive.

## Congressional Testimony

In November, Inspector General Tighe testified before the U.S. House of Representatives Committee on Oversight and Government Reform. The topic of the hearing was FSA as a performance-based organization. The Inspector General focused her remarks on the OIG's work involving FSA's effectiveness in managing both the oversight and administrative functions that support FSA programs and operations—critical aspects of the performance-based organization. Inspector General Tighe noted that OIG work has shown that FSA has the means to conduct effective oversight and management through statute, regulations, policies, and procedures; however, FSA needs to improve the execution of its duties to ensure that all participants in the Federal student aid programs are serving the interests of students and taxpayers. Inspector General Tighe provided examples of our recent work that showed the need for improvements, including our audits of FSA's program review process, audit resolution, improper payments, oversight of school third party servicers, and contractor management. This work shows that FSA needs to better oversee and manage Federal student aid programs to ensure they are serving the interests of students and to prevent waste, fraud, and abuse.

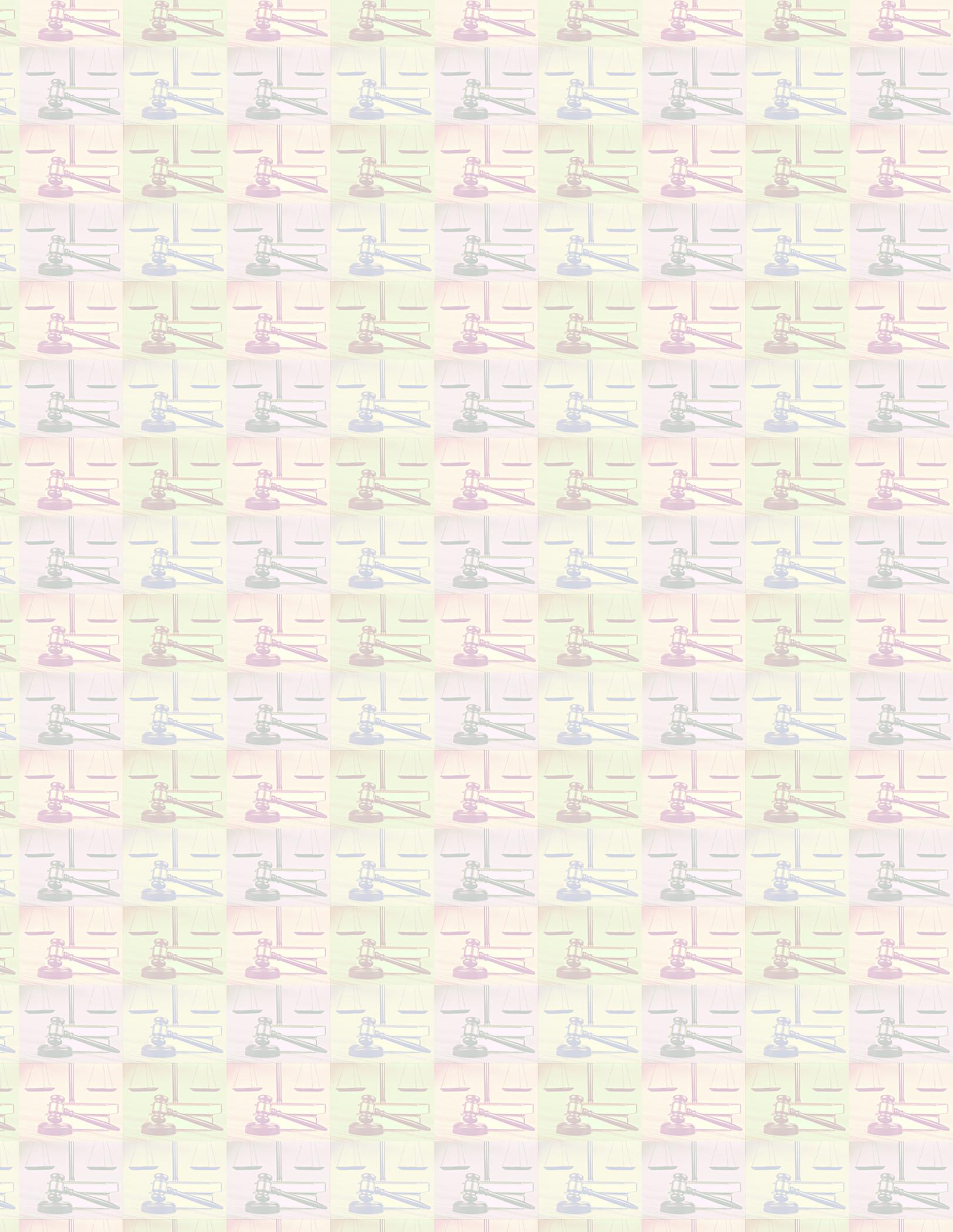
## OTHER ACTIVITIES

### Participation on Committees, Work Groups, and Task Forces

- **Department of Education Policy Committees.** OIG staff participate in an advisory capacity on these committees, which were established to discuss policy issues, including issues related to negotiated rulemaking for student loan regulations and for teacher preparation regulations.

### Review of Legislation, Regulations, Directives, and Memoranda

- **Department draft policy and memorandum, Increasing Coordination with, and Clarifying Flexibility for Accreditors.** The OIG made technical and clarifying suggestions.
- **Department draft Dear Colleague Letter, Use of Professional Judgment when Prior-Prior Year Income is Used to Complete the Free Application for Federal Student Aid (FAFSA).** The OIG offered clarifying suggestions.
- **Department draft Dear Colleague Letter, Federal Perkins Loan Program Extension Act of 2015.** The OIG provided comments to improve the quality and integrity of the document.
- **Department draft guidance, Supplementary Cash Management Guidance Materials for Publication and Distribution through Information for Financial Aid Professionals.** The OIG provided comments to improve the quality and integrity of the document.
- **Department draft letter, Providing Guidance/Clarification to Accrediting Agencies Regarding Flexibility in Application Processes.** The OIG provided a comment to correct inaccurate language in the document.





Protect the integrity of the Department's programs and operations.

Goal 3



Our third strategic goal focuses on our commitment to protect the integrity of the Department's programs and operations. Through our audit work, we identify problems and propose solutions to help ensure that programs and operations are meeting the requirements established by law and that Federally funded education services are reaching the intended recipients—America's students. Through our criminal investigations, we help to protect public education funds for eligible students by identifying those who abuse or misuse Department funds and helping hold them accountable for their unlawful actions.

## Audits

In support of this goal, the OIG issued two audits. The first audit examined the adequacy of the California Department of Education's (California) and three LEAs' monitoring of School Improvement Grants (SIG) contractors. The SIG program authorizes formula grants to States that then competitively award grants to LEAs to help them meet their school improvement responsibilities. LEAs can outsource certain SIG activities and services, such as family and community engagement, after-school programs, and professional development. The second audit is the final report in our series of work involving the Race to the Top Program—a multibillion dollar discretionary grant program authorized under the American Recovery and Reinvestment Act (Recovery Act) created to spur innovation, reforms, and outcomes in elementary and secondary education program. The audit focused on the Tennessee Department of Education's administration of selected aspects of its \$500 million Race to the Top grant. This was the third in our series of State-specific Race to the Top reports: we issued the first report, on the Ohio Department of Education, in 2014 and the second on the North Carolina Department of Public Instruction, in 2015. A summary of the two audits issued during this reporting period follows.

### State and District Monitoring of School Improvement Grants Contractors in California

The audit evaluated the adequacy of California's monitoring of three LEA activities in three key areas, whether the LEAs adequately monitored SIG contractors' performance, and whether the LEAs had appropriate fiscal controls to ensure that payments to SIG contractors for professional services met Federal requirements. We found that California and the three LEAs did not adequately monitor SIG contractors. Specifically, we found the following.

- California did not adequately monitor the three LEAs to ensure that they had written policies and procedures for reviewing and approving certain key financial documents that resulted in the obligation and expenditure of Federal funds to SIG contractors.
- The three LEAs did not adequately monitor fiscal transactions with SIG contractors to ensure that payments to these contractors conformed to Federal requirements. Two of the LEAs did not have written policies and procedures for reviewing and approving purchase order requisitions that committed Federal funds for SIG contractor-provided services. None of the LEAs had written policies and procedures for reviewing and approving invoices submitted by SIG contractors before payment using Federal funds. In addition, designated officials from the three LEAs did not always review and approve purchase order requisitions and invoices. One LEA did not maintain adequate documentation to support invoiced services for five of the six SIG contractor expenditures we judgmentally selected for testing, totaling more than \$121,300. Two of the LEAs also allowed SIG contractors to provide services before the LEAs had approved contracts or purchase orders for the services.
- Officials at one LEA described specific activities that its personnel performed to monitor SIG contractors' performance but did not provide documentation to support that the LEA had in fact monitored six of seven SIG contractors we judgmentally selected for testing.

In addition, we also found that one LEA approved two SIG contracts that included unallowable activities, and another LEA did not appear to routinely pay SIG contractors timely.

Based on our findings, we made a number of recommendations, including that the Department ensure that California enhance its LEA monitoring instrument for SIG program accountability and require LEAs to develop and implement written policies and procedures related to reviewing and approving key financial documents involving SIG contractor transactions. We also recommended that the Department ensure that California requires LEAs to periodically test these control activities to ensure proper implementation. California did not explicitly agree with our findings but agreed with all of our recommendations.

### The Tennessee Department of Education's Administration of its Race to the Top Grant

The audit found that, for the specific areas reviewed, the Tennessee Department of Education (Tennessee) generally administered its Race to the Top grant in accordance with program requirements and its approved grant application. We did, however, determine that Tennessee did not ensure that one of the two LEAs included in our review developed and implemented fiscal control and fund accounting procedures that provided reasonable assurance that the LEA accounted for and spent Race to the Top funds in accordance with Federal requirements and the approved grant application. Specifically, we found that the LEA (1) did not always retain expenditure

documentation records, (2) did not establish a process for determining whether it awarded professional services contracts in accordance with regulations, (3) did not always obtain approvals before making purchases, (4) inadequately designed and implemented control activities over employee use of school district credit cards, (5) had inadequate procedures for accurately recording adjusting journal entries, and (6) improperly classified expenditures. By not designing and implementing effective fiscal control and fund accounting procedures, the LEA increased the risk that it would misuse Federal funds or not accomplish the goals set forth in the approved Race to the Top grant application.

In addition, we found that Tennessee and the LEA did not spend Race to the Top funds only on allowable items and activities and in accordance with program requirements and the approved grant application. Specifically, we found that Tennessee and the LEA spent more than \$101,900 on unallowable items and activities and did not retain documentation to show that more than \$141,900 in expenditures were allowable.

We made 11 recommendations to address the weaknesses identified, 8 of which were specific to improving internal control activities at the LEA. This included a recommendation that Tennessee instruct the LEA to develop and implement policies and procedures that provide reasonable assurance that it will retain adequate supporting documentation for all transactions. We also recommended that the Department require Tennessee to provide accounting records proving that the expenditures charged to the Race to the Top grant were allowable. Tennessee agreed with our findings and generally agreed with the recommendations.

## Investigations of School Officials, Vendors, and Contractors

OIG investigations include criminal investigations involving bribery, embezzlement, and other criminal activity, often involving State and local education officials, vendors, and contractors who have abused their positions of trust for personal gain. Examples of some of these investigations follow.

### Former Brick Township Public Schools Superintendent and Three Employees Indicted (New Jersey)

The former superintendent for Brick Township Public Schools, his daughter, the former interim director of public services for the school district, and his wife (a former Brick Township Public Schools employee) were indicted on charges of misconduct and theft by deception. The four allegedly used their positions to provide the superintendent's grandson with extravagant daycare services—totaling more than \$50,000—at the school district's expense by falsely claiming that the child was in need of special services. Further, the former director of public services was also charged with intentionally failing to disclose his 1990 criminal conviction (selling a controlled substance) on his Brick Township employment application.

### Former Beaumont Independent School District Assistant Superintendent and Teacher Pled Guilty in Fraud Schemes (Texas)

During this reporting period, a former Beaumont Independent School District assistant superintendent pled guilty to theft and conspiracy, and a former Beaumont Independent School District teacher pled guilty to conspiracy. The former assistant superintendent admitted to embezzling money from the school district, including stealing money from a high school booster club and steering contracts to family members totaling \$480,000 for services that were never provided. This included contracts to her son for printing services, which her son contracted out and then billed the district at an exorbitant price. The former teacher pled guilty to conspiring with the former assistant superintendent to increase standardized test scores by providing teachers with test answer keys and by changing answers on student test booklets.

### Former High School Principal Charged (Puerto Rico)

The former principal of Manuel Mediavilla-Negron Vocational Technological Public High School was charged for allegedly embezzling more than \$67,000 in school funds. The former principal allegedly cashed checks written to him from the school bank account to pay for various personal bills, his fitness club membership, and online shopping.

### City of Baker Maintenance Supervisor Sentenced (Louisiana)

A former maintenance and operations supervisor for the City of Baker School District was sentenced to 2 years of probation and was ordered to pay more than \$9,400 in restitution and fines for theft. The former official used his position and authority to purchase items with school district funds for his personal use.

### Son of U.S. Congressman Sentenced for Fraud (Pennsylvania)

The owner/founder of an educational consulting company in Pennsylvania, who is also the son of a U.S. Congressman, was sentenced to 60 months in prison and 5 years of supervised release and was ordered to pay more than \$1.1 million in restitution for fraud. The owner/founder fraudulently obtained hundreds of thousands of dollars from the Philadelphia School District by submitting false expense information and inflated invoices to the district for services the company provided to at-risk students.

The son of a U.S. Congressman was sentenced to 60 months in prison and 5 years of supervised release and was ordered to pay more than \$1.1 million in restitution for fraud.

### Another Executive of Sports Equipment Company Sentenced for Defrauding Schools Nationwide (New Jersey)

In our last Semiannual Report, we noted that the former chief executive officer and the former chief financial officer of Circle Systems Group were sentenced for perpetrating a decade-long fraud scheme involving schools in New Jersey and other States. During this reporting period, the former president of the company was sentenced to probation for his role in the scam. Circle Systems Group, now known as Schutt Reconditioning, was a sports equipment and reconditioning company that provided services to school districts, schools, colleges, universities, and professional sports teams nationwide. From at least 1997 through 2007, Circle Systems Group engaged in a number of fraudulent business practices aimed at defrauding schools, such as submitting fraudulent invoices and fake quotes to schools to increase its sales and profits. As a result of the executive's fraudulent actions, Circle Systems Group retained more than \$822,000 in overpayments from various schools. The president is the last of five people who were charged for participating in the scam.

## Investigations of Supplemental Educational Services Providers

OIG audit work conducted over the last decade found a lack of oversight and monitoring of Supplemental Educational Services (SES) providers by State educational agencies, which may leave programs vulnerable to fraud, waste, and abuse. Recent OIG investigative work has proven this point, uncovering cases involving fraud and corruption perpetrated by SES providers and school district officials.

### More Actions Taken in Rocket Learning Fraud Scam (Puerto Rico)

Fifty-one people were indicted for their alleged roles in an SES fraud scheme involving the tutoring company Rocket Learning. A Federal grand jury returned a 74-count indictment charging Rocket Learning with conspiracy, mail fraud, theft of Government money and property, and aggravated identity theft. The company and the employees allegedly billed the Puerto Rico Department of Education more than \$954,000 for tutoring services that they never provided.

### Sisters Sentenced in Princeton Review Fraud Scam (New York)

In previous Semiannual Reports, we have highlighted our investigation involving an SES fraud scam perpetrated by the Princeton Review (now Education Holdings, Inc.). In 2010, Education Holdings agreed to pay \$10 million to settle claims that between 2006 and 2010, company supervisors and staff routinely falsified entries and student attendance forms to make it appear as though the company was providing tutoring services to students in New York City Public Schools when in fact no tutoring had been provided. During this reporting period, two sisters who

worked for the Princeton Review were sentenced for their roles in the scam. One woman was sentenced to 3 years of probation and was ordered to pay more than \$1 million in restitution; her sister was sentenced to 3 years of supervised release and was ordered to pay more than \$1 million in restitution.

# OTHER ACTIVITIES

## Participation on Committees, Work Groups, and Task Forces

### *Federal and State Law Enforcement-Related Groups*

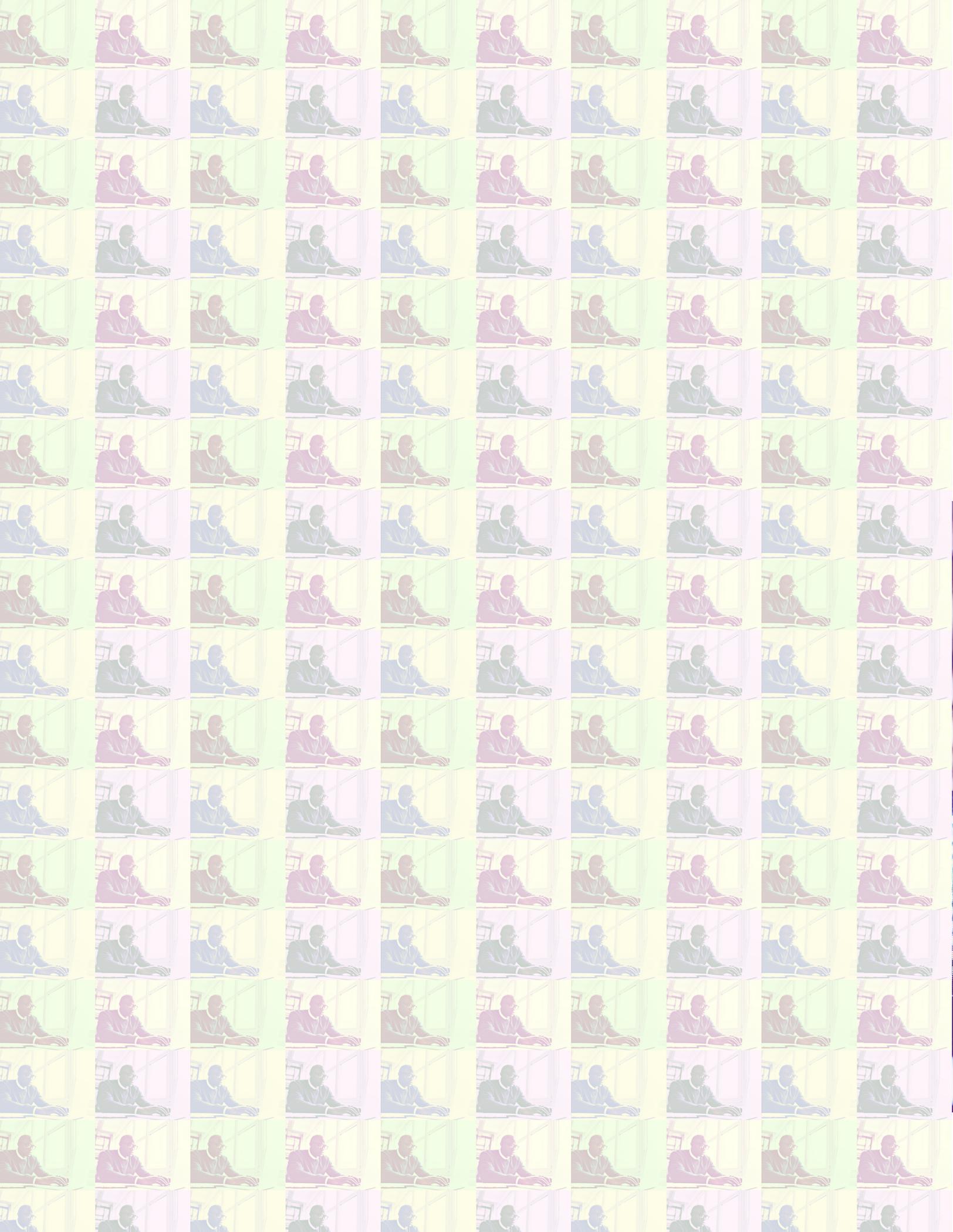
- **Northern Virginia Cyber Crime Working Group.** The OIG participates in this working group of Federal, State, and local law enforcement agencies conducting cybercrime investigations in northern Virginia. The purpose is to share intelligence and collaborate on matters affecting multiple agencies.

### *Federal and State Audit-Related Groups*

- **Government Accountability Office's Domestic Working Group.** The Inspector General was asked to serve on this working group focused on advancing accountability in Federal, State, and local government.
- **Association of Government Accountants Partnership for Management and Accountability.** The OIG participates in this partnership that works to open lines of communication among Federal, State, and local governmental organizations with the goal of improving performance and accountability.
  - **Association of Government Accountants Intergovernmental Partnership.** OIG staff led the Cooperative Audit Resolution and Oversight Initiative 2 Workgroup that produced a playbook for improving programs and reducing improper payments through effective use of the Cooperative Audit Resolution and Oversight, or CAROI process.

## Review of Legislation, Regulations, Directives, and Memoranda

- **Department Directive, Guide for Managing Formula Grant Programs.** The OIG made technical comments.
- **Revised Dear Colleague Letter to SEAs to Remind Them (Current and Prospective Charter Schools Program Grantees) of Responsibilities Related to Fiscal Monitoring of Federal Funds.** The OIG suggested that the Department highlight effective internal controls to help ensure compliance and mitigate risks (now an administrative requirement for all recipients of Federal funds), as well as other comments to improve the quality and integrity of the document.



Contribute to improvements in  
Department business operations.

# Goal 4





Effective and efficient business operations are critical to ensure that the Department effectively manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. Our reviews in this area seek to help the Department accomplish its objectives by ensuring its compliance with applicable laws, policies, and regulations and the effective, efficient, and fair use of taxpayer dollars with which it has been entrusted.

## Audits and Reviews

OIG work completed over the last 6 months that contributed to this goal includes our statutory audits involving the Department's information technology security and financial management, compliance-focused reviews of government purchase cards and the Small Business Innovation Research program. We also issued a number of other reports, including an audit of the resolution of discrimination complaints by the Department's Office for Civil Rights, an audit of the external audit followup process by the Department's Office of Elementary and Secondary Education, and a review of actions the Department has taken to ensure the accuracy and reliability of K-12 data reported in its Annual Performance Report. More information and summaries of these reports follow.

### Information Technology Security

The E-Government Act of 2002 recognized the importance of information security to the economic and national security interests of the United States. Title III of the E-Government Act, the Federal Information Security Management Act of 2002 (FISMA), as amended by the Federal Information Security Modernization Act of 2014, requires each Federal agency to develop, document, and implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. It also requires inspectors general to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of agency compliance with FISMA. A summary of our FY 2015 FISMA audit follows.

### *FY 2015 FISMA Review*

We found that the Department and FSA made progress in strengthening its information security programs; however, weaknesses remained and the Department-wide information systems continued to be vulnerable to security threats. Specifically, we found that the Department was not generally effective in 4 of the 10 security areas reviewed—continuous monitoring, configuration management, incident response and reporting, and remote access management. Although we determined that the Department's and FSA's information technology security programs were generally effective in key aspects of three metric areas—risk management, security training, and contingency planning—we also noted that improvements were still needed in these areas. For the Department and FSA's plan of action and milestones process, we determined that if implemented as intended, it should be effective. We also determined that the Department's identity and access management programs and practices would be generally effective if implemented properly but that the Department's controls over access to FSA's mainframe environment need improvement. In particular, we identified several weaknesses that the Department should focus on. For example, our vulnerability and penetration testing revealed a key weakness in the Department's ability to detect unauthorized activity inside its computer network. We also noted a significant issue related to third-party access to a contractor-operated critical business system, specifically the Department's and FSA's ability to adequately oversee its contractors and ensure that only people with appropriate permission have access to the Department's data. Based on our findings, we made 26 recommendations, 16 of which were new and 10 of which were in response to repeat findings. All of these recommendations were aimed at helping the Department and FSA increase the effectiveness of their information security program so that it fully complies with all applicable requirements of FISMA, the Office of Management and Budget, and the National Institute of Standards and Technology. The Department and FSA agreed with most of our recommendations.



### **Financial Management**

One of the purposes of the Chief Financial Officers Act of 1990 is to improve agency systems of accounting, financial management, and internal controls to ensure the reporting of reliable financial information and to deter fraud, waste, and abuse of Government resources. The Act requires an annual audit of agency financial statements, which is intended to help improve an agency's financial management and controls over financial reporting. A summary of our FY 2015 financial statement audits follow.

#### *Financial Statements Audits*

For FY 2015, both the Department and FSA financial statements were fairly presented, in all material respects, in accordance with generally accepted accounting principles; however, like FY 2014, the financial statement auditors identified one significant deficiency in internal control over financial reporting and one instance of reportable noncompliance. The significant deficiency involved information technology controls over security management, personnel security, access controls, and configuration management, which can increase the risk of unauthorized access to the Department's

systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information. The instance of noncompliance involved a provision of the Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014 which requires Federal agencies to notify the Secretary of the Treasury of debts that are more than 120 days delinquent. The auditors found that neither the Department nor FSA had processes in place to comply with the 120-day notification requirement. Based on the findings, the auditors recommended that the Department and FSA take action to address the information technology control deficiencies and to review their loan servicing procedures and internal processes to comply with statutory requirements. The Department agreed with the findings and recommendations in the report.

#### *Closing Package Financial Statements*

The auditors found that the Department's FY 2015 Closing Package Financial Statements were fairly presented, in all material respects, in accordance with generally accepted accounting principles. The auditors did not identify material weaknesses in internal controls over financial reporting, nor instances of reportable noncompliance specific to the closing package financial statement audit.

## Compliance Audits

During this reporting period, we issued two compliance-focused audits: our statutory review involving government purchase cards and an audit of the Department's compliance with regulations and operating procedures for the Small Business Innovation Research Program.

#### *Purchase Card Risk Assessment*

The Government Charge Card Abuse Prevention Act of 2012 requires inspectors general to conduct periodic risk assessments of their agency's purchase card program to identify and analyze the risks of illegal, improper, and erroneous purchases and payments. Inspectors General must then use the results of those risk assessments to determine the scope, frequency, and number of periodic audits of purchase card transactions to perform in the future. Our review determined that the purchase card program does not pose a high risk to the Department and an audit of the program was not necessary. We reviewed the Department's purchase card policies and procedures, Office of Management and Budget guidance, corrective action the Department has taken in response to previous OIG purchase card audit findings, documentation from the Department's purchase card monitoring efforts, and data on disciplinary actions the Department has taken in response to purchase card misuse. Additionally, we used OIG data analytic resources to identify and assess high-risk categories of potentially inappropriate purchases. Although we found that the program does not pose a high risk to the Department, we made one suggestion to assist the Department in strengthening its purchase card program: that it improve coordination between Department units when reporting disciplinary actions taken against purchase card abusers to the Office of Management and Budget.

*Small Business Innovation Research Program Regulations and Operating Procedures*

The Small Business Innovation Research (SBIR) program provides funds to small businesses to stimulate technological innovation to meet Federal research and development needs. In 2012, Congress passed legislation reauthorizing the program, and the Small Business Administration incorporated changes made in the legislation into a SBIR Program Policy Directive. The directive outlined how agencies must conduct these programs, which included policies and procedures to prevent fraud, waste, and abuse. Agencies were directed to consult with their OIG when creating these policies and procedures to capitalize on the OIG's expertise in the area.

We found that the Department needs to improve its implementation of the minimum requirements related to identifying and preventing fraud, waste, and abuse in the SBIR program. Although the Department is not required to establish its own overall operating procedures and regulations for the SBIR program, it is required to implement the minimum requirements related to fraud, waste, and abuse established in the SBIR Program Policy Directive. We found that the Department did not adequately implement 7 of the 10 minimum requirements. Specifically, the Department had not developed required policies or established formal processes related to the identification and prevention of fraud, waste, and abuse; had not created or ensured that there is an adequate system to enforce accountability through suspension and debarment, fraud referrals, or other efforts to deter wrongdoing and promote integrity; and had not designated an individual to serve as the liaison for the Department's SBIR program, the OIG, and the Suspension and Debarment Official, as required. We also determined that the Department could more proactively work with the OIG to establish fraud detection indicators, coordinate the sharing of information between Federal agencies, and improve its training and education for grant applicants. Lastly, we found that the Department did not implement three of the four minimum requirements related to ensuring SBIR awardee eligibility and compliance.

The SBIR Program Policy Directive states that agencies should evaluate risks of fraud, waste, and abuse in each grant application; monitor and administer SBIR awards; and create and implement policies and procedures to prevent fraud, waste, and abuse in the SBIR program. By not implementing the minimum requirements, the Department increases its risk of not identifying potential fraud, waste, and abuse in the SBIR program. Additionally, not documenting applicable policy and processes can create confusion and inhibit training of new staff assigned to work on the program in the event that current staff are no longer available. We recommended that the Institute of Educational Sciences, the only office within the Department with an SBIR program, ensure that the Department implements all of the SBIR Program Policy Directive's minimum requirements. The Institute of Educational Sciences agreed that the SBIR program would benefit from formal, written policies and procedures and described actions it would take to ensure that the Department adequately implemented all of the minimum requirements.

## Department Management and Operations

We also issued a number of other reports involving Department management and operations. Summaries of these reports follow.

### *Resolution of Discrimination Complaints by the Office for Civil Rights*

We conducted an audit to determine whether the Department's Office for Civil Rights (OCR) resolves discrimination complaints in a timely and efficient manner and in accordance with applicable policies and procedures. We found that OCR generally does so. Specifically, we determined that OCR timely resolved discrimination complaints at a high overall rate and did not have a large backlog of unresolved cases. The primary factors that contributed to OCR's timely and efficient resolution of complaints included efficient case resolution methods, consistency in case investigation practices, and effective case tracking and information management systems. OCR was able to respond to complainants quickly and provided prompt relief to complainants who needed it. We did, however, note that increasing workload and decreasing resources could have a negative effect on complaint resolution over time. Staff may not be able to maintain current levels of productivity if these

OCR was able to respond to complainants quickly and provided prompt relief to complainants who needed it.

trends continue. We also determined that OCR generally resolved discrimination complaints in accordance with its Case Processing Manual and other established policy. We determined that OCR had generally developed clearly defined procedures that allowed regional staff to follow established policy when resolving the different types of discrimination complaints and allowed management to provide clear direction to regional staff when complications or questions arose. We also noted that OCR management created a control environment that ensured the investigative teams understood the importance of compliance with policies and procedures. As a result, OCR was able to ensure that complaints were processed and resolved consistently, efficiently, and effectively

across the regions, in line with OCR's statutory and regulatory responsibilities. We did, however, determine that 2 of the 12 regional offices did not appropriately maintain separate files for the Early Complaint Resolution process, and in some instances destroyed or discarded documentation obtained during that process. Failure to separate records from investigative case files may compromise the confidentiality of the Early Complaint Resolution process and may affect the impartiality and objectivity of the staff investigating the complaint if the Early Complaint Resolution is not successful. Additionally, failure to retain Early Complaint Resolution records can provide the appearance that OCR is not competently managing the information it receives when resolving discrimination complaints. Nevertheless, after learning of these practices, headquarters officials took immediate action to correct the issue and OCR described the specific actions it had taken to resolve the issue before the conclusion of our review.

We recommended that OCR management continue the practice of sharing and discussing with the regions the list of cases pending review with headquarters staff

to ensure that they are tracked and processed efficiently and that it ensure that regions are made aware of and understand all policy involving the maintenance of files and records for the Early Complaint Resolution process. The Department agreed with our recommendations.

#### *Followup Process for External Audits in the Office of Elementary and Secondary Education*

In our last Semiannual Report, we summarized the first three reports in a series of audits we are conducting to evaluate the effectiveness of the Department in ensuring that external auditees implement corrective actions made in OIG audit reports. This is an important issue as not ensuring that auditees quickly take corrective actions allows identified deficiencies to continue to exist, and the risk remains that auditees will not effectively manage related programs and use funds as intended. During this reporting period, we issued another report in this series, focusing on the Department's Office of Elementary and Secondary Education (OESE). The audit found that OESE needed to improve its audit followup process. Specifically, we found that OESE did not close audits timely and did not adequately maintain documentation of audit followup activities. From October 1, 2008, through September 30, 2013, OESE closed 86 external OIG audits. Of the 86 closed audits, 59 (69 percent) were closed more than 2 years after resolution and 34 (40 percent) were closed more than 5 years after resolution. The total of the monetary recommendations associated with the 86 audits was more than \$587 million. Further, we found that OESE did not always adequately maintain documentation of audit followup activities. This included not maintaining supporting documentation of corrective actions in the official audit file and not maintaining documentation that supported that auditees actually took requested corrective actions before audit closure. We reviewed audit followup activities for a nonstatistical sample of 14 external OIG audits of OESE programs. For these 14 audits, OESE determined that 81 recommendations required corrective actions, including more than \$10.2 million in monetary corrective actions. We found that OESE staff did not adequately maintain documentation for 68 (84 percent) out of 81 recommendations, including monetary corrective actions totaling more than \$7.9 million. By not obtaining or maintaining appropriate documentation to show that auditees completed requested corrective actions, OESE did not have assurance that auditees corrected identified deficiencies. As such, the risk remains that auditees are not effectively managing related programs and using funds as intended. We made several recommendations, including that the Department ensure that staff obtain and maintain adequate documentation to support that auditees complete corrective actions and audit followup activities and that it ensure that staff are following up with auditees until they have taken all appropriate corrective actions. The Department agreed with our recommendations.

#### *Management Certification of Data Reliability*

The audit examined the actions the Department had taken, including the use of management certifications, to ensure the accuracy and reliability of K-12 data reported in its Annual Performance Report and select OESE K-12 data. We found that although the Department took actions to ensure the completeness and reasonableness of the data it reported, it needs to improve controls to support the accuracy of data that SEAs reported. Specifically, we determined that the Department could provide better oversight, including both technical assistance and monitoring,

of SEAs' controls over data quality and the verification and validation process for data it reports in its Annual Performance Report. It could also involve external auditors in the process by updating the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement under which they conduct their audits. Such actions could result in improvements to the quality of data that SEAs submit. Based on our findings, we made a number of recommendations, including that the Department review how management certifications and monitoring protocols are used across all Department programs and ensure that certification language and protocol steps to assess how well SEA or LEA procedures are working to provide accurate data. We also recommended that the Department revise the compliance supplement to address areas where external auditors should determine whether SEAs have controls to ensure that data collected from LEAs and other State agencies are accurate and reliable and support the management certifications they sign. Although the Department did not agree with the OIG's overall evaluation of the value and effectiveness of its current procedures, it agreed that it should continue to make improvements to its procedures to enhance data accuracy and reliability and proposed corrective actions for each of our recommendations.

## Investigations

The following are summaries of two OIG criminal investigations related to our fourth goal. The first involves a former Department employee and the second, a \$1.3 million settlement with a Department contractor.

### Former FSA Employee Sentenced

A former FSA lender review specialist was sentenced on charges related to student aid fraud. The former employee included false information on her children's student aid applications and submitted them to schools and the Department in order to increase their Federal student aid awards. The employee, who resigned from her position with FSA in October 2015, was sentenced to 1 year of probation and was ordered to pay more than \$23,100 in restitution.

### Enterprise Recovery Systems, Inc., Agrees to \$1.3 Million Settlement

Enterprise Recovery Systems, Inc., a for-profit debt collection agency under contract with the Department, agreed to pay more than \$1.3 million to settle allegations that its loan processors designated some student loan accounts as having a signed rehabilitation agreement when, in fact, it had not obtained those agreements. Those designations resulted in Enterprise Recovery Systems, Inc., making false claims for payment from the Department under the contract.

## Congressional Hearings

### Information Technology Security

In November, Inspector General Tighe testified before the U.S. House of Representatives Committee on Oversight and Government Reform on the work of the OIG involving information technology security at the Department. The Inspector General shared the results of recent OIG reviews and investigations involving information technology security, highlighting concerns with persistent control deficiencies identified in the Department's and FSA's financial statement audits and repeat findings identified through our FISMA work. Inspector General Tighe stated that failure to correct deficiencies and adequately address repeat findings can increase the risk of unauthorized access to the Department's systems and could affect the reliability and security of the data and information stored in those systems. The Inspector General also discussed the findings the OIG's FY 2015 FISMA audit, noting areas where immediate action and attention are needed. Specifically, the results of the OIG's penetration testing revealed a key weakness in the Department's ability to detect unauthorized activity inside its computer networks, and the Department's and FSA's ability to adequately oversee its contractors and ensure that only people with appropriate permission have access to the Department's data. Inspector General Tighe stated that the Department and FSA must work harder to address existing weaknesses so that they can be in a better position to identify and stop ever-evolving cyber threats and increasingly sophisticated attacks on critical information technology infrastructures.

### OIG Investigation of the Chief Information Officer

In February, Deputy Inspector General Sandra Bruce testified before the U.S. House of Representatives Committee on Oversight and Government Reform on the OIG investigation of alleged misconduct by the Department's Chief Information Officer, who has since retired. Deputy Inspector General Bruce provided information on the allegations that the OIG received and that our investigation substantiated. We found that the Chief Information Officer operated outside business ventures with members of his subordinate staff and received payment from subordinate employees for services provided by the ventures; used a Department email account to conduct outside business ventures; participated on a panel that awarded a contract to a company owned by someone he had a personal relationship with (his participation, however, did not result in that contract being improperly awarded); took actions to help a relative secure employment within the Department; and made a \$4,000 loan to one of his subordinate staff. Deputy Inspector General Bruce informed the Committee that the OIG shared its investigative results with the Department and the U.S. Department of Justice, and that the Department of Justice declined prosecution based on the availability of administrative remedies. She also shared that in response to the OIG investigation, the Acting Deputy Secretary provided a memorandum to the OIG stating that overall, he and the previous Deputy Secretaries working in consultation with the Department's Office of General Counsel, found that the Chief Information Officer did not violate any law or regulation, but believed the Chief Information Officer displayed certain lapses in judgment, which were addressed through counseling.

## Non-Federal Audit Activities

The Inspector General Act of 1978, as amended, requires that inspectors general take appropriate steps to ensure that any work performed by non-Federal auditors complies with Government Auditing Standards. To fulfill these requirements, we perform a number of activities, including conducting quality control reviews of non-Federal audits, providing technical assistance, and issuing audit guides to help independent public accountants performing audits of participants in the Department's programs.

### Quality Control Reviews

OMB's "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (known as the "Super Circular") requires entities such as State and local governments, universities, and nonprofit organizations that spend \$750,000 or more in Federal funds in 1 year to obtain an audit, referred to as a "single audit." Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in specific Federal student aid programs are required to undergo annual audits performed by independent public accountants in accordance with audit guides that the OIG issues. These audits assure the Federal Government that recipients of Federal funds comply with laws, regulations, and other requirements that are material to Federal awards. To help assess the quality of the thousands of single audits performed each year, we conduct quality control reviews of a sample of audits. During this reporting period, we completed 25 quality control reviews of engagements conducted by 24 different independent public auditors or offices of firms with multiple offices. We concluded that 8 (32 percent) were acceptable or acceptable with minor issues, 13 (52 percent) were technically deficient, and 4 (16 percent) were unacceptable. In addition, we referred one independent public auditor to the American Institute of Certified Public Accountants and the independent public auditor's State Board of Accountancy for possible disciplinary actions. We made this referral due to the independent public auditor's unacceptable work.

## OTHER ACTIVITIES

### Participation on Committees, Work Groups, and Task Forces

#### *Department*

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

#### *Inspector General Community*

- **Council of the Inspectors General on Integrity and Efficiency (CIGIE).** OIG staff play an active role in CIGIE efforts. Inspector General Tighe is Chair of the Information Technology Committee. Inspector General Tighe is also a member of CIGIE's Audit Committee, and the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee.
- OIG staff also serve as chair of the Council of Counsels to the Inspectors General and are members of CIGIE's Assistant Inspector General for Investigations Subcommittee, the Federal Audit Executive Council, the Cyber Security Working Group, the Grant Reform Working Group, the OIG Human Resources Directors' Roundtable, and the New Media Working Group. OIG staff also participate in the following.
  - **Financial Statement Audit Network.** OIG staff have a leading role in this Government-wide working group that identifies and resolves key issues concerning audits of agency financial statements and provides a forum for coordination with the Government Accountability Office and the Treasury on the annual audit of the Government's financial statements.
  - **CIGIE/Government Accountability Office Annual Financial Statement Audit Conference.** OIG staff work on the planning committee for the annual conference that covers current issues related to financial statement audits and standards.

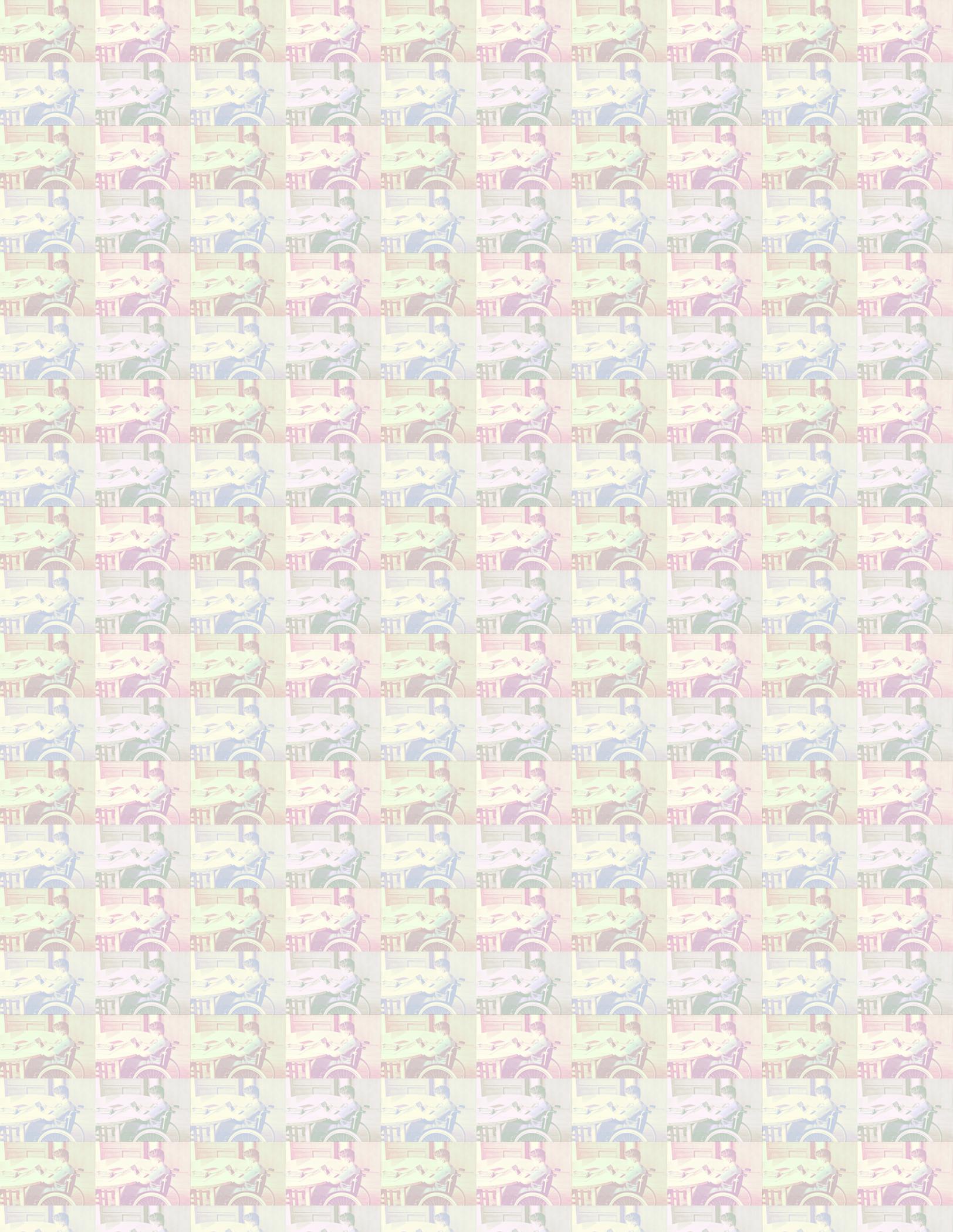
#### *Federal and State Audit-Related Groups and Entities*

- **Intergovernmental Audit Forums.** OIG staff chair and serve as officers of a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work to improve audit education and training and exchange information and ideas regarding the full range of professional activities undertaken by government audit officials. During this reporting period, OIG staff served as Federal representative for the Western Forum, chair of the Southwestern Forum, and officers of the Southeastern Forum and the New York/New Jersey Forum.

- **Interagency Fraud and Risk Data Mining Group.** The OIG participates in this group that shares best practices in data mining and evaluates data mining and risk modeling tools and techniques that detect patterns indicating possible fraud and emerging risks.

## Reviews of Legislation, Regulations, Directives, and Memorandum

- **S.2450, The Administrative Leave Act of 2016.** The OIG provided comments to OMB regarding the bill's initial limitation of 10 days for investigative leave, as that may not be sufficient time for Federal investigators to complete an investigation. The OIG also provided similar comments to OMB regarding H.R.4359, the Administrative Leave Reform Act.
- **FAR Case 2011-020, Basic Safeguarding of Covered Contractor Information Systems.** The OIG provided comments to OMB related to ensuring that commercial off-the-shelf products meet Federal security requirements in particular cases, such as when a contractor uses a commercial off-the-shelf cloud service.
- **Appendix II, Implementation of the Government Paperwork Elimination Act and Appendix III, Security of Federal Information Resources, to OMB Circular No. A-130, Management of Federal Information Resources.** The OIG coordinated with other OIGs to provide technical and clarifying comments on the appendices to ensure that agencies ensure that terms and conditions of contracts and other agreements include sufficient provisions for Federal Government notification and access, as well as cooperation with agency personnel and Inspectors General.
- **Department Directive, Consultation and Coordination with American Indian and Alaska Native Tribal Governments.** The OIG made technical comments.
- **Department Directive, Use of Official Headquarters Motor Pool Vehicles.** The OIG made technical comments.
- **Department Directive, External Breach and Notification Policy and Plan.** The OIG made technical comments.
- **Department Directive, Alternative Dispute Resolution for Equal Employment Opportunity Complaints of Discrimination.** The OIG made technical comments.
- **Department Directive, Delegations of Authority.** The OIG made technical comments.
- **Department Directive, Space Management.** The OIG made technical comments.
- **Department Directive, Records and Information Management Program.** The OIG made technical comments.
- **Department Directive, Acceptance of Payment for Official Travel from a Non-Federal Source.** The OIG made technical comments.





# Annexes and Required Tables



## Annex A. Contract-Related Audit Products with Significant Findings

*We are providing the following in accordance with Section 845 of the National Defense Authorization Act for Fiscal Year 2008 (Public Law No. 110-181), which requires each Inspector General to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings.*

We did not issue any contract-related audit products with significant findings during this reporting period.

## Annex B. Peer Review Results

*We are providing the following in accordance with Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203), which requires Inspectors General to disclose the results of its peer reviews in its Semiannual Reports to Congress.*

During this reporting period, the Environmental Protection Agency OIG issued its findings related to a peer review it conducted of the OIG for the period April 1, 2014, through March 31, 2015. Our office received a peer review rating of *pass*. There were no outstanding recommendations from prior peer reviews. The Environmental Protection Agency OIG report was issued in October 2015 and is available on our Web site.

The OIG conducted a peer review of U.S. Department of Labor OIG for the period October 1, 2014, through September 31, 2015. The Department of Labor OIG received a peer review rating of *pass*. There were no outstanding recommendations from prior peer reviews. We issued the report in March 2016.

# Required Tables

The following provides acronyms, definitions, and other information relevant to Tables 1-6.

## Acronyms and Abbreviations Used in the Required Tables

FSA	Federal Student Aid
IES	Institute of Education Sciences
IG Act	Inspector General Act of 1978
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
ODS	Office of the Deputy Secretary
OESE	Office of Elementary and Secondary Education
OII	Office of Innovation and Improvement
OPE	Office of Postsecondary Education
OSERS	Office of Special Education and Rehabilitative Services
OUS	Office of the Undersecretary
Recs	Recommendations

## Definitions

**Questioned Costs.** As defined by the Inspector General Act of 1978 (IG Act), as amended, questioned costs are identified during an audit, inspection, or evaluation because of (1) an alleged violation of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) such cost not being supported by adequate documentation; or (3) the expenditure of funds for the intended purpose being unnecessary or unreasonable. OIG considers that category (3) of this definition would include other recommended recoveries of funds, such as recovery of outstanding funds or revenue earned on Federal funds or interest due the Department.

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

**Unsupported Costs.** As defined by the IG Act, as amended, unsupported costs are costs that, at the time of the audit, inspection, or evaluation, were not supported by adequate documentation. These amounts are also included as questioned costs.

## OIG Product Web Site Availability Policy

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

## Reporting Requirements of the Inspector General Act, as Amended

Section	Requirement (Table Title)	Table Number
5(a)(1) and 5(a)(2)	<i>Significant Problems, Abuses, and Deficiencies</i>	N/A
5(a)(3)	<i>Uncompleted Corrective Actions</i> Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed (October 1, 2015, Through March 31, 2016)	1
5(a)(4)	<i>Matters Referred to Prosecutive Authorities</i> Statistical Profile for FY 2015 (October 1, 2015, Through March 31, 2016)	6
5(a)(5) and 6(b)(2)	<i>Summary of Instances Where Information was Refused or Not Provided</i>	N/A
5(a)(6)	<i>Listing of Reports</i> Audit and Other Reports on Department Programs and Activities (October 1, 2015, Through March 31, 2016)	2
5(a)(7)	<i>Summary of Significant Audits</i>	N/A
5(a)(8)	<i>Questioned Costs</i> Audit and Other Reports With Questioned or Unsupported Costs	3
5(a)(9)	<i>Better Use of Funds</i> Audit and Other Reports With Recommendations for Better Use of Funds	4
5(a)(10)	<i>Unresolved Reports</i> Unresolved Audit and Other Reports Issued Before October 1, 2015 Summary of Audit and Other Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5-A 5-B
5(a)(11)	<i>Significant Revised Management Decisions</i>	N/A
5(a)(12)	<i>Significant Management Decisions with which OIG Disagreed</i>	N/A
5(a)(13)	<i>Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996</i>	N/A

Table 1. Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed (October 1, 2015, Through March 31, 2016)

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

This table is limited to OIG internal audit reports of Departmental operations because that is the only type of audit in which the Department tracks each related recommendation through completion of corrective action.

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Date of Management Decision	Number of Significant Recs Open	Number of Significant Recs Completed	Projected Action Date
FSA	Audit A17O0002 New	Fiscal Years 2014 and 2013 Financial Statements Federal Student Aid (OCFO is also designated as an action official) (SAR 70, page 41)	11/14/14	1/29/15	2	2	7/31/17
FSA	Audit A06L0003 New	Oversight of Guaranty Agencies During the Phase-Out of the Federal Family Education Loan Program (SAR 69, page 45)	9/29/14	11/14/14	1	4	4/29/16
FSA	Audit A06M0012	Handling of Borrow Complaints Against Private Collection Agencies (SAR 69, page 45)	7/11/14	9/9/14	3	8	7/29/16
OCFO	Audit A17O0001 New	Fiscal Years 2014 and 2013 Financial Statements U.S. Department of Education (FSA is also designated as an action official) (SAR 70, page 41)	11/14/14	2/26/15	2	2	9/30/17
OCIO	Audit A11O0001 New	The U.S. Department of Education's Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2014 (The report and the recommendations are addressed to ODS and OUS) (SAR 70, page 41)	11/12/14	12/18/14	1	19	9/26/16
OCIO	Audit A11L0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act for Fiscal Year 2011 (FSA is also designated as an action official) (SAR 64, page 36)	10/18/11	1/3/12	1	17	4/29/16

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Date of Management Decision	Number of Significant Recs Open	Number of Significant Recs Completed	Projected Action Date
OII	Audit A02L0002	The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants (SAR 65, page 40)	9/25/12	6/26/14	3	4	9/30/16
OPE	Audit A06N0002 New	Office of Postsecondary Education Duplication Effort with Discretionary Grants (SAR 69, page 46)	9/30/14	11/24/14	1	2	4/30/16
OSERS	Audit A19M0004	Payback Provisions of the Rehabilitation Long-Term Training Program (SAR 69, page 46)	4/25/14	6/3/14	2	13	12/30/16

Table 2. Audit and Other Reports on Department Programs and Activities  
(October 1, 2015, Through March 31, 2016)

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

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
FSA	Audit A02N0004	Functionality of the Debt Management Collection System 2	11/5/15	-	-	10
FSA	Audit A17P0002	Fiscal Years 2015 and 2014 Financial Statements Federal Student Aid (OCFO is copied on report)	11/13/15	-	-	4
IES	Audit A19P0007	Audit of the Small Business Innovation Research Program Regulations and Operating Procedures	3/25/16	-	-	1
OCFO	Audit A09P0001	Massachusetts Department of Elementary and Secondary Education's Oversight of Local Educational Agency Single Audit Resolution	1/25/16	-	-	5
OCFO	Audit A17P0001	Fiscal Years 2015 and 2014 Financial Statements, U.S. Department of Education (FSA is copied on report)	11/13/15	-	-	4
OCFO	Audit A17P0003	Fiscal Years 2015 and 2014 Closing Package Financial Statements, U.S. Department of Education	11/16/15	-	-	-
OCFO	Special Project S19P0009	Completion of OIG Risk Assessment of the Department's Purchase Card Program for Fiscal Year 2015	1/15/16	-	-	-
OCIO	Audit A11P0001	The U.S. Department of Education's Federal Information Security Modernization Act of 2014 Report For Fiscal Year 2015 (Report is addressed to ODS and OUS)	11/13/15	-	-	26
OCR	Audit A19N0002	The Resolution of Discrimination Complaints by the Department's Office for Civil Rights	12/10/15	-	-	4
OCTAE	Audit A05P0002	The U.S. Department of Education's Oversight of the Carl D. Perkins Career and Technical Education Improvement Act of 2006 Program	3/28/16	-	-	1

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
ODS	Audit A06O0001	Management Certifications of Data Reliability	2/11/16	-	-	5
OESE	Audit A05O0004	The Tennessee Department of Education's Administration of a Race to the Top Grant (OCFO is also designated as an action official)	3/30/16	\$242,816	-	11
OESE	Audit A09O0009	State and District Monitoring of School Improvement Grant Contractors in California	3/17/16	\$263,410 <sup>1</sup>	\$121,311	10
OESE	Audit A19P0002	Audit of the Followup Process for External Audits in the Office of Elementary and Secondary Education	12/17/15	-	-	4
OSERS	Audit A03P0001	Opportunities for Ohioans with Disabilities' Case Service Report Data Quality	3/1/16	-	-	4
OSERS	Audit A03P0002	Pennsylvania's Department of Labor and Industry, Office of Vocational Rehabilitation's Case Service Report Data Quality	3/2/16	-	-	5
OSERS	Audit A09O0008	California Department of Rehabilitation Case Service Report Data Quality	12/10/15	-	-	7
<b>Total</b>				<b>\$506,226</b>	<b>\$121,311</b>	<b>101</b>

<sup>1</sup> Audit Report A09O0009 total questioned costs includes \$142,099 in other recommended recoveries and \$121,311 in unsupported costs.

### Table 3. Audit and Other Reports With Questioned or Unsupported Costs

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

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

Requirement	Number	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs
A. For which no management decision has been made before the commencement of the reporting period	9	\$49,147,240	\$34,976
B. Which were issued during the reporting period	2	\$506,226	\$121,311
Subtotals (A + B)	11	\$49,653,466	\$156,287
C. For which a management decision was made during the reporting period	2	\$3,916,931	\$0
(i) Dollar value of disallowed costs		\$3,916,931	\$0
(ii) Dollar value of costs not disallowed		\$0	\$0
D. For which no management decision was made by the end of the reporting period	9	\$45,736,535	\$156,287

### Table 4. Audit and Other Reports With Recommendations for Better Use of Funds

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

None of the products reported in this table were performed by the Defense Contract Audit Agency. The OIG did not issue any inspection or evaluation reports identifying better use of funds during this reporting period.

Requirement	Number	Dollar Value
A. For which no management decision was made before the commencement of the reporting period	0	\$0
B. Which were issued during the reporting period	0	\$0
Subtotals (A + B)	0	\$0
C. For which a management decision was made during the reporting period:		
Dollar value of recommendations that management agreed to	0	\$0
Dollar value of recommendations that management did not agreed to	0	\$0
D. For which no management decision has been made by the end of the reporting period	0	\$0

Table 5A. Unresolved Audit Reports Issued Before October 1, 2015

Section 5(a)(10) of the IG Act, as amended, requires a listing of each report issued before the commencement of the reporting period for which no management decision had been made by the end of the reporting period.

Summaries of the audit issued during the previous SAR period follow in Table 5-B. Reports that are new since the last reporting period are labeled “new” after the report number. All other reports were reported in a previous SAR.

Office	Report Type and Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recs
FSA	Audit A05G0017	Capella University’s Compliance with Selected Provisions of the HEA and Corresponding Regulations ( <i>SAR 56, page 25</i> )  <b>Current Status:</b> FSA informed us that it is currently working to resolve this audit.	3/7/08	\$589,892	9
FSA	Audit A05I0014	Ashford University’s Administration of the Title IV HEA Programs ( <i>SAR 62, page 24</i> )  <b>Current Status:</b> FSA informed us that it is currently working to resolve this audit.	1/21/11	\$29,036	13
FSA	Audit A05K0012	Saint Mary-of-the-Woods College’s Administration of the Title IV Programs ( <i>SAR 64, page 36</i> )  <b>Current Status:</b> Final Audit Determination is under appeal by school.	3/29/12	\$42,362,291	19
FSA	Audit A07K0003	Metropolitan Community College’s Administration of Title IV Programs ( <i>SAR 65, page 40</i> )  <b>Current Status:</b> FSA informed us that it is currently working to resolve this audit.	5/15/12	\$232,918	22
FSA	Audit A09K0008	Colorado Technical University’s Administration of Title IV Programs ( <i>SAR 65, page 40</i> )  <b>Current Status:</b> FSA and OIG have been unable to agree on audit resolution. FSA plans to refer audit to the Department’s Audit Follow-up Official for dispute resolution.	9/21/12	\$173,164	8
FSA	Audit A05O0007 New	SOLEX College’s Administration of Selected Aspects of the Title IV Programs ( <i>SAR 71, page 43</i> )  <b>Current Status:</b> FSA informed us that it is currently working to resolve this audit.	9/30/15	\$1,795,500	6
OCFO	Audit A05O0005 New	The North Carolina Department of Public Instruction’s Administration of its Race to the Top Grant (OESE is also designated as an action official) ( <i>SAR 71, page 43</i> )  <b>Current Status:</b> OCFO informed us that the revised program determination letter is under review.	7/13/15	\$82,484	6
<b>Total</b>				<b>\$45,265,285</b>	<b>83</b>

## Table 5B. Summaries of Audit and Other Reports Issued During the Previous Reporting Where Management Decision Has Not Yet Been Made

*Section 5(a)(10) of the IG Act, as amended, requires a summary of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.*

These are the narratives for new entries. Details on previously issued reports can be found in Table 5-A of this Semiannual Report.

Office	Report Title, Number, and Date Issued	Summary and Current Status
FSA	SOLEX College's Administration of Selected Aspects of the Title IV Programs (SAR 71, page 43)  Audit A05O0007  9/30/15	<p>Our audit sought to determine whether SOLEX College disbursed Title IV funds only to eligible students enrolled in Title IV-eligible programs. We found that the school did not do so for its two English as a Second Language programs. As a result, the school improperly disbursed more than \$1.79 million in Pell grant funds to 413 of the 469 students who received Title IV funds for award years 2012–2013 and 2013–2014. We made six recommendations, including that FSA require SOLEX College to return more than \$1.79 million that it improperly disbursed to 413 students, cease disbursing Pell grant funds to any students enrolled in its two English as a Second Language programs until it establishes Title IV program eligibility for those programs, and strengthen its admission process to ensure that it establishes and maintains Title IV program eligibility for its English as a Second Language programs. SOLEX College officials disagreed with one finding and its recommendations and did not explicitly agree or disagree with the other finding and recommendations.</p> <p><b>Current Status:</b> FSA informed us that it is currently working to resolve this audit.</p>
OCFO	The North Carolina Department of Public Instruction's Administration of its Race to the Top Grant (OESE is also designated as an action official) (SAR 71, page 43)  Audit A05O0005  7/13/15	<p>We found that the North Carolina Department of Public Instruction could improve its administration of its Race to the Top grant by strengthening its system of internal control over contracting and by more closely monitoring the fiscal activity of participating local educational agencies and charter schools to ensure that they complied with all applicable Federal requirements. We made six recommendations to address our findings. North Carolina neither agreed nor disagreed with our findings but agreed with five of our six recommendations.</p> <p><b>Current Status:</b> OCFO informed us that the revised program determination letter is under review.</p>

Table 6. Statistical Profile for October 1, 2015, Through March 31, 2016

Accomplishment	October 1, 2015– March 31, 2016
Audit Reports Issued	16
Inspection Reports Issued	0
Questioned Costs (Including Unsupported Costs)	\$506,226
Recommendations for Better Use of Funds	\$0
Other Products Issued	1
Reports Resolved By Program Managers	13
Questioned Costs (Including Unsupported Costs) Sustained	\$3,916,931
Unsupported Costs Sustained	\$0
Additional Disallowances Identified by Program Managers	\$1,395,416
Management Commitment to the Better Use of Funds	\$0
Investigative Cases Opened	31
Investigative Cases Closed	48
Cases Active at the End of the Reporting Period	259
Prosecutorial Decisions Accepted	34
Prosecutorial Decisions Declined	44
Indictments/Informations	54
Convictions/Pleas	42
Fines Ordered	\$10,500
Restitution Payments Ordered	\$7,269,439
Civil Settlements/Judgments (number)	8
Civil Settlements/Judgments (amount)	\$110,117,153
Recoveries	\$64,492
Forfeitures/Seizures	\$19,500
Estimated Savings	\$68,220,915
Suspensions Referred to Department	32
Debarments Referred to Department	4
Debarments Imposed by OIG	0

## Acronyms and Abbreviations

CIGIE	Council of Inspectors General on Integrity and Efficiency
Department	U.S. Department of Education
FISMA	Federal Information Security Management Act of 2002
FSA	Federal Student Aid
FY	Fiscal Year
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
RSA	Rehabilitation Services Administration
SEA	State Educational Agency
SES	Supplemental Educational Services
Title IV	Higher Education Act of 1965, Title IV



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## **FY 2016 Management Challenges**

The Reports Consolidation Act of 2000 requires the OIG to identify and summarize the most significant management challenges facing the Department each year. Below are the management challenges OIG identified for FY 2016.

1. Improper Payments, meeting requirements and intensifying efforts to prevent, identify, and recapture improper payments.
2. Information Technology Security, including management, operational, and technical security controls to adequately protect the confidentiality, integrity, and availability of its systems and data.
3. Oversight and Monitoring, including Federal student aid program participants, distance education, grantees, and contractors.
4. Data Quality and Reporting, specifically program data reporting requirements to ensure that accurate, reliable, and complete data are reported.
5. Information Technology System Development and Implementation, specifically processes related to oversight and monitoring of information technology system development and implementation.

For a copy of our FY 2016 Management Challenges report, visit our Web site at [www.ed.gov/oig](http://www.ed.gov/oig).



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