



FY 2016 Management Challenges

October 2015



Office of Inspector General

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Inspector General

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Please Note:

The Inspector General's FY 2016 Management Challenges is available on the ED OIG Web site at <http://www2.ed.gov/about/offices/list/oig/reports.html>.




**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

The Inspector General

October 9, 2015

TO: The Honorable Arne Duncan
Secretary of Education

FROM: Kathleen S. Tighe 
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2016

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

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. While the Department remains committed to addressing these areas and has taken or plans action to correct many of their underlying causes, each remains as a management challenge for fiscal year (FY) 2016.

The FY 2016 management challenges are:

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

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2016 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.



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EXECUTIVE SUMMARY

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

Last year, we presented five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2016.

The FY 2016 management challenges are:

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

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. This FY 2016 Management Challenges Report is available at <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>.

Management Challenge 1: Improper Payments

Why This Is a Challenge

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

Our recent work has demonstrated that the Department remains challenged to meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments. In May 2015, we reported that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 because it did not meet the annual reduction target for the Direct Loan program. We have identified concerns in numerous areas relating to improper payments, including the completeness, accuracy, and reliability of improper payment estimates and methodologies and improper payments involving grantees. Our semiannual reports to Congress from April 1, 2012, through March 31, 2015, included more than \$1.4 million in questioned or unsupported costs from audit reports and more than \$36 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that it faces a significant challenge in striking the right balance between providing timely and accurate payments to grant recipients and students while at the same time ensuring that its policies and controls are not too costly and burdensome to the Department and fund recipients. The Department stated that it continuously assesses its business processes and controls to further enhance them, while striving to balance risks, costs, and benefits.

The Department stated that it has developed corrective actions in response to OIG recommendations that are intended to improve the accuracy and completeness of its improper payment estimates, provide more detailed reporting, and enhance its controls over student aid payments. It routinely analyzes payment data and considers other factors, such as OIG reports, to detect and recover improper payments that have occurred and to help devise ways to further reduce the risk of improper payments. The Department further stated that its primary strategy for

minimizing improper payments is to implement front-end controls that prevent improper payments from occurring before it disburses Federal funds.

The Department added that the office of Federal Student Aid (FSA) has continued its efforts to catalog improper payment and fraud-related controls and to assess them for effectiveness. Additionally, FSA has improved its coordination with the OIG on fraud referrals, to include developing processes to analyze referrals and identify potential fraud indicators for suspicious student activity. The Department added that FSA plans to build on this collaboration with the OIG and establish a fraud group during FY 2016 to oversee its intake, analysis, and disposition of fraud referrals.

What Needs to Be Done

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. Overall, the Department needs to develop estimation methodologies that improve the accuracy, completeness, and reliability of improper payment estimations. The Department should continue to work to develop estimation methodologies that adequately address recommendations made in our audit work.

Management Challenge 2: Information Technology Security

Why This Is a Challenge

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

Over the last several years, IT security audits have identified controls that need improvement to adequately protect the Department's systems and data. This included weaknesses in configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. In addition, OIG investigative work has identified IT security control concerns in areas such as the FSA personal identification number system.

Progress in Meeting the Challenge

The Department identified numerous activities intended to improve its IT security in its response to our draft Management Challenges report. The Department stated that it provided corrective action plans to address the recommendations in FY 2012, FY 2013, and FY 2014 OIG audits. It further indicated it had completed actions designed to help address this challenges that included the following:

- implementing a new Department-wide Security Operations Management system, to provide overall case management and Security Operations Center operations;

- implementing a solution to provide two-factor authentication for accessing email remotely from personal computers and mobile devices, replacing the username and password authentication method;
- implementing a new student identification system as part of FSA’s Enterprise Identity Management Program; and
- implementing the FSA Security Operations Center to strengthen FSA’s network and data security.

What Needs to Be Done

Overall, the Department needs to effectively address IT security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

The Department needs to develop more effective capabilities to respond to potential IT security incidents. Although the Department and FSA have begun to implement their own incident response teams and establish Security Operations Centers, this capability is still being developed. The Department needs to continue to make progress within this area to ensure the timeliness and effectiveness of its response processes.

While the Department has made progress towards implementing its two-factor authentication plans, it needs to continue its process of implementing and enforcing the use of two-factor authentication for all Federal employees, contractors, and other authorized users.

Vulnerabilities continue to exist in the programs intended to identify and protect critical technologies. The Department must continue to strive towards a robust capability to identify and respond to malware installations or intruder activity.

Management Challenge 3: Oversight and Monitoring

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

Oversight and Monitoring—SFA Program Participants

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the Higher Education Act of 1965, as amended, to ensure that the programs are not subject to fraud, waste, and abuse. During the 2014–2015 award year, FSA provided about \$169.6 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department’s FY 2016 budget request outlines \$176.1 billion in

Federal student aid, including \$28.9 billion in Pell Grants and more than \$141.7 billion in student loans. More than 13.2 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

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

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that it has made significant progress in providing the public with information about financial assistance options available for postsecondary education, while working at the same time to manage the risks inherent in providing Federal student aid.

The Department stated that FSA has a broad compliance and oversight monitoring program that includes making referrals to the OIG when it identifies potential fraud. The Department further reported that its reviews of institutions are risk-based and that FSA uses predictive analytics and data matching as part of its processes to address student financial assistance fraud.

The Department identified numerous specific activities designed to improve its effectiveness in overseeing and monitoring SFA program participants. This included the following:

- implementing and enhancing a customized verification process for Free Application for Federal Student Aid data elements that must be verified before an applicant received Title IV aid,
- providing training for Department employees,
- issuing guidance and proposing regulations,
- implementing a Quality Control Process regarding program reviews, and
- restructuring its external audit follow-up process.

What Needs to Be Done

Given the significant challenges that FSA faces in overseeing and monitoring SFA program participants, the Department needs to improve its systems to ensure it has controls in place to ensure funds are disbursed for only eligible students and to effectively manage the performance of the Federal student loan portfolio.

Additionally, FSA needs to establish systematic procedures to evaluate the risks within its programs, develop strategies to address risks identified, and implement those strategies to ensure effective operations. FSA further needs to assess its control environment to ensure that it is working to address known and newly identified risks including those OIG reviews and other sources have identified.

Oversight and Monitoring—Distance Education

Why This Is a Challenge

Management of distance education programs presents a challenge for the Department and school officials because there are few or no in-person interactions to verify the student's identity or attendance. In addition, laws and regulations are generally modeled after the campus-based classroom environment, which does not always fit delivering education through distance education. Distance education uses certain technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between the student and the instructor. The flexibility it offers is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment.

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

Progress in Meeting the Challenge

The OIG issued an Investigative Program Advisory Report in 2011 alerting FSA to significant fraud vulnerability in distance education programs. The OIG report provided recommendations that, if implemented, would mitigate future risk of fraud ring activity in the Title IV programs. The Department reported that it has implemented numerous controls to address these concerns, including expanding data analysis capabilities to detect patterns and predict potential fraud and enhancing verification requirements. The Department stated that it is now incumbent on schools to verify certain data elements, such as the student's identity and whether the student completed secondary school or its equivalent. The Department added it has also expanded the program review procedures to strengthen oversight of distance education programs. The procedures were revised to expand general assessment reviews, collect additional distance education recipient data, and expand the annual risk assessment.

What Needs to Be Done

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs and other information needed to analyze the differences between traditional education and distance education. Because FSA does not require schools to indicate when a student is enrolled in a distance education program, it cannot identify, analyze, and mitigate system problems related to distance education. Our work indicates that the Department still needs to define instruction and attendance in a distance education environment and clarify how to calculate the return of Federal student aid in a distance education environment.

In addition, the Department should develop regulations that require schools offering distance education to establish processes to verify a student's identity as part of the enrollment process. Finally, the Department should work with Congress to amend the Higher Education Act to specify that a school's cost of attendance budget for a distance education student should include only those costs that reflect actual educational expenses.

Oversight and Monitoring—Grantees

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,900 public school districts and 50 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include Title I of the Elementary and Secondary Education Act, which under the President's 2016 request would deliver \$15.4 billion to help nearly 24 million students in high-poverty schools make progress toward State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide about \$11.7 billion to help States and school districts meet the special educational needs of 6.6 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve local educational agency (LEA) fiscal control issues, State educational agency (SEA) control issues, fraud perpetrated by LEA and charter school officials, and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that actions completed during FY 2015 included issuing policy and guidance and providing training and technical assistance to program staff to enhance business operations in the area of grant award monitoring and oversight. The Department reported that it planned additional activities for FY 2016 to improve its monitoring and oversight efforts that include new training for Department employees on grant monitoring in on-site and virtual environments, as well as training for grantees in the areas of cash management, internal controls, discretionary and formula grants administration, and indirect cost.

What Needs to Be Done

Effective implementation of the Office of Management and Budget Uniform Grant Guidance, with specific focus on requirements relating to internal control and recipient and subrecipient monitoring, provides an excellent opportunity for the Department to address longstanding challenges. The Department should also consider methods to use the single audit process and updates to the Office of Management and Budget A-133 Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs. Given its

vast oversight responsibilities and limited resources, it is especially important for the Department to effectively implement actions that build its own capacity and leverage the resources of other entities that have roles in grantee oversight.

In addition to its efforts to improve grant administration and oversight, the Department should pursue several regulatory or statutory changes that would strengthen its ability to detect and address fraud and abuse in its programs.

Oversight and Monitoring—Contractors

Why This Is a Challenge

The Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. As of May 2015, more than \$5.6 billion¹ has been obligated towards the Department's active contracts. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-on obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations. These services include systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations.

OIG audits have identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance. These issues are primarily related to the appropriateness of contract pricing and the effectiveness of contract management.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that its high percentage of fixed-price contracts and deliverable-based payment schedules inherently lowers the risk of improper payments and unsuccessful contract performance. The Department believed that this approach, coupled with annual Contract Monitoring Plan and Contract Management reviews, provides a comprehensive appraisal of contractor performance and helps ensure that the Department manages and monitors its contracts properly.

The Department stated that FSA's contractor control environment has been strengthened through process improvements and that FSA has recently established a Quality Assurance team within its acquisition organization. The Department also reported that its Contracts and Acquisitions Management function has undertaken actions to ensure that the Department has appropriately qualified staff in place and in sufficient number to provide effective oversight of its contracts.

¹ This figure, from the Department's active contracts list, represents the total amount obligated to currently active contracts awarded by FSA, the Office of Chief Financial Officer's Contracts and Acquisitions Management, and the National Assessment Governing Board. This list does not capture the amount obligated on contracts awarded by the principal office's executive office warrant holders.

Management Challenge 4: Data Quality and Reporting

What Needs to Be Done

The Department has outlined numerous processes and efforts that have to the potential to improve its oversight and monitoring of contractors. The Department needs to develop methods that can assist it in demonstrating the effectiveness of recent process changes. These may include items such as assessing the effect of FSA's Quality Assurance team on its contractor control environment and the success of hiring and training activities intended to increase its staffing of qualified contractor oversight professionals.

Why This Is a Challenge

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

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

Progress in Meeting the Challenge

The Department cited controls in place to help it mitigate risks and verify and validate the data it relies on that included data system monitoring and edit checks, program monitoring, evaluation of the accuracy and effectiveness of reporting, and partnering with third-party reviewers. The Department further identified strategies that it is developing, considering, or implementing to ensure continuous improvements. These strategies include developing policies and procedures to improve and strengthen integrity in obtaining and reporting data; coordinating technical assistance with stakeholders to establish a common understanding of the verifiability, validity, and reliability of data sources; and continuing efforts to improve data quality in the ED*Facts* system.

What Needs to Be Done

The Department is working to improve staff capabilities and internal systems for analyzing data and using it to improve programs. It must continue to work to implement effective controls at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data are reported. The multiple initiatives that the Department has put in place to improve data quality show both the scope of the challenge it faces as well as the effort needed to address this challenge area. In particular, its efforts to develop and implement consistent policies and procedures and to assess the reliability of key data are important steps needed to show progress in addressing this challenge.

Management Challenge 5: Information Technology System Development and Implementation

Why This Is a Challenge

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with consistent staffing levels. The Department reported that its inflation-adjusted administrative budget is about the same as it was 10 years ago, while its full-time equivalent staffing level has declined by 8 percent. This makes effective information systems development and implementation, and the greater efficiencies such investments can provide, critical to the success of its activities and the achievement of its mission.

According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2015 was \$683.1 million. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development; these weaknesses have negatively impacted operations and may have resulted in improper payments. For example, we reported that FSA could not ensure that its contractor delivered a fully functional debt management collection system because FSA did not develop an adequate plan, ensure milestones were met, or use appropriate systems development tools. We also identified additional areas for improvement, such as involving FSA's Technology Office to provide technical expertise in the analysis of cost proposals, future contract negotiations, and evaluations of contractor cost overruns.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that managing changes for numerous integrated systems requires effective enterprise change management and investment management processes and continuous review of and improvement on existing project and portfolio management activities. The Department stated that to build on these capabilities, it must hire qualified staff and ensure that they are appropriately trained.

The Department stated that FSA has established project and portfolio management practices that support information technology systems development and implementation.

The Department further stated that it has addressed the OIG-identified and FY 2012 self-reported issues related to Debt Management Collection System (DMCS) and ACS, Inc., Education Servicing System. A new contract was awarded to manage DMCS, and the new contract included explicit requirements related to the management and tracking of software development activities. The Department also noted that an independent validation and verification contract was awarded to bring more focus on DMCS development activities. The Department stated that FSA has not experienced any further material deficiencies related to system implementations, as the OIG confirmed in the FY 2014 financial statement audit, and has seen significant improvement in a number of areas related to DMCS operations and financial reporting.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that it corrects system deficiencies and that system performance fully supports

the Department's financial reporting and operations. Similarly, the Department should ensure that all agreed-on corrective actions are completed timely.

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



IMPROPER PAYMENTS

“Improper payments” occur when funds go to the wrong recipient, the right recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or the recipient uses funds in an improper manner. The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—requires agencies to annually report information on improper payments to the President and Congress, focusing on risk assessments, statistical estimates of improper payments, and corrective actions. In fiscal year (FY) 2014, Federal agencies reported a Government-wide improper payment rate of 4.02 percent, a decrease from the high-water mark of 5.42 percent reported in FY 2009. Improper payments totaled about \$125 billion in FY 2014.

Although not all improper payments are fraud and not all improper payments represent a loss to the Government, all improper payments degrade the integrity of Government programs and compromise citizens’ trust in Government. Under

the direction of the Office of Management and Budget (OMB), agencies have identified the programs that are susceptible to significant improper payments and measured, or have put into place plans to measure, the estimated amount of improper payments.

The U.S. Department of Education (Department) performed a risk assessment for all FSA-managed programs during FY 2014 and determined that the Federal Pell Grant (Pell) and William D. Ford Direct Loan (Direct Loan) programs were susceptible to risk of significant improper payments. The Department had previously identified these two programs, along with the Federal Family Education Loan (FFEL) program, as susceptible to significant improper payments in its FY 2011 risk assessment.

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

Our work in this area has identified concerns with the accuracy, completeness, and reliability of the Department's improper payment estimates and estimation methodologies for the Pell and Direct Loan programs as part of its compliance with IPERA. We have also recommended potential enhancements to the Department's compliance with OMB guidance and alerted the Department to serious fraud vulnerability in distance education programs. Additionally, we identified improper payments in the Student Financial Assistance (SFA) programs, to or by State educational agencies (SEAs) and local educational agencies (LEAs), to other grantees, and to contractors.

Background

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

The Department's FY 2014 Agency Financial Report (AFR) stated that OMB designated Pell a high-priority program because estimated FY 2010 Pell improper payments of \$1.0 billion exceeded the high-priority program threshold of \$750 million. The Department further reported that since then, it has worked with OMB to implement all applicable high-priority program requirements.

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

The Department obtained approval from OMB to use an alternative methodology for estimating improper payments for the FSA programs for FY 2014 and forward. The alternative methodology was intended to leverage data collected through FSA Program Reviews, which assess a variety of compliance requirements.

The Pell program provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. In its FY 2014 AFR, the Department reported a FY 2014 improper payment rate estimate for the Pell program of 2.16 percent with an estimated improper payment value of \$682 million.

Under the Direct Loan program, the Department provides low-interest loans for students and parents to help pay for the cost of a student's education after high school. The Direct Loan program includes Direct Subsidized and Unsubsidized Loans for students, PLUS Loans for parents and graduate or professional students, and Direct Consolidation Loans for both students and parents. The Department's payment rate calculation estimated an overall Direct Loan improper payment rate of 1.50 percent, or \$1.53 billion for FY 2014.

For FY 2014, the Department assessed the FFEL program as not susceptible to significant improper payments and estimated FFEL program improper payment rate of 0.00 percent. Consistent with OMB guidance, the Department sought OMBs' approval to formally change the risk categorization of the FFEL program and remove the requirement for future annual reporting of improper payment estimates for the FFEL program. On August 4, 2015, OMB approved the Department's request.

The Department identified more than \$170 million in improper payments in its quarterly high-dollar overpayment reports from March 31, 2010, through March 31, 2015. The Department further reported that in response it has completed or is in the process of completing both recovery actions and activities to mitigate the risk of future improper payments. The Department reported corrective actions taken or planned that included recovering funds, providing technical assistance, updating certification processes, completing system enhancements, conducting training, reviewing quality control procedures, and implementing new procedures.

The Department stated in its FY 2014 AFR that it is committed to preventing improper payments with front-end controls and detecting and recovering them if they occur. The Department added that in FY 2014, it continued efforts to (1) assess the risk of improper payments, (2) estimate improper payments, (3) address root causes of improper payments, and (4) recover improper payments.

Results of Work Performed

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

Required Reviews Found Issues With the Completeness, Accuracy, and Reliability of Improper Payment Estimates and Methodologies

In May 2015, we reported that the Department did not comply with IPERA because it did not meet the annual reduction target for the Direct Loan program. The Department reported a FY 2014 improper payment rate for the Direct Loan program (1.50 percent) that did not meet its reduction target (1.03 percent). The Department met the FY 2014 reduction targets for the Pell and FFEL programs.

We also reported that the Department needed to improve the accuracy, completeness, and quality of its improper payment estimates and estimation methodologies. Within this area we specifically noted the following.

- The improper payment methodologies and estimates in the Department's FY 2014 AFR for both the Pell and Direct Loan programs were inaccurate, incomplete, and unreliable.
- Improper payment estimation methodologies based on program reviews were flawed because they excluded other sources of improper payments.
- The Department's supporting documentation for its reported improper payment estimates for the Pell and Direct Loan programs contained data transcription errors, data integrity errors, and significant formula errors and omissions.
- The Department's improper payment methodologies for the Pell and Direct Loan programs deviated from the OMB-approved methodologies in effect at the time the Department's FY 2014 AFR was issued.

Finally, we reported that the Department needed to improve the completeness of its improper payment reporting. We noted that Department's AFR and its FY 2014 improper payment estimation methodologies were incomplete. Specifically, the Department did not provide statistical sampling details for the Pell program and did not report amounts of improper payments associated with each category of root cause.

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

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

- The Department's Pell program estimation methodology for FY 2013 did not consider all potential sources of improper payments, an issue that we identified in our prior reporting. For example, we found that the Direct Loan program's estimation methodology relied heavily on program reviews; however, many of these reviews were not included in the improper payment rate estimation calculation because reports from these reviews had not yet been issued or the reviews did not test for improper payment transactions. We also found that the Department's FY 2013 methodology

did not consider improper payments identified in OIG audits and investigations. However we reviewed the corrective action plan submitted by the Department in response to our prior audit and noted that the Department had agreed to consider incorporating findings from OIG work in the proposed statistical estimations for all of its programs.

- The Department's AFR did not report a summary of its progress in completing the IPERA reporting requirements, as required by OMB.
- The Department's FY 2013 AFR reported reduction targets for each of its programs that were equal to the improper payment rate estimate reported in the current year. Therefore, meeting these targets would not actually result in a reduction in improper payments.

In March 2013, we issued an audit report on the Department's compliance with IPERA for FY 2012. We found that the Department complied with IPERA for FY 2012; however, issues remained with the completeness of the calculation of the estimated improper payment rate for the Pell program. We noted that the Department's proposed methodologies for estimating improper payment rates for the Pell, Direct Loan, and FFEL programs were flawed. For example, to arrive at the published estimate of improper payments for the Pell program, the Department's contractor computed a point estimate (3.36 percent), and using a 90 percent confidence level, calculated the upper bound (4.62 percent) and the lower bound (2.10 percent) of the estimate's confidence interval. Subsequently, the Department reported that the estimated improper payment rate was 2.10 percent (the lower bound of the estimate) and did not report either the point estimate (3.36 percent) or the estimate's upper bound (4.62 percent) in the AFR. We also found that the Department used new methodologies for estimating improper payment rates that were not approved by OMB and that the Department did not follow OMB guidance for reporting of payment recapture audit programs.²

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

OIG audit and investigative work continues to identify various improper payments in the SFA programs, to or by SEAs and LEAs, to other grantees, and to contractors. Overall, our semiannual reports to Congress from April 1, 2012, through March 31, 2015, included more than \$1.4 million in questioned or unsupported costs from audit reports and more than \$36 million in restitution payments from our investigative activity.

Many of our reviews of FSA programs have disclosed improper payments. Our audits and investigations of postsecondary institutions routinely disclose payments resulting from ineligible students, ineligible programs, or other noncompliance.

In February 2014, we completed an audit to determine whether the Department adapted requirements and guidance for Title IV programs to mitigate risks inherent in the distance education environment. Overall, we found that the Department has not been collecting data and other information that could help it

² A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities.

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

In addition to work in the SFA programs, we have performed work identifying fiscal issues at SEAs and LEAs. Our July 2015 audit report on the North Carolina Department of Public Instruction's Administration of its Race to the Top Grant determined that North Carolina generally spent Race to the Top funds on allowable activities and in accordance with program requirements and its approved grant application. However, we noted North Carolina made about \$1.4 million in payments to a contract without sufficiently documenting that employees obtained all required approvals.

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

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

In January 2013, we completed a risk analysis that demonstrated that student aid fraud ring activity is a rapidly growing problem. Using our E-Fraud Data Analytical System, we determined that the population of recipients considered as potentially participating in fraud activity had increased 82 percent from award year 2009 (18,719 students) to award year 2012 (34,007 students). We identified more than 85,000 recipients who may have participated in student aid fraud ring activity and who received more than \$874 million in Federal student aid from award year 2009 through award year 2012. Further, applying a statistical model to these results, we estimated a probable fraud loss of \$187 million of the \$874 million as a result of these criminal enterprises.

OIG work continues in this area as we monitor the Department's quarterly reports on high-dollar overpayments and evaluate actions being taken in response to improper payments noted. For all high-dollar overpayment amounts reported on the quarterly reports through June 30, 2015, the Department has reported that it has or will take actions to recover the funds. The Department has also reported that it has taken action or has plans to implement adequate control activities that will mitigate the risk of future improper payments. In FY 2016, we will perform our annual review of the Department's compliance with the improper payment reporting requirements and its performance in reducing and recapturing improper payments. We will also perform a required risk assessment of the Department's purchase card program and, if deemed necessary, conduct an audit of Department purchase card transactions.

Department Actions and Plans

In its response to our draft Management Challenges report, the Department stated that it faces a significant challenge in striking the right balance between providing timely and accurate payments to grant recipients and students while at the same time ensuring that its policies and controls are not too costly and burdensome to the Department and fund recipients. The Department stated that it continuously assesses its business processes and controls to further enhance them, while striving to balance risks, costs, and benefits.

The Department added that it developed a detailed corrective action plan in response to the OIG findings and recommendations and submitted this plan to OMB and Congress in August 2015. That plan outlined detailed actions and estimated completion dates to improve the accuracy and completeness of its improper payment estimates, provide more detailed reporting in the AFR, and further enhance its controls over student aid payments.

The Department stated that it routinely analyzes payment data and considers other factors, such as OIG reports, to detect and recover improper payments that have occurred and to help devise ways to further reduce the risk of improper payments. The Department further stated that its primary strategy for minimizing improper payments is to implement front-end controls that prevent improper payments from occurring before it disburses Federal funds. The Department cited several automated controls to enhance its capability to prevent and detect improper payments that include checks or flags in the following areas:

- Pell Lifetime Eligibility Used, which is a check that calculates eligibility for student aid consistent with relevant laws;
- Unusual Enrollment History Flag, which indicates whether a student has an unusual enrollment history with regard to the receipt of Pell Grant funds and requires institutional review of related student records;
- National Student Loan Data System Fraud Loan Flag, which indicates that an applicant has one or more student loans that may have been obtained fraudulently and is not eligible to receive any Federal student aid until the issue is resolved;
- Student and Parent Internal Revenue Service Display Flag, which informs schools whether tax information was requested from the Internal Revenue

Service in completing the FAFSA and whether the requested data was modified after it was transferred; and

- Suspect Identity File, which is a check that identifies applicants who have submitted data that matches a pattern that may be indicative of fraud.

The Department stated that FSA has continued its efforts to build a catalog of improper payment and fraud-related controls and to assess them for effectiveness. Additionally, FSA has improved its coordination with the OIG on fraud referrals, to include developing processes to analyze referrals and identify potential fraud indicators for suspicious student activity. The Department added that FSA plans to build on this collaboration with the OIG and establish a fraud group during FY 2016 to oversee its intake, analysis, and disposition of fraud referrals.

Overall, the Department recognized the inherent risk in dealing with multiple non-Federal organizations that disperse billions of dollars to grant subrecipients and in student aid on its behalf. However, it believed that its efforts to strengthen grantee risk assessment, implement automated payment controls, conduct more effective monitoring, and improve the timeliness of audit resolution have had a positive effect. This included reducing the improper payment rates for all non-FSA grant programs to below the OMB-designated risk threshold. However, the Department recognized that improper payments by a limited number of non-FSA grantees will continue to occur each year and stated that it remains committed to leveraging the audit follow-up process to help identify and recover improper payments made by non-Federal organizations and to assist them in strengthening their internal controls to minimize future improper payments.

Finally, the Department stated that as the OIG identifies improper payments in specific programs and institutions, the Department works with those institutions to help them address the root cause of the findings. The Department provided the following statuses of three unresolved audit reports, which we discuss in the section “Further Actions Needed to Address the Challenge” below as:

- “Ohio Department of Education’s Administration of its Race to the Top Grant”—Audit findings are partially resolved. Transitioning the program to Department’s Office of Elementary and Secondary Education has delayed resolution of the remaining findings. Final resolution is expected by the end of FY 2015.
- “Metropolitan Community College’s Administration of the Title IV Programs”—Resolution of the findings required additional on-site work. This work is in the planning phase.
- “Colorado Technical University’s Administration of Title IV, Higher Education Act Student Financial Assistance Programs”—The Department is working to confirm when the enhanced student engagement rules were enforceable, as the start date of the student engagement rules triggered the school’s noncompliance. The audit resolution has been escalated per the standard audit procedures for assessed liabilities of this size.

Further Actions Needed to Address the Challenge

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

The Department needs to effectively monitor SFA program recipients, SEAs, and LEAs to ensure they properly spend and account for Federal education funds. The Department further needs to effectively resolve our audits of its program fund recipients to recapture identified improper payments. The OIG issued seven audits that identified questioned or unsupported costs between April 1, 2012, and March 31, 2015. As of September 2015, three of the seven audits (42.9 percent) were reported as unresolved within the Department’s audit tracking system. As noted below, each of these audits was overdue for resolution with respect to the OMB A-50 requirement that audits are resolved within 6 months of final report issuance.

Audit Report	Issue Date	Resolution Due Date (Per OMB A-50 Requirements)	Questioned Costs
Metropolitan Community College’s Administration of the Title IV Programs	5/15/2012	11/15/2012	\$ 232,918
Colorado Technical University’s Administration of Title IV, Higher Education Act Student Financial Assistance Programs	9/21/2012	3/21/2013	\$ 173,164
Ohio Department of Education’s Administration of its Race to the Top Grant	9/2/2014	3/2/2015	\$ 30,748

In addition to those audits, the Department remains challenged to complete the resolution process for several older audits with complex subject matter. These include the “Follow up Audit of Saint Louis University’s Use of Professional Judgment,” February 10, 2005, with recommended recoveries of more than \$1.4 million and “Saint Mary-of-the-Woods College’s Administration of the Title IV Programs,” March 29, 2012, with questioned costs of more than \$42.3 million.



INFORMATION TECHNOLOGY SECURITY

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

The OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to the Department's systems and data. For the last several years, IT security audits performed by the OIG with contractor assistance, OIG investigative work, and audits performed by the Department's independent public accountant (IPA) for its financial statement audits have identified security controls that need improvement to adequately protect the Department's systems and data. The Department provided corrective action plans and completed some actions in response to OIG audit recommendations. However, the Department needs to effectively address IT security deficiencies, provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

Background

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

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

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

Results of Work Performed

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

OIG IT Security Related Audit Work Found Recurring IT Control Weaknesses

In November 2014, the OIG issued an audit report on the Department's compliance with the Federal Information Security Management Act (FISMA) for FY 2014. The report identified findings in 6 of the 11 Department of Homeland Security reporting metrics or control areas, including configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. Findings in 5 of the 6 reporting metrics contained repeat or modified repeat findings from OIG reports issued within the prior 3 years.

Our management information report issued in September 2014 found that FSA was not effectively overseeing and monitoring private collection agency (PCA) and guaranty agency security controls. We specifically noted that FSA did not process PCA system reauthorizations before their 3-year expiration, resolve findings of

security control deficiencies timely, or collect and validate PCA training certificates. We further found that FSA has inadequate assurance that guaranty agency information system security complies with FISMA requirements. The issues noted could result in increased vulnerability of the PCAs' and Department's systems to attack and limit the assurance of guaranty agency's information security and data integrity.

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

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

OIG IT Security Related Investigative Work Identified IT Security Weaknesses

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

IPA Financial Statement Audit Work Continues to Highlight the Need to Improve Information System Controls

The Department's IPA for its financial statement audits identified the need to enhance controls surrounding information systems as a significant deficiency for the past 6 years. The IPA's review of general IT controls in performing the audit of the Department's FY 2014 financial statements identified weaknesses that included security management, personnel security, access controls, and configuration management. Prior reports cited weaknesses in areas such as activity monitoring, access termination, revalidations, password configuration, incident response, contingency planning, and change management.

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

Department Actions and Plans

In its response to our draft Management Challenges report, the Department stated that it provided corrective action plans to address the recommendations in FYs 2012, 2013, and 2014 OIG audits. The Department added that it has completed actions such as implementing a different student identification system, deploying a new security operations management system and processes to ensure that it timely responds to reportable incidents, updating policy and procedures to meet National Institute of Standards and Technology (NIST) and Departmental guidelines, and implementing a solution for remote email access to require dual authentication.

The Department stated that in May 2015, FSA implemented a new student identification system, the Person Authentication Service, as part of FSA's Enterprise Identity Management Program. The program centralizes all access and identity management functions for nonprivileged users (such as borrowers, students, and prospective borrowers) and is focused on making provisioning and access management for FSA systems more efficient and secure for both FSA's partners and nonprivileged users. The Department further stated that the Person Authentication Service addresses significant vulnerabilities in the previous FSA personal identification number system; specifically, the new system eliminates the use of Social Security numbers and a personal identification number for user identification. The Department reported that the first release of the Person Authentication Service provided additional layers of security with log-in pattern tracking and challenge questions for more than 13 million users. The Department added that in FY 2016, FSA will expand system capabilities to include risk-based authentication that uses an external third-party credit agency to verify identity by asking users questions about their purchasing history.

The Department stated that in June 2015, it implemented a new Security Operations Management system, for use by both the Department's Security Operations Center and the FSA Security Operations Center, to provide an integrated system allowing joint management of the Incident Response process, as well as overall case management and Security Operations Center operations. The Department identified related capabilities that included managing an end-to-end security incident life cycle as a consistent business process, centralizing incident management with integrated business context, implementing a data response process, correlating security incidents to controls and measure effectiveness of security controls, and measuring and reporting on the Security Operations Center program with dashboards and reports.

The Department stated that it has implemented a solution to provide two-factor authentication for accessing email remotely from personal computers and mobile devices, replacing the username and password authentication method. The Department also reported that access to email on a personal mobile device requires principal office approval. The Department further stated that it has deployed an enterprise Network Access Control solution that identifies all devices that attach to the network, distinguishes those devices from users, and authenticates devices that connect to the network. Overall, the Department reported that its strategy is to implement access control restrictions for devices connecting to the network and via unrestricted ports and validate Government-furnished equipment and non-Government-furnished equipment security configuration for remote access.

The Department stated that in late 2014, FSA implemented the FSA Security Operations Center that will strengthen FSA's network and data security. The Department reported that the FSA Security Operations Center includes a centralized team of analysts that ensure data systems are secure, identify malicious activity to reduce risk of a compromise, and minimize damage. The Department added that throughout FYs 2016 and 2017, the FSA Security Operations Center will increase its ability to monitor FSA information and data throughout the FSA enterprise, to include third-party partners such as Title IV Additional Servicers (TIVAS). The Department further stated that the FSA Security Operations Center will use new technologies for monitoring, such as packet capture and specialized threat mapping.

The Department further noted that FSA established a project plan for guaranty agencies to execute a self-assessment based on the NIST 800-53, "Security and Privacy Controls for Federal Information Systems and Organizations," and conducted site visits to verify security posture and tracking of corrective actions through completion. The Department reported that FSA has obtained OMB approval of the self-assessment process and is amending the guaranty agency agreements to include compliance with NIST standards for security controls that will provide the authority necessary to require appropriate protection of student loan and financial data.

Further Actions Needed to Address the Challenge

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

While the Department has made progress towards implementing its two-factor authentication plans, it needs to continue its process of implementing and enforcing the use of two-factor authentication for all Federal employees, contractors, and other authorized users. Allowing users to sign on to Web email using a one-factor authentication limited to a username and password could expose user accounts and lead to cyber attacks.

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

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



OVERSIGHT AND MONITORING

SFA Program Participants

The Department must provide effective oversight and monitoring of participants in the SFA programs under the Higher Education Act of 1965, as amended, to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. The Department's FY 2016 budget request dedicates \$176.1 billion to Federal student aid, including \$28.9 billion in Pell Grants and nearly \$141.7 billion in student loans. More than 13.2 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

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

assess and improve its oversight and monitoring of program participants and take effective actions when problems are identified.

Background

FSA performs a vital service within the system of funding postsecondary education in the United States by ensuring that all eligible Americans have access to Federal financial assistance for education or training beyond high school. FSA is responsible for implementing and managing Federal student financial assistance programs authorized under the Higher Education Act of 1965, as amended. These programs provide grants, loans, and work-study funds to students attending colleges or career schools to assist with expenses such as tuition and fees, room and board, books and supplies, and transportation.

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

The Federal SFA programs collectively represent the nation's largest source of Federal financial aid for postsecondary students. To help ensure that students and their families benefit from its programs, FSA performs functions that include informing students and families of the availability of the Federal student aid programs and on the process of applying for and receiving aid from those programs; developing the FAFSA and processing FAFSA submissions; offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing the Federal student aid programs. In FY 2014, FSA processed more than 20.7 million FAFSAs, resulting in the delivery of \$133.8 billion in Title IV aid to almost 12.9 million postsecondary students and their families. These students attend more than 6,100 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

In fulfilling its program responsibilities, FSA directly manages or oversees more than \$1.1 trillion in outstanding loans—representing more than 186 million student loans to approximately 41 million borrowers. These loans were made primarily through the Direct Loan and FFEL programs.

Under the Direct Loan program, the Federal Government provides funding through postsecondary institutions. Public and private entities under contract with the Department handle loan origination and servicing. As of September 30, 2014, FSA's portfolio of Direct Loans included \$726 billion in loans outstanding.

The Student Aid and Fiscal Responsibility Act of 2010 ended the origination of new FFEL program loans after June 30, 2010. However, lenders, guaranty agencies, and their third-party servicers continue to service FFEL program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL program loan portfolio of about \$395 billion as of September 30, 2014.

Both the total student debt level and payment delinquency rate continue to generally trend upward. The Federal Reserve Bank of New York reported that outstanding student loan balances, including data from banks, credit unions, other financial institutions, and Federal and State Governments, were \$1.19 trillion as of May 2015. This represents an increase of \$929 billion since the first quarter of 2004. In February 2015, the Federal Reserve reported that larger numbers of borrowers and balances per borrower have contributed to the overall expansion in student loan debt. This has been driven by factors that include more people pursuing postsecondary education, students staying in school longer, higher educational costs, and repayment programs that reduce required payments and lengthen loan terms. The Federal Reserve noted that between 2004 and 2014, the number of borrowers increased 92 percent and average student loan balances increased 74 percent. It further reported that more than 4 percent of borrowers, about 1.8 million people, have more than \$100,000 in student loan debt.

The Federal Reserve Bank's data showed that while many forms of consumer debt declined over the past 5 years, including mortgage (-7.5 percent), home equity (-26.6 percent), and credit card (-10.3 percent) debt, student loan debt had increased by 57 percent. As of the first quarter of 2015, student loans made up 10 percent of aggregate consumer debt, compared to 6.3 percent in the first quarter of 2010. The Federal Reserve Bank also reported that 11.6 percent of student loan balances were 90 or more days delinquent as of the first quarter of 2015. While the delinquency rate has declined from its 2013 peak, it remains 21.7 percent higher than in the first quarter of 2010.

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

Results of Work Performed

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

Audits and Inspections Found That FSA's Oversight and Monitoring of SFA Program Participants Could be Improved

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

Our September 2015 report on SOLEX College's administration of selected aspects of the Title IV programs found that SOLEX College did not disburse Title IV funds only to eligible students enrolled in Title IV-eligible programs. We found that SOLEX College's two English as a second language programs were not Title IV-eligible programs because SOLEX College did not admit only students who needed English as second language instruction to use their already existing knowledge, training, or skills for gainful employment and did not document its determinations

that the students needed the instruction for such purposes. For award years 2012–2013 and 2013–2014, SOLEX College disbursed \$1,795,500 in Pell funds to students who were enrolled in ineligible English as second language programs.

In September 2015, we issued a report on the Higher Learning Commission’s evaluation of competency-based education programs. We concluded that the Higher Learning Commission did not establish a system of internal control that provided reasonable assurance that schools’ classifications of delivery methods and measurements of student learning for competency-based education programs were sufficient and appropriate. We further reported that the Higher Learning Commission did not consistently apply its standards for reviewing competency-based education programs because its policies and procedures for substantive change applications needed strengthening. As a result of these weaknesses, the Department might not receive sufficient information about a school’s proposed competency-based education programs to make fully informed decisions about the Title IV eligibility of the programs.

Our September 2015 report on FSA’s oversight of schools participating in the Title IV programs found weaknesses in FSA’s processes for performing program reviews and selecting schools for program reviews. We specifically noted that FSA’s program review specialists did not always conduct program reviews in accordance with established procedures and that FSA’s Program Compliance division managers did not consider high annual dropout rates when prioritizing schools for program reviews as required by the Higher Education Act of 1965, as amended. As a result of these weaknesses, FSA has limited assurance that program reviews are appropriately identifying and reporting all instances of noncompliance.

In March 2015, we issued an audit report on FSA’s oversight of schools’ compliance with the incentive compensation ban. We identified weaknesses in FSA’s oversight that included monitoring, enforcement actions, and resolution of related findings. We noted that FSA’s program review files contained insufficient evidence to show that institutional review specialists completed all required incentive compensation related testing procedures. We also found FSA had not developed effective procedures and guidance regarding the determination of appropriate enforcement action for incentive compensation violations. Finally, we found that FSA did not properly resolve incentive compensation ban findings. As a result of these weaknesses, FSA was less likely to detect incentive compensation violations and cannot ensure it took appropriate and consistent enforcement actions and corrective actions.

In December 2014, we issued an audit report on the Department’s administration of student loan debt and repayment. We concluded that the Department does not have a comprehensive plan or strategy to prevent student loan defaults and thus cannot ensure that efforts by various offices involved in default prevention activities are coordinated and consistent. We further noted that the roles and responsibilities of the key offices and personnel tasked with preventing defaults or managing key default-related activities and performance measures to assess the effectiveness of the various default prevention activities are not well-defined. Without a coordinated plan or strategy, Department management may not be in a position to make strategic, informed decisions about the effectiveness of default prevention initiatives and activities. The Department may have missed

opportunities to communicate and coordinate across offices, identify and rank risks, streamline activities, communicate with servicers, use data to manage and innovate, respond to changes, and provide greater transparency.

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

Our September 2014 report on direct assessment programs³ found that the Department did not adequately address the risks that schools offering direct assessment programs pose to the Title IV programs and did not establish sufficient processes to ensure that only programs meeting Federal regulatory requirements are approved as Title IV-eligible. Not adequately addressing risks increases the likelihood that schools might create direct assessment programs that are not Title IV-eligible, such as those that are really correspondence programs. Not establishing sufficient processes increases the risk that the Department will not obtain enough information to sufficiently evaluate the merits of all direct assessment program applications. During our audit, we also identified two instances where the Department could have obtained additional information from the school or the accrediting agency before making decisions about whether the programs were Title IV-eligible direct assessment programs.

In February 2014, we issued an inspection report on FSA’s plans for school closures by a for-profit entity. We found that some of FSA’s risk mitigation strategy action items have not been fully incorporated into its work processes and implemented. We also noted that information posted to FSA’s public Web site is difficult to find and not as comprehensive as it could be. Additionally, we found that procedures developed for handling school closures did not provide clear guidance on how student outreach should be performed or provide a process that should be followed in the event of a precipitous school closure.

In July 2013, we issued an audit report on the transparency of proprietary schools’ financial statement data for FSA programmatic decision making. We determined that the presentation of instruction and marketing expenses in the audited financial statements was not consistent and did not allow for comparison across schools. The ability to identify the amount spent on instruction is an important measure because this activity represents the primary mission of all schools. The amount spent on marketing is important because proprietary schools may devote significant resources to recruiting and enrolling students and can be indicative of a school’s focus. We determined that the financial statements submitted by 78 percent of publicly traded schools and an estimated 58 percent of privately held schools did not present the amounts spent on instruction and marketing.

³ According to 34 Code of Federal Regulations (C.F.R.) § 668.10, direct assessment is a measure—such as a paper, exam, or portfolio—that shows what a student knows and can do and provides evidence that a student has command of a specific subject, content area, or skill.

In February 2015, the Government Accountability Office (GAO) issued a report on financial aid programs for teachers. GAO reported that about 36,000 of the more than 112,000 Teacher Education Assistance for College and Higher Education (TEACH) grant recipients had not fulfilled grant requirements and had their grants converted to loans. GAO noted that the Department does not collect information on why recipients do not meet requirements and as a result is hindered in taking steps to reduce grant-to-loan conversions and improve participant outcomes. GAO also concluded that the Department had erroneously converted 2,252 TEACH grants to loans, had not completed a systematic review of the cause of these errors, and lacked reasonable assurance that it had taken steps to minimize future erroneous conversions. GAO further noted the Department lacks clear, consistent guidance to help recipients understand the TEACH grant-to-loan conversion dispute process.

In December 2014, GAO issued a report titled “Education Should Strengthen Oversight of Schools and Accreditors” in response to a Congressional request. As part of this effort, GAO reported that the Department does not consistently use accreditor sanction information for oversight, to include reviewing accreditor sanction information and recording responses to the sanctions. GAO further determined that the Department does not systematically use sanction information to prioritize schools for in-depth review, as required by law, or make consistent use of the accreditor sanction information when deciding whether to rerecognize accreditors. GAO concluded that consistent use of accreditor sanction information could help the Department determine whether schools are complying with Federal financial aid requirements and oversee accreditors effectively.

Audits and Investigations of SFA Program Participants’ Activities Identify Noncompliance and Fraud

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

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

financial incentives in their contracts with servicers that created the potential for conflicts of interest. Finally, three of four schools provided student information that was not needed to deliver credit balances and did not monitor servicer activities for compliance with Federal requirements for handling personally identifiable information.

In February 2014, GAO issued a report, “College Debit Cards: Actions Needed to Address ATM Access, Student Choice, and Transparency,” relating to this area. GAO reported that college debit cards can be convenient for students and provide cost savings and efficiency for schools but identified a number of related concerns. These included certain providers charging fees not typically charged by mainstream debit cards, the lack of a specific definition of “convenient access” to fee-free ATMs, and the appearance that some schools or card providers encouraged students to enroll in a college card without providing information about all payment options.

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

- In June 2015, Education Affiliates, Inc., a for-profit education company that operates 50 campuses under various names throughout the United States, agreed to pay \$13 million to address civil false claims allegations. The Government had alleged that employees at the company altered admissions test results to admit unqualified students, created false or fraudulent high school diplomas, and falsified students’ federal aid applications.
- In June 2015, a man was indicted on charges of theft of Government property, student financial aid fraud, and possession of false papers. According to the indictment, from March 2008 through August 2013, he provided fraudulent documents to New York University that purported to be letters and other documents from doctors, professors, and a landlord, in order to receive more than \$1 million in Federal student loans.
- In March 2015, the cofounders of Carnegie College were sentenced for conspiracy to commit mail fraud, wire fraud, and conspiracy to launder money. They were sentenced to prison time and to pay more than \$2.3 million in restitution. From August 2007 through May 2012, the cofounders recruited students who had not earned a high school diploma or certificate of high school equivalency to attend Carnegie College and then obtained fraudulent high school diplomas and Federal student aid for these students.
- In October 2014, American Commercial Colleges, Inc., and the school’s president were sentenced in U.S. District Court for convictions related to a Title IV fraud scheme. American Commercial Colleges was ordered to pay more than \$970,000 in restitution and a \$1.2 million fine, and the school’s president was sentenced to 24 months imprisonment and ordered to pay more than \$970,000 in restitution. Our investigation found that the school fraudulently increased its non-Federal revenue by forcing students to

obtain private loans only to repay them with Title IV funds. The school reported the fraudulent non-Federal revenue figures to the Department to appear it was complying with the 90/10 rule so it could maintain its Title IV eligibility and receive millions of dollars in Federal student financial aid.

- In September 2014, a financial aid employee at Lone Star College was sentenced to 5 years incarceration and ordered to pay \$9,500 in restitution for her role in a Federal student aid fraud scheme. The Lone Star College employee obtained student's identifying information from the college's computer systems and provided the information to others who used it to divert financial aid refunds to various bank accounts they controlled. The employee and her accomplices stole more than \$110,000 in Federal student financial aid. A total of 14 people have been indicted on charges related to the investigation.
- In May 2014, a test administrator for student admissions at the All-State Career School was sentenced to a year and a day in prison, followed by 3 years of supervised release for conspiring to defraud a student financial aid program. The former test proctor changed test scores for about 170 students, 72 of whom received financial aid totaling \$572,255.
- In February 2014, the former president of Galiano Career Academy was sentenced to 4 years in Federal prison for theft of Government property, obstruction of a Federal audit, and aggravated identity theft. He was also ordered to pay more than \$2.1 million. The former academy president admitted that he knowingly used a high school "diploma mill" owned and operated by his wife to make students eligible for financial aid when they otherwise would not have been eligible. He also admitted that he secretly used a recording device to monitor conversations of FSA staff as they conducted a program review at his school, tampered with student records during the review, used the name and Social Security number of a student to illegally obtain student aid. Galiano Career Academy received more than \$1.9 million in Federal student aid funds for students who were ineligible to receive them.
- In February 2014, four Montgomery Alabama residents were sentenced for conspiracy to defraud the United States Department of Education and ordered to pay restitution of more than \$895,000. The defendants defrauded the Government, colleges, and universities of more than \$1.1 million in financial aid by using false diplomas or certificates of high school equivalency to enroll themselves or recruited individuals at various schools. Ultimately, the financial aid funds they received were used for non-educational purposes such as the purchase of personal items or to pay for personal expenses.
- In August 2013, ATI Enterprises, Inc., agreed to pay the Government \$3.7 million to resolve False Claims Act allegations that it falsely certified compliance with Federal student aid programs' eligibility requirements and submitted claims for ineligible students.

OIG work continues in this area, including reviews of the effectiveness of FSA's enterprise risk management program and the Department's oversight of misrepresentation regulations. Additional planned work for FY 2016 includes projects relating to the Department's oversight of at-risk schools, the Department's monitoring of the total and permanent disability loan discharge process, due diligence in servicing Department loans, and the Department's evaluation and oversight of school's participation in the experimental sites initiative.

Department Actions and Plans

In its response to our draft Management Challenges report, the Department stated that it has made significant progress in providing the public with information about financial assistance options available for postsecondary education, while also working to manage the risks inherent in providing more than \$170 billion in Federal student aid to millions of Americans.

The Department stated that FSA has a broad compliance and oversight monitoring program that includes making referrals to the OIG when it identifies potential fraud. The Department further reported that its reviews of institutions are risk-based and that FSA uses predictive analytics and data matching as part of its processes to address student financial assistance fraud.

Beginning with the 2013–2014 application processing year, FSA implemented a new customized verification process that enabled FSA to inform schools of specific FAFSA data elements that must be verified before an applicant receives Title IV aid. The Department stated that FSA continues to monitor and analyze the FAFSA data elements and has identified key indicators of potential fraud as predictive criteria. For example, the Department reported that the National Student Loan Data System is now being matched with Central Processing System data for potential suspicious enrollment and disbursement patterns. When these criteria are triggered, additional attestation is required before Title IV aid can be disbursed to applicants with this flag. The Department also stated that FSA uses the data that financial aid administrators submitted, such as the required verification results for students flagged for possible identity fraud, to detect other potential fraud patterns, such as the same combinations of email addresses and school codes submitted on the FAFSA.

The Department stated that FSA's Application Processing Division continues to enhance the verification processes and make modifications to tighten the application criteria. It added that enhancements and improvements planned for the 2016–2017 award year include the following:

- adding a process to provide nonrecipient data from the Central Processing System to the OIG via the FSA data warehouse to assist the OIG with fraud analysis;
- modifying current verification tracking requirements to require all applicants who have been added to the Suspect Identity File to complete both identity and financial verification;
- improving coordination with the OIG on fraud referrals, to include developing processes to analyze referrals and identify potential fraud indicators for suspicious student activity;

- adding verification results data to the FSA data warehouse, which will allow FSA to conduct more in-depth analysis of verified recipient data with other FSA data;
- enhancing the review for identity theft when an applicant is selected so that these applicants are automatically included in the verification selection process;
- updating the award year default to ensure that schools are reporting results for the correct year; and
- expanding identity verification selection to include graduate students (currently, only undergraduate students are selected for identity verification).

The Department further stated that it continues to assess and improve its oversight of participants in the Federal student aid programs by providing training for Department employees, issuing guidance and proposing regulations, and improving its related processes. The Department reported that related activities included the following.

- FSA implemented a Quality Control Process in February 2014 to verify staff are documenting the procedures that they followed when conducting program reviews.
- The Department rescinded the Hansen Memo⁴ in June 2015 by issuing new guidance as recommended in the March 2015 OIG audit report “Federal Student Aid’s Oversight of Schools’ Compliance with the Incentive Compensation Ban.”
- In response to the December 2014 GAO report, “Education Should Strengthen Oversight of Schools and Accreditors,” FSA reviewed its procedures to determine whether they needed any updates and provided training to the relevant staff on March 17, 2015.
- In response to the September 2014 OIG audit report, “Oversight of Guaranty Agencies During the Phase-Out of the Federal Family Education Loan Program,” FSA is issuing updated guidance regarding the calculation of the reserve ratio and will apply this methodology to the 2015 calculations to identify any guaranty agency at risk of not being able to pay lender claims timely.
- In May 2015, the Department published a proposed rule, “Program Integrity and Improvement,” that addresses the OIG’s and GAO’s recommendations to ensure that student interests are served when schools use servicers to deliver credit balances. The new rules will be final on or before November 1, 2015.
- FSA restructured its external audit follow-up process effective January 2015. The new process monitors, tracks, and maintains the

⁴ The Hansen Memo was an internal memorandum, dated October 30, 2002, from the then Deputy Secretary of Education to the Chief Operating Officer for FSA that stated the appropriate enforcement action for an incentive compensation violation would generally be a fine. The resulting internal procedures and guidance discouraged FSA employees from using all allowable enforcement actions at FSA’s disposal.

appropriate documentation to ensure that audits are resolved and closed timely in the Department's Audit Accountability and Resolution Tracking System in accordance with prescribed procedures. FSA has closed 26 of the 36 external audits that were open in the system at the time of the audit.

Further Actions Needed to Address the Challenge

Our work continues to identify problems with the Department's oversight of participants in the SFA programs and the Department has initiated actions to address many of our recommendations. Given the significant challenges that FSA faces in overseeing and monitoring SFA program participants, the Department needs to improve its systems to ensure it has controls to ensure funds are disbursed for only eligible students and to effectively manage the performance of the Federal student loan portfolio.

Effectively implementing improvements to its verification procedures will help ensure more accurate disbursements. Additionally, FSA needs to establish systematic procedures to evaluate the risks within its programs, develop strategies to address risks identified, and implement those strategies to ensure effective operations. It further needs to assess its control environment to ensure that it is working to address known and newly identified risks, including those identified by OIG reviews and other sources.

Distance Education

Distance education uses certain technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between the student and the instructor. The flexibility offered is popular with students pursuing education on a nontraditional schedule. Many institutions offer distance education programs as a way to increase their enrollment. Management of distance education programs presents a challenge for the Department and school officials because of few or no in-person interaction to verify the student's identity or attendance.

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

Background

Distance learning has created a trend in the way college students attend classes and earn their degrees because of the flexibility, convenience, and growing acceptance of online courses. Distance education is the fastest growing segment of higher education and creates unique oversight challenges. The growth in distance education highlights the need for greater oversight and statutory or regulatory change. The key risk areas posed by distance education include the verification of a student's identity, determination of a student's academic attendance, and the calculation of cost of attendance for students enrolled in distance education programs. The Department has taken some steps to mitigate these risks, but further actions are needed.

In June 2014, the Department issued "Enrollment in Distance Education Courses, by State: Fall 2012." The Department noted in its report that the 2012 Fall Enrollment component of the Integrated Postsecondary Education Data System survey was the first time it collected data on enrollment in courses that delivered instructional content exclusively through distance education. The Department further reported that about 5.4 million students enrolled at Title IV institutions (25 percent of total students enrolled) had enrolled in at least one distance education course, and 2.6 million students (12 percent) were enrolled exclusively in distance education courses.

The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the Federal student aid law and regulations and creates new opportunities for fraud, abuse, and waste in the Title IV programs. Past audits, investigations, and special projects have shown instances of problems related to verifying student identity, determining

Results of Work Performed

attendance, and determining cost of attendance. These problems are increasing as schools deliver more programs through distance education and more students enroll in programs offered entirely through distance education.

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

Investigations Identify an Increasing Risk of Fraud Involving Distance Education Programs

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

In 2005, the OIG had opened 16 distance education fraud ring investigations; as of July 28, 2015, the OIG had opened 146. All aspects of distance education—admission, student financial aid, and course instruction—may take place through the Internet, so students may not be required to present themselves in person at any point. Because institutions offering distance education are not required to verify all prospective and enrolled students' identities, fraud ringleaders use the identities of others (with or without their consent) to target distance education programs. These fraud rings mainly target lower cost institutions because the Federal student aid awards are sufficient to satisfy institutional charges and result in disbursement of the balance of an award to the student for other educational expenses.

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

- In May 2015, a man was sentenced to 2 years of probation for his role in a fraud ring that included current and former students at Miami Dade College. The fraud ring obtained personally identifiable information from other students' financial services accounts to steal those students' tax refunds. A total of 21 people were charged for their roles in the scheme that involved 644 victims and resulted in a loss of about \$1.9 million.
- In April 2015, a woman pled guilty to mail fraud for her involvement in a distance education fraud scheme. The ringleader solicited personal information from willing participants, a majority of whom did not possess a high school diploma or its equivalent. The ringleader allegedly enrolled these participants as students in online courses at multiple institutions, even though they did not qualify for Federal student aid and did not intend to attend college. The ringleader completed online coursework until Federal student credit balances were disbursed to the straw students, who then paid the ringleader once they received their Federal student aid

overages. This fraudulent activity resulted in ineligible students receiving more than \$400,000 of Federal student.

- In December 2014, an individual pled guilty to charges of conspiring to defraud the Department of more than \$369,000 in Federal student aid funds. The individual conspired to enroll fictitious students in online college courses and submit fraudulent online applications for Federal student aid. The individual, who was serving a sentence in State prison at the time, obtained the personally identifiable information of other prison inmates to enroll for online courses.
- In December 2014, fourteen people were indicted for conspiracy to student loan fraud, mail fraud, and wire fraud. The two ringleaders of this fraud scheme, who were previously indicted and convicted, obtained personal information from the coconspirators and others to enroll in online courses at multiple institutions to obtain Federal student aid for a fee. The coconspirators were not eligible to enroll or did not attend school and agreed individually to act as straw students. More than \$680,000 in Federal student aid funds was dispersed as a result of the alleged fraudulent activity.
- In November 2014, a woman was sentenced to 54 months in Federal prison and 36 months of supervised release, and she was ordered to pay more than \$564,000 in restitution for committing student financial aid fraud. The woman was an employee of a public accounting firm and fraudulently used the identities of others to obtain Federal student aid, private student loans, credit cards, and the Internal Revenue Service refunds for her own use.
- In July 2014, six people were charged with participating in a fraud ring that sought to obtain more than \$2.7 million in student aid, mortgages, bank, and small business loans. According to the indictment, between 2010 and 2012, the ring submitted at least 40 fraudulent applications for Federal student aid. Some of the applications were completed using stolen identities that the ring obtained through a credit card fraud scheme. The ring allegedly caused the financial aid checks to be sent to certain addresses that they controlled, then cashed the checks and used the proceeds for themselves and others.
- In February 2014, three members of an Oakland-based fraud ring pled guilty to stealing more than \$1 million in Federal student aid. The three recruited straw students to participate in the scam and assisted them in preparing, signing, and transmitting fraudulent admissions and student aid applications, knowing that many of the straw students were not eligible to receive student aid because they did not have a high school diploma or certificate of high school equivalency and had no intention of attending classes or using the funds for educational purposes. After receiving the student aid refund balances, the three would share the proceeds with one another and sometimes with the straw students. In pleading guilty, one defendant admitted to fraudulently receiving more than \$114,700 in Federal student aid; a second, \$136,000; and the third, more than \$770,000.

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

Audit Find Weaknesses in the Department’s Oversight of Distance Education Programs

Our audits have identified weaknesses in the oversight and monitoring of distance education program participants. As mentioned in the section “Improper Payments,” our February 2014 audit on whether the Department adapted requirements and guidance for Title IV programs to mitigate risks inherent in the distance education environment determined that the oversight provided by the Department, accrediting agencies, and States has not been adequate to mitigate the risk of schools not complying with the requirements that are unique to the distance education environment. The Department issued regulations and provided guidance to accrediting agencies and schools to address distance education issues associated with verification of student identity, attendance, and fraud. However, the regulations and guidance as they relate to verifying the identity of distance education students and the definition of attendance do not sufficiently mitigate the risks of fraud, abuse, and noncompliance. Additional requirements are needed to ensure that schools verify a student’s identity as part of the enrollment process, define attendance applicable to the distance education environment, and to ensure that cost of attendance budgets reflect the costs associated with each student’s actual educational needs.

OIG work continues in this area as our investigative activity continues to pursue instances of fraud in distance education programs.

Department Actions and Plans

The OIG issued an investigative program advisory report in 2011 alerting FSA to significant fraud vulnerability in distance education programs. The report provided recommendations that, if implemented, would mitigate future risk of fraud ring activity in the Title IV programs. Since then, the Department has implemented numerous controls to address these concerns, including expanded data analysis capabilities to detect patterns and predict potential fraud, in addition to enhanced verification requirements. For example, it is now incumbent on schools to verify certain data elements, such as student identity and completion of secondary school or its equivalent. The Department has also expanded the program review procedures to strengthen oversight of distance education programs. The procedures were revised to expand general assessment reviews, collect additional distance education recipient data, and expand the annual risk assessment.

Further Actions Needed to Address the Challenge

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs—and gather other information as needed—to analyze the differences between traditional education and distance education. Because FSA does not require schools to identify when a student is enrolled in a distance education program it is not in the position to analyze and identify system problems related to distance education and mitigate those problems. Based on our work, the Department still needs to define instruction and attendance in a distance education environment and clarify how to calculate the return of Federal student aid in a distance education environment.

In addition, the Department should develop regulations that require schools offering distance education to establish processes to verify a student's identity as part of the enrollment process. Finally the Department should work with Congress to amend the Higher Education Act to specify that a school's cost of attendance budget for a distance education student should include only those costs that reflect actual educational expenses.

Grantees

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

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

Background

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

The Department is responsible for administering, overseeing, and monitoring about 120 programs. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,900 public school districts and 50 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include the Title I program, which under the President's FY 2016 budget request would deliver \$15.4 billion to help nearly 24 million students through local programs that provide extra academic support to help raise the achievement of students at risk of educational failure or, in the case of schoolwide programs, to help all students in high-poverty schools meet challenging State academic standards. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States, which would provide about \$11.7 billion to help States and school districts meet the special educational needs of 6.6 million students with disabilities.

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

Results of Work Performed

OIG work has identified a number of weaknesses that could be limited through more effective oversight and monitoring. These involve LEA fiscal control issues, SEA control issues, and fraud perpetrated by officials at SEAs, LEAs, and charter

schools. We also noted internal control weaknesses with the Department's oversight processes through our audits and inspections.

LEA Fiscal Control Issues

As noted in the section "Improper Payments," we issued multiple reports providing additional details and recommendations relating to our work performed at LEAs as part of the review of final expenditures under the Recovery Act for selected educational agencies. This included the following.

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

SEA Control Issues

In FY 2014, we issued a management information report to alert the Department's Office of Elementary and Secondary Education to serious fraud and corruption in Title I-funded tutoring programs. The report states that the OIG has experienced a significant increase in cases of fraud and corruption involving Supplemental Educational Services providers. These investigations have uncovered cases of falsification of billing and attendance records, corruption by public officials, conflicts of interest related to recruiting students, conflicts of interest related to public school officials who are employed by an Supplemental Educational Services provider in noninstructional positions, and the use of improper financial incentives

to enroll students. The report made recommendations that will help reduce the incidence of fraud and corruption and improve the ability of the OIG and others to identify and prosecute violators.

Since the issuance of the management information report, OIG investigations have continued to identify instances of fraud involving Supplemental Educational Services providers. These include the following.

- In April 2015, two Dallas-area tutoring company owners were sentenced to 60 months incarceration and ordered to pay more than \$1.6 million in restitution. The investigation found that the two owners and their employees falsified student sign-in sheets and invoices and improperly billed several Texas school districts for tutoring services that they did not provide. The companies also mass enrolled thousands of students for Supplemental Educational Services using several different Internet protocol addresses originating in Kenya and wired thousands of dollars overseas.
- In January 2015, seven former employees of a New York City Supplemental Educational Services provider entered into consent judgments totaling more than \$335,000 for engaging in a scheme to fraudulently obtain Federal funds for tutoring services that it never provided. These judgments are in addition to the more than \$2.1 million in civil settlements and judgments that were previously obtained from the provider and three other former employees. According to court documents, from 2010 through 2012, the provider repeatedly submitted bills to the New York City Department of Education for students who had not actually received any tutoring. In his settlement agreement, a former employee admitted that student signatures were routinely forged on daily attendance sheets and that students were instructed to sign daily attendance sheets for tutoring classes that the students either had not attended or would not be attending.

Our July 2015 audit report on the North Carolina Department of Public Instruction's administration of its Race to the Top grant (previously mentioned in the section "Improper Payments") noted North Carolina did not ensure that the one LEA included in our review spent Race to the Top funds only on allowable activities and adequately documented its Race to the Top expenditures.

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

Our audits of States' use of Recovery Act funds and data quality (reports issued from FY 2010 through FY 2013) found that most of the States and LEAs we reviewed generally used Recovery Act funds appropriately. However, we identified multiple instances in which State and local recipients and subrecipients made charges to Recovery Act funds that were improper, unallowable, or not appropriately documented. We also noted other weaknesses in selected States

that included insufficient controls to ensure that a grant award selection process was fair and equitable, inadequate tracking of award and disbursement of Federal funds, and insufficient monitoring of subrecipients to ensure they complied with Federal fiscal requirements related to use of and accounting for Federal funds.

Fraud by SEA and LEA Officials

Since FY 2008, we have opened 110 investigations of either SEA or LEA officials related to allegations of fraud and corruption in Department programs. More effective internal control systems at the SEAs and LEAs could have mitigated the risk of these fraud schemes. These investigations have identified fraud schemes that included improper activities to (1) steer contracts, (2) increase standardized test scores, (3) issue false checks, (4) misuse procurement credit cards, and (5) falsify records to receive payment for work not performed.

- In February 2015, two former Beaumont Independent School District employees were indicted for fraud upon programs receiving Federal funds and conspiracy. The indictment alleged that a former assistant superintendent devised a scheme in which she embezzled more than \$63,000 from a booster club fund and improperly steered contracts worth more than \$480,000 to a family member. In addition, the former assistant superintendent and a former high school principal allegedly conspired to increase standardized test scores by providing teachers with test answer keys and by changing answers on student test booklets.
- In January 2015, the former Westside Community Schools comptroller pled guilty to embezzlement and theft from a program receiving Federal funds. From 2004 through 2010, the former comptroller defrauded the school district of more than \$193,000 by issuing school checks for cash, purchasing more than 600 gift cards and other items for personal use, receiving duplicate or other additional compensation for work he performed at the school's foundation, and opening an unauthorized credit card account for personal purchases that he paid for using school district funds.
- In January 2015, the former director of Federal programs for the Alabama State Department of Education and her husband were sentenced to 2 years in prison, and each was ordered to pay a \$10,000 fine for ethics violations involving the award of Federal grants. An OIG investigation found that the former director, with her husband's assistance, diverted more than \$24 million in Federal education funds to LEAs doing business with her husband's employer.
- In November 2014, a former Fairfax County Public School District principal pled guilty to embezzlement and was sentenced to 12 months incarceration and 1 year of probation, and she was ordered to pay \$35,000 in restitution for her role in a fraud scheme. The former principal and her accomplice falsified timesheets relating to an afterschool program that received Federal funds under the Department's 21st Century Community Learning Center program. They created timesheets in the names of their dependents who subsequently received payments for work they did not perform.

- In August 2013, a former Detroit Public Schools accountant and a former teacher were convicted on charges of program fraud conspiracy, money laundering conspiracy, and tax charges. Between 2004 and 2008, they obtained more than \$530,000 from the Detroit Public Schools through a fraudulent scheme in which orders were placed with a sham company for books and educational materials never provided to the schools.
- In May 2013, an employee of the Shorewood School District pled guilty to theft concerning programs receiving public funds. Over 13 years, the employee, an administrative assistant who handled purchasing for her department, created bogus purchase orders to use school district funds for vacations and household items. She converted more than \$300,000 in school district funds for personal use.
- In April 2013, a former associate superintendent and acting chief financial officer of Pontiac Schools was sentenced to 12 months in Federal prison and ordered to pay \$336,000 in restitution to Pontiac Schools after having been convicted of one count of defrauding a program receiving Federal funding. The former associate superintendent directed a subordinate to issue a check for \$236,000 to his “International Leadership Academy” that he in turn used to finance luxury vehicles, travel, and other personal items.

Fraud by Charter School Officials

Charter schools generally operate as independent entities that fall under oversight of a LEA or charter authorizing agency. Our investigations have found that LEAs or chartering agencies often fail to provide adequate oversight to ensure that Federal funds are properly used and accounted for. From January 2005 through July 28, 2015, the OIG has opened 68 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 over \$12.6 million in restitution, fines, forfeitures, and civil settlements.

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

- In July 2015, two people were indicted on charges of conspiracy, mail fraud, and tax evasion. The couple allegedly embezzled more than \$2.6 million intended for the operation and function of a charter school and its programs by maintaining “off-books” accounts for personal use and falsely invoicing the school through its building management and landscaping contractor.
- In August 2013, the former chief executive officer of Harambee Institute of Science and Technology Charter School pled guilty to two counts of wire fraud. The former chief executive officer admitted to improperly obtaining funds from a scholarship fund and Harambee Institute. The former chief executive officer improperly withdrew \$9,000 from the scholarship fund to purchase a house for himself in Philadelphia and converted about \$79,000 from Harambee Institute for his own personal use.

- In June 2013, a woman pled guilty to a Federal charge stemming from the theft of more than \$75,000 from a charter school where she worked as a temporary accounting employee. She accessed the school's accounting system, changed names of legitimate vendors on pending checks to those of fictitious vendors, and then forged the signature of the director of finance on the checks. These checks were then cashed and used for personal benefit.

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

- In August 2013, the founder and chief executive officer of the Pennsylvania Cyber Charter School was indicted on three counts of mail fraud, two counts of theft concerning programs receiving Federal funds, one count of conspiracy, and five counts of fraud and false statements on a tax return. The individual's accountant was also indicted on one count of conspiracy. The school's chief executive officer allegedly created a series of connected for-profit and not-for-profit entities to siphon taxpayer funds out of the school and to avoid Federal income tax liabilities. From 2006 through 2012, he and the accountant allegedly shifted more than \$8 million in income attributable to chief executive officer to the Federal income tax returns of other persons so that the chief executive officer's true income was concealed from legitimate taxing authorities.
- In March 2013, the former business manager of Agora Cyber Charter School, Ad Prima Charter School, Planet Abacus Charter School, and Laboratory Charter School pled guilty to charges of conspiracy to obstruct justice and obstruction of justice in a Federal investigation. The former business manager and four co-conspirators were indicted in July 2012 for allegedly falsifying documents such as board meeting minutes, board resolutions, financial records, and contracts that resulted in \$5.6 million in fraudulent payments to one of co-conspirator's private management companies.

Internal Control Weaknesses in the Department's Oversight Processes.

In September 2015, we issued an audit report on the external audit follow-up process in the Office of Chief Financial Officer (OCFO). We found that OCFO's audit followup process was not always effective and noted that OCFO did not close audits timely and did not adequately maintain documentation of its audit followup activities. Between October 1, 2008 and September 30, 2013, OCFO closed 29 external OIG audits. Of the 29 closed audits, 18 (62 percent) were closed more than 2 years after resolution, 10 (34 percent) were closed more than 5 years after resolution, and 5 audits (17 percent) were not closed for more than 7 years after resolution. The total of the monetary recommendations associated with the 29 audits was more than \$57 million.

In September 2015, we issued an audit report on the external audit follow-up process in the Office of Special Education and Rehabilitative Services (OSERS). We concluded that OSERS' audit follow-up process was not always effective and noted that while OSERS adequately maintained documentation of audit follow-up activities for the audits included in our review, it did not close audits

timely. OSERS closed 14 external OIG audits between October 1, 2008, and September 30, 2013; however, 11 (79 percent) were closed more than 2 years after resolution and 2 (14 percent) were closed more than 5 years after resolution. The total of the monetary recommendations associated with the 14 audits was more than \$356 million.

In June of 2015, we issued an audit report that concluded FSA's external follow-up process was not always effective. We noted that FSA did not close audits timely and did not adequately maintain documentation of audit followup activities. We reported that while FSA had resolved a total of 36 external OIG audit reports between October 1, 2008, and September 30, 2013, only 1 of these audits had been closed. We further noted that as of March 2014, 25 of these 36 audits (69 percent) had been in resolved status for more than 2 years and 9 of the 25 audits (36 percent) had been in resolved status for over 4 years. The total of the monetary recommendations associated with the 36 resolved audits was \$1,307,921,789.

In September 2014, we issued an audit report on the duplication of effort with selected Office of Postsecondary Education discretionary grants. We did not identify any duplication of services provided under the Talent Search, Upward Bound, and GEAR UP programs at the two schools we visited. However, we found that Office of Postsecondary Education had not implemented adequate internal controls to provide assurance that grantees minimized the duplication of services.

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

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

GAO has also conducted work related to grantee oversight and monitoring. A July 2015 GAO report noted that the Department did not have mechanisms to promote regular, sustained information-sharing among its various program offices that support quality of the Teacher Preparation Programs. GAO concluded that the Department could not fully leverage information gathered by its various programs and may miss opportunities to support State efforts to improve program quality.

In April 2015, GAO reported that that the Department could better support the Race to the Top program grantees and help the grantees address capacity

challenges. GAO noted that a better understanding of the capacity challenges faced by rural districts could help the Department better target its technical assistance. GAO stated that unless the Department focused on technical assistance activities that States found most useful, it risked providing ineffective assistance to programs supporting education reforms. GAO also identified key lessons learned, such as leveraging existing funding flexibilities under Federal formula grants, to help address capacity needs and sustain reforms when the program ends in September 2015.

In a June 2014 report on the Department's Promise Neighborhoods grants, GAO reported that the Department did not communicate clearly to grantees about its expectations for the planning grants and the likelihood of receiving implementation grants. As a result, some grantees experienced challenges sustaining momentum in the absence or delay of implementation grant funding.

Ongoing work in this area includes reviews of the Puerto Rico Department of Education's use of Adult Education State Grant program funds and the reliability of the program's performance data, nationwide assessment of charter and education management organizations, the Department's oversight of closed charter schools, the Department's oversight of Career and Technical Education programs, and protection of personally identifiable information in State Longitudinal Data Systems. Planned projects for FY 2016 include work relating to the implementation of OMB's Uniform Grant Guidance, the Department's coordination and oversight of educational services for homeless children and youth, and the Department's oversight of the Indian Education Formula Grants to LEAs program.

Department Actions and Plans

In its response to our draft Management Challenges report, the Department stated that actions completed during FY 2015 included issuing policy and guidance and providing training and technical assistance to program staff to enhance business operations in the area of grant award monitoring and oversight.

As new regulations for grant administration, codified at 2 C.F.R. Part 200, applied to Department grants awarded beginning December 26, 2014, the Department stated that it mobilized the Uniform Guidance Implementation Team including representatives from Risk Management Service, the Office of the Chief Financial Officer, and the Office of the General Counsel. The Department reported that the team developed and provided training to Department staff and grantees on how to comply with the regulatory changes to more effectively and efficiently administer their grant programs.

To promote effective grant oversight, the Department stated that it issued internal guidance for offices that manage formula grant programs. In December 2014, the Department issued a grant policy bulletin establishing uniform requirements for developing monitoring frameworks that include key internal controls to guide the design of program level monitoring plans. The Department added that it provided technical assistance was provided to several offices and developed an internal Web site as a as a repository for the monitoring frameworks and as a resource for collecting promising practices and sharing tools.

The Department stated that in FY 2016, it will further improve monitoring and oversight through efforts such as new training for Department employees on grant

monitoring in on-site and virtual environments and training for grantees in the areas of cash management, internal controls, discretionary and formula grants administration, and indirect cost.

Further Actions Needed to Address the Challenge

The Department's efforts to improve monitoring of grant recipients, enhance risk management, increase financial expertise among its grants monitoring staff, and develop mechanisms to share information regarding risks and monitoring results are critical for it to show progress in addressing this longstanding management challenge. Effective implementation of OMB's Uniform Grant Guidance, with specific focus on requirements relating to internal control and recipient and subrecipient monitoring provides an excellent opportunity for the Department to address these challenges. The Department should also consider methods to use the single audit process and updates to OMB's A-133 Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs. Given its vast oversight responsibilities and limited resources, it is especially important for the Department to effectively implement actions that build its own capacity and leverage the resources of other entities that have roles in grantee oversight.

In addition to its efforts to improve grant administration and oversight, the Department should pursue several regulatory or statutory changes that would strengthen its ability to detect and address fraud and abuse in its programs. These include the following:

- mandating minimum requirements for SEA monitoring of LEA administration of Elementary and Secondary Education Act programs;
- requiring the reporting to the OIG of suspected fraud, other criminal misconduct, waste, and abuse related to the Elementary and Secondary Education Act; and
- changing data retention periods to coincide with Federal criminal, civil, and administrative statute of limitation periods.

Contractors

The Department relies heavily on contractor support to accomplish its mission and to ensure the effective operations of its many systems and activities. As of May 2015, the Department had obligated more than \$5.6 billion towards active contracts. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. OIG reports have included numerous deficiencies in the area of contract monitoring, and we have made recommendations for corrective action. The Department has taken action to address many of the issues noted.

Background

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

Results of Work Performed

The OIG has identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance, primarily related to the appropriateness of contract pricing and the effectiveness of contract management.

Appropriateness of Contract Pricing

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

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

Contract Management

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

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

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

OIG work continues in this area. This includes ongoing audits of the monitoring of school turnaround contractors and of FSA's effectiveness in addressing weaknesses identified in internal and external reviews of its acquisition function. Planned work for FY 2016 includes a review of loan servicers' due diligence in servicing Department-held loans.

Department Actions and Plans

In its response to our draft Management Challenges report, the Department stated that its high percentage of fixed-price contracts and deliverable-based payment schedules inherently lowers the risk of improper payments and unsuccessful contract performance. The Department believed that this approach, coupled with annual Contract Monitoring Plan and Contract Management reviews, provides a comprehensive appraisal of contractor performance and helps to ensure that it manages and monitors its contracts properly.

The Department stated that FSA has strengthened its contractor control environment through process improvements that include documenting change

requests through issuance of summary contract modifications and reviewing PCA vendors' control procedures. The Department added that FSA also instituted greater controls for monitoring borrower complaints against PCA vendors to ensure that complaints are resolved in a consistent manner across PCA call centers and by the FSA ombudsman. The Department further stated that FSA has recently established a Quality Assurance team within its acquisition organization.

The Department also reported that Contracts and Acquisitions Management has undertaken actions to ensure that the Department has appropriately qualified staff in place and in sufficient number to provide effective oversight of its contracts. In FY 2016, the Department plans to emphasize the hiring of well-qualified staff and offering training through the Federal Acquisition Certification in Contracting and the Federal Acquisition Certification for Contracting Officer's Representatives programs as critical steps in its process to improve contract monitoring.

Finally, the Department stated that Contracts and Acquisitions Management continues to provide training to the principal offices through "Conversations with Contracting Officer's Representatives." This program serves as an awareness and skills-development program to improve contracting officer's representatives' and project managers' understanding of performance monitoring and proper payment for various contract types.

Further Actions Needed to Address the Challenge

Because the Department relies on its contractors to help run its various programs and operations, effective contract management is critical for ensuring that its contractors perform effectively, that it receives the specified level and quality of products or services, and that it makes only appropriate payments. The Department has outlined numerous processes and efforts that have the potential to improve its oversight and monitoring of contractors. The Department needs to develop methods that can help it evaluate the effect of recent process changes. These may include items such as assessing the effect of FSA's Quality Assurance team on its contractor control environment and the success of hiring and training activities intended to increase its staffing of qualified contractor oversight professionals.



DATA QUALITY AND REPORTING

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

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

Background

The Department operates systems to collect data regarding its programs. For example, SEAs submit data through the Education Data Exchange Network to the ED*Facts* system. ED*Facts* is a central repository that consolidates kindergarten

through 12th grade education information collected from SEAs. This Internet-based collection process simplifies reporting and improves the timeliness of kindergarten through 12th grade education information. Data included in Department systems include proficiency rates on State academic assessments, graduation and dropout rates, numbers of schools identified as in need of improvement, and number of persistently dangerous schools. The Department has also collaborated with SEAs and other industry partners to centralize the SEA-reported data with other Department data, such as financial grant information. This collaboration enables better analysis and use of the data in policy development, planning, and program management at the Federal, State, and local levels.

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

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

Results of Work Performed

Program Performance Data

In March 2015, we issued an audit report on payback provisions of the Personnel Development to Improve Services and Results for Children with Disabilities Program. We identified limitations and quality issues with certain data the Department and its contractors used in compiling some of the performance data. The Department needed to improve its process for identifying and referring scholars for financial repayment. We found that a number of scholars funded under the program were not in a tracking system; therefore, the Department was not monitoring them to determine whether they were fulfilling their service obligations. Additionally, data that were entered into the tracking system were not verified to ensure they were current, accurate, and complete. We also found that the Department did not always appropriately identify and refer for financial repayment scholars who were not fulfilling their service obligations.

In January 2015, we issued an audit report on the Department's implementation and oversight of Elementary and Secondary Education Act flexibility requests. We found that although the Department established and implemented an extensive and effective monitoring process, improvements were needed to ensure the accuracy of information SEAs submitted. The Department relied on SEAs to ensure the accuracy of the information but did not verify that SEAs had policies and procedures in place to ensure accuracy. In addition, the Department did not require SEAs to provide an assurance statement covering the accuracy of the data submitted and did not have procedures requiring SEAs to disclose any limitations of the information, data, or validation process. Although the nine SEAs we

reviewed followed their respective State policies and procedures for ensuring the accuracy of data submitted to the Department, there is a risk that the remaining SEAs may not be taking steps to ensure data accuracy.

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

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

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

Our June 2013 audit report on the Department's and selected States' oversight of the 21st Century Community Learning Centers program noted that the Department could more effectively monitor and track SEAs' 21st Century Community Learning Centers program performance measures by ensuring that SEAs develop processes sufficient to provide reasonable assurances of the accuracy, reliability, and completeness of the performance information provided. We found that neither the Department nor three of the four SEAs we reviewed validated the performance data that the subgrantees submit. As a result, the Department was unable to ensure grantees had met program objectives because it could not be sure of the accuracy, reliability, and completeness of the performance data reported by SEAs. In addition, although the Department monitored the SEAs' processes to award and monitor subgrants, the Department did not identify internal control weaknesses that we found at the selected SEAs. We also

identified areas in which the Department can improve its oversight of the SEAs' award and monitoring processes.

Student Testing Data

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

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

Our investigative work has also identified instances of fraud relating to testing data. In January 2015, the former director of the Priority Schools Division at El Paso Independent School District was sentenced for her role in a scheme to provide fraudulent data to the Texas Education Agency and the Department. The investigation found that the former director conspired with the former superintendent and others to manipulate State and federally mandated annual reporting statistics to make it appear that the school district was meeting or exceeding its adequate yearly progress standards under the No Child left Behind Act. Also in October 2014, the former principal at a Massachusetts charter school pled guilty to one count of mail fraud for her role in helping students cheat on a State assessment test. The principal told teachers to give clues and other tips to students taking the Massachusetts Comprehensive Assessment System exams and falsely certified the tests had been administered honestly.

OIG work continues in this area. This includes ongoing work on the Department's use of management certifications of data reliability; compliance, measurements, and outcomes of the Vocational Rehabilitation State Grant program; the Puerto Rico Department of Education's use of Adult Education State Grant program funds and the reliability of the program's performance data; and SEA controls over calculating and reporting graduation rates. Additional planned work for FY 2016

Department Actions and Plans

includes audits of FSA's oversight of schools submitting untimely disbursement records and the FSA's process to select FAFSA data elements and students for verification.

In its response to our draft Management Challenges report, the Department stated that as a significant grant maker to SEAs, LEAs, institutions of higher education, and other nonprofit entities partnering in the delivery of educational resources, it has a vested interest in the quality of data it uses, promulgates, and relies on. The Department further acknowledged that data quality is particularly important to its role in making critical investments in our nation's education infrastructure.

The Department believes that its systems of internal control provide reasonable assurance that Federal investments are reviewed, approved, and managed in a manner consistent with applicable standards and are capable of achieving desired outcomes. The Department cited a collection of tools, cycles, and authorities in place to help it mitigate risks and verify and validate the data it relies on. These tools include the following:

- data system monitoring and edit checks;
- program monitoring, such as reviews of the management decisions and actions of grantees made with Federal funds, to gauge compliance with program requirements;
- evaluating the accuracy and effectiveness of reporting;
- partnering with third-party reviewers (such as SEA single audits); and
- exacting a range of remediation options, including targeted technical assistance, risk-based monitoring and certain interventions, and enforcement actions.

The Department stated it will continue to strengthen its control environment as it expands the use of data to improve decision making, validate evidence, and support ongoing research and innovation in the wider education community. The Department stated that it continues to seek substantive means and methods to strengthen its overall data quality, adding that some improvements to correct known weaknesses have been made proactively and others have resulted in response to OIG work. The Department further identified strategies across its principal offices that are being developed, considered or already implemented, to ensure continuous improvements. These strategies include the following.

- The Department is developing a set of policies and procedures to improve and strengthen integrity in the process of obtaining and reporting data. It is also working to verify existing data sources and to gauge a level of reliability for each source.
- The Department is coordinating technical assistance with stakeholders to establish a common understanding for establishing goals and targets and of the verifiability, validity, and reliability of data sources.
- The Department is developing an automated system of record, which will replace manual monitoring and internal reporting of program performance

results. The system offers improvement in validity and accuracy, as well as more enhanced data analysis to assist in decision making.

- The Department is developing a Performance Metrics Questionnaire to assist goal leaders and their teams in the development, verification, and validation of meaningful metrics and underlying data, to support their frequent monitoring and reporting on performance results. This is designed to improve the Department's ability to proactively consider and test proposed data sources to ensure that those sources are accurate, reliable, and stable enough to reproduce the performance information or results anticipated, on consistent and regular intervals.
- FSA is continuing to develop its Enterprise Data Warehouse, which is intended to capture, verify, validate, publish, and provide reliable data regarding the Title IV student assistance programs and related information. This process is intended to improve data quality with more systemic comparison and edit checking.
- The Institute of Education Sciences is continuing its effort to improve data quality in the *EDFacts* system by upgrading system edit checks and incorporating feedback from data stewards and SEAs.
- The Office of Deputy Secretary has received and is considering proposals to develop a stronger data strategy and infrastructure.
- The Office of Deputy Secretary has agreed to a strategy to strengthen data verification and validation by Department stakeholders, such as SEAs, grant recipients and others. This includes the Department, OIG, and States collaborating to enhance the single audit program design and the Institute of Education Sciences issuing a Dear Colleague Letter on best practices for data submissions for the *EDFacts* data repository.

Further Actions Needed to Address the Challenge

Data quality will continue to have a significant and far-reaching effect on the efficiency of various Department operations and in the Department's assessments of the performance of its programs and activities. While grantees vary in their comfort with and understanding of evaluation and use of evidence, the Department has limited resources to support grantees in conducting rigorous evaluations that would produce evidence of effectiveness.

The Department is working to improve staff and internal system capabilities for analyzing data and using it to improve programs. It must continue to work to ensure that effective controls are in place at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data are reported. The multiple initiatives that the Department has put in place to improve data quality show both the scope of the challenge it faces as well as the effort needed to address this challenge area. In particular, its efforts to develop and implement consistent policies and procedures and to assess the reliability of key data are important steps needed to show progress in addressing this challenge.



INFORMATION TECHNOLOGY SYSTEMS DEVELOPMENT AND IMPLEMENTATION

The Department's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department's activities in relation to this mission include executing administrative responsibilities related to Federal education funding, including the distribution of funds and monitoring their use. With respect to these activities, America's elementary, secondary, and postsecondary schools are serving a growing number of students as the population increases and enrollment rates rise. As of the fall of 2014, about 49.8 million students attend public elementary and secondary schools and about 21.0 million students were expected to attend American colleges and universities. The Department identified that between 2004 and 2014, its total loan originations increased by 56 percent and the number of FAFSA applications increased by 53 percent.

In addition to the increasing number of students and associated workload, the Department reported that certain responsibilities have grown substantially over

the past decade. This includes legislation affecting its activities and services such as the Recovery Act, the Ensuring Continued Access to Student Loans Act of 2008, and Student Aid and Fiscal Responsibility Act of 2010, as well as expanded administrative requirements relating to information security, financial management, and information technology management.

Overall, the Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with declining staffing levels. The Department reported that its overall administrative budget, when adjusted for inflation, is about the same as it was 10 years ago while its full-time equivalents have declined by 8 percent. This makes effective information systems development and implementation and the greater efficiencies such investments can provide critical to the success of its activities and the achievement of its mission. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development that have negatively impacted operations and may have resulted in improper payments.

Background

The Department's current IT investments include systems that support business process such as student application processing and eligibility determination for Federal student financial assistance; grant and loan award processing; procurement and acquisition; and the collection, storage and reporting on Title IV aid disbursements and aid recipients. Data from the Federal IT Dashboard⁵ reported the Department's total IT spending for FY 2015 was \$683.1 million, with FSA's IT spending accounting for \$474.6 million of the total. FSA's FY 2014 Annual Report, stated that FSA will continue to re-compete contracts associated with several of its major business processes over the next few years. FSA further reported this would primarily focus on application processing, loan and grant origination and disbursement, and its technology infrastructure. FSA acknowledged that managing multiple re-competes and new system implementations at the same time creates a number of risks and to mitigate risks of these large and complex implementations and that FSA must ensure that (1) knowledgeable staff have sufficient time to work on all of the relevant implementations, (2) tightly integrated systems that are in the process of changing at the same time do not implement conflicting requirements, and (3) project and portfolio management practices are in place to maintain effective management control over all of the implementations.

Results of Work Performed

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

The Department's IPA for its financial statement audits identified controls surrounding the Department's Debt Management Collection System (DMCS2) and

⁵ The IT Dashboard is a Web site enabling Federal agencies, industry, the general public, and other stakeholders to view details of Federal information technology investments. The IT Dashboard provides information on the effectiveness of Government IT programs and supports decisions regarding the investment and management of resources.

ACS, Inc., Education Servicing System (ACES) as a material weakness in its November 2012 report. In its December 2013 report, the IPA found that a number of the underlying system issues were addressed. However, some of the FY 2012 issues, including new issues identified in FY 2013, continued to impact the reliability of borrower account information and related financial statement balances throughout FY 2013.

DMCS2

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

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

The IPA subsequently reported that although the most significant functionality issues were identified and addressed in FY 2012, the Department continued to experience difficulties in resolving their effects throughout FY 2013. The IPA also noted that the Department identified additional programming errors affecting borrower balances during its efforts to implement corrective actions. The IPA reported that issues experienced by the Department could be directly related to the effect of not properly testing a new information system before putting the system into production.

ACS Education Servicing System (ACES)

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

In August 2015, we reported that FSA could not ensure that its contractor, Xerox, delivered a fully functional DMCS2 because FSA did not develop an adequate plan, ensure milestones were met, or use appropriate systems development tools. FSA initiated action to address information technology contracting weaknesses identified during our audit including life cycle management, IV&V and technical assistance, contractor accountability, and contract oversight. However, FSA needs to fully implement these actions to ensure that its new contract provides a

fully functional system. We also identified additional areas for improvement, such as involving FSA's Technology Office in the analysis of cost proposals, future negotiations with its new contractor, Maximus Federal Services, and evaluation of contractor cost overruns.

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

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

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

Department Actions and Plans

In its response to our draft Management Challenges report, the Department stated that managing changes for numerous integrated systems requires effective enterprise change management and investment management processes and continuous review of and improvement on existing project and portfolio management activities. The Department stated that to build on these capabilities, it must hire qualified staff and ensure that they are appropriately trained.

The FSA Annual Report identifies strategies for ensuring that knowledgeable staff have sufficient time to work on all of the relevant system improvements and that changes do not include conflicting requirements. The Department stated that FSA has established project and portfolio management practices to maintain effective management control over all of the implementations, including investment management and enterprise change management processes that support IT systems development and implementation. The Department added that these processes include use of life cycle management methodology and other broadly accepted best practices.

The Department further stated that it has addressed the OIG-identified and FY 2012 self-reported issues related to DMCS and ACES, both of which were operated under the Common Services for Borrowers contract with Xerox that expired in 2014, by transferring all borrower accounts off of the ACES system and decommissioning the system. The Department awarded a new contract to manage DMCS, and the new vendor, Maximus Federal Services, took over

operations on August 1, 2014. The Department reported that the new contract included explicit requirements related to managing and tracking software development activities. The Department also noted that it awarded an independent validation and verification contract to bring more focus on DMCS development activities. The Department stated that FSA has not experienced any further material deficiencies related to system implementations, as confirmed by the OIG in the FY 2014 financial statement audit, and has significantly improved a number of areas related to DMCS operations and financial reporting.

Further Actions Needed to Address the Challenge

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

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



APPENDIX A. WORK DISCUSSED UNDER THE CHALLENGES

The following audits, inspections, investigative cases, and other work are discussed under the challenge areas.⁶

Challenge: Improper Payments

OIG Internal Reports

“U.S. Department of Education’s Compliance with Improper Payment Reporting Requirements for Fiscal Year 2014,” May 2015 (A03P0003)

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

⁶ OIG reports may be found on our Web site at <http://www2.ed.gov/about/offices/list/oig/reports.html>. Unless otherwise noted, dates referenced for investigative activities relate to the ending period for the OIG Semiannual Reports to Congress where the activities are discussed: <http://www2.ed.gov/about/offices/list/oig/sarpages.html>. Investigative press releases noted are available at <http://www2.ed.gov/about/offices/list/oig/ireports.html>. GAO reports may be found on GAO’s Web site at www.gao.gov.

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

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

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

OIG External Reports

“The North Carolina Department of Public Instruction’s Administration of its Race to the Top Grant,” July 2015 (A05O0005)

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

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

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

Challenge: Information Technology Security

IG or Contractor Internal Reports

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

“The U.S. Department of Education’s Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2014,” November 2014 (A11O0001)

“Financial Statement Audits - Fiscal Years 2014 and 2013 - U.S. Department of Education,” November 2014 (A17O0001)

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

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

“PIN Security Vulnerabilities,” September 2013 (X21L0002)

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

Challenge: Oversight and Monitoring—SFA Program Participants

OIG Internal Reports

“Federal Student Aid’s Oversight of Schools Participating in the Title IV Programs,” September 2015 (A03L0001)

“Audit of the Followup Process for External Audits in Federal Student Aid,” June 2015 (A19P0001)

“Federal Student Aid’s Oversight of Schools’ Compliance with the Incentive Compensation Ban,” March 2015 (A05N0012)

“The U.S. Department of Education’s Administration of Student Loan Debt and Repayment,” December 2014 (A09N0011)

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

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

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

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

OIG External Reports

“SOLEX College’s Administration of Selected Aspects of the Title IV Programs,” September 2015 (A05O0007)

“The Higher Learning Commission Could Improve Its Evaluation of Competency-Based Education Programs to Help the Department Ensure the Programs Are Properly Classified for Title IV Purposes,” September 2015 (A05O0010)

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

OIG Investigations

“Canton Couple Sent to Prison for \$2.3 Million Student Loan Fraud,” Press Release, March 2015

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

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

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

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

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

GAO Reports

“Better Management of Federal Grant and Loan Forgiveness Programs for Teachers Needed to Improve Participant Outcomes” February 2015 (GAO-15-314)

“Education Should Strengthen Oversight of School and Accreditors,” December 2014 (GAO-15-59)

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

Challenge: Oversight and Monitoring— Distance Education

OIG External Reports

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

OIG Investigations

“Smith County Woman Sentenced to Prison for Student Financial Aid Fraud,” Press Release, November 2014

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

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

Challenge: Oversight and Monitoring— Grantees

OIG Internal Reports

“Audit of the Followup Process for External Audits in the Office of the Chief Financial Officer,” September 2015 (A19P0004)

“Audit of the Followup Process for External Audits in the Office of Special Education and Rehabilitative Services,” September 2015 (A19P0003)

“Audit of the Followup Process for External Audits in Federal Student Aid,” June 2015 (A19P0001)

“Office of Postsecondary Education Duplication of Effort with Discretionary Grants,” September 2014 (A06N0002)

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

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

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

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

OIG External Reports

“The North Carolina Department of Public Instruction’s Administration of its Race to the Top Grant,” July 2015 (A05O0005)

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

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

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

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

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

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

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

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

GAO Report

“Teacher Preparation Programs, Education Should Ensure States Identify Low-Performing Programs and Improve Information-Sharing,” July 2015 (GAO-15-598)

“Race To The Top, Education Could Better Support Grantees and Help Them Address Capacity Challenges,” April 2015 (GAO-15-295)

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

OIG Investigations

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

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

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

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

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

Challenge: Oversight and Monitoring— Contractors

OIG Internal Reports

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

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

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

Challenge: Data Quality and Reporting

OIG Internal Reports

“Payback Provisions of the Personnel Development to Improve Services and Results for Children with Disabilities Program,” March 2015 (A19O0004)

“U.S. Department of Education’s Implementation and Oversight of Approved Elementary and Secondary Education Act Flexibility Requests,” January 2015 (A04N0012)

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

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

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

OIG External Reports

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

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

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

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

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

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

OIG Internal Reports

“Review of Debt Management Collection System 2 Implementation,” August 2015 (A04N0004)

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

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

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

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

Appendix B. Acronyms and Abbreviations

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



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