

Statement of Kathleen S. Tighe, Inspector General
U.S. Department of Education Office of Inspector General
Before the Committee on Appropriations
Subcommittee on Labor, Health and Human Services, Education, and Related Agencies
United States House of Representatives
March 17, 2011

Chairman Rehberg, Ranking Member DeLauro, and Members of the Subcommittee:

Thank you for inviting me here today to discuss the work of the U.S. Department of Education (Department) Office of Inspector General (OIG) involving improper payments. This is my first opportunity to testify before this Subcommittee since my confirmation last year as the Inspector General. It is an honor to lead this organization and to have the opportunity to work with this Subcommittee to help ensure that the taxpayer dollars that fund the Department's programs and operations are used in accordance with Federal statutes and regulations and meet the needs of America's students and families.

For over 30 years, the OIG has worked to promote the efficiency, effectiveness, and integrity of Federal education programs and operations. We aggressively identify and pursue waste, fraud, and abuse involving the Department's programs and operations. An integral part of this work includes our efforts to help the Department prevent and detect improper payments. Our work related to improper payments has evolved and increased over the years to include evaluating specific Departmental controls to prevent and detect improper payments; reviewing and providing recommendations on the Department's improper payment risk assessments; auditing the Department's Federal Student Aid office's (FSA) methodology for estimating improper payments in the Federal Family Education Loan Program (FFEL); and reviewing, auditing, and

investigating major recipients of Federal funds. Where we have identified improper payments, we have provided recommendations for improvement. The Department has generally been receptive to our suggestions and has taken corrective actions to address identified weaknesses, which in some cases, have led to the recovery of improperly disbursed funds.

As requested, I will discuss the major areas where we have identified improper payments, the Department's response to those findings, and our current efforts to help the Department address the challenges it faces in preventing, identifying, and recovering improper payments.

Improper Payments involving Federal Student Aid Programs

One area where we have identified improper payments is the Federal student aid programs. As a result of the *Improper Payments Information Act of 2002* and guidance from the Office of Management and Budget (OMB), the Department identified FFEL as a program at significant risk of improper payments and thereby subject to additional oversight, including an annual estimation of improper payments. To help the Department improve both its estimation of improper payments and its controls to stop ongoing and prevent future improper payments, we conducted an audit of the Department's FFEL improper payment estimation process, as well as a series of audits on improper special allowance billings by lenders.

Our audit of the FFEL improper payment process found that FSA used different methodologies for estimating the improper payment rates for FY 2006 and FY 2007 and planned to use another methodology for FY 2008. While FSA consulted with OMB staff during the design and execution of the methodologies and generally followed the statutory definition and OMB guidance for loan guarantee programs, we found several significant factors affected the

reliability of the calculated rates. To resolve the audit, OMB met with FSA and our office. Agreement was reached that rather than trying to calculate an overall rate for an extremely complicated program with many different payment streams, FSA would not calculate and report a rate for several years while it developed a methodology focusing on specific types of high-risk payments. FSA's risk analyses to date have not yielded any result that could help inform decisions on improper payment measurement and no error rate or estimate for the FFEL Program for FY 2010 was reported.

In 2005-2007, OIG issued a series of audits on improper special allowance billings by lenders. Our report of one lender, the National Education Loan Network or Nelnet, found that the lender had improperly billed the Department for loans that did not qualify under a special allowance rate. We estimated that Nelnet had received about \$278 million in improper payments for the time period reviewed, and if the abuse was not stopped, an additional \$882 million of improper payments would be paid over the life of the ineligible loans. The Department concurred with our audit and ceased payment on that particular type of special allowance billing on all pending December 2006 claims from 40 lenders until independent audits were conducted. We worked in collaboration with the Department to develop a methodology to identify eligible and ineligible loans and also published a special audit guide to be used by independent auditors. Independent audits conducted over the next year identified that 90 percent of the loans billed were ineligible and, as a result, prevented well over a billion dollars in improper payments.

Improper Payments involving Elementary and Secondary Education Programs

In recent years, we have performed a substantial amount of work addressing fiscal issues at State educational agencies (SEA) and local educational agencies (LEA). For example, in January

2010, we issued an audit of the Philadelphia School District in which we found that expenditures totaling more than \$138 million were either unallowable or inadequately supported. Also, in July 2009, we compiled a report for the Department on the pervasive fiscal issues reported in over 40 OIG audits of SEAs and LEAs, which collectively had identified approximately \$62 million in unallowable costs, \$119 million in inadequately documented costs, and \$1.4 billion in funds determined to be at risk. These amounts were, in most cases, a direct result of internal control weaknesses, including a lack of adequate policies and procedures, policies and procedures that were in place but not followed, and a lack of understanding regarding program regulations and guidance. To address these weaknesses, we suggested that the Department enhance its guidance to SEAs and LEAs on how to implement the administrative requirements of Federal grants and ensure that SEA and LEA officials understand the importance of complying with the requirements. In some cases, the Department has taken action by issuing guidance to reduce the risk of improper payments and by requiring the States to return funds.

Our work has also uncovered fraud which could have been prevented by stronger internal controls or proper supervision and oversight. We worked with the Department to develop a technical assistance plan and training curricula for SEAs and LEAs on detecting and reporting fraud.

Current OIG Efforts

Our history of work involving improper payments has enabled us to be proactive in helping the Department and recipients prevent and reduce improper payments. Perhaps nowhere is this more evident than with our Recovery Act work. Based on our previous work involving fiscal issues at SEAs and LEAs, we developed and implemented a strategy to proactively and quickly identify

potential control weaknesses and improve the administration of Recovery Act funds prior to substantial monies going out. The response to our efforts has been generally positive, with the Department and a number of State and local agencies taking timely action to address our findings and implement our recommendations, which should reduce the occurrence of improper payments. While our Recovery Act work is still underway, we have not yet confirmed any significant improper payments involving Recovery Act funds by any of the SEAs or LEAs we have thus far reviewed.

Compliance with New Requirements

In 2010, both the White House and the 111th Congress took actions to require Federal agencies to better identify and reduce improper payments. In its FY 2010 Annual Financial Report, Department officials stated that they need to continue to explore additional opportunities for identifying and reducing potential improper payments and to ensure compliance with the new requirements. We are committed to helping them do so and will continue to provide suggestions to identify, reduce, and recover improper payments. In addition, we are initiating a review to more closely examine the Department's methodology for identifying high-dollar overpayments. We will continue to review the Department's quarterly reports on high-dollar overpayments and evaluate actions it is taking. Furthermore, we will evaluate the Department's compliance with the *Improper Payments Elimination and Recovery Act of 2010* and issue an annual report on the Department's compliance, as required by the statute.

Mr. Chairman, this concludes my remarks. I am happy to answer your questions.