



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

June 27, 2013

The Honorable Darrell Issa
Chairman, Oversight and Government
Reform Committee
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Elijah Cummings
Ranking Member, Oversight and Government
Reform Committee
U.S. House of Representatives
2471 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Issa and Representative Cummings:

Thank you for your recent letter requesting information from the U.S. Department of Education (Department) Office of Inspector General related to open and unimplemented recommendations made by my office to the Department. Enclosed with this letter you will find the results of our review.

If you have any questions or if you need any additional information, please do not hesitate to contact me directly at (202) 245-6900, or have a member of your staff contact our Congressional Liaison, Catherine Grant, at (202) 245-7023.

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosures

cc: The Honorable Gabriella Gomez, Assistant Secretary, Office of Legislation and
Congressional Affairs, U.S. Department of Education

**Office of Inspector General Recommendations Open and Not Yet
Implemented by the U.S. Department of Education
April 1, 2009 through June 18, 2013**

On June 17, 2013, the U.S. House of Representatives Committee on Oversight and Government Reform (Committee) requested that the U.S. Department of Education (Department) Office of Inspector General (OIG) provide the Committee with information related to recommendations made in OIG audit and related reports that the Department has not yet implemented. Below you will find the results of our effort.

As you know, the Office of Management and Budget A-50 Circular, *Audit Followup*, requires agencies to establish systems to assure the prompt and proper resolution and implementation of OIG audit recommendations. The Circular states, "Resolution shall be made within a maximum of six months after issuance of a final report...Corrective action should proceed as rapidly as possible." The Circular provides definitions as follows:

- Audit Resolution – the point at which the audit organization and agency management or contracting officials agree on actions to be taken on reported findings and recommendations.

- Corrective Action – measures taken to implement resolved audit findings and recommendations.

The Department tracks audit resolution and implementation of corrective actions related to OIG products in its Audit Accountability and Resolution Tracking System (AARTS). The Office of the Chief Financial Officer maintains this system, which includes input from OIG and responsible program officials. AARTS includes recommendation-level detail for all reports where the Department is directly responsible for implementing corrective action (internal audits). AARTS generates a resolution due date of 90 days from the report issuance date for OIG internal audits. The system includes less detailed information on the status of individual recommendations made to non-Federal entities, such as State educational agencies, local educational agencies, institutions of higher education, contractors, or other grantees (external audits.)

Per our discussion with your staff on June 18, 2013, and consistent with our previous reports, OIG's response includes only those recommendations made in OIG internal audit reports for which the Department is directly responsible for implementing corrective action. For the time period requested, April 1, 2009, through June 18, 2013, OIG issued a total of 74 internal audit reports, which contained 572 recommendations for which the Department was directly responsible for implementing corrective actions. During the same period, OIG also issued 67 external reports, which contained 575 recommendations. Questions posed by the Committee and OIG responses to those questions follow.

1. *Identify the current number of open and unimplemented IG recommendations.*

For the time period requested, a total of 18 recommendations made in OIG internal audit and related reports remain open and unimplemented.

- 8 of the recommendations were included in audit products issued within the last 6 months (January 18, 2013, through June 18, 2013). These recommendations are not considered overdue for resolution.
- 10 of the recommendations were included in audit products issued between 6 and 12 months ago (June 17, 2012, through January 17, 2013). These recommendations are considered overdue for resolution.

2. *Identify the cumulative estimated cost savings associated with the current number of open and unimplemented recommendations.*

OIG generally does not estimate monetary benefits in its internal audits of the Department's management of its programs and operations, other than to identify better uses of funds. The open and unimplemented recommendations discussed above do not include any recommendations regarding better use of funds.

3. *For those recommendations that would result in a cost savings if implemented, specify the recommendation, the date the recommendation was made, and estimate the cost savings that your office believes would be realized if agency management implemented the recommendation.*

N/A

4. *Which three open and unimplemented recommendations does your office consider to be the most important or urgent? For each identify:*
- a. *The status of the recommendation, including whether agency management has agreed or disagreed with the recommendation and the expected date of implementation; and*
 - b. *The cost savings associated with the recommendation (if applicable).*
 - c. *Any written report or other document that accompanied the recommendation.*

We believe that all of our recommendations are important, so it is very challenging to select three as being the most important or urgent. To fulfill this request, however, we have selected recommendations that affect key areas important to the Department's ability to effectively achieve its mission: Federal student aid and charter schools. The Inspector General discussed these issues at length at a March 2013 hearing before the Committee.

Federal Student Aid—Distance Education Fraud Rings

In 2011, we issued a report that brought to the Department's attention "fraud rings" preying on distance education programs. Fraud rings are large, loosely

affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. Because all aspects of distance education take place through the Internet (admission, student aid, course instruction), fraud ringleaders are able to use the identities of others (with or without their consent) to target distance education programs. Fraud rings mainly target lower cost institutions, because the Federal student aid awards are sufficient to pay institutional charges (such as tuition), and the student receives the award balance to use for other educational expenses, such as books, room and board, and commuting. Our report offered nine specific recommended actions for the Department to take to address this fraud. The Department concurred with these recommendations, and has begun implementing them. However, three key recommendations remain unimplemented and it is unclear when or if they will be implemented, including one recommendation that could make a significant change: changing the cost of attendance calculation for students enrolled in distance education programs under the Higher Education Act of 1965. Reducing excess student loan funds above institutional charges would significantly reduce the incentive for this particular scam.

Recommendation: The Department should seek a statutory change to the cost of attendance calculation for students enrolled in distance education programs under the Higher Education Act of 1965 to limit the allowance for room and board and other costs that distance education program participants do not incur as a result of their studies.

Status of the Recommendation: Unimplemented.

Cost Savings Associated with the Recommendation: Savings would be achieved through the reduction in student loan funds to be borrowed and made available for non-institutional charges. This would significantly reduce funds lost to theft and defaults.

Federal Student Aid—Default Management

In 2012, we issued an alert report that identified significant problems with FSA's process for managing defaulted student loans. Specifically, we found that the Debt Management Collection System 2 (DMCS2) was unable to accept transfer of certain defaulted student loans from FSA's loan servicers. At the time of our audit, the entities that service Federal student aid loans had accumulated more than \$1.1 billion in defaulted student loans that should be transferred to the Department for management and collection. DMCS2 has been unable to accept transfer of these loans and, as a result, the Department is hampered in pursuing collection remedies and borrowers are unable to take steps to remove their loans from default status. The inability of DMCS2 to accept these transfers also contributed to a material weakness in internal control over financial reporting that was identified in FSA's Fiscal Year 2012 financial statement audit. Based on our interaction with FSA officials to date, FSA has yet to implement effective

corrective action to bring these affected loans into collection and to correct the problems with DMCS2.

Recommendation: The Department should determine whether DMCS2 can become a fully operational system that will meet all of the baseline functional system requirements. If the system will not meet all of the functional requirements, the Department should develop a plan to address the deficiencies or determine whether to obtain a replacement debt management system.

Status of the Recommendation: Unresolved. The Department and OIG have not agreed upon corrective actions to address this recommendation.

Cost Savings Associated with the Recommendation: Savings would come from the Department's ability to manage and collect the default student loans that cannot be transferred due to the issue with the DMCS2.

Charter Schools

Charter schools are nonsectarian, publicly funded schools of choice exempt from certain State and local regulations. In return for reduced governmental regulation, charter schools agree to be held accountable for their academic and financial performance. A total of 42 States and the District of Columbia have enacted laws allowing the establishment of charter schools, and the laws differ from State to State. State charter school laws assign authorizers to approve charter school applications, oversee and ensure compliance, review and renew contracts, and close charter schools. State charter school laws allow for various types of authorizers, which can include institutions of higher education, independent chartering boards, school districts or LEAs, and not-for-profit organizations. OIG has conducted a significant amount of investigative work involving charter schools. These investigations have found that authorizers often fail to provide adequate oversight to ensure that charter schools properly use and account for Federal funds. Further, in September 2012, we completed an audit of the Department's oversight and monitoring of the Charter Schools Program's SEA and non-SEA Planning and Implementation Grants. We determined that the Department did not effectively oversee and monitor the grants and did not have an adequate process to ensure SEAs effectively oversaw and monitored their subgrantees.

Recommendation: Develop and implement a risk-based approach for selecting non-SEA grantees for monitoring activities.

Status of the Recommendation: Unresolved. The Department and OIG have not agreed upon corrective actions to address this recommendation.

Cost Savings Associated with the Recommendation: Savings would be seen in the reduction or elimination of waste, fraud, and abuse involving charter school

officials. Since January 2005, OIG has opened 57 charter school criminal investigations that have resulted in 35 indictments and 25 convictions of charter school officials. Of the cases that have been fully adjudicated, OIG has secured more than \$9.5 million in restitution for public education funds that were embezzled.