

We present the work that OIG concluded during this reporting period in five sections: (1) efforts associated with the *American Recovery and Reinvestment Act of 2009* (Recovery Act); (2) Federal student aid programs and operations; (3) elementary, secondary, and adult education programs; (4) other internal operations, including information technology (IT) security and management; and (5) a compilation of tables of the audits, inspections, investigations, and other reports we completed during this reporting period, as required by the *Inspector General Act of 1978*, as amended (*IG Act*).

RECOVERY ACT EFFORTS

As a result of the Recovery Act's increase in education funding, the Department, State and territorial educational agencies (SEAs), more than 13,800 public school districts, and all other Recovery Act fund recipients must provide adequate management and oversight of and effective accounting for how those funds are expended. During this reporting period, we issued several reports focused on Departmental management of specific Recovery Act operations, including a review of the Department's implementation of the Recovery Act's State Fiscal Stabilization Fund and the Race to the Top peer review process, both of which found the Department to be in compliance with applicable laws and regulations but also identified areas for further improvement. In addition, we issued reports on Recovery Act-related efforts in two States: Louisiana's internal controls over Recovery Act funding and Wisconsin's use of Recovery Act funds. You will find more on these reviews in the Recovery Act section of this report, along with summaries of some of our investigative cases involving Recovery Act funds.

FEDERAL STUDENT AID PROGRAMS AND OPERATIONS

The Federal student aid programs underwent a major change this year with the passage of legislation prohibiting the origination of new Federal Family Education Loan Program (FFELP) loans after June 30, 2010, and requiring that all new Federal student loans formerly originated under the FFELP now be originated under the William D. Ford Federal Direct Loan Program (Direct Loan Program.) We completed two reviews related to the Direct Loan Program: an assessment of the Department's efforts to ensure the effective processing of student loans under the Direct Loan Program; and a technical assessment of the Department's loan origination processing system capacity and contingency plans. In both efforts, we found the Department's efforts to be appropriate, but we recommended it continue to monitor and enhance its capabilities as necessary. We also issued two reports related to the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) that identified actions that the Department must take to fully comply with specific provisions of the law's requirements, and a review of lender agreements involving two proprietary institutions that found violations of the

lender inducement provisions of the *Higher Education Act of 1965*, as amended (HEA). You will find more on the findings of our work involving Federal student aid programs and operations, as well as summaries of Inspector General Tigue's testimony before two Congressional committees, and information on our more significant investigative cases of fraud involving Federal student aid program funds in this section of the report.

ELEMENTARY, SECONDARY, AND ADULT EDUCATION PROGRAMS

We concluded several reviews involving specific SEAs and a local educational agency (LEA), including the Arkansas Department of Career Education's use of Federal adult education funds in which we identified more than \$500,000 in unsupported costs and the Georgia Department of Education's ED Facts submissions in which we identified weaknesses in data quality and reporting processes. We also issued a special report calling for the Department to work with the Pennsylvania Department of Education to designate the Philadelphia School District as a high-risk grantee. You will find more details on these reports, as well as summaries of some of our more significant investigations involving fraud or corruption in Federal education programs in this section of our report.

INTERNAL DEPARTMENTAL OPERATIONS

We have highlighted the audits and reviews we completed regarding the Department's IT security and management and other internal operations in this section of this report. These efforts identified weaknesses regarding specific aspects of the Department's 10-year, \$500 million IT infrastructure contract known as the Education Department Utility for Communications, Applications, and Technology Environment, or EDUCATE, including ineffective implementation of the Managed Security Services Provider contract and discrepancies in the vendor's desktop services pricing. We also provide summaries of our review of Departmental controls over the transit benefits program; weaknesses involving the Department's process for handling compromised privileged accounts; its ability to prevent the bypassing of Web filters in order to access blocked Web sites; and the results of our quality control reviews of single audits of Department grantees and Federal student aid program participants. Finally, we provide information on other noteworthy OIG efforts, including recent acknowledgements and awards for our staff, services, and products.

REQUIRED TABLES

The final section of our report provides a compilation of tables of the audits, inspections, other reports, and investigations we concluded over the last 6 months, as required by the *IG Act*.

Copies of the reports discussed in this Semiannual Report to Congress are available on the OIG Web site. For more information on our work and activities, please contact the OIG Congressional Liaison at (202) 245-7023 or visit our Web site at www.ed.gov/oig.

Recovery Act Efforts

The Recovery Act was signed into law on February 17, 2009, and provides approximately \$98.2 billion in new funding for Department programs and operations, including programs authorized by the *Elementary and Secondary Education Act of 1965*, as amended (ESEA), the HEA, the *Individuals with Disabilities Education Act of 2004*, as amended, and the *Rehabilitation Act of 1973*. In August 2010, Congress passed legislation that included the Education Jobs Fund, which appropriated \$10 billion in additional support for local school districts to prevent teacher layoffs and to help offset reductions in State and local education budgets. Together, these two initiatives provide an unprecedented level of Federal education funding for State and local education operations, and we will work to ensure that funding is properly monitored and accounted for, and achieves the desired results.

As discussed in previous Semiannual Reports to Congress, OIG staff continues to work with Department leaders and our counterparts in the Government Accountability Office (GAO) and other Federal agencies to evaluate whether Recovery Act dollars are expended in accordance with applicable laws, regulations, and Department guidance. During this reporting period, we continued to participate as a member of the Recovery Accountability and Transparency Board (Recovery Board) and we led a multi-agency review of the processes used by Recovery Act recipients for compiling and reporting selected data. We discuss the findings of this effort below. We also continued to participate in an advisory capacity on a Department Recovery Act work group and worked closely with the Department to create materials aimed at helping Recovery Act fund recipients identify potential waste, fraud, and abuse, and report any suspicions to the OIG immediately. We created a special fraud awareness tutorial, Q&As, and fraud awareness posters and flyers, which we provided to SEAs, LEAs, and other grant recipients and made available on the Department's and our Web sites.

Over the last 6 months, OIG continued with the second phase of our Recovery Act work, conducting audits at the State and local levels (i.e., Governors' offices, SEAs, LEAs, and other grantees) to determine whether Recovery Act funds were used in accordance with applicable laws and regulations, and whether data reported were accurate, reliable, and complete. We issued the first of these reports in September, in which we found that the State generally used and accounted for the funds appropriately, but we identified areas that could be improved. Audits are underway in additional States and we expect to issue these reports in the coming months. In addition, OIG investigators are currently examining allegations of waste, fraud, and abuse involving Recovery Act funds and taking appropriate action to ensure that anyone who steals or intentionally misuses Recovery Act funds is held accountable for their unlawful actions. To date, OIG has identified 39 cases for further investigation. You will find summaries of several of these cases below.

RECOVERY ACT-RELATED REPORTS

Internal Reports

The Department's Process for Screening and Selecting Peer Reviewers for the Race to the Top Grant Program

We found that the Department's process for screening and selecting peer reviewers for Phase 1 of the Race to the Top (RTT) discretionary grant program competition was generally appropriate and effective in identifying conflicts of interest. However, we found that the Department did not perform a check of selected RTT peer reviewers against the General Services Administration's Excluded Parties List System (EPLS) or adequately document formal approval of its peer reviewer roster before it began the application review process. The verification and documentation processes the Department did perform occurred only after the initial application review and rating were completed and after the Department had publically announced the RTT finalists. The Department agreed that an issue existed with the timeliness of the EPLS verification; however, it did not believe that the issue impacted the integrity or quality of either the competition or the review process. Although we acknowledge that no RTT peer reviewers were found in the EPLS, the integrity of the review process could have been compromised if one of the peer reviewers had been debarred or suspended from doing business with the Federal Government.

The Department's Implementation of the State Fiscal Stabilization Fund Program

In our audit of the Department's implementation of the Recovery Act's State Fiscal Stabilization Fund (SFSF) program, we found that its initial implementation was generally appropriate in the three areas we examined. Those three areas were: (1) calculation of State allocations; (2) review of applications for initial funding; and (3) program staffing and monitoring plans. We did, however, identify where the Department's processes could be improved. While the Department's process indicated that reviewers verified that all required data and related information were provided, it did not provide assurance that steps were taken to assess whether the data were reasonably

supported. This lack of assurance could impact the Department's ability to determine whether States are complying with maintenance-of-effort requirements. We noted that our audit found that 3 of the 16 States/Commonwealth reviewed appeared to have insufficient or questionable supporting data. Further, although it appeared that Department staffing efforts had been adequate during the initial implementation of the program, we noted that the time required to implement and monitor the SFSF program could impact the ability of the staff to effectively manage existing programs. Finally, we found that complete documentation was not maintained in the official grant file; doing so ensures that all relevant matters are considered. The Department did not concur with our overall findings or recommendations.

Department's Progress in Implementing Corrective Actions for Prior Audits of Programs that Subsequently Received Funding under the Recovery Act

In March of 2009, OIG issued a memorandum to the Department identifying 152 recommendations made in OIG audits for which corrective actions had not yet been implemented. The purpose of this memorandum was to assist the Department in implementing Office of Management and Budget (OMB) requirements that call for agencies to expedite final actions on findings from prior OIG audits and investigations affecting programs funded by the Recovery Act or explain why they cannot or should not take such actions. During this reporting period, we issued a report that found that the Department had made progress in completing corrective actions on its internal audits, but that the majority of corrective actions for external audits, including SEAs and LEAs, had not been implemented. In total, corrective actions for 99 of the 152 recommendations (65 percent) had not yet been completed.

Department staff stated that no specific efforts were made to expedite implementation of corrective actions from audits of programs that subsequently

received funding under the Recovery Act. Although the Department had included consideration of prior audits in its risk mitigation plan, other than the list provided by OIG through the March 2009 memorandum, the Department had not identified all relevant prior audits, such as single or compliance audits, or audits conducted by the GAO. Furthermore, the Department had not assessed the status of its progress in this area, although such an assessment was included in its risk mitigation plan. Without a complete list of the audits, corrective actions to be implemented, and an assessment of progress made, the Department cannot ensure that corrective actions were being expedited as required by OMB.

We recommended that the Department take actions to meet OMB requirements and to enhance effective implementation of risk management activities, including that it identify uncompleted corrective actions regarding weaknesses or deficiencies by entities or programs that subsequently received funding under the Recovery Act. The Department agreed with the importance of addressing significant audit findings in a timely manner and stated it would work with OIG to address the recommendations presented in the report.

Focusing on Subrecipient Monitoring

During this reporting period, we provided the Department with information on weaknesses involving SEA subrecipient monitoring that our Recovery Act work had identified. SEAs are required to monitor subrecipient activities in order to provide reasonable assurance that each subrecipient is in compliance with Federal requirements and achieving performance goals. The most common problem our audits identified was that some States had not sufficiently modified existing program monitoring methods to provide reasonable assurance of subrecipient compliance with Recovery Act requirements. Other issues we identified included: (1) State monitoring plans addressing only programmatic and not fiscal issues, (2) States not reviewing supporting documentation or verifying expenditures before making Recovery Act payments, and (3) States not determining which State entity would be responsible for monitoring subrecipients' use of SFSF funds. We encouraged the Department to use the information presented in this report and our individual State Recovery Act reports when assessing risk and planning monitoring visits to States. The Department stated that the information presented in this report and the individual State audit reports was very helpful.

External Reports

Louisiana

Our audit of internal controls regarding education-related Recovery Act funds in Louisiana found that the agencies reviewed had systems of internal control in place or were designing control systems to provide for the proper administration and use of education-related Recovery Act funds. However, we also found that the Louisiana Department of Education could improve oversight of LEAs and improve controls over data quality; the Office of Governor's Division of Administration needed to perform reviews of its subrecipients; the Office of Louisiana Rehabilitation Services lacked sufficient controls over tracking Recovery Act funds; and the Algiers Charter School Association, one of four LEAs we reviewed, used sole-source contracting without sufficient justification and did not verify

whether vendors were debarred or suspended from receiving Federal funds. Based on these findings, we made a number of recommendations to enhance controls over Recovery Act requirements. State officials did not agree with all of our findings or recommendations.

Wisconsin

Our audit found that although the Wisconsin Department of Public Instruction (DPI) made a proactive effort to ensure compliance with Recovery Act requirements, DPI's distribution of SFSF funds did not allow for proper tracking of expenditures at the State and LEA levels as required by the Recovery Act. This occurred because DPI was instructed by the State legislature to distribute SFSF funds to LEAs expeditiously and in doing so, DPI did not properly

account for two components of the SFSF program and it reimbursed LEAs for expenditures based only on pools of cost categories. In addition, we found that DPI needed to improve its monitoring of Recovery Act funds and implement comprehensive subrecipient monitoring procedures for the SFSF program. We also determined that DPI and the Wisconsin Governor's Office needed to improve their procedures to ensure all required data are accurate, reliable, and complete. We made several recommendations to address these issues, including

that the Department require the Governor's Office and DPI to implement procedures to ensure its Recovery Act funds are properly accounted for and tracked. We also recommended that they be required to conduct reviews on the SFSF funds distributed to LEAs in FY 2008-2009 to determine whether the funds were used for allowable activities and accrued within the period of availability and return any unallowable cost. Wisconsin officials did not fully agree or disagree with our findings or recommendations.

Report Coordinated with Recovery Accountability and Transparency Board

Data Quality - Recipient Efforts to Report Reliable and Transparent Information

This multi-agency review sought to determine whether the processes used by Recovery Act recipients for compiling and reporting selected data reasonably assured compliance with the reporting requirements of Section 1512 of the Recovery Act. It found that enhancements were needed to ensure the accuracy of jobs reports. The review focused on five specific reporting provisions: number of jobs created or retained; total amount of Recovery Act funds received or invoiced; total amount of Recovery Act funds spent; project status; and final report. Our staff led this review with participation from OIG staff from the U.S. Department of Health and Human Services, the U.S. Department of Homeland Security, the U.S. Department of Labor, and the National Science Foundation.

The team selected for its review 20 grant recipients and 9 Federal contractors for a total of 29 recipients that received awards from the home agencies of the participating OIGs. The entities were selected based on several factors, including the amount of Recovery Act funds awarded, an analysis of Section 1512 data each reported, and prior audit experience. The Recovery Act funding for these recipients ranged from hundreds of thousands of dollars to several billion dollars. We determined that all 29 recipients generally reported consistent and reliable information in 4 of the 5 areas reviewed. Reporting the number of jobs that were created or retained, however, proved to be problematic for most recipients, with only 7 of the

29 reporting data consistent with applicable Federal guidance. To address this issue, we recommended providing guidance on how to estimate jobs by using alternative processes that can produce reasonable jobs estimates and clarifying whether recipients are to report jobs estimates for lower-tier subrecipients and small vendors. The review also described two specific areas where the current reporting process may not result in optimal transparency for users of Recovery.gov: (1) recipient reporting of funds spent in cases where funds advanced to subrecipients had resulted in more Recovery Act funds appearing to be invested in the economy than actually were; and (2) recipient reporting of subrecipient jobs that may not have accurately portrayed actual employment impacts by individual Congressional districts when recipients and subrecipients are located in different districts. We made several recommendations to the Recovery Board to further enhance the quality of data being reported and to improve transparency. These included that the Board work with OMB, the Federal Acquisition Regulatory Council, and Federal agencies, as warranted, to provide more comprehensive technical assistance to recipients and subrecipients on effective processes and controls for jobs data reporting. Because the recipients in our sample were not selected using statistical sampling methods, the results cannot be generalized. We therefore recommended that the Board consider conducting a comprehensive review of recipient reported information on the number of jobs using such statistical sampling methods in order to assess the reliability of reported jobs data for all reporting entities.

New York—City University of New York Employee Indicted for Fraud

A former employee at the City University of New York Research Foundation who was hired to work as an instructor in the In School Youth, Prep for Success Program at Medgar Evers College in Brooklyn was indicted for attempting to defraud the school and the Department of Recovery Act funds. The man allegedly presented and attempted to have processed a fraudulent Grant Award Notification (GAN) in the amount of \$745,700. The employee provided the GAN to the Foundation to claim the award, and during its award process, the Foundation learned from the Department that the GAN was fraudulent.

Federal Student Aid Fraud

The following cases involve Federal student aid funding, a portion of which was either applied for or obtained after passage of the Recovery Act. The Recovery Act increased funding for the Pell Grant Program.

Arkansas—Man Sentenced for ID Theft

A man pled guilty and was sentenced in Faulkner County Court for using the identity of his cousin to fraudulently apply for and receive student financial aid from the University of Central Arkansas (UCA.) Turned in to police by his cousin, the man was sentenced to 12 months in prison, followed by 72 months of probation, and was ordered to pay \$1,490 in fines and fees.

Michigan—Woman Indicted for Operating a \$100,000 Fraud Ring

A woman was indicted in Michigan for orchestrating a fraud scheme at the University of Phoenix. She allegedly recruited at least 50 individuals to act as “straw students” at the school

in order to apply for and receive Federal financial aid for purported attendance in on-line classes. The participating individuals had no intention of actually taking classes. The ringleader allegedly completed and submitted admission forms, financial aid applications, and supporting documentation of those “straw” students, falsely representing that the individuals were high school graduates or held a General Educational Development certificate (GED). When the straw students received the financial aid checks, they allegedly kicked back a portion of the proceeds to the ringleader. As a result of these fraudulent efforts, the scheme’s participants received more than \$100,000 in Federal student aid to which they were not entitled.

Wisconsin—Owner of Diploma Mill/Sham Proprietary School Indicted

The owner and operator of Wisconsin University High School (WUHS), an entity the owner held out to be a legitimate institution for people to obtain a high school diploma, was indicted for allegedly using the school as a front by which to operate a Federal student aid fraud scheme. The man allegedly charged individuals \$150 to enroll in the school and 2 weeks later, receive a diploma certificate. He allegedly used the personal identifying information provided by approximately 255 individuals who enrolled at WUHS to apply for and receive Federal financial aid for their purported attendance at two on-line colleges. On each form, the man listed the address of WUHS, causing student aid refund checks to be mailed directly to him. The former owner allegedly deposited the checks into his bank accounts for personal use. The owner’s alleged actions enabled him to fraudulently receive more than \$300,000 in Federal student aid.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

■ Departmental Groups

- ◆ *Department Metrics and Monitoring Team* - OIG staff participate in an advisory capacity on this team that meets weekly to coordinate Recovery Act funds oversight efforts and develop reports for posting on the Recovery.gov Web site.

■ Inspector General Community

- ◆ *Recovery Accountability and Transparency Board (Recovery Board)* - Inspector General Tighe is a member of the Recovery Board and a member of the Accountability Committee of the Board, which provides advice and recommendations to the Board regarding preventing and detecting fraud, waste, abuse, and mismanagement and with regard to a referral management system. OIG staff also participate on a work group composed of all of the Offices of Inspector General that provide Recovery Act oversight, and a subgroup focused on Recovery Act grant funds.

■ Federal and State Law Enforcement-Related Groups

- ◆ *The Recovery Act Fraud Working Group of the U.S. Department of Justice's Financial Fraud Enforcement Task Force* - OIG staff participate on this working group focused on improving efforts across the government to investigate and prosecute significant financial crimes involving Recovery Act funds, ensuring just and effective punishment for those who perpetrate financial crimes, recovering proceeds for victims, and addressing financial discrimination in the lending and financial markets.

Review of Legislation, Regulations, Directives, and Memoranda

- Provided technical assistance to the Department on its cash management FAQs for SEAs and LEAs.

Federal Student Aid Programs and Operations

The Federal student aid programs underwent a significant change in 2010 with the passage of legislation prohibiting the origination of new FFELP loans after June 30, 2010, and requiring that all new Federal student loans formerly originated under the FFELP be originated under the Direct Loan Program. As a result, the Department must have the capacity to originate and serve the increased Direct Loan volume. Work completed during this reporting period showed that the Federal Student Aid office (FSA) had enhanced its capacity and processes but should continue to monitor and enhance its capabilities as necessary. In addition, it must also ensure that participants in the Federal student aid programs comply with all applicable laws, regulations, and guidance. Work conducted during this reporting period showed this to be a challenge with the participants we reviewed. Summaries of these and other efforts are provided below, along with information on our more significant investigations involving Federal student aid fraud.

FSA Operations

Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program

Our assessment of whether FSA's efforts to ensure that the Common Origination and Disbursement (COD) system could effectively process 100 percent of student loan volume under the Direct Loan program found that FSA had taken actions to do so. The COD system is the Department's system for processing originations and disbursements of Federal student loans and grants. In addition, we concluded that FSA was providing appropriate technical assistance to impacted schools and had reasonable plans in place to accommodate schools that experienced challenges in successfully transitioning to the Direct Loan program. We also noted that FSA had a COD contingency plan in place that documented disaster recovery procedures intended to assist in resuming critical data processing support with the least amount of delay if data processing operations were disrupted. Although we did not have any recommendations for the Department, we did note that FSA relies completely on the COD system to originate loans which could result in processing delays if the system experienced any difficulties.

Technical Assessment of the Direct Loan Program's Origination Process

We assessed the ability of the COD system to satisfy storage, volume, and network bandwidth capacity

requirements based on FSA's estimate that it would originate 30.3 million loans in FY 2010 and found it to be adequate to handle the estimated volume. We also reviewed the current COD contingency plan and the results of the most recent COD disaster recovery test. We found that if FSA's estimate of 30.3 million originations is accurate and its contingency plans are implemented as written, the level of risk in exceeding Direct Loan origination capacity is low. We did, however, express concern about the actual origination volume compared to the projected monthly activity. For example, we noted that the monthly activity for October 2009 through January 2010 showed that 4.37 percent fewer applications were received than were projected, while February through May 2010 showed that 21.6 percent more applications were received than were projected. We suggested that FSA promptly review the data and if FSA identified a significant increase in applications received over applications projected, it should review the volume capacity and revise accordingly.

Controls Over Loan Purchases Under ECASLA

This audit determined that FSA had established and implemented adequate controls and system edits to reasonably ensure that the Department did not purchase ineligible loans under the ECASLA Loan Purchase Commitment Program. Conversely, our

for accreditation and related policies did not establish the definition of a credit hour or set minimum requirements for program length and the assignment of credit hours. HLC also did not provide specific guidance to peer reviewers on how to evaluate the appropriateness of an institution's processes for determining program length and assigning credit hours or on the minimum level of acceptability for accreditation when evaluating these processes. Further, while HLC maintained self-studies and team reports as documentation of its evaluation of institutions' program lengths and credit hours, the amount of information varied as it related to program length and credit hours that institutions and peer reviewers included in these respective documents.

Also as presented in our last Semiannual Report to Congress, our review identified a serious issue regarding HLC's decision to accredit American InterContinental University despite its identification of problems with the school's assignment of credit hours to certain undergraduate and graduate courses. Following our suggestion, the Department conducted an evaluation of HLC and determined that the issue identified in our report was not an isolated incident. The Department gave HLC two options for coming into compliance: (1) to accept a set of corrective actions determined by the Department; or (2) the Department would initiate a limitation, suspension, or termination action. In May 2010, HLC accepted the Department's corrective action plan.

Review of Lender Agreements Identified Inducements

Our audits of lender agreements at the Everest Institute (Everest) and the National Aviation Academy-New England (NAA-NE), both proprietary schools located in Massachusetts, identified inducements prohibited by the HEA, which we promptly brought to the Department's attention in an alert memorandum, and through final reports at each institution. In each report, we informed the Department that agreements between two lenders,

Sallie Mae, Inc. (SLM) and Student Loan Xpress, Inc. (SLX), and Corinthian Colleges, Inc. (Corinthian), the parent company of Everest, contained three inducement violations. During the time of our review, Corinthian was also the parent company of WyoTech-Bedford, which became NAA-NE when it was purchased by NAA.

We did not identify any noncompliance by Everest or NAA-NE relating to the inducement provisions of the HEA, but found that the violations were on the part of the lenders. Specifically we found that: (1) SLM offered parents an inducement to borrow PLUS loans in violation of the HEA when it entered into an agreement with Corinthian that parents of Corinthian students could obtain a \$500 credit toward their closing costs of a new home loan from SLM if the parents obtained a PLUS loan from SLM; and (2) SLX induced Corinthian to secure FFELP loans. An agreement between Corinthian and SLX offered Credit Risk Subsidy Program loans to WyoTech's and Everest's high-risk student borrowers. This agreement required Corinthian to pay a premium to share the risk of student default on private student loans with SLX. The agreement contained a provision that allowed SLX to temporarily terminate the agreement if private student loans that SLX made to Everest or to WyoTech students exceeded 15 percent of the total amount of all SLX's educational loans at each respective school, including loans made under the FFELP. Another provision in the agreement allowed SLX to immediately terminate the agreement if the school's Federal cohort default rate exceeded 15 percent. As a result, SLX provided an inducement for Corinthian to encourage students to apply for FFELP loans with SLX to secure private loan funds and to maintain the ratio of private loans to all education loans (including FFELP), as described in the agreement. In a second and separate agreement between SLX and Corinthian, it was established that SLX would help Corinthian develop a Web site and would provide Corinthian with administrative reports for each campus it owned. Although the Web site was not designed to facilitate students' applications for SLX's FFELP loans, the service SLX provided was intended to induce Corinthian and secure its students' loan applications.

Based on our findings, we recommended that FSA take appropriate administrative action regarding SLM's inducement violation and determine whether the SLX Credit Risk Subsidy Program agreement and Web site service agreement issues were resolved with the Department by a prior Determination and Voluntary Disposition, dated March 23, 2009, and take appropriate administrative action for any issue not resolved by the Determination and Voluntary Disposition. FSA concurred that the agreements examined by OIG need further review and appropriate action. However, FSA did not agree with our recommendation for actions against SLM and SLX under the HEA and suggested other substantive action.

Baker College's Compliance with Selected Provisions of the HEA and Corresponding Regulations

This audit determined that for distance education students who officially withdrew or dropped out, Baker College, a non-profit institution based in Michigan, did not correctly identify when students began and ceased attendance when (1) determining students' eligibility for Federal student aid disbursements; and (2) performing return of Federal student aid calculations. We found that Baker College had not maintained records that adequately supported its

determination of attendance for its distance education students during award year 2006-2007 and that it had incorrectly identified when distance education students who unofficially withdrew or dropped out began and ceased attendance during award year 2007-2008. We recommended that FSA require Baker College to develop and implement written policies and procedures for its automated attendance system and to return \$9,790 of Federal student aid funds it disbursed to ineligible students and to students for whom the school's attendance records did not support retention of all Federal student aid funds after student withdrawal. We also recommended that the school be required to review its records for distance education students who received Federal student aid for other years and (1) identify students with unsupported periods of attendance; (2) determine the amount of Federal student aid disbursed to students who were not entitled to receive the funds because of insufficient attendance documentation; (3) identify the amount of Federal student aid program funds disbursed to students who were not entitled to receive the funds because of reduced student eligibility; and (4) return those amounts to the Department and lenders, as appropriate. Baker College officials disagreed with all of our findings and recommendations.

Congressional Testimony

Committee on Education and Labor, U.S. House of Representatives

On June 17, Inspector General Tighe testified before the House Committee on Education and Labor on OIG work involving standards for program length and the definition of a credit hour—critically important issues in the Federal student aid programs, as the amount of Federal aid a student can receive is based on the number of credit hours for which a student is enrolled. Inspector General Tighe told the Committee that this issue has become more significant in recent years due to the explosion of on-line education, making credit hour assignment difficult, its comparison to traditional classroom delivery a challenge, and its value increasingly important in order to ensure that students and taxpayers get what they are paying for.

Inspector General Tighe reported that OIG had conducted extensive work involving accrediting agencies for over two decades. She highlighted the most recent work we conducted to provide the Department and Congress with facts on the definition of a credit hour for the 2009-2010 higher education negotiated rulemaking sessions. Inspector General Tighe explained that OIG examined three of the seven regional accrediting agencies to determine what guidance regarding program length and credit hours they provided to institutions and peer reviewers and the documentation they maintained to demonstrate how they evaluated institutions' program length and credit hours. She noted that OIG found that none of the agencies established minimum requirements for credit hours but that the Department proposed a definition of a credit hour in its recent higher education Notice of Proposed

Rulemaking. Inspector General Tighe informed the Committee that OIG would evaluate whether the new definition is effective in protecting students and taxpayers.

Committee on Health, Education, Labor and Pensions, U.S. Senate

On June 24, Inspector General Tighe testified before the U.S. Senate Committee on Health, Education, Labor, and Pensions on the issue of waste and fraud involving for-profit postsecondary institutions. The sole participant on the first of two panels, Inspector General Tighe discussed OIG's long history of work involving for-profit postsecondary institutions, and the predominant cases of fraud that its work has identified, which included falsification of eligibility -- where schools falsify student enrollment, attendance, high-school diplomas, ability-to-benefit exam results, and satisfactory academic progress in order to qualify students to obtain or continue to maintain Federal student aid; refund violations -- when a student ceases to attend an institution, the institution must determine whether a refund is owed, calculate the amount of the unearned Federal student aid, and then return those funds to the Department, the loan holder, or to another applicable participant in Federal student aid programs within a specified number of days (failure to

pay refunds is a criminal offense under the HEA); 90/10 Rule violations -- where an institution miscalculates or devises other creative accounting schemes to make it appear that at least 10 percent of the institution's income is derived from sources other than Federal funds (failure to comply with this rule could lead to a loss of eligibility to participate in the Federal student aid programs); incentive compensation - where recruiters receive financial incentives for increasing enrollment at the school; and issues related to distance education -- determining whether a student in distance education has enrolled for purposes of obtaining a credential or is just completing sufficient on-line activity to receive a disbursement of Federal student aid to use for other purposes. Institutions are obligated to return any Federal student aid received if a student does not begin attendance during the period for which aid was awarded as well as document attendance in at least one class during a payment period.

Inspector General Tighe also acknowledged the Department's issuance of a Notice of Proposed Rulemaking for the Federal student aid programs; a number of the new rules address program integrity issues related to proprietary schools. Inspector General Tighe told the Committee that OIG would comment on the final rules and monitor their implementation.

Investigations

School and School Officials

Arizona - Grand Canyon University Agrees to \$5.2 Million Settlement

In August, Grand Canyon University officials agreed to pay \$5.2 million to settle a *False Claims Act* case brought on behalf of the Government by a former University employee turned whistleblower charging that the school had violated the HEA's ban on incentive compensation. According to the whistleblower, the for-profit University provided salary increases to its recruiters based solely on the number of students the recruiters enrolled.

Illinois - Former Owner of the Cannella School of Hair Design Pled Guilty and Agreed to \$4.9 Million Settlement

The former owner and operator of the Cannella School of Hair Design pled guilty to charges related to student financial aid fraud. Further, together with his wife, the former owner signed a settlement agreeing to repay more than \$4.9 million that they obtained as a result of the fraud and debarring the two from receiving future Government contracts. These actions are a result of our investigation which found that the former owner enrolled students who did not have the required high school diploma or GED by paying Ability-to-Benefit (ATB) administrators to falsify ATB results in order to increase enrollment and the amount of Federal student aid the school would receive. The former

owner also instructed at least one witness to provide false information to the OIG special agents who conducted the investigation.

Missouri - Former Vatterott College-Kansas City Director Sentenced

The former Campus Co-Director of Vatterott College's Kansas City branch was sentenced to 1 year in prison, 3 years of supervised release, and was ordered to pay more than \$361,900 in restitution for his role in a student financial fraud scheme. For more than a year, the former director and two other school employees assisted ineligible students to enroll in the school and apply for Federal student aid, thereby increasing the amount of aid the school received. The conspirators fraudulently enrolled students who did not have a high school diploma or GED and instructed them to lie on their Federal student aid applications forms to falsely indicate that they had dependants in order to obtain additional Pell Grant funds. As a result of these fraudulent efforts, numerous ineligible students and students who claimed fictional dependents were enrolled which enabled the school to receive approximately \$345,000 in Federal student aid to which it was not entitled.

New Jersey - New Jersey City University Employee and Husband Indicted in Embezzlement Scheme Involving Nearly a Half a Million Dollars

A former office manager for the New Jersey City University Student Government Organization and her husband were indicted by a grand jury for allegedly running a scheme to steal hundreds of thousands of dollars from the school. Between 2007 and 2010, the former employee allegedly issued 237 checks, many of which were made payable to her husband, as well as to other individuals who participated in this scheme totaling more than \$424,800.

New York - Owner of Willsey Institute Sentenced in Multi-Million Dollar Fraud Scheme

The owner, director, and president of the Willsey Institute, a proprietary school located in Staten

Island, was sentenced to 2 years in prison and 3 years of supervised release for theft of Federal funds. She also agreed to forfeit her home and was ordered to pay \$2 million in restitution. Our investigation found that for over 7 years, the owner submitted and caused to be submitted fraudulently altered student aid documentation in order to obtain Pell Grants, which she used to make payments on personal debt, credit cards, and the mortgage on her home. She directed her staff to submit financial aid documents for individuals who did not attend the school, and created fictitious student files, attendance records and grades in order to receive the aid and grants to which the school was not entitled.

Pennsylvania - Bloomsburg University Agrees to \$38,000 Settlement

In April, Bloomsburg University agreed to pay \$38,000 to settle claims that it failed to report or return improperly disbursed Federal student aid funds. The settlement follows the 2007 conviction of a former assistant baseball coach who engaged in the fraudulent acquisition of Federal student aid through the Federal Work Study program. Despite being aware of the assistant coach's conduct, and despite the school's Director of Financial Aid recommending that over \$30,000 be returned to the Department, Bloomsburg failed to either report the coach's fraudulent acts or voluntarily return the funds that the school improperly disbursed. In signing the settlement, Bloomsburg agreed to effectuate an extensive series of internal policy changes aimed at increasing the transparency of the Federal student aid funds it receives and ensuring that accountability for the proper use of Federal student aid funding exists at all levels of the school's administration.

Pennsylvania - Former Financial Aid Director of Widener University Sentenced

The former Financial Aid Director of Widener University was sentenced for filing false tax returns by failing to claim income he earned as an independent financial aid consultant. Our investigation found that for tax years 2004-2006, the former official provided materially

false tax returns resulting in his failure to pay more than \$109,000 in Federal income taxes. His unreported income originated from various student loan lenders, including Student Loan Express, which was selected as Widener's Preferred Lender under the School as Lender Program while he was Widener's Financial Aid Director. These payments were made to his private business through which he was hosting and providing loan seminars to lenders while employed at Widener University. The former Financial Aid Director was sentenced to 12 months of home detention, 3 years of supervised probation, and was ordered to pay more than \$109,100 in restitution.

Tennessee - HD Adcock and Associates Officials Indicted for Fraud Involving Hundreds of Thousands of Dollars

The former Chief Executive Officer and Executive Director of HD Adcock and Associates, a corporation of cosmetology schools operating at nine locations throughout the South, were indicted on charges related to a scheme to defraud the Department of more than \$464,900 in Federal student aid. For more than 3 years, the two allegedly created false GED or equivalent proof of education to enroll ineligible students into the school and thereby increase the amount of Federal student aid the school received. They also allegedly falsified student attendance records and failed to disclose when students had stopped attending the school in order to retain unearned Federal student aid. Their alleged efforts allowed more than \$464,900 in Federal student aid to be disbursed to the corporation for individuals that were not entitled to receive them.

Washington State - Three Crown College Officials Indicted, Another Convicted for Roles in Federal Student Aid Fraud Scheme

The Financial Aid Director at Crown College, a now-defunct for-profit school, pled guilty for her role in a scheme where she and three other school officials falsely represented themselves and others as students in order to apply for and receive Federal financial aid. They allegedly did so believing that the College would be closed

shortly after they received the aid and planned to apply for loan discharges once the school officially closed. When the school remained open, they attempted to conceal their activity by making it appear as though they were attending classes. The other officials indicted for participating in the scheme were the Vice President, the Admissions Director/Registrar, and the Fiscal Manager/Bookkeeper. As a result of their fraudulent efforts, the officials received more than \$65,000 in Federal student aid to which they were not entitled.

Fraud Rings

Alabama - Actions Taken Against Conspirators in Fraud Scheme at Several Alabama Schools

One individual was sentenced, another pled guilty, and two others were indicted for their roles in a student aid fraud scheme involving several colleges and universities in Alabama, including Troy State University, Regions University, Jacksonville State University, and Tuskegee University, where one of the conspirators was employed as an Admissions Counselor. The individuals completed fraudulent Federal student aid application forms for individuals they knew never intended to attend the institutions, claiming that these individuals had high school diplomas or GEDs. Based on this fraudulent information, Federal student aid checks were issued, which the conspirators would deposit into their personal bank accounts. As a result of their fraudulent efforts, the Department awarded more than \$200,000 in Federal student aid. The former Tuskegee University employee was the first of the conspirators to be sentenced, receiving 3 years of probation and ordered to pay more than \$122,000 in restitution.

Arizona - All Participants in Massive Fraud Scheme at Rio Salado College Sentenced

In previous Semiannual Reports to Congress, we reported that 64 individuals had been indicted for their roles in a \$538,000 student aid fraud scheme at Rio Salado College. As of September 1, all participants have been sentenced, including the ringleader. Our investigation found that the ringleader recruited individuals to act as “straw students” at the school in order to apply for and receive Federal financial aid. The ringleader completed and submitted admission forms, financial aid applications, and supporting documentation of those straw students containing forged documents and false statements. She then assumed the identity of those individuals to access Rio Salado’s on-line classes in order to generate records of the individuals’ participation in on-line classes, which caused Rio Salado school officials to authorize financial aid payments to those individuals. When the straw students received the financial aid checks, they kicked back a significant portion of the proceeds to the ringleader. The ringleader was sentenced to 41 months in prison and was ordered to pay more than \$581,000 in restitution.

California - Actions Taken Against Participants in Fraud Scheme at Los Rios Community College District

Six individuals were indicted, two of whom pled guilty for their roles in a \$200,000 fraud scheme at the Los Rios Community College District, an accredited higher education district with campuses that include American River College, Cosumnes River College, and Sacramento City College. The scheme’s alleged ringleader orchestrated a scam in which individuals with no intention of attending any of the Los Rios schools applied for admission in order to receive Federal student aid. The ringleader also allegedly obtained stolen identity information of other individuals for the purpose of applying for additional Federal student aid. The ringleader completed all paperwork and enrollment necessary to obtain the Federal student aid and had the funds sent to addresses she controlled. When the student aid checks came in, the

ringleader met with the straw students at a bank, cashed the checks, and gave a percentage of the proceeds to the scheme participants. As a result of these fraudulent efforts, the individuals received more than \$200,000 in Federal student aid to which they were not entitled.

Colorado - Two Individuals Sentenced for Roles in Fraud Scheme at Metropolitan State College

Two individuals were sentenced for their roles in a fraud scheme at Metropolitan State College, where the mother of one of the individuals was employed in the school’s Office of Financial Aid. She was also a co-conspirator in the scheme. The two individuals and others acquired personal identifying information from family members and others in order to apply for and receive Federal student aid. None of the individuals were actually attending the school and none had even applied. Most of these individuals, but not all, willingly participated in the scam. The conspirators filled out fraudulent student aid forms using those identities as well as their own, and had the checks sent either to themselves or directly to the Office of Financial Aid where they were retrieved. The proceeds of the checks were divided between the conspirators, and on occasion, the person in whose name the application was made. As a result of these fraudulent efforts, the conspirators received more than \$130,000 in Federal student aid. The two individuals were sentenced to a period of home detention, 5 years of probation, and were each ordered to pay more than \$62,000 in restitution.

Contractors

Colorado - Former Debt Collector Sentenced

A former employee of NCO Financial Systems, Inc., a debt collection agency, was sentenced for fraudulently consolidating student loans while employed by NCO. Our investigation found that the former debt collector forged a number of student borrowers’ signatures on Direct Loan consolidation promissory notes without the borrowers’ knowledge or permission. The

company received a collection fee from the Department for the consolidations, and the former debt collector earned a bonus from NCO for working the accounts. The former employee was sentenced to 10 months of home detention, 3 years of supervised release, and was ordered to pay more than \$64,700 in restitution.

Unlawful Access to NSLDS

Iowa - Actions Taken Against Former Contractors for Unlawfully Accessing Data System to Obtain Information on President Obama

Seven former FSA Call Center employees pled guilty, another was sentenced, and another was convicted and now awaits sentencing for unlawfully accessing the National Student Loan Data System (NSLDS). The contractors were employees of Vangent, Inc., a contractor responsible for maintaining a call center for student borrowers and for the debt collection of student loans. The former employees, who were located in Vangent's Iowa City office, exceeded their authorized access into NSLDS when they used their accounts to look up the personal information of President Barack Obama and/or First Lady Michelle Obama without a legitimate business need or appropriate authority. The first of the former contractors to be sentenced was ordered to perform 250 hours of community service and was assessed \$25.

Texas - Former Baylor University Employee Sentenced

A former employee in Baylor University's Office of Student Financial Services was sentenced to 2 years of probation, 200 hours of community service, and was ordered to pay a \$250 fine for unlawfully accessing NSLDS. The woman exceeded the authorized use of her Baylor-issued NSLDS identification by using it at her part-time job at the Brazos Higher Education Service Corporation.

Other Individuals

Alaska - Woman Sentenced for Three Quarters of a Million Dollars Fraud Scheme

A former Miss Anchorage, Truman Scholar, and Rhodes Scholar was sentenced to 57 months in prison, 3 years of probation, and was ordered to pay more than \$745,000 in restitution for charges related to her multi-year student aid fraud scheme. The scheme involved using two social security numbers (SSNs) she was assigned to apply for and receive Federal and private student aid. In 2003, the woman applied for and received an SSN through a special program for victims of domestic violence and harassment. Individuals who receive new SSNs under this program are advised to stop using their previous SSNs. Yet despite this regulation, the woman did not inform her student loan lenders of her name and SSN change and continued to obtain loans under both names, misrepresenting to the lenders that the individuals were two different people, and using one name to cosign a loan applied for in the other name. She then used those funds for non-educational purposes, which included investing in a Citigroup/Smith Barney Investment Account based in Hong Kong and investing in a for-profit business.

New York - Former Mayoral Candidate Sentenced

A former New York City Mayoral candidate was sentenced to 4 years of probation, 300 hours of community service, and a \$100 assessment for Federal student aid fraud. The investigation found that between 2008 and 2009, the former candidate submitted fraudulent student aid application forms in order to obtain approximately \$41,000 in student loans to which he was not entitled.

New York - Longtime Fugitive Sentenced for Role in Multi-Million Fraud Scheme

A former town official who had been a fugitive for 11 years was sentenced to 27 months in prison for his participation in a long-running fraud scheme involving more than \$11 million in Federal education funds. The former official was arrested in London, then extradited, arraigned,

and ordered to prison last year after being a fugitive since 1997, when he and six others were charged with participating in a massive conspiracy to defraud the Department and other government agencies. The conspirators created entities to fraudulently receive Federal and State funds. One of their schemes involved the creation of a fictitious postsecondary institution called the Toldos Yakof Yosef for the purpose of collecting Pell Grants. Five of the conspirators were sentenced to prison and one last conspirator remains a fugitive.

Washington, D.C. - Professor and Policy Advisor Sentenced for Multiple Frauds

An assistant professor at Williams College, who was also a visiting researcher at Yale Law School and senior policy fellow for a member of the U.S. House of Representatives, was sentenced for student aid fraud, bank fraud, and social security fraud involving three quarters of a million dollars. Our investigation found that the professor used multiple false names and social security numbers to obtain both Federal and private student loans totaling more than \$294,000, and obtained more than 90 credit cards using the same fraudulent identities to make purchases of more than \$500,000. The former policy fellow was sentenced to 50 months in prison, 60 months of supervised release, and was ordered to pay more than \$759,600 in restitution.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

- Departmental Groups
 - ◆ *OIG-FSA Risk Project* - OIG staff work with FSA staff to identify risks and reduce fraud and abuse in Federal student aid programs.

Review of Legislation, Regulations, Directives, and Memoranda

- Provided technical assistance on Department's proposals for the 2009-2010 HEA Negotiated Rulemaking session.

Elementary, Secondary, and Adult Education Programs

With the significant increase in education funding that the States, SEAs, and LEAs are receiving through the Recovery Act and the Education Jobs Fund in addition to their annual allotments, effective accountability in how these entities expend all Federal education funds they receive is vital. Work we conducted over the last 6 months shows that accountability is still an issue for the entities we reviewed. Summaries of our findings are provided below, along with information on our more significant investigations involving Federal elementary, secondary and postsecondary education program funds.

Elementary and Secondary Education

Grantees and Subrecipients

State Educational Agencies

Georgia Department of Education's Controls Over Performance Data Entered in ED Facts

This audit determined that neither the Georgia Department of Education (GADOE) nor the Clayton County Public School District (Clayton) had sufficient internal controls in place to ensure that they had provided accurate information into ED Facts. As a result, GADOE and Clayton reported inaccurate or unsupported data on dropout rates, graduation rates, and discipline incidents. Without sufficient controls to ensure the accuracy of data, GADOE and the Department could be making planning, policy, and management decisions based on inaccurate or unreliable data. To address the weaknesses identified in our report, we made a number of recommendations, including that the Department require GADOE to establish and implement systems of internal control to ensure that LEAs identify and report accurate data. GADOE did not concur with all of our findings or recommendations.

Local Educational Agencies

Philadelphia School District Should Be Designated as a High-Risk Grantee

In January 2010, we issued an audit of the Philadelphia School District (PSD) which found that it did not have adequate fiscal controls in place to account for Federal education grant funds, as we identified more than \$17 million in unallowable costs and more than \$121 million in inadequately documented costs. We also reported PSD's noncompliance with laws, regulations, and other guidance. Subsequently, during this reporting period, we issued an alert memorandum to the Department strongly suggesting that it work with the Pennsylvania Department of Education to designate PSD as a high-risk grantee. We made this recommendation based on: (1) the significance of the findings in our audit report; (2) the fact that other recent reviews conducted by the State and GAO found the same or similar problems; and (3) the fact that we saw no evidence that PSD had developed any new policies and procedures to address weaknesses identified in these reports. Furthermore, it is estimated that PSD will receive more than \$331 million in education-related Recovery Act funds. Designating PSD as a high-risk grantee will help provide reasonable assurance that these Recovery Act funds, as well as other Federal funds, are safeguarded and used only for reasonable, allowable, and adequately documented purposes. The Department generally concurred with our recommendations.

Adult Education

Arkansas' Adult Education and Family Literacy Act Program

We determined that the Arkansas Department of Career Education (ADCE) did not adequately monitor the performance of providers receiving Federal adult education funds and did not ensure that Federal adult education funds were awarded in compliance with the *Adult Education and Family Literacy Act* (AEFLA) for the time period reviewed. According to the AEFLA, to be considered an eligible provider, a literacy council's program must show demonstrated effectiveness. Despite this, ADCE awarded seven literacy councils new grants even though these grant recipients did not meet the definition of effectiveness during the previous grant period. In addition, ADCE did not ensure that more than \$521,000 in adult education funds was expended in accordance with the AEFLA,

regulations, and guidance. As a result, neither the State nor the Department was assured that the providers met the requirements of the grant.

Our recommendations included that the Department require ADCE to enhance its monitoring process to assure that providers meet the required benchmarks before being awarded new grants and that ADCE take appropriate actions if providers do not meet the required benchmarks. We also recommended that ADCE return to the Department more than \$13,000 in unallowable costs identified through our audit and provide adequate documentation to support more than \$508,000 in inadequately documented costs or return the inadequately documented amount to the Department. ADCE did not agree with all of our findings or recommendations.

Investigations

Schools and School Officials

Illinois - Triumphant Charter School Principal Sentenced

The former principal of the Triumphant Charter School in Chicago was sentenced for theft involving Federal funds. Our investigation found that the former principal used her school's American Express card for personal use, including almost \$30,000 in charges for items at stores such as Louis Vuitton and Coach, jewelry, diet pills, and hair care and cosmetics. She then paid the credit card bill with money received from the Department, the State, and Chicago Public Schools. The former principal was sentenced to 3 years of probation, and was ordered to pay more than \$48,300 in restitution.

Kentucky - Former University of Louisville Dean Sentenced to Prison and Ordered to Pay More Than \$2 Million in Restitution

A former University of Louisville Dean was sentenced to 63 months in prison for embezzling more than \$2 million in Federal education funds. Our investigation found that between 2001 and

2008, the former dean and a co-conspirator used a company known as the National Center on Public Education and Prevention (NCPEp) to embezzle and to launder more than \$1.6 million in Federal funds belonging to the University of Rhode Island, Congressional earmark funds directed to the University of Louisville, and additional funds designated for the Illinois Rock Island County Council on Addiction. The two accomplished their scheme by claiming payment for work performed by NCPEp when no actual services were provided. As a result of their fraudulent efforts, more than \$2 million in funds were deposited into bank accounts in the name of NCPEp that were controlled by the two conspirators. The former dean was also charged with tax evasion for using NCPEp to conceal income from the Internal Revenue Service. In addition to the prison sentence, the former dean was also ordered to pay more than \$2.2 million in restitution.

Louisiana - Former Charter School Business Manager Sentenced

The former business manager of the Langston Hughes Academy Charter School in New Orleans was sentenced to 60 months in prison, 3 years of

supervised release, and was ordered to pay more than \$673,000 for theft from an organization receiving Federal funds. Our investigation determined that over the course of a 14-month period, the former business manager embezzled more than a half a million dollars from the school by making unauthorized cash withdrawals from the school's bank account. In an effort to conceal the theft, the former business manager manipulated the school's records by making the withdrawals appear to be payments to vendors for items such as textbooks.

Ohio - Settlement Agreements Totaling More Than \$308,000 Reached with Minister Local School District and its former Treasurer

The Minister Local School District and its former treasurer entered into settlement agreements with the U.S. Department of Justice to settle claims that the District and the former treasurer violated the *False Claims Act*. The settlements are a result of our investigation which found that the District's former superintendent and the former treasurer devised a scheme to create a charter school within the District in order for the District to apply for and receive Federal and State charter school funds that the District would otherwise not have been eligible to receive. The charter school existed in name only and there were no alternative facilities, instructors, or curriculum for the students. The funds that the District received were spent on capital projects items that benefitted the District, including lighting upgrades, installation of ceiling fans, cameras, and computer equipment. Through the settlements, the District agreed to pay more than \$297,900, and the former treasurer agreed to pay \$11,000.

Pennsylvania - Public Corruption Investigative Effort Yielding Results

OIG, the Federal Bureau of Investigation, the Internal Revenue Service, and a team of Federal prosecutors are working together to fight public corruption in northeastern Pennsylvania. During this reporting period, three individuals were sentenced for their roles in separate corruption schemes involving Federal education funds:

- **Former Wilkes-Barre Area School District Board Member Sentenced** The former board member was sentenced as a result of the investigation which found that he accepted a \$5,000 payment from an individual seeking to be hired as a teacher in the District. The former official was sentenced to 5 months home detention, 2 years of probation, 75 hours of community service, and was ordered to pay a \$10,000 fine.
- **Wilkes-Barre Area School District Contractor Sentenced** The president of King Paint and Glass Company, a Wilkes-Barre Area School District contractor, was sentenced to 5 months in prison, 2 years of supervised release, and was ordered to pay a \$10,000 fine for providing and installing free carpet in the home of a district board member as a reward for the board member's support in awarding his company a District contract.
- **Former Valley Forge Christian College Director of Information Technology Sentenced** The former director was sentenced for leading school purchasing officials to believe that the price of the technology-related equipment provided by a vendor was fair and reasonable when the price of the equipment had been inflated so the vendor could pay kickbacks to the former director. The former director was sentenced to 6 months of home confinement, 2 years of probation, and was ordered to pay more than \$27,200 in restitution.

Other Individuals

New York - Man Sentenced for Fraud Involving New York Department of Education Funds

During this reporting period, a man was sentenced to serve approximately 1 year in prison, 2 years of supervised release, and was ordered to pay \$275,000 in restitution for bank fraud involving New York Department of Education (NYDOE) funds. Our investigation

revealed that the man used a New York City Department of Education bank account number that caused more than \$600,000 in payments to be made to several of his credit card accounts and other vendors. The man, who was not an employee of the NYDOE, not only used the account to make payments on his own bills but shared the account number with friends who used the account number to make payments and withdraw funds from the account.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

- Federal and State Audit-Related Groups and Entities
 - ◆ *Association of Government Accountants (AGA) Intergovernmental Partnership for Management and Accountability* - OIG staff participate in this partnership that works to open lines of communication among Federal, State, and local governmental organizations with the goal of improving performance and accountability.

Review of Legislation, Regulations, Directives, and Memoranda

- ESEA Reauthorization – We made suggestions regarding *Investing in Innovation (Title VI, Part B)*, *Academic Excellence in Core Subjects (Title IV)*, and *Migrant Education (Title I, § 2203(b))*.

Internal Departmental Operations

OIG conducts annual reviews of the Department's IT security and management, as well as other reviews of Departmental operations. These reviews seek to help the Department accomplish its objectives by ensuring the reliability, integrity, and security of its data; its compliance with applicable policies and regulations; and that it is effectively, efficiently, and fairly using the taxpayer dollars with which it has been entrusted. Below you will find summaries of the reports we issued over the last 6 months involving IT security and management and the Department's management of other programs. You will also find the results of the quality control reviews of single audits of Department grantees that we conducted during this reporting period.

Information Technology Security and Management

During this reporting period, we completed two audits and two special projects related to the Department's IT security and management. Because of the sensitive nature of these efforts, for security purposes and to maintain the integrity of the Department's critical data structures, we discuss only the general/public aspects of our work and findings.

Weaknesses in the Process for Handling Compromised Privileged Accounts

We conducted an investigative project to determine whether compromised privileged accounts were used by unauthorized individuals and to evaluate the Department's process for handling such accounts. Privileged account users can access, view, enter, or modify more than just the account owner's personal data. We found that FSA did not identify all individuals whose data were potentially compromised; that the Department and FSA failed to conduct adequate log reviews of compromised privileged accounts to identify unauthorized activity; that FSA kept inadequate records of its remediation efforts for compromised privileged accounts; and that two-factor authentication had not yet been required for remote access to Department and FSA systems. To ensure that compromised privileged accounts are properly identified and analyzed to prevent unauthorized access to Department systems, we made a number of recommendations, including that the Department identify all potentially compromised personally identifiable information and revise

its current methodology to better identify suspicious activity that indicated unauthorized access into privileged accounts.

Bypassing of Web Content Filtering

The Department provides employees with appropriate Internet access to facilitate their work. Through web content filtering, the Department blocks employees' access to certain sites, such as personal email, social networking sites, and blogs. The Department's Security Policy Handbook outlines its policies related to the use of the Internet by Department employees. During this reporting period, we conducted a special assignment that found that multiple users throughout the Department had circumvented web filtering, predominantly to access email and social networking sites. We made several recommendations for the Department to address this situation, including that it educate users that bypassing web filtering is a violation of Department policy that can expose the user and the Department to risks.

Security Controls for Data Protection Over the Virtual Data Center

We performed a review of Security Controls for Data Protection over the Virtual Data Center (VDC) to determine whether the Department and FSA had effective IT security controls. The VDC serves as the host facility for FSA systems that process student financial aid applications (grants, loans, and work-study), provide schools

and lenders with eligibility determinations, and support payments from and repayment to lenders. We found that FSA had adequate operational controls in place for the VDC over maintenance and personnel security and had adequate safeguards in place over physical and environmental controls. However, we found that FSA did not have adequate operational controls in place over configuration management, system and information integrity, contingency planning, media protection, and awareness and training. In addition, we determined that FSA needed to improve technical safeguards over access controls, systems and communications protection, identification and authentication, and audit and accountability. Without adequate operational and technical security controls in place, the Department's systems and information are vulnerable to attacks that could lead to a loss of confidentiality due to unauthorized access to data and to a possible loss of integrity through data modification or limited availability from unauthorized access and excessive use of system resources. Also, there is increased risk that unauthorized activities may occur that reduce the reliability of Department systems and data being maintained by the VDC. FSA concurred with the majority of our findings and the recommendations we made to address weaknesses identified.

Application Controls Over the Department's Financial Management System

Our review determined that the Department had effective internal controls over the confidentiality, integrity, and availability of data and the overall management of the IT function for its Financial Management System (FMS), which provides consolidated data to support key management analysis and is the only source within the Department to obtain a comprehensive financial picture of an institution across all FSA programs. However, in reviewing selected IT security safeguards, we found that FSA did not have adequate controls in place over the security awareness and training and personnel security clearances for FMS users and lacked proper procedures to verify clearances for external FMS users. The lack of adequate controls over training and clearances potentially left FMS data vulnerable to malicious or inexperienced users with unverified access and inadequate training. We also found that FSA did not ensure adequate physical and environmental controls at a contractor facility. Although FSA took action to address this issue with the contractor, its prior inaction left Department assets vulnerable to loss and injury. Based on our findings, we made a number of recommendations, including that FSA ensure that procedures are in place to verify all users granted FMS responsibilities have an approved security level that is at or above the FMS responsibilities to which they are assigned. FSA agreed with a majority of our findings and recommendations.

Contract Reviews

Desktop Services Pricing Under the EDUCATE Contract

While responding to allegations regarding the Department's management of the EDUCATE contract, we became aware that the Department may not have effectively assessed the reasonableness of the EDUCATE contractor's proposed prices for desktop services over the life of the contract. Specifically, the Department may not have effectively validated aspects of the Independent Government Cost Estimate pertaining to desktop services prices; performed market research regarding desktop

services costs; or resolved potential weaknesses identified in the contractor's proposed pricing for desktop services. As a result, the Department may be paying the EDUCATE contractor unreasonable prices for desktop services. We shared these findings with the Department and recommended that it review the estimated costs for desktop services over the remaining life of the EDUCATE contract and consider re-negotiating pricing for the services before the next option year of the contract is exercised. The Department concurred with our recommendations.

Implementation of the Managed Security Services Provider Contract

While reviewing the Department's corrective actions in response to a 2007 OIG report related to a Department IT system, we became aware that the Department had not effectively implemented the Managed Security Services Provider (MSSP) contract. The MSSP provides system security functions for the agency's network and information systems, including monitoring and management of intrusion detection systems and firewalls, overseeing patch management and upgrades, performing security assessments, and responding to emergencies. We found that

the Department had terminated the initial contract because of contractor performance problems and that the subsequent contractor had been unable to provide the level of service required by the contract. As a result, the Department paid for services it had not received and had not ensured that its IT network is adequately protected. Based on our findings, we made several recommendations, including that the Department formally review and evaluate alternatives for obtaining MSSP services and proceed with a solution that best serves the interests of the Department in a cost-effective manner. The Department generally concurred with our findings and recommendations.

Other Internal Reports

Controls Over the Department's Transit Benefits Program

Our audit found that controls over the Department's transit benefits program were inadequate. Specifically, the Department's controls did not ensure that only current employees received transit benefits, that employees were not participating simultaneously in the transit benefits and subsidized parking programs, and that employees on extended leave had adjusted their benefits. As a result, the Department paid more than \$118,900 in benefits to individuals who were not entitled to them. We also identified a need for the Department to improve controls over the application, withdrawal, and recordkeeping processes, and that it did not always perform verifications to ensure that data on

transit benefits applications were valid and accurate. In addition, the Department failed to maintain adequate records over excess funds collected from employees withdrawing from the program and did not ensure that the data maintained in the transit benefits database were accurate. As the Department relies on these data to manage its transit benefits program and to identify employee program participants, inaccurate data can compromise the integrity of the program. To correct the weaknesses identified, we made a number of recommendations, including that the Department review the transit benefits database to ensure only current Department employees are included and immediately remove former employees. The Department concurred with most of our findings and recommendations.

Non-Federal Audits

Quality Control Reviews

The Single Audit Act of 1984, as amended, requires entities, such as State and local governments, universities, and non-profit organizations that expend \$500,000 or more in Federal funds in one year to obtain an audit, referred to as a "single audit." Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in the FFELP are required to undergo annual audits performed by independent public accountants (IPAs) in accordance with audit guides issued by the OIG. These audits provide the Federal

government with assurance that recipients of Federal funds comply with laws, regulations, and other requirements that are material to Federal awards. To help assess the quality of the thousands of single audits performed each year, OIG conducts quality control reviews (QCRs) of a sample of audits. During this reporting period, we completed 43 QCRs of audits conducted by 38 different IPAs, or offices of firms with multiple offices. We concluded that 16 (37 percent) were acceptable or acceptable with minor issues, 20 (47 percent) were technically deficient, and 7 (16 percent) were substandard.

Noteworthy OIG Efforts

CAROI Guide

In May, the Association of Government Accountants' (AGA) Partnership for Intergovernmental Management and Accountability issued a guide geared to provide government officials with a concrete tool to improve programs and to deal with fiscal and programmatic challenges entitled "Guide to Improving Program Performance and Accountability Through Cooperative Audit Resolution and Oversight." The guide is based on OIG's Cooperative Audit Resolution and Oversight Initiative (CAROI)—the collaborative method that provides alternative and creative approaches to resolve audit findings and their underlying causes. Created by OIG in the 1990s, CAROI is designed to avoid costly litigation, lengthy adversarial discussion and nonproductive impasses, as well as to make permanent corrective action the norm. The CAROI process promotes continuous dialogue, innovative solutions, horizontal lines of communication, and a fundamental commitment to serving education's ultimate customer -- the learner. The AGA worked closely with OIG staff and other government officials in developing the guide.

National State Auditors Association Honors OIG Director

In June, the National State Auditors Association adopted a resolution honoring Hugh Monaghan, Director of OIG's Non-Federal Audit Team, who passed away earlier this year. The resolution honored Hugh for his noteworthy Federal career, lifetime of service to improve non-Federal audit oversight, and his overall contributions to the profession of government auditing. Stating that Hugh was "a stalwart supporter and friend of the members of the Association," they noted how generously he shared his knowledge with all members of his profession, and said he would be much missed by the State audit community.

CIGIE Award Winners

The Council of Inspectors General for Integrity and Efficiency (CIGIE) selected four OIG project teams and honored another OIG employee who was part of an IG community-wide training team with 2010 Awards for Excellence. The CIGIE awards acknowledge the contributions of Inspectors General to improve Federal

government programs and operations and to fight waste, fraud, and abuse of taxpayer dollars. CIGIE bestows a limited number of awards each year, and we were honored to have five of our efforts highlighted:

- **Award for Excellence for Audit - OIG Cash Management Audit Team.** The team identified critical cash management issues in California, including management of Recovery Act funds and heightened awareness of these issues in the education and audit communities nationwide;
- **Award for Excellence for Investigation - Puerto Rico International Identity Theft Trafficking Team.** The team's investigative efforts led to prosecution of multi-national fraud ring members whose crimes included stealing identity-related documents of children, teachers, and administrators from 50 schools in Puerto Rico;
- **Award for Excellence for Multiple Disciplines - Community Integrated Service Program Public Corruption Team.** The team's investigative and audit work led to the prosecution of 10 Puerto Rico Department of Education public officials and family members for committing fraud involving nearly \$500,000 in Federal and State funds;
- **Award for Excellence for Multiple Disciplines - U.S. Department of Education Office of Inspector General Recovery Act Team** - This award recognized the many members of the OIG staff involved in planning and implementing an OIG-wide strategy to improve the effectiveness and efficiency of the administration of the Recovery Act; and
- **Barry J. Snyder Award** – This award recognized a group of OIG staffers from around the IG community, including our Training Coordinator, for their outstanding cooperative efforts in developing and executing Introductory Auditor Training for the IG community.

OTHER ACTIVITIES

Participation on Committees, Working Groups, and Task Forces

■ Departmental Groups

- ◆ *Department of Education Senior Assessment Team* - OIG staff participates in an advisory capacity on this team, which provides oversight of the Department's assessment and reports on internal controls and provides input to the Senior Management Council concerning the overall assessment of Department's internal control structure, as required by the *Federal Managers' Financial Integrity Act of 1982*, and OMB Circular A-123, Management's Responsibility for Internal Control.

■ Inspector General Community

- ◆ *CIGIE* - OIG staff play an active role in CIGIE efforts. Inspector General Tighe is a member of CIGIE's Audit Committee, Investigations Committee, Information Technology Committee, and also the Interagency Coordination Group for Guam Realignment. In addition, IG Tighe is a member of the Suspension and Debarment Working Group, which is a Subcommittee of the Investigations Committee. OIG staff also chair the AIGI Investigations Subcommittee, the IT Subcommittee for Investigations, the Audit Committee's Financial Statement Audit Network Work Group, and CIGIE's Federal Audit Executive Council's (FAEC) Professional Development Committee. Staff also participate on the FAEC Financial Statement Audit Committee, the Financial Audit Manual Revisions Workgroup, and the CIGIE Council of Counsels to the Inspector General.

OIG staff also led the work group that updated the Inspector General Criminal Investigator Academy undercover operations training curriculum.

■ OMB

- ◆ *Interagency Task Force on Reporting Fraud, False Claims, and Significant Overpayments* - OIG staff participate on this task force that is analyzing and will make recommendations related to a proposal to mandate the reporting of fraud, false claims, and significant overpayments by grantees be included in Federal regulations.

■ Federal and State Audit-related Groups and Entities

- ◆ *Chief Financial Officers Council Federal Reporting Model Work Group* - OIG staff participate on this work group, which focuses on developing and implementing revisions to the Federal financial reporting model in order to better deliver financial information needed by taxpayers and decision makers.
- ◆ *Comptroller General's Advisory Council on Government Auditing Standards* - OIG staff serve on this Council, which provides advice and guidance to the Comptroller General on government auditing standards.

OTHER ACTIVITIES (continued)

- ◆ *DOD-OIG Financial Statement Audit Advisory Committee* - OIG staff participate on this Committee, which makes recommendations to help resolve accounting and auditing issues related to the U.S. Department of Defense OIG's (DoD-OIG) financial reporting and the financial statement audit, the system of internal controls, and compliance with laws and regulations that could have a material effect on the DoD-OIG's financial statements.
- ◆ *Intergovernmental Audit Forums* - OIG staff chair and serve as officers of a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work together to improve audit education and training and exchange information and ideas regarding the full range of professional activities undertaken by government audit officials. OIG staff chair the Midwestern Forum, the Southeastern Forum, and serve as an officers on the Southwestern Forum and the New Jersey-New York Forum.
- ◆ *Interagency Working Group for Certification and Accreditation* - OIG participates on this working group, which exchanges information relating to Federal forensic science programs that share intergovernmental responsibilities to support the mission of the National Science and Technology Council's Subcommittee on Forensic Science.

Reviews of Legislation, Regulations, Directives, and Memorandum

■ Legislative Measures

- ◆ *Draft Legislation Pertaining to Honest Services Fraud by Public Official* - We recommended that "public official" be defined to include anyone acting at the direction of the public official or on the public official's behalf as there could be situations where public officials use others to hide their actions.
- ◆ *S. 372, Whistleblower Protection Enhancement Act of 2009* - We provided comments regarding the Act's requirement that each Inspector General designate a Whistleblower Protection Ombudsman to advocate for the interests of agency employees or applicants who make protected disclosures. We commented that IGs are required to be neutral under the Inspector General Act, and thus should not advocate for any individual's interest, and also that an Ombudsman is not needed because IGs already provide outreach and information on whistleblower protection.
- ◆ *H.R. 5815, Testimonial Subpoena Authority* - We commented that testimonial subpoena authority could be a useful tool, particularly in audits or investigations of third parties, such as contractors or grantees. We further commented that the U.S. Department of Justice's (DOJ) concern about OIGs' use of testimonial subpoenas potentially compromising

