U.S. Department of Education
Office of Inspector General

U.S. Department of Education FY 2019 Management Challenges

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

October 26, 2018

TO: The Honorable Betsy DeVos
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2019

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 four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. Although the Department made some progress in addressing these areas, each remains a management challenge for fiscal year (FY) 2019.

The FY 2019 management challenges are:

(1) Improper Payments,

(2) Information Technology Security,

(3) Oversight and Monitoring, and

(4) Data Quality and Reporting.

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 2019 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 four management challenges:

(1) improper payments,

(2) information technology security,

(3) oversight and monitoring, and

(4) data quality and reporting.

Although the Department made some progress in addressing these areas, each remains a management challenge for fiscal year (FY) 2019.

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 2019 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. In addition, the Office of Management and Budget (OMB) has designated these programs as high-priority programs, which are subject to greater levels of oversight.

Our recent work has demonstrated that the Department remains challenged to meet required improper payment reduction targets and needs to intensify its efforts to successfully prevent and identify improper payments. In May 2018, we issued an audit report on the Department's compliance with improper payment requirements for

FY 2017. We found that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) because it did not meet its reduction target for the Pell program. The Department reported a FY 2017 improper payment rate of 8.21 percent for the Pell program, which exceeded its reduction target of 7.85 percent. We found that the Department met the FY 2017 reduction target for the Direct Loan program. We reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete. We also found that the Department adequately described the oversight and financial controls it has designed and implemented to identify and prevent improper payments.

This was the Department's second consecutive year of not meeting its reduction target for the Pell program. Under IPERA and OMB guidance, if an agency is not in compliance with IPERA for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine whether additional funding would help the agency come into compliance. In addition, OMB may require agencies that are not compliant with IPERA (for one, two, or three years in a row) to complete additional requirements beyond the measures listed in the guidance. For example, if a program is not compliant with IPERA, OMB may determine that the agency must reevaluate or reprioritize its corrective actions, intensify and expand existing corrective action plans, or implement or pilot new tools and methods to prevent improper payments. OMB will notify agencies of additional required actions as needed.

Overall, our semiannual reports to Congress from April 1, 2015, through March 31, 2018, included more than $715 million in questioned or unsupported costs from audit reports, which may be determined to be improper payments, and more than $45 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

The Department stated that it is committed to maintaining the integrity of payments to ensure that the billions entrusted to it reach intended recipients in the right amount and for the right purpose. The Department stated that it sustains payment integrity by establishing policies, business processes, and controls over key payment activities, to include those pertaining to payment data quality, cash management, banking information, and financial reports. Payment integrity includes robust controls designed to prevent, detect, and recover improper payments. The Department added that in designing such controls, it strives to strike the right balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome. The Department noted that it must rely in part on controls established by the recipients of Federal funds, including State, local, and private organizations that further distribute those funds on behalf of the Department. The Department stated that because these third-party controls are outside of the Department's operational authority, they present a higher risk than the payments made

directly by the Department, as evidenced by the OIG work and the Department's root cause analyses.

The Department stated that its current nonstatistical estimation methodology for improper payments in student aid programs limits the ability to establish accurate out-year reduction targets. The Department noted that it coordinated with OMB and other stakeholders in 2018 to develop a statistically valid methodology that will be implemented in 2019 to estimate improper payments for the Pell Grant and Direct Loan programs. The Department believed that this new methodology will improve the accuracy of the estimates and the Department's ability to meet reduction targets.

In addition, the Department stated that it is pursuing legislation that would authorize the Internal Revenue Service to disclose tax return information directly to the Department for the purpose of administering programs authorized by Title IV of the Higher Education Act of 1965, through which the Department awarded more than $120 billion in FY 2017. The Department expects the exemption would allow for significant simplification of and improvement to the administration of Title IV programs, including reduction in improper payments.

The Department stated that it is also is developing an updated portfolio of risks through its Enterprise Risk Management program that is intended to help ensure that the risk of improper payments across the Department is managed strategically. The Department further stated that it is working to integrate its Enterprise Risk Management framework with its internal control program to help prevent and detect improper payments. The Department's internal control framework over payment integrity includes over 500 controls designed to help prevent and detect improper payments. These controls are included in the universe of internal controls the Department tests annually to assess their design and operating effectiveness. When the Department detects control deficiencies, it identifies the root causes, develops corrective action plans, and tracks the completion of the corrective action through resolution.

What Needs to Be Done

The Department needs to continue to take action to improve its payment integrity. The Department should continue its work to develop a methodology to accurately estimate improper payments, identify root causes, meet reduction targets, develop corrective action plans, and complete these plans to ensure programs comply with IPERA. The Department should also review and improve its business processes and controls over key payment activities to explore additional opportunities for preventing improper payments.

The Department needs to develop and implement processes to more effectively and efficiently monitor institutions participating in the student financial assistance program participants, State education agencies, and local educational agencies to ensure they

properly spend and account for Federal education funds. This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients.

Management Challenge 2—Information Technology Security

Why This Is a Challenge

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, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability.

The OIG's work related to information technology continues to identify control weaknesses and ineffective security management programs that the Department needs to address to adequately protect its systems and data. For example, our most recent report on the Department's compliance with the Federal Information Security Modernization Act of 2014 (FISMA) noted that the Department and Federal Student Aid (FSA) made progress in strengthening their information security programs; however, we found weaknesses in the Department's and FSA's information systems and those systems continued to be vulnerable to security threats.

As guided by the maturity model used in the FY 2017 Inspector General FISMA Metrics, we found that the Department and FSA were not effective in all five security functions—Identify, Protect, Detect, Respond, and Recover. We also identified findings in all seven metric domains: (1) Risk Management, (2) Configuration Management, (3) Identity and Access Management, (4) Security Training, (5) Information Security Continuous Monitoring, (6) Incident Response, and (7) Contingency Planning. We made recommendations to assist the Department and FSA with increasing the effectiveness of their information security program so that they fully comply with all applicable requirements.

Progress in Meeting the Challenge

The Department stated that it has made significant progress managing risk associated with information technology security. In particular, the Department noted that it has focused on addressing information technology control issues that were identified in prior-year OIG FISMA audits. The Department stated that it has continued to implement a comprehensive set of solutions that strengthen the overall cybersecurity of its networks, systems, and data.

The Department stated that it had taken actions to improve cybersecurity across the five security functions. Examples of actions identified by the Department within each area include the following.

- **Identify.** The Department stated that it implemented the use of a risk scorecard as a risk management tool and established a quantitative methodology for identifying, analyzing, and managing system-level cybersecurity risks. The Department stated that the risk scorecards are used to perform regular framework-based risk assessments to identify security gaps and opportunities to enhance the Department's cybersecurity capabilities and better protect its network assets and data.
- **Protect.** The Department stated that it had provided three cybersecurity training courses and had also executed six simulated phishing exercises in FY 2018. The Department believed that these exercises strengthened its ability to reduce risks to systems and information through modified user behavior and improved resilience to spear phishing, malware, and drive-by attacks.
- **Detect.** The Department stated that it completed acquisitions that included a database scanning tool and a Security Information Event Management solution. The Department also stated that it adjusted the network access control solution to further limit opportunities for potential malicious activity to occur and continued its work with the Department of Homeland Security to implement Continuous Diagnostics and Mitigation tools within its primary network infrastructure.
- **Respond.** The Department stated that it had increased forensics and vulnerability management capabilities and had reduced the turnaround time for security analysis through the acquisition and implementation of additional tools and hardware. The Department stated that multiple improvements in security reporting were also implemented to provide a quick view of activity statuses and security posture, including an improved Chief Information Officer weekly report.
- **Recover.** The Department stated that it implemented a new enterprise cybersecurity offering to system stakeholders that focused on testing system contingency plans and the incident response processes.

What Needs to Be Done

The Department reported significant progress towards addressing longstanding information technology security weaknesses. However, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations.

While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of information technology security controls, particularly in the areas of configuration management, identity and access management, and information security continuous monitoring.

Our FISMA audits will continue to assess the Department's efforts, and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes. To that end, the Department needs to effectively address information technology security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

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 and programs are achieving goals and objectives. 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. Two subareas are included in this management challenge: student financial assistance program participants and grantees.

Oversight and Monitoring—Student Financial Assistance Program Participants

Why This Is a Challenge

The Department must provide effective oversight and monitoring of participants in the student financial assistance 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. In FY 2019, FSA expects to provide $129.5 billion in new Federal student aid grants and loans (excluding Direct Consolidation Loans) to almost 11.4 million postsecondary students and their families.

The growth of distance education has added to the complexity of the Department's oversight of student financial assistance program participants. The management of distance education programs presents challenges to the Department and school officials because little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the Federal student aid laws and regulations and creates new opportunities for fraud, abuse, and waste in the student financial assistance

programs. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to obtain Federal student aid.

Our audits and work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of student financial assistance program participants.

Progress in Meeting the Challenge

The Department stated that it has implemented robust oversight and monitoring processes for schools, lenders, servicers, guaranty agencies, and accrediting agencies. The Department further stated that FSA's process for oversight and monitoring includes performing program reviews, reviewing and resolving annual compliance audits and financial statements submitted by program participants to ensure that these participants are administratively capable and financially responsible, and conducting certification activities to ensure that program participants continue to be eligible to participate in the student aid programs.

The Department stated that the Next Generation Federal Student Aid transformation will bring significant improvements to FSA's capabilities to monitor the performance of servicing and collections vendors in addition to monitoring servicing and collections performance generally. As part of this initiative, FSA will implement a business intelligence platform designed to capture and report on performance metrics, which will include vendor contract performance metrics and data.

What Needs to Be Done

While the Department stated that it has implemented robust oversight and monitoring processes, our audits and investigations involving student financial assistance programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to further improve it processes. The Department should enhance its oversight of student financial assistance programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

Overall, the Department needs to ensure that its efforts to better coordinate oversight result in effective processes to monitor student financial assistance program participants and reduce risk. It should work to ensure that its program review and compliance audit processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers.

Our audits and investigations of student financial assistance program participants and audits of the Department's related oversight and monitoring processes will continue to assess a wide variety of effectiveness and compliance elements. This area remains a management challenge given our continued findings in this area.

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 more than 18,300 public school districts and 55 million students attending more than 98,000 public schools and 34,000 private schools. Key programs administered by the Department include the Title I program, which under the Department's FY 2019 budget appropriation would deliver more than $15.8 billion for local programs that provide extra academic support to help nearly 25 million 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 more than $12.3 billion to help States and school districts meet the special educational needs of 6.9 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve local educational agency and State educational agency control issues, fraud relating to education programs, fraud perpetrated by State and local education agency and charter school officials, and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

The Department stated that is it working to maximize the value of grant funding by applying a risk-based, data-driven framework that balances compliance requirements with demonstrating successful results for the American taxpayer. The Department noted that there is significant inherent risk that State educational agencies, local educational agencies, and grant recipients may not always comply with financial or programmatic requirements, thereby negatively impacting program outcomes. The Department stated that it continues to take a number of actions to manage this risk and support State and local efforts, as well as postsecondary agencies and institutions, to improve outcomes. The Department's new Strategic Plan includes key objectives and strategies focused on providing greater support to grantees through a number of ways, including flexibility, technical assistance, partnership, and dissemination of evidence.

The Department also stated that it continues to develop improved strategies to oversee and monitor grant recipients. According to the Department, one of these strategies is

increasing the expertise of program staff to provide effective monitoring and oversight. The Department stated that its Risk Management Service developed and offered multiple courses covering basic to advanced strategies and resources to monitor formula and discretionary grantees. The Department has also focused on improving its technical support processes.

The Department reported accomplishments in grantee oversight and monitoring across multiple offices. As examples, the Department reported the following.

- The Office of State Support implemented a performance review system designed to provide effective performance management and support to State educational agencies in administering and leveraging grant programs that include Title I, Part A; Title II, Part A; and Title III.
- The Office of Elementary and Secondary Education increased the number of engagements in its fiscal monitoring pilot, which is in its second year, and successfully increased focus on improving grantee financial management.
- The Office of Special Education and Rehabilitative Services and the Office of Elementary and Secondary Education collaboratively planned and hosted two major public events to provide States with technical assistance on assessment topics and implementing the Every Student Succeeds Act.
- Multiple offices also routinely collaborate in monitoring activities, focusing on areas such as assessments, accountability, and data reporting.

What Needs to Be Done

The Department continued to report progress in enhancing its grantee oversight processes, citing numerous actions it had taken to address risks and improve outcomes across multiple program offices. The Department should periodically assess the results of these efforts, identify the most promising approaches, and determine whether these best practices can be effectively applied in other program offices.

The Department should also continue its efforts to offer common training, encourage effective collaboration and communication across program offices, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs. Given the flexibilities offered by the Every Student Succeeds Act, the Department needs to ensure that its monitoring approaches support State and local efforts while providing effective oversight of financial stewardship and ensuring progress towards positive program outcomes.

Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to

more effectively leverage the resources of other entities that have roles in grantee oversight.

The Department's oversight and monitoring of grantees remains a management challenge given our continued findings in this area.

Management Challenge 4—Data Quality and Reporting

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 relies on program data to evaluate program performance and inform management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the Department and at State and local educational agencies. This included weaknesses in controls over the accuracy and reliability of program performance and graduation rate information provided to the Department.

Progress in Meeting the Challenge

The Department acknowledged that there is significant inherent risk associated with the quality of data reported to the Department by grant recipients. However, the Department reported that is committed to a number of actions to strengthen the quality, accessibility, and use of education data. The Department believes that its efforts to strengthen its data life cycle management, governance, and quality framework will help ensure that data the Department uses for decision-making are accurate and reliable.

The Department stated that it developed a tool to track data quality concerns and State responses to data-related questions that contributed to the School Year 2015–16 Assessment, Adjusted Cohort Graduation Rate, and Consolidated State Performance Report data quality follow-up efforts. The Department tracks data quality findings through multiple review cycles with input from States and data stewards. The Department further reported that the Office of Elementary and Secondary Education implemented a process to track Consolidated State Performance Report data quality follow-up and streamlined the process to load Consolidated State Performance Report data quality findings into a main repository.

The Department reported that it continues to work in other areas to improve the data management and verification process and better mitigate the risk that the Department might unknowingly accept or use inaccurate data. Notably, the Department plans to leverage single audits to help assess grant recipient data quality. The Department is working with OMB on language for the compliance supplement that would add focus to the review of grant recipient's internal controls that support the quality of performance

data submitted to the Department. The Department believed that this would better ensure that data reported by States are accurate and reliable.

What Needs to Be Done

The Department's efforts to improve the overall quality of data that it collects and reports remain important to its program management and reporting. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge. Our recent audits continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's effort to promote common strong practices across its program offices is an important step to improving data quality. In addition, efforts to strengthen data certification statements and to perform outreach to States and other entities that report data to the Department are important steps to reinforce the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should follow through on its plans to leverage single audits to help assess grant recipient data quality.

Improper Payments

The U.S. Department of Education (Department), as well as other agencies, must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. Section 2(g)(2) of Improper Payments Information Act of 2002 (IPIA), as amended, and Office of Management and Budget (OMB) guidance defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received. OMB guidance expands the definition of an improper payment to include any payment lacking sufficient documentation.

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires the Director of OMB to identify a list of high-priority programs for greater levels of oversight. OMB has designated the Department's William D. Ford Federal Direct Loan (Direct Loan) and Federal Pell Grant (Pell) programs as high-priority programs. IPERIA and OMB guidance require each agency with a high-priority program to report to its Inspector General and make available to the public (1) any action that the agency has taken or plans to take to recover improper payments and (2) any action the agency intends to take to prevent future improper payments. According to IPERIA and OMB guidance, the agency Inspector General must review the assessment of the level of risk associated with any high-priority program and the quality of the improper payment estimates and methodology; and review the oversight or financial controls used to identify and prevent improper payments.

Our most recent work in this area concluded that that the Department did not comply with IPERA for FY 2017 because it did not meet its reduction target for the Pell program. The Department met its reduction target for the Direct Loan program and also met the remaining compliance requirements of IPERA. Our prior work found problems 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, but those issues have been largely addressed. That audit work also identified concerns with the Department's ability to effectively address root causes of improper payments and assess progress over time because of the estimation methodology it uses.

Additionally, our audit and investigative work has identified improper payments in the student financial assistance programs and by State educational agencies (SEAs) and local educational agencies (LEAs). Overall, the Department needs to intensify its efforts to prevent and identify improper payments.

Background

The Department's FY 2017 Agency Financial Report (AFR) reported that the Department's FY 2017 gross outlays totaled about $340 billion. The Department explained that gross outlays are primarily comprised of Direct Loan disbursements administered by FSA and grant-based activity under discretionary, formula, and need-based formats.

The Department stated that it places a high value on maintaining the integrity of all types of payments made to ensure that the billions of dollars in Federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. The Department further stated that it ensures payment integrity by establishing effective policies, business processes, systems, and controls over key payment activities, including those pertaining to: payment data quality, cash management, banking information, third party oversight, assessments of audit reports, and financial reporting.

As of September 2018, OMB had designated 18 Federal programs as high-priority, including the Department's Pell and Direct Loan programs. The high-priority programs are those that reported $2 billion or more in improper payments in a given year. The Department's FY 2017 AFR stated that the Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. The Department further stated that it continues to place additional emphasis to ensure payment integrity and minimize improper payments in these two important programs as required by OMB guidance.

The Pell program provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. In its FY 2017 AFR, the Department reported a FY 2017 improper payment rate estimate for the Pell program of 8.21 percent, with an estimated improper payment value of $2.21 billion.

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 4.05 percent, or $3.86 billion, for FY 2017.

The Department stated that it assesses the risk of improper payments at least once every 3 years for each program that is not reporting an improper payments estimate. The Department reported that during FY 2017 it assessed the risk of improper payments for administrative payments, contract payments, the Title I program, the Vocational

Rehabilitation State Grant program, and the following FSA programs: Federal Perkins Loan; Health Education Assistance Loan; Federal Family Education Loan; Federal Supplemental Educational Opportunity Grant; Federal Work-Study; Iraq and Afghanistan Service Grant; and Teacher Education Assistance for College and Higher Education Grant. Based on the results of the FY 2017 risk assessments, the Department concluded that none of the programs reviewed were susceptible to risk of significant improper payments.

The Department identified more than $22.6 million in improper payments in its quarterly reports on high-dollar overpayments for programs susceptible to significant improper payments from June 30, 2013, through June 30, 2018. The Department identified preventative actions in response to the issues identified that included enhanced quality control reviews and revised approval processes.

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.

Required Reviews Found Opportunities to Improve the Department's Improper Payment Reporting, Estimates, and Methodologies

In May 2018, we issued an audit report on the Department's compliance with improper payment requirements for FY 2017. We found that the Department did not comply with IPERA because it did not meet its reduction target for the Pell program. The Department reported a FY 2017 improper payment rate of 8.21 percent for the Pell program, which exceeded its reduction target of 7.85 percent. We found that the Department met the FY 2017 reduction target for the Direct Loan program. We reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete. We also found that the Department adequately described the oversight and financial controls it has designed and implemented to identify and prevent improper payments.

This was the Department's second consecutive year of not meeting its reduction target for the Pell program. Under IPERA and OMB guidance, if an agency is not in compliance with IPERA for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine whether additional funding would help the agency come into compliance. In addition, OMB may require agencies that are not compliant with IPERA (for one, two, or three years in a row) to complete additional requirements beyond the measures listed in the guidance. For example, if a program is not compliant with IPERA, OMB may determine that the agency must reevaluate or reprioritize its corrective actions, intensify and expand existing corrective

action plans, or implement or pilot new tools and methods to prevent improper payments. OMB will notify agencies of additional required actions as needed.

In May 2017, we issued an audit report on the Department's compliance with improper payment requirements for FY 2016. While we found that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete, we identified areas for enhancement within all three areas. These included opportunities for the Department to improve (1) its policies and procedures over the Direct Loan and Pell program's improper payment calculations, (2) the completeness of its improper payment corrective action reporting, and (3) the evidence or support for its AFR reporting.

We also concluded that that the Department did not comply with IPERA because:

- It did not meet the reduction targets it established for the Direct Loan and Pell programs. The Department reported an improper payment rate for the Pell program of 7.85 percent, which exceeded the reduction target of 1.87 percent. It also reported an improper payment rate for the Direct Loan program of 3.98 percent, which exceeded the reduction target of 1.29 percent. In its FY 2016 AFR, the Department stated that the failure to meet targets was due to changes to and the imprecision of the estimation methodologies and was not due to a control failure or increase in actual improper payments in the Direct Loan and Pell programs.
- It did not comply with IPIA and OMB guidance regarding its risk assessment for the Vocational Rehabilitation State Grants program. The Department's risk assessment showed that the program exceeded the statutory thresholds for risk-susceptible programs. However, the Department did not identify and report the program in its FY 2016 AFR as a program that may be susceptible to significant improper payments. Through audit resolution, the Department proposed to conduct another risk assessment in FY 2017. Based on the FY 2017 risk assessment, the Department concluded the Vocational Rehabilitation State Grants program was not susceptible to significant improper payments.
- It did not consider each of the nine risk factors required by IPIA and OMB guidance in completing its improper risk assessments for Department-managed grant programs and FSA-managed contracting activities.

Audits and Investigations of Recipients of Federal Funds Identified Improper Payments

OIG audit and investigative work continues to identify various improper payments in the student financial assistance programs and by SEAs and LEAs. Overall, our semiannual reports to Congress from April 1, 2015, through March 31, 2018, included more than $715 million in questioned or unsupported costs from audit reports in this area.

Our audits and investigations of postsecondary institutions continue to disclose improper payments resulting from ineligible students, ineligible programs, or other noncompliance. In September 2017, we issued a report on Western Governors University's compliance with the Higher Education Act of 1965, as amended (HEA), and selected Title IV regulations. Western Governors University provides online access to higher education through competency-based bachelor's degree programs, master's degree programs, and teacher licensure programs. The HEA and regulations do not limit the percentage of courses that a school is allowed to offer through distance education or limit the percentage of regular students who may enroll in courses offered through distance education. However, if a school offers more than 50 percent of its courses by correspondence or 50 percent or more of its regular students are enrolled in correspondence courses, the school loses eligibility to participate in the Title IV programs. We concluded that Western Governors University became ineligible to participate in the Title IV programs as of June 30, 2014, because at least 62 percent of its regular students were enrolled in at least one correspondence course during award year 2013–2014. Western Governors University received almost $332 million in Title IV funds in award year 2014–2015 and more than $381 million in Title IV funds in award year 2015–2016. We recommended that FSA require the school return more than $712 million in Title IV funds it received for those award years and any additional funds it received later.

In addition to work in the student financial assistance programs, we have performed work identifying fiscal issues at SEAs and LEAs. Our March 2016 audit report on State and district monitoring of School Improvement Grant (SIG) contractors in California found that the California Department of Education did not adequately monitor the LEAs in our review to ensure that the LEAs had sufficient fiscal controls for obligating and paying Federal funds to SIG contractors. Our review further identified more than $121,000 in unsupported costs and more than $142,000 paid for services provided before contracts or purchase orders were approved.

The OIG's investigative work continues to identify instances where individuals, schools, or businesses have improperly obtained and used Federal education funds. This includes individuals who wrongly obtained Title IV funds by submitting fraudulent applications as part of fraud rings, schools that implemented schemes to obtain Title IV funds for ineligible students, businesses that obtained funds for services that were never provided, and officials from state and local educational agencies implementing fraud schemes to embezzle Federal program funds . Our semiannual reports to Congress from April 1, 2015, through March 31, 2018 included more than $45 million in restitution payments from our investigative activity. The results of specific investigative work within these areas are identified throughout this report.

Audit of Department Operations Identified Opportunities to Reduce Potential Improper Payments

In March 2018, we issued an audit report on our review and analysis of the Department's purchase card transactions. We performed this review in conjunction with a government-wide project initiated by the Council of the Inspectors General on Integrity and Efficiency, Information Technology Committee, to determine risks associated with government purchase card transactions. We found no instances of purchase card transactions that appeared to be illegal, improper, or erroneous for the transactions included in our review. However, we did identify areas where the Department could improve its internal controls over purchase card use. Specifically, we found instances where purchase cardholders did not always follow Department policy, to include obtaining or maintaining adequate documentation to support purchases.

OIG work continues in this area as 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 complete 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

The Department stated that it is committed to maintaining the integrity of payments to ensure that the billions entrusted to it reach intended recipients in the right amount and for the right purpose. The Department added that it sustains payment integrity by establishing policies, business processes, and controls over key payment activities, to include those pertaining to payment data quality, cash management, banking information, and financial reports. The Department stated that payment integrity includes controls designed to prevent, detect, and recover improper payments. In designing such controls, the Department stated that it strives to strike the right balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome. The Department noted that it must rely in part on controls established by the recipients of Federal funds, including State, local, and private organizations that further distribute those funds on behalf of the Department. The Department further stated that because these "third party" controls are outside of the Department's operational authority, they present a higher risk than the payments made directly by the Department, as evidenced by the OIG work and the Department's root cause analyses.

The Department stated that its current nonstatistical estimation methodology limits the ability to establish accurate out-year reduction targets. To address this issue, the Department noted that it coordinated with OMB and other stakeholders in 2018 to develop a statistically valid methodology that will be implemented in 2019 to estimate improper payments for the Pell Grant and Direct Loan programs. The Department stated

that this new methodology will improve the accuracy of the estimates and the Department's ability to meet reduction targets.

The Department also stated that it is pursuing legislation that would authorize the Internal Revenue Service to disclose tax return information directly to the Department for the purpose of administering programs authorized by Title IV of the HEA, through which the Department awarded more than $120 billion in FY 2017. The Department expects the exemption would allow for significant simplification of and improvement to the administration of Title IV programs, including reduction in improper payments. The Department stated that root cause analyses suggest that a significant portion of the annual improper payments are related to misreported income on the Free Application for Federal Student Aid (FAFSA) form. The Department noted that the proposed legislation would significantly reduce misreporting of income and resulting improper payments.

The Department stated that it is developing an updated portfolio of risks through its Enterprise Risk Management program that will ensure the risk of improper payments across the Department is managed strategically. This includes the risk of improper expenditures by grant recipients. The Department noted that it is working to integrate its Enterprise Risk Management framework with its internal control program to help prevent and detect improper payments.

The Department maintains more than 500 controls designed to help prevent and detect improper payments. These controls are included in the universe of internal controls the Department tests annually to assess their design and operating effectiveness. Some of the key controls identified by the Department include the following.

- Computer matches against 15–20 external sources performed in FSA systems during the aid delivery process, such as the Death file match pre-award, Social Security number validation, and use of the excluded parties list database.
- Promotion of the IRS Data Retrieval Tool, which encourages applicants to use IRS income data.
- Requirements for school verification of student FAFSA data assessed annually.
- Unusual Enrollment History Flags on the Institutional Student Information Record.
- Annual program risk assessments and reviews of program participants, including schools, lenders, guaranty agencies, and contractors.
- Continued use and enhancement of the FSA Feedback System which provides students and borrowers a simple and straightforward way to file complaints and provide feedback about federal student loan lenders, servicers, collection agencies, institutions of higher education, and the Department.

- Continued collaboration with OIG to receive and analyze fraud referrals and to identify potential fraud indicators for suspicious student activity.

When the Department detects control deficiencies, it identifies the root causes, develops corrective action plans, and tracks the completion of the corrective action through resolution.

Further Actions Needed to Address the Challenge

The Department continues to enhance its payment-related control environment, control activities, and monitoring. However, it continues to face challenges that are inherent in managing many programs of immense size, scope, and impact. The Department administers programs ranging from preschool education through postdoctoral research and oversees related activities that provide billions of dollars in grants and loans to postsecondary students and billions more to help meet the educational needs students in high-poverty areas and students with special educational needs.

The Department needs to continue its effort to design, implement, and operate cost-effective internal controls that will improve payment integrity across these and other programs and to make positive progress towards reducing improper payments. Because many of the Department's programs rely on initial recipients to further distribute funds, the Department needs to continue its efforts to develop and implement processes that more effectively and efficiently monitor (1) institutions and individuals participating in the Student Financial Assistance programs, (2) State educational agencies, and (3) local educational agencies to ensure that they properly spend and account for Federal education funds. As noted in sections that follow, the Department's oversight and monitoring of both Student Financial Assistance program participants and grantees remain significant management challenges.

The Department should take steps to enhance its capabilities to quickly detect weaknesses that create vulnerabilities to improper payments and to rapidly address these problems to limit their impact. This includes enhancing its risk assessment activities, taking appropriate action in response, and monitoring the effectiveness of mitigating actions. The Department also needs to continue to actively review and improve its business processes over key payment activities. The Department should continue its work to develop a methodology to accurately estimate improper payments, identify root causes, meet reduction targets, develop corrective action plans, and complete these plans to ensure programs comply with IPERA. The Department also needs to continue to address and resolve program integrity weaknesses and fraud vulnerabilities that OIG has identified.

This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients. The

Pell Grant and Direct Loan programs continued to be susceptible to significant improper payments and remained OMB-designated high priority programs. In its FY 2017 Agency Financial Report, the Department estimated improper payments from the Pell Grant program were more than $2.2 billion and those from the Direct Loan program were more than $3.8 billion.

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 lost data confidentiality and integrity, limited system availability, and reduced system reliability.

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

In light of high-profile data breaches at other Federal agencies, the importance of safeguarding the Department's information and information systems cannot be understated. The Department's systems house millions of sensitive records on students, their parents, and others, and facilitate the processing of billions of dollars in education funding. These systems are primarily operated and maintained by contractors and are accessed by thousands of authorized individuals (including Department employees, contractor employees, and other third parties such as school financial aid administrators). Protecting this complex information technology infrastructure from constantly changing cyber-threats is an enormous responsibility and challenge. While the Department and FSA have both made progress and taken steps to address past problems that we have identified, our work demonstrates that they remain vulnerable to attacks and that there are key areas where immediate action and attention are needed.

Background

From 2007 to 2017, the Department relied on the Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract for its enterprise-wide network and information technology support services. EDUCATE represented a Contractor-Owned, Contractor-Operated managed IT infrastructure service model under a single contract. Services such as email, network infrastructure, desktop support, security, and printers were provided under this contract. The Department is currently transitioning to a multi-contract IT services acquisition

approach. Under its Portfolio of Integrated Value-Oriented Technologies (PIVOT) initiative, the Department plans to or has awarded six separate contracts to obtain (1) data and systems hosting; (2) integration and end-user services, (3) network, telecommunications, and wireless connectivity; (4) mobile device services; (5) printing services; and (6) oversight support for the Office of the Chief Information Officer's Program Management Office.

From 2006 to 2016, the Department relied on a large Virtual Data Center contract that provided information technology support for FSA data processing. Specifically, the Virtual Data Center served as the host facility for FSA business systems that process student financial aid applications (grants, loans, and work-study), provided schools with eligibility determinations, and supported payments to and from lenders. The Department is transitioning to the Next Generation Data Center that provides a solution for mainframe, traditional hosting, and hybrid cloud components.

Moving to a new hosting environment creates additional risk until the move is completed and operational readiness can be assured along with validating that all security controls are implemented correctly and working as intended.

Most of FSA's major business applications are located at the Next Generation Data Center, except for the Common Origination and Disbursement System. The production support and processing for this application is located at another Department contractor facility. The Common Origination and Disbursement application and database initiates and tracks disbursements to eligible students and schools for student financial assistance programs.

The Department has experienced sophisticated attacks to its information technology systems, including browser hijacking and phishing campaigns resulting in malware infections, as well as unauthorized accesses accomplished by stealing credentials from employees or external business partners. Many of the computers that are compromised are not Department systems but the home or work computers of students, contractors, and program participants such as schools, lenders, guaranty agencies, and servicers. These systems are used by the Department's external partners to access the Department's many different business systems associated with financial aid. Although the Department can specify security controls for its contractors, it has little authority to mandate security controls and practices of these other parties.

Results of Work Performed

Projects relating to this area include information technology security audits performed by the OIG with contractor assistance, OIG investigative work, and audits performed by the Department's independent public accountant for its financial statement audits. Overall, this work has continued to identify control weaknesses within information

technology security and systems that need to be addressed. The results of this work are presented in the corresponding sections below.

OIG Information Technology Security Related Audit Work Found Recurring Control Weaknesses

In October 2017, the OIG issued an audit report on the Department's compliance with FISMA for FY 2017. The report was based on and incorporated the 2017 FISMA Metrics prepared by the Council of the Inspectors General on Integrity and Efficiency, the OMB, and the U.S. Department of Homeland Security, in consultation with the Federal Chief Information Officer Council. The FY 2017 FISMA Metrics were grouped into seven "metric domains" and organized around the five Cybersecurity Framework Security Functions (security functions) outlined in the National Institute of Standards and Technology's Framework for Improving Critical Infrastructure Cybersecurity. Offices of Inspectors General were asked to assess the effectiveness of each of the five security functions using a maturity level scoring distribution. As set forth in the National Institute of Standards and Technology guidance, "effectiveness" addressed the extent to which security controls were implemented correctly, operated as intended, and produced the desired outcome.

The FY 2017 maturity model was more comprehensive and attributes were assessed differently than the previous year's maturity model indicator scoring. As a result, certain functions were assessed at a lower level. Despite the lower overall scoring due to changes in the maturity model, we found several areas of improvement from FY 2016. Specifically, we found that the Department and FSA have made progress in the areas of risk management, configuration management, identity and access management, information security and continuous monitoring, and incident response. However, we found weaknesses in the Department's and FSA's information systems, and those systems continued to be vulnerable to security threats. We found that the Department and FSA were not effective in all five security functions. We also identified findings in all seven metric domains. Our findings regarding information security continuous monitoring and incident response were repeat findings from previous FISMA audit reports.

In November 2016, the OIG issued an audit report on the Department's compliance with FISMA for FY 2016. The report was based on and incorporated the 2016 FISMA Metrics. We found that the Department's and FSA's overall information security programs were generally not effective. Specifically, we found:

- The Department and FSA were generally effective in two of the five security functions—Identify and Recover. Specifically, improvements were made with their respective risk management programs, contractor systems, and contingency planning programs.

- The Department and FSA were not generally effective in three security functions—Protect, Detect, and Respond. Specifically, we noted weaknesses in the areas of configuration management, identity access management, security and privacy training, information security continuous monitoring, and incident response. Contingency planning, identity and access management, and information security continuous monitoring contained repeat findings from our FY 2015 FISMA audit.
- Since our FY 2015 FISMA report, we found that the Department and FSA improved their information security continuous monitoring programs; however, processes, performance measures, policies, and procedures have not been implemented consistently across the organization. We also found that for incident response, the Department and FSA have not fully developed, implemented, or enforced policies and procedures to manage an effective incident response program.

OIG Information Technology Security Related Investigative Work Identified Weaknesses

In September 2016, we issued a Management Information Report that informed the Department of our concerns regarding how the FSA ID and the Personal Authentication Service were being misused by commercial third parties to take over borrower accounts. Our report noted recurring issues with PIN security vulnerabilities that included (1) loan consolidation companies gaining access to PIN accounts to consolidate loans or enroll borrowers in debt forgiveness or reduction programs, (2) students sharing their PINs with companies providing loan-related services so that the companies could log in and obtain information on the students' behalf, and (3) a defunct loan consolidation company controlling over 800 PIN user accounts.

We further reported that FSA could improve proactive monitoring of the Personal Authentication Service audit logs to identify suspicious activities and report those activities to the Department's Computer Incident Response Capability and the OIG.

Financial Statement Audits Continue to Highlight the Need to Improve Information System Controls

Audits of the Department's financial statements continue to identify the need to mitigate persistent information technology control deficiencies as a significant deficiency. In its FY 2017 report, the independent public accountant found that the Department made substantial progress in completing entity-wide information security policies and procedures and addressing general application control deficiencies for the Department's core financial management system. However, the independent public accountant identified control deficiencies in the Department's information security program relating to personnel management and compliance monitoring. The

independent public accountant also found configuration management weaknesses in the Department's general network and core financial management system. Finally, the independent public accountant identified general control deficiencies in FSA's financial applications. The independent public accountant noted that these deficiencies increase the risk of unauthorized access to the Department's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of its data and information.

In its FY 2016 report, the independent public accountant acknowledged that the Department had made progress in some areas to address information technology control deficiencies in recent years. However, weaknesses were identified in the Department's information security program relating to policies and procedures, compliance monitoring, personnel management, security incident response, and management of various application level security, configuration, and access controls. The independent public accountant further reported that these deficiencies can increase the risk of unauthorized access to the Department and FSA's system used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information.

OIG work continues in this area and our primary area of focus is completing work to determine whether the Department's and FSA's overall information technology security programs and practices were generally effective as they relate to Federal information security requirements.

Department Actions and Plans

Highlighted in this section are some of the actions identified by the Department to improve cybersecurity across the five security functions of Identify, Protect, Detect, Respond, and Recover.

Identify. The Department stated that it implemented the use of a risk scorecard in late FY 2017 that serves as a risk management tool and established a quantitative methodology for identifying, analyzing, and managing system-level cybersecurity risks. The Department stated that it utilizes the risk scorecards to perform regular framework-based risk assessments to identify security gaps and opportunities to enhance the Department's cybersecurity capabilities and better protect its network assets and data. According to the Department, the results of the risk scorecards are utilized as a mechanism to inform overall cybersecurity strategic planning at the Department-level and provide a methodology for Department executives to view, understand, and manage cybersecurity risk. The Department stated that it will continue to mature and improve the scorecard to provide enhanced information to system stakeholders during FY 2019.

The Department also stated that it is replacing existing Department cybersecurity guidance with a new framework of policies, instructions, and standards that align to the National Institute of Standards and Technology's Cybersecurity Framework. The previous policies, standards, procedures, and guidelines have been superseded by a new overarching cybersecurity policy. The Department further stated that in FY 2019, it will focus on providing detailed instructions that will be subordinate to the new policy and align to the National Institute of Standards and Technology's Cybersecurity Framework.

Protect. The Department stated that it completed several deliverables in the area of Cybersecurity Workforce Development. According to the Department, the first entailed the coordination of the Department's response for the Federal Cybersecurity Workforce Assessment Act that included a preliminary report of the Department's documented cybersecurity work roles of critical need and associated root causes.

The Department added that it met the Federal Cybersecurity Workforce Assessment Act's requirement to identify and code positions with information technology, cybersecurity, and other cyber-related functions in alignment with the new OPM cybersecurity coding guidance. The Department noted that it identified and coded approximately 344 positions through this process. The Department stated that its next step is to collect and analyze data points to: (1) validate the Department's Work Roles of Critical Need, and (2) determine types and root causes of shortages in Work Roles of Critical Need. The Department believes that this validation and analysis process will enable the Department to meet the Act's reporting requirements and identify the critical information it needs to appropriately scope and shape a sound cybersecurity workforce program.

The Department also noted that it developed cybersecurity performance elements for the roles of the Authorizing Official, Principal Officer, Information System Owner, Information System Security Officer, and the Contracting Officer Representative that address remediation of control deficiencies and ensure an appropriate security posture is maintained for Department systems. The Department added that it will be introducing these performance elements into employee annual performance plans during FY 2019.

The Department stated that its Cyber Security and Privacy Awareness training program provides mandatory cybersecurity awareness training and phishing exercises. The Department noted that it had provided three cyber security training courses that are mandatory for all employees. The Department stated that it had also executed six simulated phishing exercises in FY 2018 in an effort to reinforce lessons learned during the training programs. The Department believed that these exercises strengthened its ability to reduce risks to systems and information through modified user behavior and improved resilience to spear phishing, malware, and drive-by attacks. The Department noted that it won the Security Awareness Training Scenario category in the Federal Information Systems Security Educators Association's 31st Annual Security Awareness,

Training, and Education Conference for the content and quality of the Department's phishing exercise scenario.

Finally, at the end of FY 2018, the Department executed the award of a contract to support the Department's Identity, Credential, and Access Management. The Department expects the solution to strengthen the current identity assurance capabilities in place across the Department as it is deployed in FY 2019.

Detect. The Department stated that it completed acquisitions that included a database scanning tool and a Security Information Event Management solution. The Department also stated that it adjusted the network access control solution to further limit opportunities for potential malicious activity to occur and continued its work with the Department of Homeland Security to implement Continuous Diagnostics and Mitigation tools within its primary network infrastructure. The Department stated that while the scope of this engagement does not include externally hosted systems or any FedRAMP Cloud Service Providers, it is assessing these gaps, in collaboration with Department of Homeland Security, and identifying additional resources that may be required to provide or extend standardized Continuous Diagnostics and Mitigation capabilities to externally hosted systems that cannot be transitioned to a Department authorized hosting environment.

The Department also stated that it has worked in close partnership and coordination with the Department of Homeland Security to complete formal Risk and Vulnerability Assessments and Security Assessment Reports for a number of the Department's High Value Assets. In addition to the Department of Homeland Security reviews, the Department's Chief Information Officer meets with High Value Asset system stakeholders on a quarterly basis to review system risks and mitigation plans. This process will continue to develop and mature through FY 2019.

Respond. The Department stated that it had made many improvements to increase capabilities, efficiencies, and the security posture of the Department during FY 2018. The Department stated that it had increased forensics and vulnerability management capabilities and had reduced the turnaround time for security analysis through the acquisition and implementation of additional tools and hardware. The Department stated that multiple improvements in security reporting were also implemented to provide a quick view of activity statuses and security posture, including an improved Chief Information Officer weekly report.

Recover. The Department stated that it had provided a new enterprise cybersecurity offering to system stakeholders during FY 2018. The Department added that in prior years, contingency planning and testing was left to system stakeholders to conduct. The Department stated that it offered the first system tailored tabletop exercise with events focused on testing a system's contingency plan and incident response processes in

FY 2018. According to the Department, the primary focus for this exercise was to provide a comprehensive review and training refresher of the Department of Education's Security Operations Center's incident response processes and performing mandatory annual testing on participating systems' contingency plans. The Department stated that systems will continue to be invited to join these activities during FY 2019 to continue to improve and strengthen their contingency and incident response plans.

In regards to FSA PIN security vulnerabilities, the Department stated that its Chief Information Security Officer meets with FSA staff on a weekly basis to develop a strategy for ongoing communications to institutions of higher education and for implementation of enhanced access controls.

Further Actions Needed to Address the Challenge

The Department relies on information technology to manage its core business operations and deliver products and services to its many stakeholders. The OIG has consistently reported concerns regarding the overall effectiveness of the Department's information technology security program through our annual FISMA audits, financial statement audits, and management challenges reports. While the Department reported significant progress towards addressing longstanding concerns, managing information technology security programs and practices to effectively reduce risk to the Department's operations is a clear and ongoing management challenge. Specifically, we continue to identify significant weaknesses in our annual FISMA audits—despite the Department's reported corrective actions to address our prior recommendations.

We commend the Department for addressing these weaknesses and continuing to place a priority on improving its information technology security program. Our FY 2017 FISMA report noted that the Department and FSA had made improvements in developing and strengthening their security programs, but also identified continued weaknesses. Overall, the Department needs to continue its efforts to develop and implement an effective system of information technology security controls, particularly in the areas of configuration management, identity and access management, and information security continuous monitoring. Within configuration management, we identified weaknesses where (1) the Department is not consistently ensuring the use of secure connections; (2) FSA is using unsupported operating systems, databases, and applications in its production environment; and (3) FSA is not adequately protecting personally identifiable information. Within identity and access management, we identified weaknesses where the Department has not (1) fully implemented its identity, credential, and access management strategy; and (2) removed terminated users from its network. For information security continuous monitoring, stakeholders are unable to perform monitoring functions in the Cyber Security Assessment and Management tool.

Our FISMA audits will continue to assess the Department's efforts, and this will remain a management challenge until our work corroborates that the Department's system of

controls achieves expected outcomes. To that end, the Department needs to effectively address information technology security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

Oversight and Monitoring

Student Financial Assistance Program Participants

The Department must provide effective oversight and monitoring of participants in the student financial assistance programs under the HEA to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. In fiscal year 2019, FSA expects to provide $129.5 billion in new Federal student aid grants and loans (excluding Direct Consolidation Loans) to almost 11.4 million postsecondary students and their families. These students attend approximately 6,000 active institutions of postsecondary education accredited by dozens of agencies. FSA reported that during FY 2017, it operated on an annual administrative budget of approximately $1.6 billion and was staffed by 1,382 full-time employees who were augmented by contractors who provided outsourced business operations.

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 HEA. 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 student financial assistance 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 of 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.

For students to receive Federal student aid from the Department for postsecondary study, the institution or program must be accredited by an accrediting agency

recognized by the Department. The goal of accreditation is to ensure that institutions of higher education meet acceptable levels of quality. Accreditors, which are private educational associations of regional or national scope, develop evaluation criteria and conduct peer evaluations to assess whether or not those criteria are met. The Department is not directly involved in the institutional or programmatic accrediting process. The HEA requires accrediting agencies to meet certain statutory recognition criteria and have certain operating procedures in order to be recognized by the Secretary. Institutions and programs that request an accreditor's evaluation and that meet an accreditor's criteria are then "accredited."

The Office of Postsecondary Education (OPE) works to strengthen the capacity of colleges and universities to promote reform, innovation and improvement in postsecondary education, promote and expand access to postsecondary education and increase college completion rates for America's students, and broaden global competencies that drive economic success and competitiveness. OPE's Office of Policy, Planning and Innovation develops Federal postsecondary education policy and regulations including policy, that supports the Federal student financial assistance programs and programs authorized by the HEA. It also administers the review process for accrediting agencies to ensure that the agencies recognized by the Department are reliable authorities as to the quality of education and training offered by postsecondary institutions and programs.

Our work has identified weaknesses in the Department's oversight and monitoring of student financial assistance program 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

In fulfilling its program responsibilities, FSA directly manages or oversees almost $1.4 trillion in outstanding loans—representing more than 203 million student loans to approximately 43 million borrowers. These loans were made primarily through the Direct Loan and Federal Family Education Loan (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, 2017, FSA's portfolio of Direct Loans included $1,041.6 billion in credit program receivables, net.
- 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 $305.8 billion as of September 30, 2017.

In FY 2017, FSA processed more than 19.1 million FAFSAs, resulting in the delivery of approximately $122.5 billion in Title IV aid to more than 12.9 million postsecondary students and their families. These students attend approximately 6,000 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

The growth of distance education continues to add to the complexity of the Department's oversight of student financial assistance program participants. According to the Department, nearly one-third of undergraduate students at degree-granting postsecondary institutions participated in distance education in fall 2016. The Department further reported that 13 percent of total undergraduate enrollment was exclusively taking distance education courses. The Department noted that the percentage of undergraduate students enrolled exclusively in distance education courses varied by institutional level and control. In fall 2016, the percentage of students at private for-profit institutions who exclusively took distance education courses (52 percent) was more than three times that of students at private nonprofit institutions (15 percent) and more than five times that of students at public institutions (10 percent).

The management of distance education programs presents challenges to the Department and school officials because of little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. 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. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to fraudulently obtain Federal student aid.

In September 2018, the Department reported that enrollment in income-driven repayment (IDR) plans such as Income-Based Repayment, Pay As You Earn, and Revised Pay As You Earn has continued to increase. Under an IDR plan, a borrower's monthly payment is a percentage of their discretionary income, with the actual percentage differing depending on the plan. Under these plans, any remaining loan balance is forgiven if the borrower's Federal student loans are not fully repaid at the end of the repayment period and certain conditions are met. The Department reported that as of June 2018, 7.1 million DL borrowers were enrolled in IDR plans, a 20-percent increase from June 2017. Although almost 1.3 million Department-held FFEL borrowers are enrolled in Income-Based Repayment and Income-Sensitive Repayment, there is a large

overlap of Direct Loan and Department-held FFEL IDR borrowers. Combined, almost 7.4 million unique borrowers are enrolled in IDR plans.

Overall, the rise in student loan debt and increasing percentage of borrowers participating in IDR options present significant financial risks to the Department. The amount of time it takes to repay loans may increase, borrowers may use more deferments and forbearances, and the Department may write off increasing loan balances associated with IDR options in the future. These changes may also increase the administrative and subsidy cost of operating the loan programs.

Results of Work Performed

OIG work within this area includes activities relating to (1) audits and inspections of FSA's oversight and monitoring of student financial assistance program participants, (2) investigations of student financial assistance program participants, (3) audits and investigations involving distance education programs, (4) audits involving oversight of accrediting agencies and accrediting agencies' evaluations of non-traditional educational programs, and (5) audits involving FSA's oversight and monitoring of contractors. The results of our recent work are presented is in the sections below.

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

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

In December 2017, we issued an inspection report on FSA's borrower defense to repayment loan discharge process. We found that FSA established policies and procedures related to the intake and discharge of borrower defense claims in 2015 and refined the claims intake policies and procedures throughout our review period. FSA also established policies and procedures related to reviewing borrower defense claims in April 2016 and introduced new policies and procedures throughout our review period. However, we identified weaknesses with FSA's procedures for: (1) documenting the review and approval of legal memoranda establishing categories of borrower defense claims that qualified for discharge, (2) reviewing borrower defense claims, (3) processing claims approved for loan discharge and flagged for denial, and (4) establishing timeframes for claims intake, claims review, loan discharge, and claims denial processes and controls to ensure timeframes are met. We also found that FSA did not have an adequate information system to manage borrower defense claim data. Specifically, it could not readily retrieve borrower defense claim outcomes from its current information system because data were not available for use without a labor-intensive, manual data retrieval process. Further, FSA had no controls to prevent or detect problems with the integrity of the data contained in the more than a thousand spreadsheets FSA relied on to track the status of borrower defense claims.

In February 2017, we issued a report on FSA's processes for identifying at-risk Title IV schools and mitigating potential harm to students and taxpayers. We determined that FSA had adopted and implemented new tools and processes in this area in response to the April 2015 closure of one of the largest for-profit education companies in the United States, but further improvements were needed. We reported that FSA needed to improve its processes for reviewing a school's composite score calculation and any related composite score appeal made by a school. We further noted that FSA needed to implement controls to prevent schools from manipulating composite scores to avoid sanctions or increased oversight by FSA. We concluded that improvements in these areas could better protect students and taxpayers. Specifically, unexpected or abrupt school closures can have significant adverse effects on large numbers of students, including potentially being displaced from their educational program before completion, having credits that cannot transfer to another school, incurring significant student loan debt without obtaining a degree or certificate, and significantly diminished job prospects. Taxpayers are also adversely affected when those types of school closures result in significant volume of loan discharges. We pointed to the financial responsibility provisions that were to have gone into effect in July 2017 as part of the November 2016 borrower defense regulation changes as including tools to improve the Department's oversight of schools.

In February 2016, we issued a letter in response to a Congressional request for an independent examination of the adequacy and accuracy of the Department's review of student loan servicers' compliance with the Servicemembers Civil Relief Act. The Congressional request raised specific concerns about the Department's May 2015 press release that concluded that borrowers were incorrectly denied a required interest rate cap less than 1 percent of the time. Our work identified flaws in the Department's sampling design that resulted in the Department testing few borrowers eligible for the Servicemembers Civil Relief Act benefit, errors in the program reviews it conducted, and inconsistent and inadequate corrective actions for errors it identified. We concluded that the sampling designs were not adequate to project the extent of Servicemembers Civil Relief Act compliance or noncompliance and that we could not render an opinion on the accuracy of the Department program reviews due to errors we identified. Additionally, the Department's press release was not supported by the work the Department performed and was inaccurate. To address the issues with servicemembers' benefits, the Department designed new procedures that, if properly implemented, should provide for all eligible borrowers to receive the Servicemembers Civil Relief Act benefit as of July 2014.

In September 2018, the Government Accountability Office (GAO) issued a report to the Committee on Oversight and Government Reform, House of Representatives on protections placed on the personally identifiable information that FSA shared with its non-school partners as part of the Federal student aid process. GAO reported that FSA

relies heavily on third parties, such as loan servicers, guaranty agencies, private collection agencies, and lenders (collectively referred to as "non-school partners") to help manage student loans. To carry out their functions, FSA's non-school partners are responsible for storing and protecting large amounts of personally identifiable information of students and parents that apply for and receive student aid. GAO concluded that FSA had taken steps to oversee the security and privacy protections of some of its non-school partners, but FSA's policies and procedures did not always include all key oversight practices. GAO specifically reported that FSA inconsistently oversaw non-school partners' protection of student aid data, lacked a process for ongoing monitoring of guaranty agencies' controls, and exercised minimal oversight of FFEL lenders' protection of student aid data.

In July 2018, GAO issued a report titled "Education's Postsecondary School Certification Process." The report noted that Department evaluates information including school policies, financial statements, and compliance audits prepared by independent auditors to determine whether a postsecondary school should be certified to administer Federal student aid programs. GAO reported that the Department relies on compliance audits for direct information about how well schools are administering Federal student aid. However, GAO further reported that 59 percent of the compliance audits selected by the OIG for quality reviews based on risk from fiscal years 2006 through 2017 received failing scores. GAO noted that both FSA and OIG have taken steps to improve audit quality. Specifically, OIG offered additional training to auditors and provided guidance to schools on hiring an auditor, while FSA created a working group to strengthen its procedures for addressing poor quality compliance audits. GAO concluded that the Department's efforts to address audit quality could help ensure that these audits provide reliable information for school certification decisions.

In July 2018, GAO issued a report on the status of the Department's efforts to implement GAO's prior recommendations for improving oversight of federal student loan servicers. GAO reported that the Department had taken steps to implement GAO's recommendations, but further actions were needed. It specifically noted that the Department had implemented two of the six recommendations, but the Department reported that the remaining four recommendations would be addressed over time through a broader redesign of the Department's student loan servicing system. GAO noted that a Department official said the specifics of that system have not yet been determined and it would continue to monitor the Department's progress in implementing these open recommendations, which would help it provide better service to borrowers and improve program integrity.

In April 2018, GAO issued a report titled "Actions Needed to Improve Oversight of Schools' Default Rates." GAO noted that schools may lose their ability to participate in Federal student aid programs if a significant percentage of their borrowers default on their student loans within the first 3 years of repayment. GAO found that, to manage

their 3-year default rates, some schools hired consultants that encouraged borrowers with past-due payments to put their loans in forbearance. At five of the nine selected default management consultants, GAO identified examples when forbearance was encouraged over other potentially more beneficial options for helping borrowers avoid default, such as repayment plans that base monthly payments on income. GAO also found that four of these consultants provided inaccurate or incomplete information to borrowers about their repayment options in some instances. While forbearance can help borrowers avoid default in the short-term, it increases their costs over time and reduces the usefulness of the 3-year default rate as a tool to hold schools accountable.

In December 2017, GAO issued a report titled "Better Program Management and Oversight of Postsecondary Schools Needed to Protect Student Information." GAO found that, while the Department and FSA have established procedures for managing and protecting student information, these procedures are not always effective. Specifically, FSA did not fully establish procedures for managing, organizing, and scheduling electronic records for disposition, ensuring that employees regularly received training, or conducting a required internal assessment of its records management program. Additionally, FSA did not consistently analyze privacy risks for its electronic information systems, and policies and procedures for protecting information systems were not always up to date.

Investigations of Student Financial Assistance Program Participants' Activities Identified Fraud

Our investigations of individual program participants continue to identify fraud, waste, and abuse of student financial assistance program funds.

Schools Falsified Documentation to Enroll Ineligible Students who then Received Federal Student Financial Assistance

- In January 2018, the former owner and Chief Executive Officer of Alden's School of Cosmetology and Alden's School of Barbering was sentenced to 30 months incarceration, 24 months supervised release, and ordered to pay more than $276,000 in restitution for her multi-year scheme to defraud the Department. The investigation found that the former Chief Executive Officer claimed that certain students were enrolled in Pell Grant-approved programs when she knew that they were actually enrolled in ineligible programs. In addition, the former Chief Executive Officer caused false and forged documents to be submitted as part of certain students' financial aid packages, and misrepresented the number of hours that certain students had attended class and their standing at the school, when in fact the individuals had never attended.
- In November 2017, the former owner of Tramy Beauty School was sentenced to 3 years in prison with 2 years suspended, after pleading guilty to

misappropriation of public monies and using the personal identifying information of another. The former owner enrolled multiple individuals in classes at Tramy Beauty School without their knowledge, and then fraudulently collected Pell Grant monies disbursed in the victims' names. The former owner was ordered to pay more than $425,000 in restitution and fines.

- In February 2017, more than $20 million in damages and civil penalties were awarded in a civil suit against FastTrain College and its owner for defrauding the Department by obtaining Federal student aid funds for ineligible students. Previously, in May 2016, the school's owner was convicted of conspiracy to steal government money and theft of government funds and was sentenced to 97 months incarceration, 3 years' probation, and ordered to pay a $15,000 fine and a $1,300 special assessment fee. The OIG investigation determined that the owner and others recruited ineligible students who did not have high school diplomas or General Education Development Certificates to submit over 1,300 allegedly fraudulent FAFSA's.
- In January 2017, the former owner of Masters of Cosmetology was sentenced to 24 months probation and ordered to by $300,000 in restitution. Previously, in April 2016, the former owner pled guilty to one count of student financial aid fraud and signed a civil consent decree agreeing to pay the government more than $5.4 million resulting from fraudulently obtained Federal student loans. The owner and others obtained loans for ineligible students by providing falsified periods of enrollment, not determining students' eligibility for financial aid, exceeding loan amounts, forging student signatures, making misleading statements to students regarding financial aid repayment, and using financial aid funds for purposes other than specified in the regulations.

Schools Implemented Schemes to Falsely Remain Eligible to Participate in Federal Student Financial Assistance Programs

- In April 2016, a former manager for the Loan Management Department for a for-profit school located in New York City pled guilty of conspiracy to commit Federal student financial aid fraud and making false statements. The former manager and others prepared and submitted fraudulent applications for deferment or forbearance of student loans in order to fraudulently lower the cohort default rate of the school so that the school would continue to be eligible to receive Federal student aid. The school has received about $93 million in student financial assistance program disbursements from 2010 to 2014.

Fraud by Other Student Financial Assistance Program Participants

- In July 2018, a former Columbia University Doctoral candidate pled guilty to conspiring to commit bribery. The former Doctoral candidate gave kickback payments to the Director of Financial Aid in exchange for unjustified financial

aid payments. As part of her plea agreement, she has agreed to forfeit more than $166,000 in proceeds from the scheme. She is the second of 7 defendants to plead guilty in connection with this $1.4 million conspiracy.

- In May 2018, the former president of HDS Truck Driving Institute in Tucson, Arizona pled guilty to one count of bank fraud and one count of Federal student aid fraud. The former president embezzled portions of the FSA awards of approximately 260 students over a period that exceeded seven years. When the company hired a new director of financial aid, the former president began altering school attendance records to create false refunds. Additionally, the former president stole legitimate refund monies that were due back to different students and tuition assistance agencies, to include the U.S. Department of Veterans Affairs and four military branches. The former president admitted to having deposited under fraudulent pretenses over 400 checks worth more than $900,000.
- In January 2018, the former Purchasing Director at the Pontifical Catholic University of Puerto Rico was sentenced to 12 months and one day of incarceration, 3 years of supervised release, and ordered to pay more than $155,000 in restitution. The former Purchasing Director misappropriated more than $655,000 by using a corporate credit card to pay for school tuition, household utility bills, and other items including vacations to Disney World, New York City, Atlanta, Indianapolis, Canada, and France. Use of the corporate credit card was concealed by altering and creating fictitious credit card statements.

Our investigative work has also resulted in numerous actions in response to allegations of improper activities by Federal student financial assistance program participants. This included the following examples.

- In March 2016, Bard College agreed to pay $4 million to resolve allegations that it received funds under the Teacher Quality Partnership Program despite failing to comply with the conditions of the grant and that it awarded, disbursed, and received Federal student aid funds at campus locations before such locations were accredited or before notifying the Department, which violated regulations as well as the school's Program Participation Agreement.

In November 2015, the U.S. Department of Justice reached a settlement with Education Management Corp., the second largest for-profit educational company in the country. The $95 million settlement resolved allegations that Education Management Corporation unlawfully paid admissions personnel based on the number of students they recruited, in violation of the incentive compensation ban. The settlement also resolved three other False Claims Act claims filed against the corporation and a consumer fraud complaint filed by 40 State Attorneys General involving deceptive and misleading recruiting practices.

Audits and Investigations Identify Noncompliance and Fraud Involving Distance Education Programs

The unique characteristics and growth of distance education pose significant challenges to the Department. OIG work within this area includes an audit that identified issues with school's distance education program's compliance with HEA and Title IV regulations applicable to distance education programs and investigative work that identified significant instances of individuals fraudulently obtaining Federal funds.

As mentioned in the "Improper Payments" section above, we issued a report in September 2017 on Western Governors University's compliance with the HEA and selected Title IV regulations. Western Governors University provides online access to higher education through competency-based bachelor's degree programs, master's degree programs, and teacher licensure programs. We concluded that Western Governors University became ineligible to participate in the Title IV programs as of June 30, 2014, because at least 62 percent of its regular students were enrolled in at least one correspondence course during award year 2013–2014. Western Governors University received a combined total of about $721 million in Title IV funds in award years 2014–2015 and 2015–2016. We also found that the school did not always comply with the requirements governing (1) disbursements based on its academic year and payment period or (2) the return of Title IV aid. Finally, we found that the school did not always confirm that students started attendance in the courses on which their eligibility was based before disbursing Pell funds.

The OIG has investigated 126 distance education fraud rings from FY 2013 through FY 2017, with these cases resulting in more than $25 million restitution, fines, forfeitures, and civil settlements. 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. Recent examples of our investigative work in this area include the following.

- In August 2018, a mother and daughter each pled guilty in financial aid fraud schemes. The individuals used the identities of others to fraudulently apply for and obtain financial aid funds. Related refunds were disbursed via bank debit cards or checks sent to addresses or bank accounts controlled by the defendants. The loss to the Department exceeded $1.9 million.

- In January 2018, an individual was sentenced to 61 months incarceration, 3 years probation, and was ordered to pay more than $117,000 in restitution for aggravated identity theft, wire fraud, and student aid fraud. The individual used others' identities to enroll in online courses at University of Phoenix and American Public University for the sole purpose of obtaining Federal student aid.
- In November 2017, an individual was found guilty of conspiracy to defraud the government with respect to claims, and aiding and abetting mail fraud. The individual, along with three co-conspirators, submitted false claims for Federal student aid using the stolen identities of state prison inmates for attendance at various community colleges located in Arizona and Colorado. As a result of their efforts, the ring received more than $500,000 in Federal student aid.
- In October 2017, an individual pled guilty to conspiracy and financial aid fraud for her role in an identity theft fraud ring. The individual and others used stolen identities to apply for Federal student aid at various Maricopa County Community College District Schools. More than $5 million was awarded to the straw students, of which $1.6 million was disbursed.
- In July 2017, a woman pled guilty to student aid fraud for her involvement in a distance education fraud scheme. The OIG investigation found that she and two of her children were leaders of a fraud ring that falsely obtained more than $400,000 in Federal student aid from LeTourneau University and Kilgore College. As of August 2017, a total of nine individuals had been charged in the case—with seven being convicted and two being sentenced.
- In July 2017, an individual was sentenced to 30 months incarceration and ordered to pay more than $103,000 in restitution to the Department and other victims. The OIG investigation found that the individual fraudulently obtained and used the personal identifiers of 17 victims to obtain Federal student loans and Pell grant funds from numerous colleges.
- In June 2017, two people were sentenced to prison time, periods of supervised release, and ordered to pay more than $398,000 in restitution for their roles in four separate fraud schemes. The OIG investigation found that they conspired to submit Federal financial aid applications for other individuals who were ineligible because they did not possess a high school diploma or General Education Development Certificate, had no intention of pursuing a college education, or had no intention of using the financial aid proceeds for educational purposes. The individuals obtained financial aid refund checks and used the proceeds for personal purposes.
- In February 2017, a woman was sentenced to 6 years and 7 months in Federal prison for wire fraud and aggravated identity theft. The woman used stolen

identities from the patient database of a healthcare company where she briefly worked to file dozens of fraudulent Federal student aid applications and receive more than $200,000 in financial aid. She also admitted to forging a doctor's signature on a medical disability statement in order to get approximately $47,000 of her personal education debt discharged.

- In June 2016, a man pled guilty for his role in a $105,000 student aid fraud ring. The OIG investigation found that the man conspired with a fraud ringleader to profit from fraudulently applying for admission to and obtaining Federal student loans and grants from Jefferson College and several online universities. The individuals recruited people to act as "straw students," knowing that they had no intention of attending classes, for the sole purpose of obtaining student aid.

Audits Found Weaknesses in the Department's Oversight of Accrediting Agencies and in Accrediting Agencies' Evaluations of Non-Traditional Educational Programs

Our audits identified concerns with the Department's recognition and oversight of accrediting agencies and with accrediting agencies' processes to provide assurance that schools' classifications of delivery methods and measurements of student learning for competency-based education programs were sufficient and appropriate. A competency-based education program organizes academic content according to what a student knows and can do. These programs can be delivered on campuses, through distance education, or by correspondence and may measure student learning by clock hours, credit hours, or direct assessment. The delivery and learning measurement options present challenges in determining the Title IV eligibility of competency-based education programs.

- In June 2018, we issued an audit report on the Department's recognition and oversight of accrediting agencies. We found that the Department's process for reviewing agency petitions for recognition did not provide reasonable assurance that the Department recognized only agencies meeting Federal recognition criteria. Specifically, we noted that the Department did not have adequate controls over the school information that agencies used as evidence to demonstrate that they have appropriate accreditation standards and effective mechanisms for evaluating school compliance with those standards before reaching an accreditation decision. Additionally, we noted that the Department did not have written policies and procedures to guide analysts through the review of agency recognition petitions, which can lead to inconsistencies regarding the number of schools and amount of documentation deemed necessary to demonstrate compliance with Federal recognition requirements. We also found that the Department's post-recognition oversight was not adequate to ensure agencies consistently and effectively carry out their responsibilities. We noted that the Department did not have an adequate plan

for the post-recognition oversight of agencies and did not regularly perform reviews of high-risk agencies during the recognition period.

- In August 2016, we issued a report on the Western Association of Schools and Colleges Senior College and University Commission's processes for reviewing schools' proposed competency-based education programs. We found that the Commission's control activities did not provide reasonable assurance that schools properly classified the methods of delivery for competency-based education programs. As a result, the Commission's evaluations of the schools' classifications of the methods of delivery will not help the Department ensure that proposed competency-based education programs are properly classified for Title IV purposes. We specifically noted that the Commission did not evaluate whether proposed competency-based education programs were designed to ensure faculty-initiated, regular, and substantive interaction between faculty and students. Additionally, the Commission did not always ensure that the credit hours assigned to the programs from which schools derived competency-based education programs met the Federal definition of a credit hour. Finally, the Commission did not always follow its own policy relevant to the review of credit hours.

Audits and Inspections Found That FSA's Oversight and Monitoring of Contractors Could be Improved

In April 2018, we issued an audit report that concluded that FSA did not effectively implement Department requirements contractor personnel security clearance process. We noted weaknesses in FSA's development of internal policies and procedures; designation of contract positions and risk levels; maintenance of contract position, risk, and employee information, notification and maintenance of security screening decisions, and contractor employee departure procedures. We found that FSA staff and officials involved in the process were generally unaware of Department requirements and their related responsibilities for processing contractor employees' security screenings. We also determined that FSA had not ensured that all contractor employees had appropriate security screenings and that security screenings were initiated or verified in a timely manner. Additionally, we determined that FSA was not always denying High Risk access to Department Information Technology systems or Department sensitive or Privacy Act-protected information prior to preliminary security screenings being completed favorably, as required, and inappropriately provided High Risk Information Technology access to non-U.S. Citizens.

OIG work continues in this area as our investigative activity continues to pursue instances of fraud by student financial assistance program participants. Our ongoing audit work includes reviews of the Department's monitoring of the total and permanent disability loan discharge process, oversight of school compliance with satisfactory academic progress regulations, and FSA's use of heightened cash monitoring. Additional

planned projects for FY 2019 include school compliance with career pathway programs and ability to benefit provisions, schools' use of online program management providers, and oversight and monitoring of contractor's acceptability review process for proprietary school annual audits.

Department Actions and Plans

The Department stated that it has implemented oversight and monitoring processes for schools, lenders, servicers, guaranty agencies, and accrediting agencies. The Department noted that FSA's process for oversight and monitoring includes program reviews, reviewing and resolving annual compliance audits and financial statements submitted by program participants to ensure that these participants are administratively capable and financially responsible, and certification activities to ensure that program participants continue to be eligible to participate in the student aid programs.

The Department stated that the Next Generation Federal Student Aid transformation will bring significant improvements to FSA's capabilities to monitor the performance of servicing and collections vendors in addition to monitoring servicing and collections performance generally. As part of this initiative, FSA will implement a business intelligence platform designed to capture and report on performance metrics, which will include vendor contract performance metrics and data.

The Department also is committed to continually improving its procedures to recognize more accurately and effectively an accreditor's appropriate role: improving academic quality through peer review. To this end, the Office of Postsecondary Education has developed corrective actions that will improve its monitoring and oversight of accrediting agencies.

The Department reported that it has performed a significant number of actions to address findings and recommendations from the OIG's audit work in order to improve its oversight of student financial assistance program participants. These actions included the following.

- It had documented and implemented authorization protocols to ensure consistent documentation of the review and approval of borrower defense legal memoranda and other borrower defense findings used to justify a discharge. Through the use of these processes and newly developed and documented protocols, the Borrower Defense Unit had adjudicated more than 30,000 applications since the OIG's borrower defense report was issued.
- It had finalized and implemented protocols for the processing of borrower defense claims flagged for denial and had processed more than 9,000 denied claims since the OIG's borrower defense report was issued.

- The borrower defense claim review had moved to a platform that tracks a claim from intake through adjudication and processing. This platform provides the ability to instantly retrieve a borrower's application and related documents and also allows FSA to determine the status of an application. The Department expected to launch its long-term solution, a more robust claims management platform, within the next few months.
- FSA developed procedures that require its financial analysts to: (1) review prior years' composite score determinations when analyzing current year composite score calculations; (2) respond to composite score appeals within 30 or 45 days, depending on the level of appeal and (3) conduct multi-year analyses of specific financial statement items that could be manipulated to increase a composite score.
- FSA plans to review how its annual school risk assessment utilizes information related to both prior program review and audit findings extrapolated across schools with common auditors where weaknesses may be present for future selection of program reviews and/or referrals to OIG for Quality Control Review.
- FSA had developed an annual monitoring process to review guaranty agencies' implementation of security and privacy requirements. The Department noted that FSA completed on-site assessments of all guaranty agencies in FY 2018.
- FSA assessed the risk associated with personally identifiable information and continues to dedicate significant resources to the active management of securing personally identifiable information. These efforts are regularly monitored using a scorecard that highlights vulnerabilities and tracks work against these metrics. Risks associated with personally identifiable information are managed at the enterprise level providing visibility to executives at FSA as well as the resource support to manage these risks.
- FSA established a senior level position for fraud risk called the "Senior Fraud Risk Advisor." Reporting directly to the Chief Enterprise Risk Officer, this position is responsible for overseeing the implementation of GAO's suggested "Framework for Managing Fraud Risks in Federal Programs" (GAO-15-593SP).
- In FY 2018, FSA's Fraud Risk Group was assigned the responsibility for receiving and processing fraud referrals from the Department's Office of the Inspector General. This group launched a new initiative to implement workflow and case management capabilities to perform analysis of all OIG fraud Referrals within the existing infrastructure. This will enable more comprehensive analysis across all OIG fraud referrals and provide better tracing of referrals and possible recoveries of resultant improper payments.
- FSA created a Personnel Security Division consisting of 15 staff. FSA is in the process of hiring the staff and has selected a Director and on-boarded eight of

the team members. The Office of Management issued a delegation of authority to FSA to conduct pre-employment background investigations for low and moderate risk public trust employee and contractor positions. FSA is also working closely with the Office of Management to clean up the data contained in the EDSTAR (Security Manager) system as the Office of Management updates the Security Manager program to improve data collection and reporting capabilities.

- FSA is currently in the process of developing internal processes and standard operating procedures that align with the draft directive on Contractor Employee Personnel Security Screenings.
- FSA has developed elements for Contracting Officer's Representatives and Information System Security Officers performance plans outlining the expectations from them with regard to contractor personnel security screening.
- FSA has begun holding information and training sessions with Contracting Officer's Representatives, Information System Security Officers, and other business unit representatives on their roles in the contractor security screening and system access program.
- FSA will be using a statistically valid estimation methodology for improper payments in FY 2019. Because the estimation will be statistically valid, the root cause analysis should help FSA identify areas where schools are having particular difficulty and may need additional assistance or where FSA may need to focus resources to ensure compliance at schools.

According to the Department, FSA continues to evolve its Enterprise Risk Management System. The Department believes that a strong governance structure has been put into place and includes executives from across FSA, fostering a culture of risk awareness. The Department stated that risk associated with the oversight and monitoring of Title IV programs and participants is cited at the enterprise level. The Department noted that FSA has highlighted a variety of mitigating strategies to manage this risk and a series of Key Risk Indicators is being developed to more closely monitor this risk. Finally the Department stated that FSAs Enterprise Risk Management System seeks to continue to improve risk management across FSA as it pursues its mission and strategic objectives.

Further Actions Needed to Address the Challenge

The overall magnitude of funds and the related risks associated with the Federal student aid grant and loan programs make the Department's oversight and monitoring efforts especially significant. While the Department stated that it has implemented robust oversight and monitoring processes, our audits and investigations involving student financial assistance programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to further improve it processes.

While the Department identified significant corrective actions in response to our audit findings and recommendations, developing and implementing a control system that effectively minimizes risk and safeguards Federal student aid resources remains a challenge. The Department needs to continue its efforts to enhance its oversight of student financial assistance programs, participants, and partners. This includes taking steps to ensure that its management of related internal control systems is effective to ensure that they are appropriately designed and implemented, operating as intended, and correcting identified weaknesses in a timely manner.

The Department needs to ensure that its efforts to better coordinate oversight result in effective processes to monitor student financial assistance program participants and reduce risk. It should work to ensure that its program review and compliance audit processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure its oversight functions work together to effectively provide the intended additional protections to students and taxpayers. Specifically, the Department needs to continue developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

While we recognize that the planned changes under the Next Generation initiative have the potential to bring about a significant improvement in FSA's ability to monitor its servicers and collections vendors, it is important that FSA effectively implements and oversees these changes.

Our audits and investigations of student financial assistance program participants and audits of the Department's related oversight and monitoring processes will continue to assess a wide variety of effectiveness and compliance elements. This area remains a management challenge given our continued findings in this area.

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 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 or overseen corrective actions by grantees 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 includes developing 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 more than 100 grant programs. The Department's early learning, elementary, and secondary education programs annually serve more than 18,300 public school districts and 55 million students attending more than 98,000 public schools and 34,000 private schools. Key programs administered by the Department include the Title I program, which under the Department's FY 2019 budget appropriation would deliver more than $15.8 billion for local programs that provide extra academic support to help nearly 25 million 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 more than $12.3 billion to help States and school districts meet the special educational needs of 6.9 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 SEA and LEA control issues; fraud relating to Supplemental Educational Services and other education programs; 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.

SEA and LEA Control Issues

Our recent work at the SEA and LEA levels has focused on reviews of their efforts to (1) implement and oversee Federal education programs, (2) address prior audit findings, (3) protect personally identifiable information, (4) oversee single audit resolution, and (5) monitor SIG contractors. We identified control issues within each of these areas that could impact effectiveness of the entities reviewed and their ability to achieve intended programmatic results.

Implementation and Oversight of Federal Education Programs

In September 2018, we issued a report on our nationwide audit of oversight of closed charter schools. In part, we found that selected SEAs generally had procedures and controls to identify the causes for charter school closures and for mitigating the risks of future charter school closures. However, we noted that the selected SEAs did not always meet the Federal and State requirements when (1) performing close out procedures for Federal funds a charter school received, (2) disposing of assets a charter school acquired with Federal funds, and (3) protecting and maintaining student information and records from closed charter schools.

In March 2018, we issued a report on New York State's and selected districts' implementation of selected Every Student Succeeds Act requirements under the McKinney-Vento Homeless Assistance Act. We determine that the New York SEA generally provided effective oversight of LEAs and coordinated with other entities to implement selected Every Student Succeeds Act requirements related to identifying and educating homeless children and youths. However, we found that the New York SEA could improve its oversight of LEA data reporting and improve its internal controls by better documenting and updating policies and procedures, following up on LEA corrective actions from monitoring reviews, and providing technical assistance to LEAs related to the reporting of unaccompanied youths who are homeless.

In February 2018, we issued an audit report on Puerto Rico Department of Education's reliability of program performance data and use of Adult Education program funds. We found that Puerto Rico could improve its oversight of the Adult Education program to ensure that it uses funds in compliance with applicable laws and regulations, and obtains and reviews single audit reports of subgrantees. We also found that Puerto Rico did not always provide sufficient documentation to demonstrate compliance with the

approval process for personal services contracts, did not provide semiannual certifications for employees who worked full time on the Adult Education program, and did not always provide sufficient documentation to support nonpayroll payments. We also found that Puerto Rico had policies and procedures to monitor local service providers' uses of Adult Education program funds and conducted monitoring site visits to three of the six local service providers we reviewed. However, Puerto Rico did not always obtain and review OMB Circular A-133 single audit reports for Adult Education program subgrantees that required a single audit.

Auditee Response to Prior Audit Findings

In 2017 and 2018, we issued a series of reports on the status of corrective actions on previously reported Title I findings for four school districts— Orleans Parish School Board, Detroit Public Schools Community District, Harvey Public School District 152, and Wyandanch Union Free School District.

In May 2018, we reported that the Orleans Parish School Board implemented a new financial management system, developed a grants management policy requiring adequately documented personnel and nonpersonnel expenditures, and revised its policies and procedures for purchasing and contracting, using district-held credit cards, and limiting user access to the financial management system. However, we also reported that Orleans Parish did not design and implement procedures that provided reasonable assurance that expenditures for services provided to nonpublic school students and charged to Title I funds were allowable. Specifically, Orleans Parish did not verify that educational services providers delivered Title I services to nonpublic school students as asserted on invoices and supporting documentation.

In March 2018, we reported that the Detroit Public Schools Community District had not taken actions sufficient to provide reasonable assurance that previously reported audit findings will not reoccur. We found that the Detroit Public Schools Community District had made progress towards implementing related policies and procedures, but had not effectively implemented all of them. Specifically, the Detroit Public Schools Community District had not effectively implemented procedures for approving and documenting personnel, employee travel, and consultant services costs.

In May 2017, we reported that Harvey Public School District 152 had designed policies that should have been sufficient to remediate most of the findings relevant to Title I, Part A that were disclosed in audit and monitoring reports. We concluded that Harvey Public School District 152 implemented the policies, procedures, and practices that it designed to remediate findings in several areas. However, we found that the school district did not follow all of the policies that it designed to remediate inventory management findings and did not design procedures to provide reasonable assurance that it submits accurate periodic expenditure reports to the State. As a result, assets

purchased with Title I funds might be lost or misused, and the Illinois State Board of Education might reimburse the Harvey Public School District 152 for more or fewer Title I expenditures than incurred.

Also in May 2017, we reported that the Wyandanch Union Free School District took corrective actions that should be sufficient to remediate all previously reported, Title I-relevant findings included in audit reports issued from July 1, 2005, through December 31, 2015.

Protection of Personally Identifiable Information

During FYs 2016 and 2017, we issued separate audit reports on the Indiana, Oregon, and Virginia Departments of Education's protection of personally identifiable information in their respective Statewide Longitudinal Data Systems (SLDS).[1]

In July 2017, we reported that the Indiana Department of Education did not provide adequate oversight to ensure that its system met minimum security requirements that included a creating System Security Plan, completing a compliance audit and risk assessment, and classifying its security level. We also reported that the Indiana Department of Education lacked assurance that it could prevent and detect unauthorized system access and disclosure of information.

In September 2016, we reported that the Oregon Department of Education's lack of documented internal controls increased the risk that it would be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. We also found that the Oregon Department of Education did not ensure that its system met the minimum State security requirements to include developing and implementing an Information Security Plan, conducting annual risk assessments, and classifying security levels.

In July 2016, we identified internal control weaknesses that increased the risk that the Virginia Department of Education would be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. We noted that although the Virginia Department of Education classified a related system as sensitive, it did not

[1] The SLDS grant program is intended to assist States in the successful design, development, implementation, and expansion of early learning through the workforce longitudinal data systems. These systems are intended to enhance the ability of States to efficiently and accurately manage, analyze, and use education data, including individual student records. The SLDSs should help states, districts, schools, educators, and other stakeholders to make data-informed decisions to improve student learning and outcomes and facilitate research to increase student achievement and close achievement gaps.

ensure that the system met the minimum requirements identified in Virginia's Information Technology Resource Management Standards.

Single Audit Resolution

During FYs 2016 and 2017, we issued individual audit reports on the Illinois State Board of Education's, North Carolina Department of Public Instruction's, and Massachusetts Department of Elementary and Secondary Education's oversight of LEA single audit resolution.

In November 2016, we reported that the Illinois State Board of Education did not provide effective oversight to ensure that LEAs took timely and appropriate corrective action on single audit findings. We noted that this occurred because it lacked an audit resolution process that effectively resolved findings, did not comply with Federal requirements, and lacked coordination, both among its divisions and between it and individual LEAs. We further noted that no one division within the Illinois State Board of Education was overseeing this function to ensure that findings were resolved and that the Illinois State Board of Education did not develop appropriate controls to identify weaknesses or areas of noncompliance. As a result, findings at numerous LEAs repeated for multiple years, putting Federal funds and program outcomes at risk.

In August 2016, we reported that the North Carolina Department of Public Instruction improved its oversight of LEA single audit resolution during the period covered by our review and noted that several aspects of its oversight were effective. However, we also identified specific aspects of the North Carolina Department of Public Instruction's oversight that could be improved to correct control weaknesses and ensure compliance with regulatory requirements. We found that the North Carolina Department of Public Instruction did not have adequate written policies and procedures that described all aspects of its oversight of the LEA audit resolution process, an adequate system for tracking LEA findings across audit periods or across the State, or a quality assurance process for its oversight of LEA audit resolution. Finally, we noted that management decisions for LEA audit findings did not meet all Federal content requirements.

In January 2016, we noted that the Massachusetts Department of Elementary and Secondary Education's oversight of LEA single audit resolution was not sufficient to ensure that LEAs took timely and appropriate corrective action. We found that in many cases the Massachusetts Department of Elementary and Secondary Education did not identify and require appropriate corrective actions for LEAs to take to adequately resolve their findings. Additionally, the Massachusetts Department of Elementary and Secondary Education did not have a tracking process for individual LEA findings and did not follow up on the status of corrective actions for many of the repeat findings covered by our review. We also noted that the Massachusetts Department of Elementary and Secondary Education generally did not communicate effectively with LEA officials

regarding audit resolution, and none of the Massachusetts Department of Elementary and Secondary Education's management decision letters that were reviewed met all Federal requirements for content.

SIG Contractor Monitoring

In March 2016, our audit of State and district monitoring of SIG contractors found that California did not adequately monitor LEAs to ensure that they had sufficient fiscal controls for obligating and paying Federal funds to SIG contractors. California's monitoring instrument did not specify the extent of testing that monitoring personnel should perform to ensure that the LEAs spent SIG funds properly, did not specify the types of documents that its monitoring personnel should review, and did not sufficiently describe the procedures that monitoring personnel should perform to determine whether LEAs have implemented appropriate fiscal control activities. We also found that the three LEAs included in our review did not have sufficient written policies and procedures for reviewing and approving certain fiscal documents, two of the LEAs did not adequately monitor fiscal transactions involving SIG contractors, and one LEA did not provide evidence that it routinely monitored its contractors' performance.

Fraud Involving Supplemental Educational Services

OIG investigations have continued to identify instances of fraud involving Supplemental Educational Services providers, including the following.

- In October 2017, father and son executives of Brilliance Academy and Babbage Net School were sentenced and ordered to pay restitution of more than $11.3 million to the Department. The defendants engaged in a scheme to bribe state and local education officials in Texas and New Mexico to recruit students for their Supplemental Educational Services companies, to invoice school districts across the country for tutoring hours they knew were false, to falsely market tutoring services to school districts and state departments of education, to falsely report student progress, to falsely report final student achievement from participation in tutoring and to steal migrant education funds.
- In August 2017, a Lead Teacher for a Supplemental Educational Service provider pled guilty to one count of theft of government money. The OIG investigation revealed that the company and 30 of its employees billed the Puerto Rico Department of Education more than $954,000 for tutoring services that were never provided to students.
- In December 2015 and January 2016, former employees of a Supplemental Educational Service provider were sentenced to 3 years probation and ordered to pay more than $2 million in restitution. The individuals conspired with others to submit false attendance records for tutoring that had not been provided. Our investigation also resulted in a $10 million settlement between the

Supplemental Educational Service provider and the Federal Government in December 2012.

Fraud Involving Other Education Program Participants

OIG investigations have continued to identify instances of fraud involving other education program participants, including the following.

- In August 2018, the head of Texas Christian University's Upward Bound Program pled guilty to theft from a Federal Student Assistance Program. The head of the program, who oversaw the payment of funds to program participants, routinely stole and misapplied funds for her own personal use. She also submitted fraudulent and false statements for reimbursement of stipends and travel expenses for trips purportedly taken by Upward Bound participants. As part of her plea agreement, she agreed to pay more than $210,000 in restitution.
- In August 2017, the former finance director of a non-profit entity that was a direct grant recipient under the Investment in Innovation Fund was sentenced to 33 months imprisonment, 3 years supervised release, 300 hours of community service, and was ordered to pay more than $630,000 in restitution. The former finance director converted Federal education funds and other grant funds to his own personal use by issuing and forging checks made payable to a company he owned. He deposited these checks and then used these funds to make personal credit card payments and ATM cash withdrawals at a casino.
- In February 2016, the owner of a for-profit organization was found guilty of theft. The owner embezzled more than $149,000 from 21st Century Community Learning Center funds that were awarded to the company to provide services to students at an Arkansas High School. He was sentenced to 24 months confinement, 36 months of supervised release, and was ordered to pay $148,416 in restitution.

Fraud by SEA and LEA Officials

From FY 2013 through FY 2017, we opened 79 investigations related to allegations of fraud and corruption in elementary and secondary education programs. More effective internal control systems at the SEAs and LEAs could have mitigated the risk of these fraud schemes.

- In March 2018, the former Chief Financial Officer at Grand Prairie Independent School District was sentenced for Federal program theft. The former Chief Financial Officer utilized her position to embezzle over $600,000 in cash from the Grand Prairie Independent School District. She ordered unauthorized amounts of currency to be withdrawn from district bank accounts and then delivered to her at the school district by armored car service and falsely claiming they were for legal settlements and/or other legitimate services.

- In February 2018, the former Superintendent of Grant-Goodland Public Schools was convicted of conspiracy to commit bank fraud and conspiracy to embezzle Federal program funds. The OIG investigation found that the former Superintendent and a co-conspirator created false invoices using names of legitimate District vendors, presented fraudulent checks to the board for approval, and negotiated the checks for their personal use. The fraud scheme resulted in losses to the Department of about $1.2 million.
- In October 2017, a former school business manager at Grandview R-2 School District was sentenced for embezzling over $1.8 million by making payments to herself and using district money to pay for personal purchases.

Fraud by Charter School Officials

Charter schools generally operate as independent entities that, for federal funds, fall under the oversight of an SEA or an LEA. The OIG has opened 19 charter school investigations since 2011. To date, these investigations have resulted in 32 indictments and 24 convictions of charter school officials and returned more than $7.1 million in restitution, fines, forfeitures, and civil settlements.

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

- In July 2018, the former Chief Executive Officer of Pennsylvania Cyber Charter School was sentenced for conspiring with his accountant to shift more than $8 million in income to the federal tax returns of other persons, so that the true income of the former Chief Executive Officer was concealed from legitimate taxing authorities.
- In June 2018, the founder and former superintendent of the Varnett Public School, and her husband, former Varnett Public School facilities and operations manager, were sentenced for mail fraud and conspiracy to commit tax evasion. The couple was jointly ordered to pay more than $4.4 million in restitution. Additionally, the former superintendent was ordered to pay a fine of more than $295,000 and her husband was ordered to pay a fine of more than $88,000. The investigation found that the couple embezzled more than $2.6 million in funds intended for the operation and function of the charter school and its programs. The investigation also found that from 2007 through 2014, the couple underreported their income to the Internal Revenue Service resulting in $1.6 million in tax, interest, and penalties.
- In April 2018, the former principal of the Academy of Dover Charter School was sentenced for a violation of program fraud. Between 2011 and 2014, the former president used school credit cards to purchase more than $145,000 of items for his own personal use.

- In January 2018, the founder and former Director of Latin Academy, Latin College Preparatory Academy and Latin Grammar School pled guilty to 55 counts of theft and forgery, and was sentenced to 10 years incarceration, 10 years probation, and ordered to pay $810,000 in restitution. The OIG investigation found that the former Director caused more than $135,000 to be wired from the school's account to his personal account and identified more than $63,000 in improper ATM withdrawals. The investigation also revealed that Latin Academy made several improper payments benefitting the former Director to include more than $50,000 to adult entertainment establishments and thousands of dollars to Mercedes and BMW dealerships.
- In December 2017, the former co-director of Family Foundations Academy Charter School was sentenced on Federal program theft charges. The former co-director used school credit cards to purchase personal items that he used or sold. The investigation revealed that he used Family Foundations Academy Charter School funds to pay the credit card bills totaling more than $161,000. The former co-director was sentenced to 18 months in prison, 3 years probation and ordered to pay more than $161,000 in restitution.
- In October 2017, a former charter school administrator pled guilty to defrauding millions of dollars from the group of public charter schools he founded in Albuquerque, New Mexico. His personally owned business, Southwest Educational Consultants, made more than $700,000 in profits as the result of one of his fraudulent schemes.
- In February 2016, a former charter school administrator and a former charter school business manager were sentenced for obstructing justice in a Federal investigation. The individuals were previously indicted for their roles in a scheme to defraud several Pennsylvania charter schools of more than $5.6 million. The former charter school administrator admitted to fabricating documents and financial records that were submitted to Federal investigators.

Contractor Fraud

- In June 2018, a vendor of the Municipality of Sabana Grande, Puerto Rico was charged and pled guilty for his participation in a conspiracy to steal federal funds involving fraudulently obtained contracts amounting to about $2.9 million from the Puerto Rico Department of Education.
- In February 2018, the former Special Assistant to the Secretary of the Puerto Rico Department of Sports and Recreation pled guilty to conspiracy, theft of government funds, and bribery. The former Special Assistant to the Secretary participated in a conspiracy to steal federal funds, including fraudulently obtained contracts amounting to about $9.8 million from the Puerto Rico Department of Education and the Puerto Rico Public Housing Authority, and

soliciting and receiving multiple kickback payments from another defendant pertaining to Department of Sports and Recreation's lease of a facility.

Internal Control Weaknesses in the Department's Oversight Processes

In September 2018, we issued an audit report on the Department's oversight of the Indian Education Formula Grant program. We determined that significant improvements were needed in the Office of Indian Education's oversight of grantees' performance and use of funds. We found that while the Office of Indian Education conducted some monitoring, it was insufficient to ensure that grantees were making progress toward meeting program goals and spending grant funds appropriately. We found that the Office of Indian Education's efforts related to monitoring were primarily limited to ensuring grantees were drawing down and spending grant funds by established deadlines and closing out the grant. For key program monitoring activities such as desktop monitoring, student count verification, and the collection and review of Annual Performance Reports, we found a lack of written comprehensive procedures, follow-through, and documentation. We also found that while Office of Indian Education developed plans to monitor grantees for FYs 2014 and 2015, it had not developed clear procedures for identifying which grantees to monitor, including taking into account multiple risk assessment factors. While the Office of Indian Education did collect some data on grantee performance and use of funds, there was little evidence that the data was used to provide assistance to grantees in implementing the program successfully.

As mentioned in the "SEA and LEA Control Issues" section above, we issued a report on our nationwide audit of oversight of closed charter schools in September 2018. In part, we found that the Department's oversight and monitoring of the selected SEAs was not effective to ensure that the SEAs performed the charter school closure process in accordance with Federal laws and regulations. Specifically, we found that the Department did not provide adequate guidance to SEAs on how to effectively manage charter school closures. In addition, the Department did not monitor SEAs to ensure that SEAs had an adequate internal control system for the closure of charter schools. As a result, we found that the SEAs did not ensure all applicable Federal requirements for the sampled closed charter schools were consistently performed and documented. During our follow-up work with the Department, we found that program offices had updated some of their SEA monitoring procedures to address some issues related to the monitoring and oversight of closed charter schools, but we did not verify whether the new procedures have been fully implemented.

In March 2018, we issued an audit report on the protection of personally identifiable information in SLDS. We found that the Institute of Education Science's (IES) grant requirements was adequate to ensure the protection of personally identifiable information. However, we found that IES had inadequate controls for monitoring its grantees' adherence to State system security requirements. During FYs 2016 and 2017,

we issued separate audit reports on the Indiana, Oregon, and Virginia Departments of Education's protection of personally identifiable information in their respective SLDSs. We identified internal control weakness at all three grantees audited that increased the risk that these grantees would be unable to prevent or detect unauthorized access and disclosure of personally identifiable information in their SLDSs.

In March 2017, we issued a management information report to the Department on State oversight of LEA single audit resolution. The report was based on audits we conducted in in three States (see "SEA and LEA Control Issues" section above) and identified weaknesses that other SEAs may need to address. We recommended actions that the Department should take to improve SEA oversight of LEA single audit resolution and identified positive practices that SEAs could implement to enhance oversight effectiveness.

In September 2016, we issued an audit report on our review of charter and education management organizations. Overall, we determined that that charter school relationships with charter management organizations posed a significant risk to Department program objectives. Specifically, we found that 22 of the 33 charter schools in our review had 36 examples of internal control weaknesses related to the charter schools' relationships with their charter management organizations. These included instances of financial risk, lack of accountability over Federal funds, and performance risk. We also found that that the Department did not have effective internal controls to evaluate and mitigate the risk that charter school relationships with charter management organizations posed to Department program objectives.

In September 2016, we issued a report on the Department's oversight of the Rural Education Achievement Program. We found that improvements were needed in the Department's monitoring of Rural Education Achievement Program grantees' performance and use of funds. We specifically noted that the Department conducted very limited monitoring to determine whether grantees were making progress toward program goals or spending grant funds in accordance with statutory and regulatory guidelines. Instead, we found that oversight efforts were primarily focused on ensuring grantees were obligating and spending funds by established deadlines. Although we concluded that the Department's program monitoring could be improved, we found that the Department's rural education coordination efforts appeared to be effective.

In July 2016, we issued an audit report on the Department's follow-up process for external audits. We found that the Department's audit follow-up process was not always effective and noted that the Department's accountable office did not fulfill its responsibilities to (1) ensure that Action Officials had systems in place to follow up on corrective actions, (2) monitor compliance with OMB Circular A-50, and (3) ensure the overall effectiveness of the audit resolution and follow-up system. We also found that the Department did not ensure timely audit closure and Principal Offices did not always

adequately maintain documentation of audit follow-up activities. As a result, the Department did not have assurance that requested corrective actions were taken and that the issues noted in the OIG audits were corrected.

In March 2016, we issued an audit report of the Small Business Innovation Research program regulations and operating procedures. We found that the Department had not developed required policies or established formal processes related to the identification and prevention of fraud, waste, and abuse. We also found that the Department had not designated an individual to serve as the liaison for the Small Business Innovation Research program to ensure related inquiries are properly referred to the OIG and to the Suspension and Debarment Official. Additionally, we determined that the Department did not request all required certifications from awardees and does not have a formal process in place to ensure that duplicate awards are not made.

GAO has also conducted work related to grantee oversight and monitoring. In April 2017, GAO issued a report on the Department's oversight of grants monitoring. GAO found that the Department's grant staff did not consistently document required monitoring activities and 92 percent of the grant files it reviewed were incomplete with respect to certain key documents. As a result, about $21 million in discretionary grant funds lacked correct documentation of grantee performance. GAO further reported that the three Principal Offices it reviewed had not established detailed written procedures for the supervisory review of official grant files and the Department had not developed guidance for grant staff working across programs and offices to effectively use its grants management system to share grantee performance information.

In April 2017, GAO reported that the Department could take steps to ensure that 21st Century Community Learning Center data is more useful for program decision making. GAO found that the Department had developed performance measures to align with some program objectives—primarily student academic outcomes—but it had not aligned its measures with other program objectives related to key student behavioral and socio-emotional outcomes.

In May 2016, GAO issued a report on the use of information to identify disparities and address racial discrimination. GAO noted that the Department had taken a range of actions to identify and address racial discrimination against students to include investigating schools and analyzing data by student groups protected under Federal civil rights laws. However, GAO reported that it analyzed data among types of schools and found multiple disparities by percentage of racial minorities and poverty level, including access to academic courses. GAO noted that that the Department did not routinely analyze its data in this way and concluded that conducting this type of analysis would enhance the Department's ability to target technical assistance and identify other disparities by school types and groups.

Ongoing work in this area includes reviews of the Department's State plan review process under the Every Student Succeeds Act, SEA's oversight of virtual school implementation of the Individuals with Disabilities Education Act, and Charter School Program Grants for replication and expansion of high-quality charter schools. Planned projects for FY 2019 include work on the Department's controls over Student Support and Academic Enrichment Program grants, statewide accountability systems under the Elementary and Secondary Education Act, and a series of disaster recovery projects that will include work relating to the Immediate Aid to Restart Schools and Emergency Impact Aid programs.

Department Actions and Plans

The Department stated that is it working to maximize the value of grant funding by applying a risk-based, data-driven framework that balances compliance requirements with demonstrating successful results for the American taxpayer. The Department noted that there is significant inherent risk that SEAs, LEAs, and grant recipients may not always comply with financial or programmatic requirements, thereby negatively impacting program outcomes.

The Department stated that it continues to take a number of actions to manage this risk and support State and local efforts as well as postsecondary agencies and institutions to improve outcomes. The Department's new Strategic Plan includes key objectives and strategies focused on providing greater support to grantees through a number of ways including flexibility, technical assistance, partnership, and dissemination of evidence.

The Department also stated that it continues to develop improved strategies to oversee and monitor grant recipients. The Department stated that it expects SEAs, LEAs, and other grant recipients to exercise proper control and management of transactions to ensure full accountability and achieve the program outcomes for which the funds were provided. The Department further noted that it reviews program operations to ensure that the services provided comply with the terms of the grant, end recipients are eligible for services, that matching and levels-of-effort are met and that program outcomes and outputs are achieved.

The Department reported that it is performing numerous activities to uphold standards of accountability for grantees that included the following.

- The Department's Risk Management Service developed two monitoring courses to increase the monitoring expertise of Department program staff. The first course covers basic monitoring foundational concepts and the second course covers more advanced monitoring approaches in which participants discuss monitoring frameworks and plans, individual portfolio monitoring strategies, reports and tools for analyzing reports, communicating with grantees to better

understand and validate data, and how to evaluate effectiveness of monitoring plans.

- The Office of Special Education Programs uses monitoring lessons learned to develop the capacity of staff and enhance its monitoring processes. This included increasing a bank of protocols to better suit individual States' needs and situations and consulting with other Department offices regarding performance and fiscal monitoring. Office of Special Education Programs has also increased its collaboration with technical assistance centers to better provide technical assistance in areas of common need.
- The Office of Special Education and Rehabilitative Services and the Office of Elementary and Secondary Education collaboratively planned and hosted two major public events to provide States with technical assistance on assessment topics and implementing the Every Student Succeeds Act.
- Multiple offices routinely collaborate in monitoring activities, focusing on areas such as assessments, accountability, and data reporting.
- The Office of Elementary and Secondary Education placed significant effort on the continued implementation of Every Student Succeed Act. This included development of a peer review process for the vetting and approval of consolidated State plans. As of September 26, 2018, all consolidated State plans were approved.
- The Office of State Support implemented a performance review system designed to provide effective performance management and support to SEAs in administering and leveraging grant programs that include Title I, Part A; Title II, Part A; and Title III. Their performance review system is intended to ensure that grantees meet performance standards and grant requirements, identify potential areas of concern through implementation of an annual risk assessment, document and close out instances of noncompliance through written correspondence with grantees, and regularly evaluate and update the efficiency and effectiveness of monitoring practices, procedures, and controls.
- The Office of Elementary and Secondary Education increased the number of engagements in its fiscal monitoring pilot, which is in its second year, and successfully increased focus on improving grantee financial management.
- The Office of Elementary and Secondary Education held its first ever mid-point review to assess progress against annual performance plans. The Acting Assistant Secretary and two Deputy Assistant Secretaries met with the leaders and management staff of each program office and led accountability discussions related to performance on the annual plans, monitoring plans, grant schedules and employee engagement plans. These discussions provided senior leadership with the opportunity to receive newly informed recommendations from

monitoring and consider course corrections for the remaining monitoring season.

- The Office of Elementary and Secondary Education also required submission of FY 2019 annual performance plans (including monitoring plans) by mid-September 2018 and approval by October 2018. The goal was to have a clearer perspective on the programmatic priorities, risks, and challenges as soon as possible to inform decisions on how to effectively address them. By comparison, this information was not finalized until December in 2017 for FY 2018 and not until March 2017 for FY 2017.
- The Office of Career, Technical, and Adult Education has partnered with Risk Management Service to ensure that critical elements of the Uniform Guidance are included in its oversite of Perkins State formula grantees.
- The Office of Postsecondary Education conducted monitoring based on risk for targeted recipients, using large available balance reports to drive targeted outreach and assistance.

Further Actions Needed to Address the Challenge

The Department acknowledged that there are significant risks of noncompliance with programmatic requirements by recipients of Federal education funds that may limit achievement of intended results. However, the Department cited numerous actions that it had taken to address these risks and improve outcomes across multiple program offices. The Department should periodically assess the results of these efforts, identify the most promising approaches, and determine whether these best practices can be effectively applied in other program offices.

The Department should continue to take steps to ensure that its grant monitoring staff have an appropriate understanding of policies, processes, and procedures to have greater assurance of effective outcomes. The Department should also continue processes to increase its assurance that SEAs' and LEAs' systems of internal control provide assurance of their ability to effectively implement and monitor Federal education programs, oversee usage of related funds, detect fraud, and monitor contractor performance.

The Department should continue to explore ways to further expand risk-based approaches to grantee monitoring, continue its efforts to offer common training, encourage effective collaboration and communication across program offices, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs.

Given the flexibilities offered by the Every Student Succeeds Act, the Department needs to ensure that its monitoring approaches support State and local efforts while providing

effective oversight of financial stewardship and ensuring progress towards positive program outcomes.

Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. Another area where there is the potential to make use of limited resources to improve oversight is to review the results of single audits and program monitoring efforts in order to revise the single audit process and updates to the OMB 2 C.F.R. 200, Subpart F—Compliance Supplement to improve program compliance and help mitigate fraud and abuse.

The Department's oversight and monitoring of grantees remains a management challenge given our continued findings in this area.

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. SEAs collect data from LEAs and report various program data to the Department. The Department evaluates program data to evaluate program performance and inform 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. The establishment of stronger controls and monitoring activities that go beyond basic edit checks, such as providing detailed information and technical assistance, implementing data validation or certification processes, and enforcing policies regarding maintenance of supporting documentation, will go further to provide reasonable assurance that data collected and reported from grantees and subrecipients are accurate, reliable, and complete.

Background

The Department collects, analyzes, and reports on data for a variety of purposes that include enhancing the public's ability to access high-value education related information, reporting on programmatic performance, informing management decisions, and improving education in the United States. The Department collects data from a numerous sources that include States and State-compiled information relating to approximately 18,000 public school districts and approximately 100,000 public elementary and secondary schools; over 7,300 postsecondary institutions, including universities and colleges, as well as institutions offering technical and vocational education beyond the high school level; and surveys of students, private schools, public elementary and secondary schools, teachers, and principals.

The Department’s National Center for Education Statistics is the primary Federal entity for collecting and analyzing data related to education in the United States and other nations. The National Center for Education Statistics’ activities are designed to address high-priority education data needs; provide consistent, reliable, complete, and accurate indicators of education status and trends; and report timely, useful, and high-quality data education policymakers, practitioners, data users, and the general public. Examples of this reporting include elementary and secondary school enrollment characteristics; reading math, and science performance; and high school completion and dropout rates.

The Department operates systems to collect data regarding its programs. For example, SEAs submit data through specific EDFacts collection systems. EDFacts is an initiative to collect, analyze, and promote the use of high-quality, pre-kindergarten through grade 12 data. EDFacts centralizes performance data supplied by SEAs with other data assets,

such as financial grant information, within the Department to enable better analysis and use in policy development, planning and management. EDFacts is intended to place the use of robust, timely performance data at the core of decision and policymaking in education; reduce state and district data burden and streamline data practices; improve state data capabilities by providing resources and technical assistance, and provide data for planning, policy, and management at the federal, state, and local levels.

Other systems relied on by the Department include: (1) a management information system used by State vocational rehabilitation agencies to report participant case service data, (2) the National Reporting System for Adult Education, (3) the Perkins Information Management System used by States to submit consolidated annual reports on career and technical education, and (4) the Migrant Student Information Exchange, which allows States to share educational and health information on migrant children who have student records in multiple States' information systems.

Results of Work Performed

OIG work has identified weaknesses in controls over the accuracy and reliability of program performance and graduation rate information provided to the Department.

Program Performance Data

As mentioned in the "Oversight and Monitoring - Grantees" section above, in February 2018, we issued an audit report on Puerto Rico Department of Education's reliability of program performance data and use of Adult Education program funds. In part, we found that Puerto Rico could improve its oversight of the Adult Education program to ensure that it submits complete, supported, and accurate performance data to the Department. We found that Puerto Rico used incomplete data obtained from two educational regions, two adult education centers, and a subgrantee to prepare and submit to the Department its program performance report for program year 2012–2013 and did not maintain adequate support for non-Federal matching contributions.

As mentioned in the "Oversight and Monitoring - Grantees" section above, in March 2018, we issued a report on New York State's and selected districts' implementation of selected Every Student Succeeds Act requirements under the McKinney-Vento Homeless Assistance Act. We determined that the New York SEA generally provided effective oversight of LEAs and coordinated with other entities to implement selected Every Student Succeeds Act requirements related to identifying and educating homeless children and youths. However, we found that New York SEA could improve its oversight of the homeless student data that LEAs reported. We noted that while the New York SEA conducted edit and reasonableness checks of data LEAs submitted, it did not review LEA homeless student data when conducting monitoring reviews. Also, the LEAs were required to certify that the data were accurate, but the New York SEA did not have a data certification that included other assertions. For example, LEAs were not required to

certify that controls over the data were working as intended and known issues were disclosed, which would help ensure that the data submitted were reliable.

In January 2018, we issued a report on the Department's communication regarding the costs of income-driven repayment plans and loan forgiveness programs. We found that the Department should have enhanced its communications regarding cost information related to the Federal student loan programs' income-driven repayment plans and loan forgiveness programs to make it more informative and easier to understand. Specifically, the Department could have provided more detailed information on specific income-driven repayment plans, such as Pay as You Earn and Revised Pay as You Earn, and its loan forgiveness programs to fully inform decision makers and the public (including advocacy groups) about current and future program management and financial implications of these plans and programs.

In November 2017, we reported on the Department's compliance under the Digital Accountability and Transparency (DATA) Act of 2014. We found that the Department generally met the DATA Act reporting requirements. Specifically, we found that the Department had adequate controls over its DATA Act source systems and submission processes to reasonably assure that reported data was accurate, timely, of quality, and complete. We found that the Department's summary and award-level data submitted as part of required DATA Act reporting was timely, and generally accurate, of quality, and complete, and that the Department reported the data in accordance with established government-wide financial data standards. However, we found that the Department's validation and reconciliation processes did not initially ensure that award-level transactions that should not be included in the submitted and certified data were appropriately excluded. Further, we found that linkages between award-level data in the Department's systems and the data extracted from external award systems by the Treasury DATA Act Broker were not always complete, and that selected reported data elements were not always consistent with the data contained in the authoritative source system.

In December 2016, we reported on the Department's Rehabilitation Services Administration's (RSA) internal controls over case service report data quality. We found that RSA's monitoring procedures did not require program staff to determine whether State vocational rehabilitation agencies had established and implemented adequate internal controls that provided reasonable assurance that their data were accurate and complete, nor did the procedures require program staff to perform any testing of the data during monitoring visits. We also found that RSA did not require State vocational rehabilitation agencies to certify that the data submitted were accurate and complete. Lastly, we found that although RSA's edit check programs provided some level of assurance regarding the completeness of State vocational rehabilitation agency submitted data, RSA had not properly documented its procedures on the use of these programs.

In March 2016 and December 2015, we issued separate audit reports on the Opportunities for Ohioans with Disabilities', Pennsylvania Office of Vocational Rehabilitation's, and California Department of Rehabilitation's case service report data quality. While we found that two of the three entities had adequate internal controls to ensure that the data it reported to the RSA were complete, none had adequate internal controls to ensure that the data it reported was accurate and adequately supported. Our testing of the data that each entity reported to RSA found a significant number of incorrect and unverifiable data entries for data elements that RSA used to calculate performance indicator results.

Our March 2016 audit report on the Department's oversight of the Carl D. Perkins Career and Technical Education Improvement Act of 2006 (Perkins IV) program noted that the Department had developed and implemented control activities that provided reasonable assurance that States submitted reliable Perkins IV program performance data to the Department. We also reported that the Department had developed and implemented control activities that provided reasonable assurance that States and subrecipients took corrective action when the Department or others identified unreliable Perkins IV program performance data or inadequate Perkins IV program performance results. However, we also found that the Department could strengthen its control activities by ensuring that it adheres to Department policies and procedures for obtaining and retaining monitoring and oversight documentation.

In February 2016, our review of management certifications of data reliability found that the Department needs to improve its controls to support the accuracy of data that SEAs report through the EDFacts system. Specifically, the Department could provide better oversight, including both technical assistance and monitoring, of SEAs controls over data quality for some of the elements reviewed and the verification and validation process for data it reports in its Annual Performance Report.

Graduation Rate Data

In January 2018, we issued a report on calculating and reporting graduation rates in California. We found that the California Department of Education's system of internal control did not provide reasonable assurance that reported graduation rates were accurate and complete during our audit period. Specifically, the California Department of Education did not oversee or monitor the local entities' internal controls over the reliability of Adjusted Cohort Graduation Rate data. As a result, the California Department of Education did not detect errors in the data local entities reported. We also determined that the California Department of Education did not calculate its Adjusted Cohort Graduation Rate in accordance with Federal requirements. Specifically, we found that the California Department of Education removed students from the cohort who transferred to programs that did not lead to a regular high school diploma and included students as graduates who did not earn a regular high school diploma.

In June 2017, we issued a report on calculating and reporting graduation rates in Alabama. We found that the Alabama State Department of Education's system of internal control did not provide reasonable assurance that reported graduation rates were accurate and complete during our audit period. Specifically, the Alabama State Department of Education did not: (1) oversee or monitor LEAs' internal controls over data reliability, (2) have effective controls over its manual adjustment process, and (3) always adequately account for students in the appropriate cohort. We also determined that the Alabama State Department of Education misreported Adjusted Cohort Graduation Rate data to the Department because the former State Superintendent decided to continue counting students who earned an alternative diploma after being advised by the Department that those students could not be included as graduates in the Adjusted Cohort Graduation Rate.

Ongoing work in this area includes audits of the calculation and reporting of graduation rates in selected States, the Department's and selected school's controls over Clery Act reporting, and the Department's financial statements.

Department Actions and Plans

The Department acknowledged that there is significant inherent risk associated with the quality of data reported to the Department by grant recipients. However, the Department reported that it is committed to a number of actions to strengthen the quality, accessibility, and use of education data. The Department believes that its efforts to strengthen its data life cycle management, governance, and quality framework will help ensure that data the Department uses for decision-making are accurate and reliable.

The Department stated that it developed a tool to track data quality concerns and State responses to data-related questions that contributed to the School Year 2015-16 Assessment, Adjusted Cohort Graduation Rate, and Consolidated State Performance Report data quality follow up efforts. The Department tracks data quality findings through multiple review cycles with input from States and data stewards. The Department further reported that the Office of Elementary and Secondary Education implemented a process to track Consolidated State Performance Report data quality follow-up and streamlined the process to load Consolidated State Performance Report data quality findings into a main repository.

The Department reported that it continues to work in other areas to improve the data management and verification process and better mitigate the risk that the Department might unknowingly accept or use inaccurate data.

- The Department stated that it plans to leverage single audits to help assess grant recipient data quality. The Department is working with OMB on language for the compliance supplement that would add focus to the review of grant

recipient's internal controls that support the quality of performance data submitted to the Department. The Department believed that this would better ensure that data reported by States are accurate and reliable.

- The Department stated that its EDFacts team has improved the data quality reviews conducted for the IDEA data collection. This includes new detailed year-to-year reviews to identify data issues that are then folded into new business rules, automated processes to develop data quality reports to States, and enhanced quality control efforts. The Department believed that these innovations have led to consistent on-time delivery of all products, improvements in the quality of data submitted by States, and more detailed State notes that explain data issues.
- The Department stated its Common Core of Data follow-up effort has improved the quality of the data submitted by States and the final Common Core of Data data files released to the public. According to the Department, the number of errors at submission has dropped and the percentage of errors resolved by States has increased. The Department believed that the improvements in data quality are due in large part to more timely follow-up with States. The Department stated that Common Core of Data public release files are now released to the public sooner, and with better quality, than ever before.
- The Department stated that the EDFacts team continues to build public release data files using detailed code and requirements from the past cycle to streamline development and ensure minimal changes in these files from year to year. As part of this process, all files are validated using prescribed validation plans that have been developed and refined over the last several reporting cycles.
- The Department stated that it had developed training and materials to support data quality efforts and shared these materials with both the EDFacts Data Governance Board and the Department's Data Strategy Team. This includes a data quality self-assessment tool, a data visualization quick start guide, an EDFacts data quality process overview, and data quality summary reports.
- The Department noted that the EDFacts team also has created a number of data visualizations to assess data quality, review outcomes, and facilitate monitoring. These visualizations provide ED staff with a quick view of the data, and allow them to spot trends and identify outliers.
- The Department stated that RSA implemented internal controls to address the areas of concern. The States reviewed in regard to the finding were also required to develop and implement corrective action plans to address identified concerns.

- The Department stated that stated that for the Carl D. Perkins Career and Technical Education program it has taken steps to validate it has taken steps to validate and enhance controls related to adhering with Department policies and procedures for obtaining and retaining monitoring and oversight documentation. The Department specifically noted that the Office of Career, Technical, and Adult Education partnered with the Office of Chief Financial Officer to complete an A-123 Entity Level Assessment. According to the Department, this review found sufficient evidence to conclude that the Office of Career, Technical, and Adult Education implements and operates an effective internal control system for each of the five required A-123 components, including: control environment, risk assessment, control activities, information and communication, and monitoring.

Further Actions Needed to Address the Challenge

The Department continues to report the completion of significant work that is intended to improve the overall quality of data that it collects and reports. These efforts remain important, as data quality contributes to effective program management and helps ensure the credibility of information the Department publishes. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge. Our recent audits continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's effort to promote common stronger practices and monitoring activities across its program offices is an important step to improving overall data quality. In addition, efforts to strengthen data certification statements and to perform outreach to States and other entities that report data to the Department are needed to reinforce the importance of good data quality practices. The Department should also continue its efforts to provide enhanced reporting and technical assistance to States, improve training and related materials for its staff, and conduct internal reviews of operations, when appropriate.

The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should follow through on its plans to leverage single audits to help assess grant recipient data quality.

Appendix A. Work Discussed Under the Challenges

The following audits, inspections, and other work are discussed under the challenge areas.[2]

Challenge: Improper Payments

OIG Internal Reports

- U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2017, May 2018 (A04S0003)
- Review and Analysis of the Department's Purchase Card Transactions, March 2018 (S19R0004)
- U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2016, May 2017 (A04Q0011)

OIG External Reports

- Western Governors University Was Not Eligible to Participate in the Title IV Programs, September 2016 (A05M0009)
- State and District Monitoring of School Improvement Grant Contractors in California, March 2016 (A09O0009)

Challenge: Information Technology Security

OIG or Contractor Internal Reports

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

- The U.S. Department of Education's Federal Information Security Modernization Act of 2014 for Fiscal Year 2017, October 2017 (A11R0001)
- The U.S. Department of Education's Federal Information Security Modernization Act of 2014 for Fiscal Year 2016, November 2017 (A11Q0001)
- The U.S. Department of Education FY 2017 Agency Financial Report, November 2016 (A17R0001)

[2] OIG reports may be found on our Web site at this link. http://www2.ed.gov/about/offices/list/oig/reports.html. GAO reports may be found on GAO's Web site, www.gao.gov.

- The U.S. Department of Education FY 2016 Agency Financial Report, November 2016 (A17Q0001)
- Misuse of FSA ID and the Personal Authentication Service, September 2016 (X21Q0001)

Challenge: Oversight and Monitoring—Student Financial Assistance Program Participants

OIG Internal Reports

- U.S. Department of Education's Recognition and Oversight of Accrediting Agencies, June 2018 (A09R0003)
- Federal Student Aid's Contractor Personnel Security Clearance Process, April 2018 (A19R0003)
- Review of Federal Student Aid's Borrower Defense to Repayment Loan Discharge Process, December 2017 (I04R0003)
- Federal Student Aid's Process for Identifying At-Risk Title IV Schools and Mitigating Potential Harm to Students and Taxpayers, February 2017 (A09Q0001)
- Servicemembers Civil Relief Act, February 2016

OIG External Reports

- Western Governors University Was Not Eligible to Participate in the Title IV Programs, September 2016 (A05M0009)
- The Western Association of Schools and Colleges Senior College and University Commission Could Improve Its Evaluation of Competency-Based Education Programs to Help the Department Ensure Programs are Properly Classified for Title IV Purposes, August 2016 (A05P0013)

GAO Reports

- Office of Federal Student Aid Should Take Additional Steps to Oversee Non-School Partners' Protection of Borrower Information, September 2018, (GAO-18-518)
- Education's Postsecondary School Certification Process, July 2018 (GAO-18-481)
- Further Actions Needed to Implement Recommendations on Oversight of Loan Servicers, July 2018 (GAO-18-587R)
- Actions Needed to Improve Oversight of Schools' Default Rates, April 2018, (GAO-18-163)

- Better Program Management and Oversight of Postsecondary Schools Needed to Protect Student Information, December 2017 (GAO-18-121)
- Education Should Address Oversight and Communication Gaps in Its Monitoring of the Financial Condition of Schools, August 2017 (GAO-17-555)

Challenge: Oversight and Monitoring—Grantees

OIG Internal Reports

- The Department's Oversight of the Indian Education Formula Grant Program, September 2018 (A19Q0002)
- Nationwide Audit of Oversight of Closed Charter Schools, September 2018 (A02M0011)
- Protection of Personally Identifiable Information in Statewide Longitudinal Data Systems, March 2018 (A02O0008)
- State Oversight of Local Educational Agency Single Audit Resolution, March 2017, (X09Q0006)
- Nationwide Assessment of Charter and Education Management Organizations, September 2016, (A02M0012)
- Audit of the Department's Oversight of the Rural Education Achievement Program, September 2016 (A19P0006)
- Audit of the Department's Followup Process for External Audits, July 2016 (A19O0001)
- Audit of the Small Business Innovation Research Program Regulations and Operating Procedures, March 2016 (A19P0007)
- Audit of the Followup Process for External Audits in the Office of Elementary and Secondary Education, December 2016 (A19P0002)

OIG External Reports

- Orleans Parish School Board: Status of Corrective Actions on Previously Reported Title-I Relevant Control Weaknesses, May 2018 (A05R0002)
- New York State's and Selected Districts' Implementation of Selected Every Student Succeeds Act Requirements under the McKinney-Vento Homeless Assistance Act, March 2018 (A03Q0005)
- Detroit Public Schools Community District: Status of Corrective Actions on Previously Reported Title I-Relevant Control Weaknesses, March 2018 (A05R0001)

- Puerto Rico Department of Education's Reliability of Program Performance Data and Use of Adult Education Program Funds, February 2018 (A04O0004)
- Protection of Personally Identifiable Information in Indiana's Statewide Longitudinal Data System, July 2017 (A06Q0001)
- Wyandanch Union Free School District: Status of Corrective Actions on Previously Reported Title I Findings, May 2017 (A05Q0005)
- Harvey Public School District 152: Status of Corrective Actions on Previously Reported Title I-Relevant Control Weaknesses, May 2017 (A05Q0003)
- Illinois State Board of Education's Oversight of Local Educational Agency Single Audit Resolution, November 2016 (A02P0008)
- Protection of Personally Identifiable Information in Oregon's Statewide Longitudinal Data System, September 2016 (A02P0007)
- Protection of Personally Identifiable Information in the Commonwealth of Virginia's Longitudinal Data System, July 2016 (A02P0006)
- North Carolina Department of Public Instruction's Oversight of Local Educational Agency Single Audit Resolution, August 2016 (A09P0005)
- State and District Monitoring of School Improvement Grant Contractors in California, March 2016 (A09O0009)
- Massachusetts Department of Elementary and Secondary Education's Oversight of Local Educational Agency Single Audit Resolution, January 2016 (A09P0001)

GAO Reports

- Education Needs to Improve Its Oversight of Grants Monitoring, April 2017 (GAO-17-266)
- Education Needs to Improve Oversight of Its 21st Century Program, April 2017 (GAO-17-400)
- Better Use of Information Could Help Agencies Identify Disparities and Address Racial Discrimination, May 2016 (GAO-16-345)

Challenge: Data Quality and Reporting

OIG Internal Reports

- The Department's Communication Regarding the Costs of Income-Driven Repayment Plans and Loan Forgiveness Programs, January 2018 (A09Q0003)
- The Department's Compliance Under the DATA Act, November 2017 (A19R0005)

- Rehabilitation Services Administration's Internal Controls Over Case Service Report Data Quality, December 2016 (A03N0006)
- The U.S. Department of Education's Oversight of the Carl D. Perkins Career and Technical Education Improvement Act of 2006 Program, March 2016 (A05P0002)
- Management Certifications of Data Reliability, February 2016 (A06O0001)
- Calculating and Reporting Graduation Rates in Alabama, June 2017 (A02P0010)

OIG External Reports

- Puerto Rico Department of Education's Reliability of Program Performance Data and Use of Adult Education Program Funds, February 2018 (A04O0004)
- New York State's and Selected Districts' Implementation of Selected Every Student Succeeds Act Requirements under the McKinney-Vento Homeless Assistance Act, March 2018 (A03Q0005)
- Calculating and Reporting Graduation Rates in California, January 2018 (A02Q0005)
- Calculating and Reporting Graduation Rates in Alabama, June 2017 (A02P0010)
- Opportunities for Ohioans with Disabilities' Case Service Report Data Quality, March 2016 (A03P0001)
- Pennsylvania's Department of Labor and Industry, Office of Vocational Rehabilitation's Case Service Report Data Quality, March 2016 (A03P0002)
- California Department of Rehabilitation Case Service Report Data Quality, December 2015 (A09O0008)

Appendix B. Abbreviations and Acronyms Used in this Report

AFR	Agency Financial Report
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan Program
FAFSA	Free Application for Federal Student Aid
FFEL	Federal Family Education Loan
FISMA	Federal Information Security Modernization Act
FSA	Federal Student Aid
FY	Fiscal Year
GAO	Government Accountability Office
HEA	Higher Education Act of 1965, as amended
IDR	Income-Driven Repayment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
Pell	Federal Pell Grant
Perkins IV	Carl D. Perkins Career and Technical Education Improvement Act of 2006
RSA	Rehabilitation Services Administration
SEA	State Educational Agency
SLDS	Statewide Longitudinal Data Systems
Title IV	Title IV of the Higher Education Act of 1965, as Amended