U.S. Department of Education
Office of Inspector General

Semiannual Report to Congress, No. 66

October 1, 2012–March 31, 2013

Office of Inspector General
Kathleen S. Tighe
Inspector General

May 2013

This report is in the public domain. Authorization to reproduce it in whole or in part is granted. While permission to reprint this publication is not necessary, the citation should be: U.S. Department of Education, Office of Inspector General, Semiannual Report to Congress, No. 66.

Please Note:

The Inspector General's Semiannual Report to Congress, No. 66 is available on the ED OIG Web site at http://www2.ed.gov/about/offices/list/oig.

Message to Congress

On behalf of the U.S. Department of Education (Department) Office of Inspector General (OIG), I present this Semiannual Report on the activities and accomplishments of this office from October 1, 2012, through March 30, 2013. The audits, inspections, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness in our oversight of the Department's programs and operations.

In a recent Semiannual Report to Congress, I noted that accountability, efficiency, effectiveness, and oversight are characteristics of good governance. When employed, they help ensure that government programs and operations are performing as intended, that government resources are responsibly managed, and that there is real value for the taxpayers who are funding those programs and operations. *Value*. It is one of the cornerstones by which the OIG operates. In March, I had the opportunity to testify at a hearing before the U.S. House of Representatives' Committee on Oversight and Government Reform where I spoke about the value we place on the work we conduct and the value we deliver in the work we produce.

I shared with the Committee that the value of our work is not just in the weaknesses and problems we identify, but in the recommendations we make to address them. If the Department timely and effectively implements our recommendations, we believe it will see real improvements in the efficiency of its programs and operations and real reductions in its vulnerabilities to waste, fraud, and abuse. That too is real value.

Our work can serve as a critical tool for Department management in improving its operations, strategic planning, and risk management. The work we completed over the last 6 months proves that point: our audit work recommended actions for the Department to take to address identified weaknesses in the programs and operations we reviewed, and our investigative work led to significant criminal and civil actions, settlements, and other monetary returns totaling more than $33.3 million. As examples:

- We found that the Debt Management Collection System 2 (DMCS2), the Federal Student Aid office's (FSA) system for managing defaulted student loans, was unable to accept the transfer of certain defaulted student loans from FSA's Title IV Servicers. At the time of our audit, the entities that service Federal student aid loans had accumulated more than $1.1 billion in defaulted loans that should have been transferred to the Department for management and collection. As a result, the Department has been hampered in pursuing collection remedies and borrowers have been unable to take steps to remove their loans from default status.

- The Department's and FSA's fiscal years 2012 and 2011 financial statement audits noted a material weakness resulting from multiple deficiencies surrounding DMCS2 and the ACS, Inc., Educational Servicing system—the legacy Direct Loan servicing system. The audits also found repeat deficiencies relating to credit reform estimation, financial reporting processes, and other controls surrounding information systems.

- Our ongoing investigations involving waste, fraud, or abuse by Supplemental Education Service program providers funded under Title I, Part A of the Elementary and Secondary Education Act of 1965 led to a $10 million settlement between

Education Holdings, Inc. (formerly the Princeton Review) and the Federal Government, in which the company admitted to defrauding the program. Two former Princeton Review managers pled guilty and agreed to pay $1.2 million each for their roles in the fraud. A third manager agreed to a $3.2 million civil settlement.

- Our student aid fraud ring assessment determined that the population of Federal student aid recipients potentially participating in fraud rings had increased 82 percent from 2009 to 2012, which we estimated caused a probable loss during that time period of $187 million in Federal student aid.
- The State of Connecticut agreed to a $4.5 million settlement as a result of our audit and investigative work that found that the Connecticut State Department of Education submitted false claims that misrepresented the number of children who participated in the Migrant Education Program.
- Our investigation with the Attorney General's Office resulted in a civil complaint filed by the State of Oregon against EdChoices, a charter school management company, and its founders for racketeering, false claims, breach of contract, negligent misrepresentation, and other charges involving more than $17 million in charter school funds.
- Our audit of the Department's compliance with the Improper Payments Elimination and Recovery Act noted issues with the completeness of its calculation of the estimated improper payment rate for the Pell Grant program and found that the Department's methodologies for estimating improper payment rates for other student aid programs were flawed.
- Our audit of the Teacher Incentive Fund found weaknesses in the Department's processes for reviewing and evaluating applications regarding the involvement and support of stakeholders, increasing the risk that a grantee will face significant challenges in meeting project objectives.
- Our evaluation of the Department's monitoring of Investing in Innovation (i3) program grant recipients found that the Department program officers regularly engaged with and monitored i3 grantees. However, they did not hold i3 grantees accountable when they did not respond or did not respond timely to Department requests, and the Department did not impose any consequences on the grantees for failing to do so.

In this report, you will find more information on these actions, as well as summaries of other OIG audits and reviews issued over the last 6 months. We also provide summaries of criminal actions taken during this reporting period as a result of OIG investigations.

We will make the most of the resources available to OIG to meet our goals and achieve our mission and provide real value to the Department, taxpayers, and most importantly, America's students. I look forward to working with the 113th Congress and Secretary Duncan to meet the challenges and opportunities that lie ahead.

Kathleen S. Tighe
Inspector General

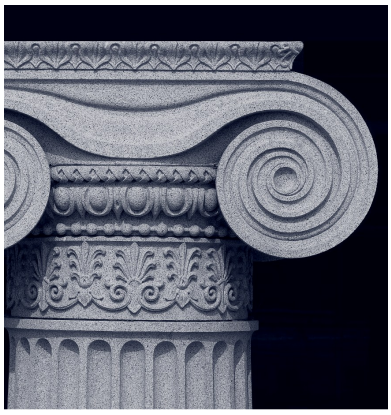
Table of Contents

1

Goal 1: Improve the Department's ability to effectively and efficiently implement its programs to promote educational excellence and opportunity for all students.

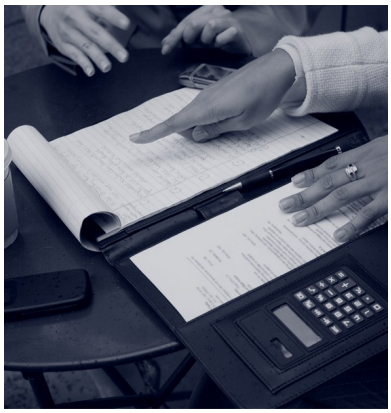
7

Goal 2: Strengthen the Department's efforts to improve the delivery of student financial assistance.



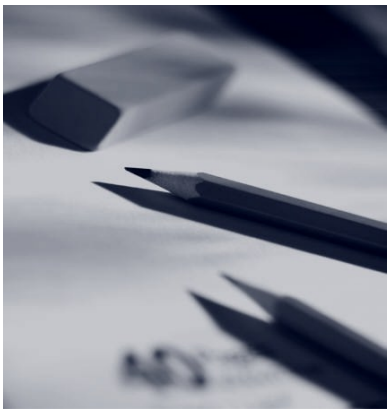
17

Goal 3: Protect the integrity of the Department's programs and operations by detecting and preventing vulnerabilities to fraud, waste, and abuse.



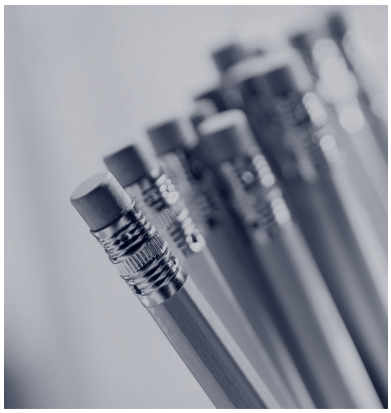
25

Goal 4: Contribute to improvements in Department business operations.



33

Annexes and Required Tables



53

Acronyms and Abbreviations

Goal 1: Improve the Department's ability to effectively and efficiently implement its programs to promote educational excellence and opportunity for all students.

Our first strategic goal reflects our mission to promote the efficiency, effectiveness, and integrity of the U.S. Department of Education's (Department) programs and operations. To achieve this goal, we conduct audits, inspections, investigations, and other activities. In our audit and inspection work, we evaluate program results, assess internal controls, identify systemic weaknesses, and make recommendations to improve the Department's programs and operations. In our investigative work, we focus on serious allegations of fraud and corruption and work with prosecutors to hold accountable those who steal, abuse, or misuse education funds.

Audits

Work related to this goal over the last 6 months involves the American Recovery and Reinvestment Act of 2009 (Recovery Act). Recovery Act funding, which provided more than $98 billion for existing and new education-related grant programs, ended at the close of fiscal year (FY) 2011. A second education stimulus, the Education Jobs Fund, was enacted in 2010 and provided another $10 billion to help local educational agencies (LEAs) hire, retain, or rehire employees who provided school-level educational and related services, ended at the close of FY 2012. OIG has conducted a significant amount of work involving these programs and continued to do so throughout this reporting period. Results of our efforts are below.

Over the last 6 months, we issued five Recovery Act-related reports. This included our first review involving the Investing in Innovation (i3) program—a competitive grant program focused on expanding the implementation of, and investment in, innovative practices that have a demonstrated impact on student achievement, closing achievement gaps, high school graduation rates, college enrollment and completion, and decreasing drop-out rates. We also completed work involving the State of Maryland's use of Recovery Act funds, and issued three reports related to the final phase of our Recovery Act audit work: a national perspective on how selected school districts obligated and spent final Recovery Act funds. Summaries of these audits are below. We also continued to compile and analyze data for two "lessons learned" reports—one multiagency OIG review to identify best practices and challenges in implementing and administering Recovery Act programs and a second Department-specific review to provide insights into the key challenges associated with implementing the Recovery Act and the Department's and its grantees' responses to those challenges. We will report the findings of these efforts once completed.

Department's Monitoring of i3 Grant Recipients

Our evaluation of the Department's monitoring of i3 program grant recipients found that Department program officers regularly engaged with and monitored i3 grantees. However, they did not hold accountable i3 grantees that did not respond or did not respond timely to Department requests. We recommended that the Department develop appropriate requirements or consequences for

unresponsive i3 grantees. We also found that if program officer workload increases or if the technical assistance for the evaluation component is no longer available, the Department's ability to monitor the grantees could be negatively impacted in the future. We recommended that the Department continue to monitor any increase in program officers' workload to ensure adequate monitoring. The Department should also ensure that a technical assistance contractor is available for future project periods or find an equivalent alternative for technical assistance. The Department concurred in part with our finding that it did not hold i3 grantees accountable for their lack of responsiveness to Department requests, and it fully concurred with our finding and recommendations related to potential risks to its ability to adequately monitor i3 grantees in the future.

Maryland's Use of Recovery Act Funds and Quality of Reported Data

We found that Recovery Act expenditures by the Maryland State Department of Education, Maryland Department of Public Safety and Correction, and two LEAs, Baltimore City Public Schools and Prince George's County Public Schools, were generally allowable, reasonable, and accounted for in accordance with the recipients' plans, approved applications, and applicable laws and regulations. However, we identified more than $736,400 in unallowable, unsupported, and inadequately supported expenditures at the two LEAs. For example, we found that Prince George's County spent more than $108,800 for unapproved travel, and Baltimore City could not adequately support personnel expenditures totaling more than $249,700. In addition, although we found that the Recovery Act data reported by the State were generally accurate, complete, and in compliance with Recovery Act reporting requirements, the jobs data reported by the Maryland Department of Public Safety and Correction and the two LEAs were not accurate or complete. We made several recommendations, including that the Department require the Maryland State Department of Education to revise its monitoring instruments to ensure adequate oversight of LEA compliance with requirements for Federal grant funds' use and accounting, return to the Department funds that were used for unallowable purposes, and provide documentation to support unsupported and inadequately supported expenditures or return the amount of those expenditures to the Department. Neither the Maryland State Department of Education nor the LEAs fully concurred with all of our findings or recommendations.

Nationwide Review of Final Recovery Act Expenditures

During this reporting period, we continued with our nationwide audit to provide a perspective of how LEAs obligated and spent Recovery Act monies in the final year of funding. Our review covers spending from January 1 through December 31, 2011, for selected Recovery Act expenditures for the State Fiscal Stabilization Fund, Education Stabilization Fund; Title I, Part A of the Elementary and Secondary Education Act of 1965; and Part B of the Individuals with Disabilities Education Act grant programs. Although we have not yet issued our final nationwide report, we issued three supplemental reports noting specific concerns identified during our review at LEAs in Arkansas, Delaware, and Puerto Rico. The following are summaries of these findings.

Arkansas. Our review of Recovery Act expenditures at two LEAs—the El Dorado School District and the Little Rock School District—found that the LEAs generally obligated and spent stimulus funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we did identify areas of concern at each LEA. At El Dorado, we questioned its use of more than $237,300 in funds for a purpose prohibited by the Recovery Act: it improperly spent Recovery Act funds to replace a gymnasium roof at a high school that was no longer used as a school. In response to this finding, the district superintendent and business manager stated that the district reversed the costs and transferred other expenditures to offset those funds. At Little Rock, we identified control weaknesses in its asset inventory system that resulted in the district not properly accounting for and safeguarding equipment purchased with Recovery Act funds (and potentially other Federal funds) in a timely manner. Four of the seven purchases that we reviewed totaled almost $196,000. We recommended that the Department determine whether El Dorado's transfer of expenditures to offset the questioned costs was an allowable activity more than 6 months after the grant had ended and that it require the Arkansas Department of Education to ensure that Little Rock strengthens internal controls over assets purchased with Federal funds. The Arkansas Department of Education did not state whether it agreed with our findings but did describe the corrective actions taken to address our recommendations.

Delaware. We reviewed Recovery Act expenditures at two LEAs—the Red Clay Consolidated School District and the Christina School District—and found that both districts generally obligated and spent stimulus funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we identified an internal control weakness in the Christina School District's payroll adjustment process that resulted in it obligating about $41,100 in Recovery Act funds for personnel expenditures after the grant period ended on September 30, 2011. We recommended that the Department require the Delaware Department of Education to direct the district to return the funds to the Department and implement sufficient internal controls to help ensure this does not happen in the future. The Delaware Department of Education concurred with our findings and recommendations.

Puerto Rico. We found that the Puerto Rico Department of Education (PRDE) generally obligated and spent Recovery Act funds in accordance with applicable laws, regulations, guidance, and program requirements. However, we found that PRDE did not follow proper procurement procedures when using Recovery Act funds to purchase equipment totaling more than $3.4 million and overpaid $7,000 in Recovery Act funds for professional services not rendered. In addition, computer equipment PRDE had purchased with $3.5 million of Recovery Act funds was unused because required software had not been installed. Our audit also noted that in December 2011, PRDE received a waiver to extend the grant obligation for its Title I funds until September 30, 2012, and the liquidation period to December 29, 2012. However, as of September 30, 2012, PRDE had a remaining balance of $35.3 million in funds, representing more than 9 percent of its $386.4 million Title I allocation. This significant remaining balance raised concerns about PRDE's ability to liquidate its remaining funds on allowable costs that were obligated before the end of the grant period. We made nine

recommendations, including that the Department follow up with PRDE during a future monitoring visit to determine whether the funds were obligated and liquidated appropriately. PRDE stated that it carefully reviewed our findings and outlined a corrective action plan to address our recommendations.

Investigations

During this reporting period, OIG continued to investigate allegations of waste, fraud, and abuse involving Recovery Act funds. Since the enactment of the Recovery Act, OIG has initiated 210 criminal investigations of various schemes involving the improper uses of Recovery Act funds. To date, our Recovery Act-related investigations have resulted in more than 151 criminal convictions and nearly $9 million in recoveries. The following are summaries of two OIG investigations, both of which involved Federal student aid funds, a portion of which was either applied for or obtained after passage of the Recovery Act. During this period we also discontinued investigations of three whistleblower complaints, as summarized below.

Actions Taken in USA Beauty School Fraud (New York)

The owner of USA Beauty School, her son, and two employees were sentenced for student aid fraud. They falsified student aid applications and supporting documentation, including attendance records and high school diplomas, to enroll ineligible students into the school for the purposes of obtaining Federal student aid. Since 2006, the school has received more than $4 million in Pell Grant funds. The owner was sentenced to serve 18 months in prison and was ordered to pay more than $3.2 million in restitution and an additional $3.2 million in forfeiture; her son was sentenced to serve 1 year and 1 day in prison and was ordered to pay more than $1.8 million in restitution. One of the employees agreed to pay restitution of $600,000, while the other was sentenced to 2 years of probation. In addition to these people, three other employees were charged and convicted, and a former consultant/accountant for the school entered into a deferred prosecution agreement, for their roles in the scheme.

Actions Taken Against Former Empire Beauty School Employees (New Jersey)

One former admissions representative of Empire Beauty School was sentenced and a second representative pled guilty to defrauding student financial aid programs. The two each used fraudulent high school diplomas and General Educational Development (GED) tests to enroll ineligible students for classes at the school. As a result of their fraudulent actions, more than $247,000 in Federal student aid was disbursed to ineligible students. The former representative was sentenced to serve 6 months of home confinement and 60 months of probation, and he was ordered to pay a $15,000 fine.

Whistleblower Investigations

During this reporting period, we discontinued investigations of three whistleblower complaints made in Arizona, North Carolina, and Pennsylvania. We discontinued the investigations after our work determined that the employers did

not reprise against the complainants. We also received an extension for two whistleblower investigations. One investigation was in Minnesota, where we completed our investigation and issued a report finding that the employer had not reprised against the complainant, and the other was in Pennsylvania, where we could not commence our whistleblower investigation until after a related criminal investigation was no longer covert. We discontinued our investigation in that case, as noted above.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Inspector General Community

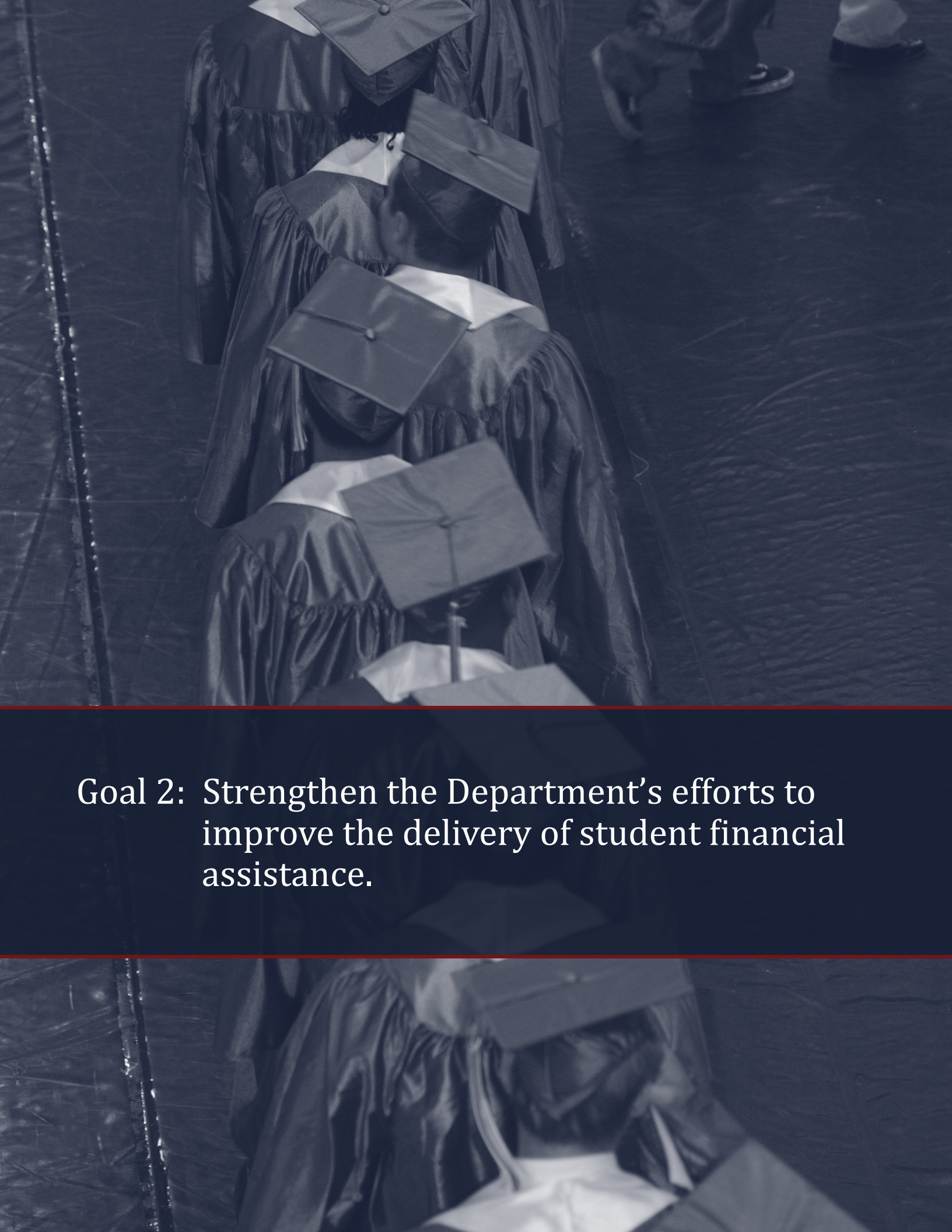
- *Recovery Accountability and Transparency Board (Recovery Board).* Inspector General Tighe is the Chair of the Recovery Board. OIG staff members also participate in a work group composed of all of the OIGs that provide Recovery Act oversight.

- *Government Accountability and Transparency Board (GAT Board).* The Inspector General is also a member of the GAT Board.

Federal and State Law Enforcement-Related Groups

- *U.S. Department of Justice's Financial Fraud Enforcement Task Force.* The Department and OIG are charter members of this task force, established by executive order in November 2009.

    - *Recovery Act, Procurement, and Grant Fraud Working Group.* The Inspector General co-chairs and the OIG participates in this working group focused on improving efforts across the Government to investigate and prosecute significant financial crimes involving Recovery Act funds.



Goal 2: Strengthen the Department's efforts to improve the delivery of student financial assistance.

This goal addresses an area that has long been a major focus of our audit, inspection, and investigative work—the Federal student financial aid programs. These programs are inherently risky because of their complexity, the amount of funds involved, the number of program participants, and the characteristics of student populations. Our efforts in this area seek not only to protect Federal student aid funds from waste, fraud, and abuse, but also to protect the interests of the next generation of our nation's leaders—America's students.

Audits

OIG audits and other reviews help ensure that the Department effectively oversees and monitors compliance and accountability at more than 6,200 postsecondary institutions, about 2,900 lenders, 33 guaranty agencies, and numerous third party servicers. Over the last 6 months, we issued a report noting significant issues with the Department's debt management collection system.

Debt Management Collection System

In 2012, we issued an alert report that identified significant problems with FSA's process for managing defaulted student loans. Specifically, we found that the Debt Management Collection System 2 (DMCS2), the Federal Student Aid office's (FSA) system for managing defaulted student loans, was unable to accept the transfer of certain defaulted student loans from FSA's Title IV Servicers. At the time of our audit, the entities that service Federal student aid loans had accumulated more than $1.1 billion in defaulted loans that should have been transferred to the Department for management and collection. DMCS2 has been unable to accept transfer of these loans and, as a result, the Department is hampered in pursuing collection remedies and borrowers are unable to take steps to remove their loans from default status. The inability of DMCS2 to accept these transfers also contributed to a material weakness in internal control over financial reporting that was identified in FSA's FY 2012 financial statement audit. Based on our interaction with FSA officials to date, FSA has yet to implement effective corrective action to bring these affected loans into collection and to correct the problems with DMCS2. Our report included a number of recommendations, including that the Department identify each problem related to DMCS2 loan transfers, the source of each problem, and the entire population of loans adversely affected and establish dates for resolving the cause of each identified problem related to DMCS2 loan transfers.

Data Analytics

Data analytics is a process that detects patterns and trends to help identify and develop information that is not discernible simply by examining raw data. OIG is one of the first Inspector General offices to develop and actively use data analytics in its audit and investigative operations. We use data analytics to sift through large volumes of data to identify emerging risks and uncover hidden fraudulent patterns, relationships, and anomalies. In our last Semiannual Report to Congress, we provided information on our E-Fraud Data Analytical System—a

data analytical tool to help respond to the escalating number of "fraud rings," which are large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. During this reporting period, we leveraged the system to issue a fraud ring assessment report.

Student Aid Fraud Ring Assessment

We completed a risk analysis that demonstrated that student aid fraud ring activity is a rapidly growing problem. Using our E-Fraud Data Analytical System, we determined that the population of recipients considered as potentially participating in this fraud activity had increased 82 percent from award year 2009 (18,719 students) to award year 2012 (34,007 students). We identified more than 85,000 recipients who may have participated in this type of student aid fraud ring activity and who received over $874 million in Federal student aid from award year 2009 through award year 2012.[1] Further, applying a statistical model to these results, we estimated a probable fraud loss of $187 million of the $874 million as a result of these criminal enterprises. We provided the results of our analysis to the Department, suggesting that it follow up on a recommendation first made in our 2011 report on distance education fraud rings. This recommendation called for the Department to establish edits in its business systems to flag potential fraud ring participants as well as identify practices for institutions of higher education to detect and prevent distance education fraud. In response to our analysis, the Department noted that it shared our concerns about the potential growth of fraud in the student aid programs and that it is addressing the recommendations made in our 2011 report. In addition, the Department requested the opportunity to review the list of individuals who contributed to the $187 million in probable fraud so that it may take more immediate action to research and resolve the risks for these specific individuals.

Investigations of Schools and School Officials

Identifying and investigating fraud and abuse in the Federal student financial assistance programs has always been a top OIG priority. The results of our efforts have led to prison sentences for unscrupulous school officials and others who stole or criminally misused these funds, significant civil fraud actions against entities participating in the Title IV programs, and hundreds of millions of dollars returned to the Federal Government in fines, restitutions, and civil settlements. The following are summaries of some of our significant investigations involving schools or school officials.

United States University Agrees to $680,000 Settlement (California)

United States University, a for-profit school based in San Diego, agreed to pay more than $686,700 to settle claims that it submitted fraudulent student data to the Department in order to receive Pell Grants. According to the settlement, from 2008 through 2010, the school misrepresented certain graduate school students as undergraduate students so as to make them eligible to receive Pell Grant funds.

[1] From award year 2009 through award year 2012, the Department awarded $509.9 billion in Federal student aid funds.

Former Regional Vice President of Prism Career Institute Sentenced (New Jersey)

A former regional vice president of Prism Career Institute was sentenced for theft. The former vice president, who had the authority to make purchases on behalf of the school, submitted fraudulent reimbursement requests and invoices for supplies, furniture, equipment, and other items that the school never received. She also wrote checks payable to herself, forged the school's chief executive officer's signature on them, and then deposited them into her personal bank account. The former vice president was sentenced to serve 24 months in prison and 3 years of supervised release, and she was ordered to pay more than $550,000 in restitution.

Former Baruch College Administrator Sentenced for Fraud (New York)

A former senior administrator of the Executive MBA programs at Baruch College's Zicklin School of Business was sentenced to serve 6 months in prison and 5 years of probation for fraud. The former administrator changed the grades of students in order to raise their grade point averages and meet the school's graduation requirements. He also forged the signatures of other school administrators on grade-change forms and documented missing work as being completed by the students.

Universal Careers Community College Vice President Pled Guilty to Fraud (Puerto Rico)

The vice president of Universal Careers Community College pled guilty to charges related to Pell Grant fraud. From 2008 through 2010, the vice president falsified student admission and withdrawal records in order to receive more than $201,800 in Pell Grant funds the school was not entitled to receive.

Two Former South Texas Vocational Technical Institute Employees Indicted for Fraud (Texas)

Two former employees of the South Texas Vocational Technical Institute, an ATI Enterprises proprietary school, were indicted on fraud charges. The former admissions director and an admission representative allegedly told students to lie on their Free Applications for Federal Student Aid (FAFSA) to qualify for student aid and grants they were not otherwise eligible to receive. As a result of their alleged actions, the school fraudulently received more than $486,000 in Federal student aid.

Former Piedmont Technical College Employee Sentenced for Fraud (South Carolina)

A former placement test proctor for Piedmont Technical College was sentenced to serve more than 1 year in prison and was ordered to pay more than $21,000 in restitution for orchestrating a student aid fraud scheme. The former employee took placement tests for multiple people in exchange for a fee of about $300. Many of the people involved did not have a high school diploma or a GED, so they needed to earn a minimum score on the placement test to enroll in the school and obtain student aid. Further, a number of the people participated in this scam solely to obtain student aid and had no intention of attending classes.

Former Owners of Ascension College Consent to Pay $250,000 for Fraud (Louisiana)

The former owners of the now-defunct Ascension College entered into a consent agreement with the Federal Government and agreed to pay $250,000 for carrying out a scheme designed to fraudulently obtain Federal student aid. From 2007 through 2010, the former owners obtained student aid for "ghost" students or people who were not attending the school, and prematurely obtained grants and loans for nonincurred student costs and tuition not yet or never earned. The former owners kept two separate sets of books and records relating to the school's receipt and disbursement of Title IV funds to hide the fraud.

New York Institute of Technology and Cardean Learning Group Agree to $4 Million Settlement (New York)

New York Institute of Technology (NYIT) and Cardean Learning Group agreed to pay $4 million for fraudulently obtaining Federal student loans and grants. In exchange for a percentage of Cardean's revenue, NYIT allowed Ellis College, one of Cardean's online schools, to use its Title IV eligibility so that Ellis College students could receive Federal student aid. NYIT and Cardean also agreed to award NYIT degrees to Ellis College students even though those students did not take NYIT classes. Further, to attract students to Ellis College, Cardean used recruiters who received payment based on the number of students they enrolled in the school—a direct violation of the incentive compensation ban. The settlement agreement required NYIT to pay $2.5 million and Cardean to pay $1.5 million in damages.

Norwich University Agrees to $1.2 Million Settlement (Vermont)

Norwich University agreed to pay more $1.28 million to settle an allegation that it violated the False Claims Act. From about 2004 through 2007, a high-ranking university official (who has since been dismissed from the school) instructed students to claim that they were independent of their parents, even when they were not, in an effort to receive Federal student aid to which they were not entitled.

Investigations of Fraud Rings

Below are summaries of actions taken over the last 6 months against people who participated in Federal student aid fraud rings. The cases below are just a sample of actions taken against fraud ring participants during this reporting period. To date, OIG has opened 126 fraud ring investigations, secured 407 indictments of fraud ring participants, and recovered more than $10.8 million.

U.S. Attorney's Office and OIG Highlight Student Aid Fraud Rings (Michigan)

In a March press conference, U.S. Attorney for the Eastern District of Michigan Barbara McQuade and Inspector General Tighe announced that charges had been filed against 11 people for their roles in Michigan-based student aid fraud rings that scammed more than $1 million. The announcement highlighted four fraud

rings, each operating independently of one another. The people charged as ringleaders included three siblings. One of the ringleaders allegedly recruited more than 40 people, most of whom did not have a high school diploma or a GED, to participate in the ring and receive more than $665,600 to which they were not entitled. This was the second time the OIG partnered with a U.S. Attorney's Office to highlight the issue of student aid fraud rings. As noted in our last Semiannual Report, the Inspector General and the U.S. Attorney for the Eastern District of California held a press conference last September that highlighted seven rings that fraudulently obtained more than $770,000 in Federal student aid.

Ringleaders of $100,000 Fraud Ring Sentenced (South Carolina)

In our last Semiannual Report to Congress, we reported that the ringleaders of a fraud ring based in South Carolina pled guilty to orchestrating a scam that targeted online programs at the University of Phoenix and the Western Governors University. During this reporting period, the two ringleaders were sentenced. One of the ringleaders was sentenced to serve 15 months in prison and 3 years of supervised release, and he was ordered to pay more than $26,500 in restitution. The other ringleader was sentenced to serve 6 months in prison and 3 years of supervised release, and he was ordered to pay more than $62,300 in restitution. Six of the ring's participants signed pretrial diversion agreements to avoid being charged and sentenced. However, not long after they signed the agreements, the six participants were terminated from the pretrial diversion agreement program and now await prosecution.

Fraud Rings

To date, OIG has opened 126 fraud ring investigations, secured 407 indictments of fraud ring participants, and recovered more than $10.8 million.

Couple Sentenced for Orchestrating Fraud Ring (Wisconsin)

A husband and wife were sentenced to 20 and 18 months in prison, respectively, and 3 years of supervised release for defrauding the Federal student aid program. They were also ordered to pay more than $333,500 in restitution. From 2003 to 2010, the two used personally identifiable information from more than 50 people to apply for and receive Federal student aid at a number of Minnesota schools. They recruited people to participate in the scheme, submitted their own personally identifiable information and that of others, which they stole or otherwise improperly obtained—including personally identifiable information of people who were enrolled in a welfare-to-work program where the wife was employed. The two deposited the fraudulently obtained award balances into accounts they controlled.

Prison Inmate, Three Others Sentenced (Arizona)

An inmate at the Arizona Department of Corrections Perryville Complex and three co-conspirators were sentenced for their roles in a $153,000 student aid fraud scheme. These conspirators enrolled straw students into the distance education program at Rio Salado College for the sole purpose of obtaining Federal student aid. The prison inmate provided her co-conspirator with the personally

identifiable information of several other inmates at Perryville. The co-conspirator used that information to complete and submit fraudulent school enrollment and Federal student aid paperwork in the names of the straw students and then took a portion of the refund once the straw student received it. The prison inmate was sentenced to serve 18 additional months in prison and 3 years of probation, and she was ordered to pay more than $6,100 in restitution. The co-conspirator was sentenced to serve 30 months in prison, 3 years of probation, and was ordered to pay more than $44,400 in restitution. The other two ring participants were sentenced to probation ranging from 3 to 5 years and were ordered to pay restitution ranging from a $25 assessment to more than $6,100.

Actions Taken Against Fraud Ringleader, Participants (Mississippi)

In a previous Semiannual Report to Congress, we reported that 12 Mississippi residents were indicted for their involvement in a scheme to obtain Federal student aid funds for purported attendance at Pikes Peak Community College in Colorado. During this reporting period, the ringleader and nine participants were sentenced. The ringleader recruited people to act as straw students—submitting false admissions and financial aid applications to the college even though they had no intention of attending the classes. The ringleader received a cut of about $800 from the aid awarded to many of the straw students. As a result of these fraudulent actions, the participants received more than $52,000 in student loans and grants they were not entitled to receive. The ringleader was sentenced to serve 33 months in prison and 3 years of supervised release, and he was ordered to pay nearly $244,000 in restitution. The other participants received sentences ranging from 24 months of probation to 6 months in prison, and they were ordered to pay restitution ranging from a $100 assessment to more than $11,500 in restitution.

Ringleader Sentenced in Distance Education Fraud Scheme (Georgia)

The ringleader of a student aid fraud ring was sentenced to serve 48 months in prison and 3 years of supervised release. She was also ordered to pay restitution of more than $139,000. Using her home computer and the Internet, the ringleader fraudulently applied for and received student loans and grants on behalf of at least 27 bogus students. The purported students were real people who knowingly gave their personally identifiable information to the ringleader in order to obtain Federal student aid by fraud. Neither the ringleader nor the bogus students had any intention of furthering their education. Two other people have been convicted thus far for participating in the scam.

Ringleader Sentenced and Ordered to Stay Away from Community College Campus, FAFSA Web Site (California)

The leader of a California-based fraud ring and two ring participants were sentenced for their roles in the ring that targeted Contra Costa Community College. The ringleader was sentenced to serve 180 days in county jail and 5 years of probation, and she was ordered to pay more than $83,700 in restitution. She was also ordered to stay 100 yards away from Contra Costa Community College campus and not to access the FSA Federal student aid or

FAFSA Web site for any reason. The two ring participants were each sentenced to 1 year of probation and were ordered to pay restitution in the amount of $1,388 and $5,500, respectively. Nineteen additional people await criminal action for their alleged roles in the ring.

Investigations of Other Student Aid Fraud Cases

The following are summaries of the results of additional OIG investigations into allegations of abuse or misuse of Federal student aid by individuals.

Virgin Islands Senator Pled Guilty to Racketeering (Virgin Islands)

A former Virgin Islands Senator pled guilty to operating and participating in a criminal enterprise. Two of his legislative staff members were also charged. The former Senator directed his legislative staff to complete various documents for him, including his application for Federal student aid and coursework for his online degree from the University of Phoenix.

Prison Sentence for Owner of Student Aid Services Business (Florida)

In our last Semiannual Report to Congress, we reported that a woman pled guilty and her husband was indicted on charges related to student aid fraud. During this reporting period, the man was sentenced to serve 9 years in prison and was ordered to pay more than $464,000 in restitution for his role in the fraud. The couple formed a company called Graduate Assistance and Consolidations, Inc., purportedly to assist people applying for Federal student aid. From 2005 through 2007, the two assisted ineligible people—those who did not have a high school diploma or GED—in enrolling at St. Petersburg College. Similar to the fraud ring cases listed above, they also recruited people to act as straw students and used the information of those straw students to apply for and receive Federal student aid. Once the refund checks were received, the straw student would kick back a portion to the couple.

High School Owner and Operator Pled Guilty to Fraud (Wisconsin)

The owner and operator of Wisconsin University High School pled guilty to charges related to student aid fraud. The owner charged students $150 for a high school diploma that usually took as little as 2 weeks to complete. Through the application process, the owner obtained the students' personally identifiable information that he used to fraudulently enroll them in online college programs, typically without their knowledge. He also used their information to apply for Federal student aid and had the refund checks mailed to his school's address. Between 2009 and 2010, the owner enrolled about 255 students in online college programs and received more than $300,000 in Federal student aid in their names. About $100,000 of the aid was returned to the "students" via refund check, which the owner kept for himself.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

- *Department of Education Policy Committees.* OIG staff participate in an advisory capacity on these committees, which were established to discuss policy issues related to negotiated rulemaking for student loan regulations and for teacher preparation regulations.

Review of Legislation, Regulations, Directives, and Memoranda

- *Electronic Filing Procedures.* OIG provided technical comments to the Department on draft regulations regarding student assistance general provisions electronic filing procedures.

- *Program Integrity Regulations.* OIG provided technical comments to the Department on the Notice of Supplemental Discussion to improve clarity, quality, and integrity.

- *Report of 2011 College Scholarship Fraud Prevention.* OIG provided technical comments to the Department on the 2012 Report related to its reporting of OIG investigative information.

- *Direct Loan Interest Rate.* OIG provided technical comments to the Department on its Direct Loan Interest Rate Notice.

- *Federal Family Education Loan Interest Rate.* OIG provided technical comments to the Department on its Federal Family Education Loan Interest Rate Notice.

- *Dear Colleague Letter on Student's Ability to Regain Title IV Eligibility.* OIG provided technical comments to the Department on its proposed guidance to institutions of higher education regarding a student's ability to regain Title IV eligibility after exceeding loan limits and treatment of loan funds when a student fails to begin attendance.

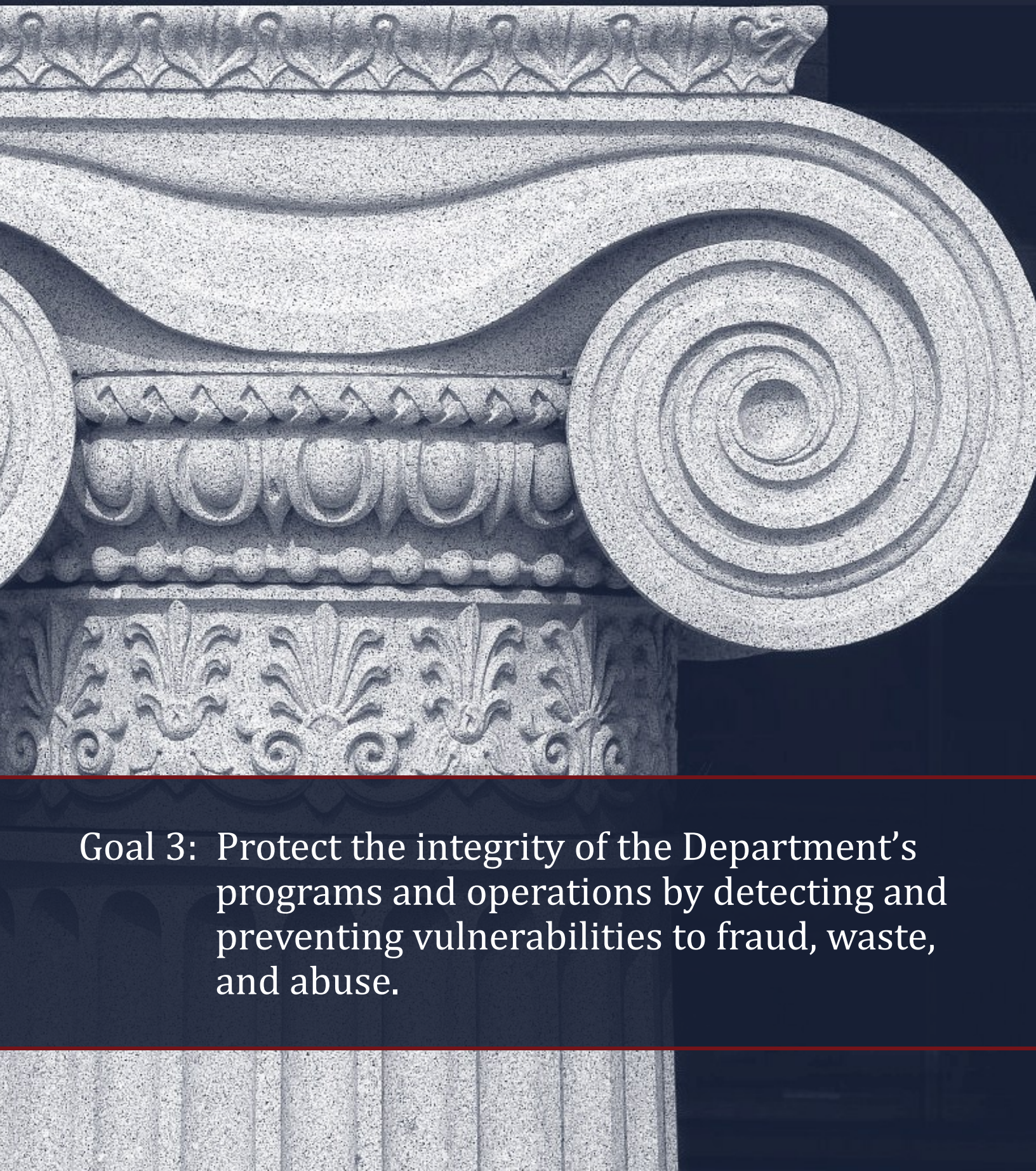
- *Dear Colleague Letter on Exceeding Loan Limits.* OIG provided technical comments to the Department on its proposed guidance on a student's ability to regain Title IV eligibility after exceeding loan limits.

- *Dear Colleague Letter on Reporting Requirements for Foreign Graduate Medical Schools.* OIG provided technical comments to the Department on its proposed guidance on new consumer information reporting requirements for foreign graduate medical schools.

- *Federal Direct Loan Program Interim Final Rule.* OIG provided technical comments to the Department on its regulations to implement statutory limitation on eligibility for Direct Subsidized Loans for a period 150 percent of the published length of the educational program.

- *Dear Colleague Letter on Competency-Based Programs.* OIG provided technical comments to the Department on its guidance regarding competency-based programs.

- *Notice of Proposed Rule Making.* OIG provided technical comments to the Department on its draft Notice of Proposed Rule Making on Loans -2.



Goal 3: Protect the integrity of the Department's programs and operations by detecting and preventing vulnerabilities to fraud, waste, and abuse.

Our third strategic goal focuses on our commitment to protect the integrity of the Department's programs and operations. Through our audit and inspection work, we identify problems and propose solutions to help ensure that programs and operations are meeting the requirements established by law and that Federally funded education services are reaching the intended recipients—America's students. Through our criminal investigations, we help protect public education funds for eligible students by identifying those who abuse or misuse Department funds and holding them accountable for their unlawful actions.

Audits

OIG audits provide information on the effectiveness of internal controls, evaluate the appropriateness of Federal funds usage, and identify weaknesses and deficiencies in Departmental programs and operations. The results of our work can assist Department management in improving operations, strategic planning, and risk management. During this reporting period, OIG audit work contributing to this goal focused on the Teacher Incentive Fund program—a grant program that supports efforts to develop and implement performance-based compensation systems for teachers and principals in high-need schools. This was a follow-up to our 2011 audit that found improvements were needed in the Department's implementation of the program.

Teacher Incentive Fund Stakeholder Support and Planning Period Oversight

We found weaknesses in the Department's processes for reviewing and evaluating Teacher Incentive Fund program (TIF) applications with regard to the involvement and support of stakeholders, a required element of the application. Non-Federal reviewers accepted varying levels of evidence of the support of teachers, principals, other personnel, and unions, and their overall evaluations of stakeholder support were unclear. We found that Department staff interpreted reviewer comments to indicate that applications demonstrated adequate stakeholder support when the comments did not clearly support that interpretation. As a result, the Department increased its risk of providing funding to grantees that did not adequately demonstrate stakeholder support, which increases the risk that a grantee will face significant challenges in meeting its project objectives. We also determined that the Department needed to improve its process for monitoring TIF grantees during the 1-year planning period that was in effect if the grantee did not have all of the required TIF core elements in place at the time of application. We found that monitoring activities related to developing missing core elements were inadequate for 13 of the 14 TIF planning period grantees (93 percent) that we reviewed. The Department did not begin to monitor grantees' progress toward developing missing core elements until almost 6 months after awards were made, and subsequent monitoring activities were insufficient and inconsistent. We found that 7 of these 14 grantees (50 percent) had not fully developed one or more core elements at the end of the planning

period. We also noted that 28 of the 54 total planning period grantees (52 percent) from the FY 2010 TIF competition were not ready for implementation after the 1-year planning period. The Department placed these grantees into "implementation with conditions" status, which meant that the grantees could not make any incentive compensation payouts until they successfully developed all core elements, similar to the terms under which they operated during the 1-year planning period. These 28 grantees received about $177 million of the $364 million (49 percent) initially awarded to planning period grantees. Based on our findings, we made a number of recommendations, including that the Department ensure that requirements for demonstrating stakeholder support are adequately defined and that it develop a formal monitoring plan for the TIF program that includes specific monitoring tools and processes related to the unique programmatic risks associated with grantees that have not yet successfully developed required core elements. The Department disagreed with our findings.

Investigations of Schools and School Officials

OIG investigations includes criminal investigations involving bribery, embezzlement, and other criminal activity, often involving State and local education officials—people who have abused their positions of trust for personal gain.

State of Connecticut Agrees to $4.5 Million Settlement

The State of Connecticut agreed to pay $4.5 million to settle allegations that the Connecticut State Department of Education received Migratory Education Program funds by misrepresenting the number of children eligible to participate in the program to the U.S. Department of Education. The program provides Federal funds to States for educational support services for children of migratory workers challenged by frequent disruptions in schooling.

Former Superintendent of the El Paso Independent School District Sentenced (Texas)

In our last Semiannual Report to Congress, we reported that the former superintendent pled guilty to defrauding the school district and the Federal Government. During this reporting period, he was sentenced to serve more than 42 months in prison and 3 years of supervised release. He was also ordered to pay about $180,000 and a fine of $56,500. The former superintendent directed district employees to change student records, reclassify student grade levels, and take other actions to make it appear that the district was meeting or exceeding its Adequate Yearly Progress standards. He did this to receive the financial bonuses stipulated in his employment contract. The former superintendent also circumvented the district's contract processes by awarding a no-bid contract worth $450,000 to a company owned by his mistress and in which he held a financial interest. He tried to terminate the contract after the woman ended their relationship.

Former Superintendent of Skiatook Public School System and Vendor Sentenced (Oklahoma)

The former superintendent and a district vendor were sentenced for defrauding the school system. From 2004 through 2010, the superintendent agreed to pay inflated prices for supplies and services provided by the vendor in exchange for kickbacks. The former superintendent was sentenced to serve more than 1 year in prison and was ordered to pay more than $207,000. The vendor was sentenced to serve 15 months in prison and 3 years of supervised release. He was also ordered to pay nearly $339,000 in restitution.

Former Associate Superintendent of Pontiac Public Schools Pled Guilty to Theft (Michigan)

The former Associate Superintendent for Organizational Development and Human Resources for Pontiac Public Schools pled guilty to defrauding the school district. The former school leader directed an employee to write a $236,000 check to a business that he owned. The check was deposited into an account that he controlled, a portion of which he used for personal expenses.

Former San Antonio Independent School District Compliance Monitor Indicted (Texas)

The former compliance monitor in the Federal Programs Department of the San Antonio Independent School District was indicted on charges of bribery. From 2005 through 2011, the former official allegedly used his position to award contracts to companies where he had a financial interest, and he solicited and awarded contracts in exchange for kickbacks.

Former Executive of Pennsylvania Northeastern Intermediate Unit Sentenced for Fraud (Pennsylvania)

The former executive was sentenced to serve 33 months in prison and was ordered to pay nearly $138,000 in restitution and a $30,000 fine for fraud. During his tenure, he converted Northeastern Intermediate Unit funds and property for his personal and his family's use. He also created and ordered his employees to create false travel vouchers and ordered them to perform personal services for him and his family, such as home maintenance, secretarial services, assistance with family events, and shopping.

Former Clairton City Manager Sentenced for Fraud (Pennsylvania)

The former city manager was sentenced to serve 5 months in prison, 5 months of home detention, and 3 years of supervised release, and was ordered to pay more than $94,400 for fraud. Our investigation revealed that the former manager aided and abetted the Superintendent of the West Mifflin Area School District in defrauding the district and misapplying district funds. The fraud was committed in connection with the district's awarding of 10 painting contracts to the former manager's son's painting company and producing false bid proposals from painting contractors for the contracts requiring a competitive bidding process.

Investigations of Charter Schools

OIG has conducted a significant amount of investigative work involving charter schools. From January 2005 through March 31, 2013, OIG has opened 57 charter school investigations. To date, these investigations have resulted in 32 indictments and 24 convictions of charter school officials. The cases that have been fully settled have resulted in nearly $9 million in restitution, fines, forfeitures, and civil settlements.

Charter School Management Company and Two Former Executives Charged Civilly With Racketeering, Misuse of Funds (Oregon)

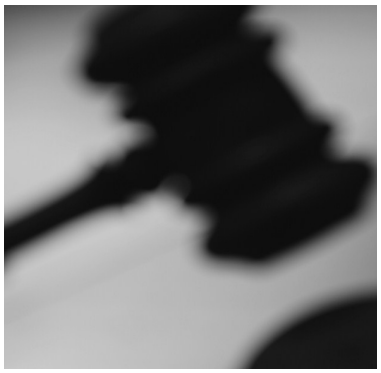
The State of Oregon filed a civil complaint against EdChoices, a charter school management firm that operated about 18 charter schools, its former Director and its Chief Financial Officer for allegedly misusing more than $17 million in charter school funds. The complaint, which was a result of our investigation, alleges that the company and its two leaders engaged in a pattern of racketeering activity by falsifying business records, making false statements, committing wire fraud, and money laundering to fraudulently obtain charter school funds.

Former St. Louis Charter School Board Chairman Convicted for Theft (Missouri)

The former chairman of the board of trustees of the Paideia Academy, a charter school in St. Louis, was convicted for diverting more than $257,000 of the school's funds to develop and operate a daycare center in which he had an ownership and financial interest. The former chairman failed to disclose his ownership and financial interest in the proposed daycare center to the Paideia Academy board of trustees and did not disclose that he had directed, authorized, and approved the payments.

Investigations of Supplemental Education Service Providers

Under Title I, Part A of the Elementary and Secondary Education Act, LEAs must offer supplemental education services (SES) to students from low-income families when the students attend a Title I school that is in the second year of school improvement or that has been identified for corrective action or restructuring. OIG audit work conducted over the last decade noted a lack of oversight and monitoring of SES providers by State educational agencies, the result of which may leave programs vulnerable to waste, fraud, and abuse. Recent OIG investigative work has proven this point, uncovering cases involving fraud and corruption perpetrated by SES providers and school district officials.



$10 Million Civil Fraud Settlement

Education Holdings, Inc., admitted to falsifying student attendance records and submitting reimbursement claims for SES tutoring services that it did not provide.

Education Holdings, Inc., Formerly Known as Princeton Review, Inc. Agreed to $10 Million Civil Fraud Settlement (New York)

In December, a $10 million settlement was reached between the U.S. Department of Justice (DOJ) and Education Holdings, Inc., formerly known as Princeton Review, Inc. In the settlement, the company admitted to and accepted responsibility for falsifying student attendance records and submitting claims for reimbursement for SES tutoring services that it did not provide. This settlement stems from a civil fraud complaint filed by DOJ in response to an OIG investigation that found that between 2006 and 2010, company supervisors routinely falsified entries on daily student attendance forms to make it appear as though more students had attended tutoring sessions. From 2006 through 2010, Princeton Review received more than $38 million in Title I funds.

Actions Taken Against Three Former Princeton Review Officials (New York)

As a result of the fraud described above, two former directors of the Princeton Review SES tutoring program pled guilty and agreed to pay more than $1 million each for their roles in the fraud. The third official, a former vice president, agreed to a consent judgment of $3.2 million. The three officials also agreed not to participate in any procurement or nonprocurement transactions with the Federal Government for 5 years.

Civil and Criminal Fraud Charges Filed Against TestQuest, Former TestQuest Manager (New York)

DOJ filed civil and criminal fraud complaints against TestQuest, Inc., and a former TestQuest manager for defrauding the SES program at New York City schools. The criminal charges were against a former TestQuest manager who oversaw TestQuest activities at two New York City schools. The former manager allegedly submitted bills for services never rendered, instructed other TestQuest employees to forge student signatures on attendance forms, and had students sign attendance forms for tutoring classes that they had not attended. According to the civil complaint, TestQuest's management knew of, deliberately ignored, or recklessly disregarded the fraud. TestQuest received tens of millions of dollars in SES funding, including more than $2.3 million for the two New York City schools.

Former River Rouge School District Official Convicted (Michigan)

In our last Semiannual Report to Congress, we reported that the former director of State and Federal programs for the River Rouge School District was indicted on bribery charges. During this reporting period, she was convicted on those charges. The former director received money and other items of value from a vendor in exchange for her support in awarding a contract to the vendor for

mandatory programs offered through the SES program. The programs, however, were neither authorized nor mandatory.

SES Tutoring Company Owner Indicted (Ohio)

The owner of the WAISS Network Technologies, an SES provider in Ohio, was indicted on charges related to fraud. The owner allegedly billed Columbus City Schools for tutoring sessions that were not provided and submitted more than $50,000 in fraudulent claims.

Owner of SES Tutoring Company Sentenced for Fraud (Florida)

The owner of Divine Sports, Inc., was sentenced to 5 years of probation and was ordered to pay more than $158,000 in restitution plus $160,000 for investigative costs for defrauding the SES program. The owner, whose programs operated at three public schools in Miami, submitted bills to the schools for tutoring students who did not exist, overbilled for tutoring services for actual students, and submitted false documentation as proof of services rendered.

SES Vendor Sentenced (Arkansas)

The owner of The Quote, a company seeking to become an approved SES provider in Arkansas, pled guilty and was ordered to pay a $250 fine for filing a false financial document. The owner submitted fraudulent documents, including a forged letter of credit from a deceased bank employee, to the Arkansas Department of Education to be considered a "financially responsible entity" and therefore be eligible to participate in the SES program and obtain Federal funds.

Investigations of Other Federal Education Fraud

Our investigations into suspected fraudulent activity by Federal education grantees and other individuals have led to the arrest and conviction of a number of people for theft or misuse of Federal funds.

Spirit Lake Tribe Member Sentenced in Vocational Rehabilitation Program Scam (North Dakota)

In our last Semiannual Report, we reported that five people were sentenced for participating in an $80,000 embezzlement scheme involving family members, employees, and volunteers of the Spirit Lake Vocational Rehabilitation Program. During this reporting period, an additional conspirator was sentenced. The former compliance officer, who allowed the misapplication of the program's funds and personally benefited from the improper expenditures, was sentenced to serve 3 months in a residential re-entry center, 7 months of electronic home confinement, and 3 years of supervised release. She was also ordered to pay more than $91,300 in restitution.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Federal and State Law Enforcement-Related Groups

- *U.S. Department of Justice's Financial Fraud Enforcement Task Force—Consumer Protection Working Group*. OIG participates in this working group composed of Federal law enforcement and regulatory agencies that works to strengthen efforts to address consumer-related fraud.

- *U.S. Department of Justice's Financial Fraud Enforcement Task Force—Grant Fraud Committee*. OIG participates in this group composed of Federal law enforcement agencies seeking to enforce and prevent grant and procurement fraud.

- *Northern Virginia Cyber Crime Working Group*. OIG participates in a workgroup of various Federal, State, and local law enforcement agencies conducting cybercrime investigations in Northern Virginia. The purpose is to share intelligence and collaborate on matters affecting multiple agencies.

Federal and State Audit-Related Groups

- *Association of Government Accountants Partnership for Management and Accountability*. OIG participates 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

- *National Activities in Charter Schools*. The OIG provided technical comments based on our prior work to the Notice of Proposed Priorities for future grant competitions under the National Leadership programs for Charter Schools.

Goal 4: Contribute to improvements in Department business operations.

Effective and efficient business operations are critical to ensure that the Department successfully manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. OIG work in this area helps the Department accomplish its objectives by ensuring the reliability, integrity, and security of Department data; the Department's compliance with applicable policies and regulations; and the Department's effective use of taxpayer dollars.

Audits and Reviews

OIG audits and reviews completed over the last 6 months that contributed to this goal have focused on the following areas.

- **Financial Management.** One of the purposes of the Chief Financial Officers Act of 1990 is to provide for improvements in agency systems of accounting, financial management, and internal controls to ensure the reporting of reliable financial information and to deter fraud, waste, and abuse of Government resources. The Act requires an annual audit of agency financial statements, which is intended to help improve an agency's financial management and controls over financial reporting.

- **Oversight and Compliance.** OIG work completed over the last 6 months determined that the Department needed to improve its oversight of the operations we reviewed to better ensure that it is operating effectively and fully complying with all applicable statutes, regulations, and guidance.

- **Improper Payments.** During this reporting period, we completed reviews of the Department's compliance with the Improper Payments Elimination and Recovery Act (IPERA), which requires Federal agencies to conduct annual risk assessments to determine whether a program is susceptible to significant improper payments and then measure improper payments in that program. We also completed a review of the Department's compliance with Executive Order 13520, which requires the designated accountable official of each agency to submit to the Inspector General a report on its high-dollar improper payments.

- **Information Technology Security.** Information technology permeates all aspects of programs and services coordinated through the Department. Safeguarding information and systems is essential for the Department to perform its mission. For the last several years, OIG's information technology security audits have identified management, operational, and technical controls that needed improvement to adequately protect the confidentiality and integrity of the Department's systems and data.

The following are summaries of our work over the past 6 months in these areas.

Financial Statement Audits

Both the Department and FSA received unqualified (clean) opinions on their FY 2012 and FY 2011 financial statements. However, the audit reports noted a material weakness in internal control surrounding the Department's Debt Management Collection System and ACS Education Servicing System—the legacy Direct Loan servicing system; found modified repeat deficiencies relating to credit reform estimation, financial reporting processes, and controls surrounding information systems; and reported that the Department's financial management systems did not substantially comply with certain systems requirements of the Federal Financial Management Improvement Act because of the control weaknesses surrounding information systems. A number of recommendations were made to address the weaknesses identified. The Department concurred with the findings and recommendations in the reports.

Special-Purpose Financial Statements

The Department received a clean opinion on its FY 2012 and FY 2011 special-purpose financial statements. However, like the other financial statement audits, the audit reports included a material weakness related to controls surrounding the Department's Debt Management Collection System and ACS Education Servicing System, and significant deficiencies related to controls surrounding the credit reform estimation processes and information systems. In addition, the Department's review procedures failed to identify errors in the reclassified financial statements and in the intergovernmental balances reported.

Drug Control Funds

As required by 21 U.S.C. § 1704(d) and in accordance with the Office of National Drug Control Policy circular, "Drug Control Accounting," we authenticated the Department's accounting of FY 2012 drug control funds and related performance data by expressing a conclusion on the reliability of each assertion made in the Department's accounting and performance reports. Based on our review, nothing came to our attention that caused us to believe that management's assertions were not fairly stated in all material respects.

Management of the Federal Real Property Assistance Program

Our audit determined that the Department could improve its management of the Federal Real Property Assistance Program (FRPA). FRPA allows the Department to sell or lease, at a Public Benefit Allowance discount, surplus Federal real property to eligible entities for educational purposes. We found that although the Department's FRPA awarding process was generally appropriate, it did not compile surplus property screening lists in accordance with its own criteria, did not always correctly calculate applicants' Public Benefit Allowance discounts, and approved incomplete applications. As a result, the Department may not be considering all potentially eligible entities and may be awarding properties to entities that will not provide the greatest and longest lasting public benefit, are unable to maintain the property, or will not be using the property for an education-related purpose. We also found that the Department needed to improve its monitoring of program participants, as participants did not consistently submit required utilization reports and the Department did not

request the reports when they were not submitted by the deadline. In addition, the Department did not always document or timely complete follow-up activities to address issues identified during its review of utilization reports and did not schedule required site visits within the first 12 months following conveyance for almost all of the properties that we reviewed. In some cases, property files were missing site inspection reports and documentation of required follow-up. Thorough, timely, and consistent monitoring is necessary to ensure that properties are being used for agreed-on educational purposes and to mitigate the potential for misuse. Noncompliance can result in the denial of services to those who could benefit from the use of such property and represents a loss to the interests of the Federal Government. We made eight recommendations to improve the Department's FRPA awarding and monitoring processes through standardization, employee training, and enhanced supervisory review. The Department concurred with all of our findings and recommendations.

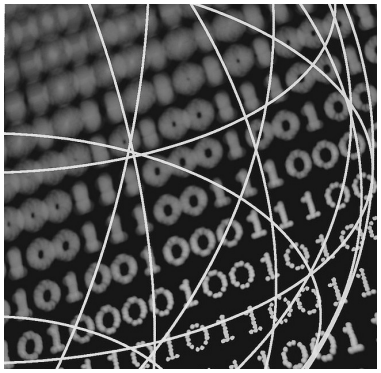
Compliance With IPERA for FY 2012

We found that the Department complied with IPERA, although issues remained with the completeness of the calculation of the estimated improper payment rate for the Pell Grant program. In addition, its proposed methodologies for estimating improper payment rates for the Pell Grant, William D. Ford Direct Loan, and Federal Family Education Loan programs were flawed. We found that the Department used new methodologies for estimating improper payment rates that were pending approval by Office of Management and Budget (OMB) and that the Department did not follow OMB guidance for reporting of Payment recapture audit programs. We recommended that the Department ensure that the issues identified for the estimated improper payment rate for the Pell Grant program computed under the OMB-approved methodology using the FAFSA/Internal Revenue Service (IRS) Data Statistical Study and the issues identified in our FY 2011 IPERA audit are adequately addressed. The Department should also ensure that the proposed methodologies for estimating improper payment rates for all programs use the appropriate point estimate and disclose the estimate's confidence limits. The Department concurred with some of our findings and recommendations.

Compliance With Executive Order 13520 on Improper Payments

We found that the Department complied with Executive Order 13520, adequately addressed improper payment risks, and described an adequate level of oversight to reduce and recapture improper payments for FY 2011. However, it did not address monitoring or oversight of Pell Grant program recipients who did not use the IRS Data Retrieval Tool (IRS DRT) when completing their FAFSA or recipients who were not selected for verification in its improper payment monitoring and oversight efforts. Verification is a process schools are required to conduct to confirm specific information reported on the FAFSA by the applicant. The IRS DRT is an optional tool that enables Federal student aid applicants and, as needed, parents of applicants to transfer certain tax return information from an IRS Web site directly to their online FAFSA. Only 22 percent of all FAFSAs submitted for the 2011–2012 academic year used the IRS DRT. By not studying the population of applicants who do not use the IRS DRT and who are not selected for verification, the Department may miss opportunities to further reduce and recapture improper

payments. We recommended that the Department study Pell Grant program recipients who do not use the IRS DRT and who are not selected for verification to determine whether the Department has adequate controls in place or needs to implement additional controls to mitigate the risk of improper payments to this population of Pell Grant recipients. The Department concurred with the finding and recommendation.



Information Technology Security

Six of the 11 security control areas we reviewed contained repeat or modified findings from OIG and contractor reports issued during the prior 3 years.

FISMA Review

The E-Government Act of 2002 recognized the importance of information security to the economic and national security interests of the United States. Title III of the E-Government Act, the Federal Information Security Management Act of 2002 (FISMA), requires each Federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. It also requires inspectors general to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of agency compliance with FISMA.

Our FY 2012 FISMA review found that the Department had made progress in addressing issues identified in previous FISMA reviews. Specifically, it was compliant in 3 of the 11 reporting metrics: continuous monitoring, contractor systems, and security capital planning. However, we found that 6 of the 11 security control areas we reviewed—risk management, configuration management, remote access management, identity and access management, security training, and contingency planning—contained repeat or modified findings from OIG and contractor reports issued during the prior 3 years. The remaining two metric areas—incident response and reporting, and plan of action and milestones—contained new findings. Without adequate management, 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 and to a loss of integrity resulting from data modification or limited availability of systems. In addition to recommendations we made in the FY 2011 FISMA report, we made 22 new recommendations to assist the Department in establishing and sustaining an effective information security program. The Department concurred with most of our recommendations.

Congressional Hearings

During this reporting period, Inspector General Tighe testified before Congress on two occasions about OIG work involving Departmental management issues.

Unimplemented Recommendations

Inspector General Tighe testified before the U.S. House of Representatives Committee on Oversight and Government Reform on recommendations made in

OIG audit reports that the Department had not yet implemented. The Inspector General discussed audit resolution and follow-up processes at the Department and shared with the Committee the findings of OIG's 2012 report on the Department's audit resolution and follow-up processes that noted longstanding challenges in these areas. She also discussed recent actions the Department had taken to address those challenges. She provided the Committee with a summary of OIG's high-priority recommendations that the Department had not yet implemented, as well as a short-term and a long-term action that the Department could take to address each priority.

Management Challenges

Inspector General Tighe testified before the U.S .House of Representatives Committee on Appropriations' Subcommittee on Labor, Health and Human Services, Labor, Education, and Related Agencies on the most serious management challenges facing the Department. The Inspector General testified that for FY 2013, we identified four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. She provided a summary of each challenge and stated that the OIG would continue to conduct work in each of the challenge areas throughout 2013.

Non-Federal Audit Activities

The IG Act requires that inspectors general take appropriate steps to ensure that any work performed by non-Federal auditors complies with Government Auditing Standards. To fulfill these requirements, we perform a number of activities, including conducting quality control reviews of non-Federal audits, providing technical assistance, and issuing audit guides to help independent public accountants performing audits of participants in the Department's programs.

Quality Control Reviews

OMB Circular A-133 requires entities such as State and local governments, universities, and nonprofit organizations that spend $500,000 or more in Federal funds in 1 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 specific Federal student aid programs are required to undergo annual audits performed by independent public accountants in accordance with audit guides issued by the OIG. These audits assure the Federal Government 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, we conduct quality control reviews of a sample of audits. During this reporting period, we completed 23 quality control reviews of audits conducted by 22 different independent public accountants or offices of firms with multiple offices. We concluded that 11 (48 percent) were acceptable or acceptable with minor issues, 11 (48 percent) were technically deficient and 1 (4 percent) was unacceptable.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Department

- *Department of Education Senior Assessment Team*. OIG participates in an advisory capacity on this team. The team provides oversight of the Department's assessment of internal controls and related reports and provides input to the Department's Senior Management Council concerning the overall assessment of the 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."

- *Department of Education Investment Review Board and Planning and Investment Review Working Group*. OIG participates in an advisory capacity in these groups, which review information technology investments and the strategic direction of the information technology portfolio.

- *Department Human Capital Policy Working Group*. OIG participates in this working group, which meets monthly to discuss issues, proposals, and plans related to human capital management.

Inspector General Community

- *Council of the Inspectors General on Integrity and Efficiency (CIGIE)*. OIG staff play an active role in CIGIE efforts. Inspector General Tighe is the Vice Chair of the Information Technology Committee and a member of CIGIE's Audit Committee, Investigations Committee, the Interagency Coordination Group for Guam Realignment, and the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee. OIG staff are members of CIGIE's Assistant Inspector General for Investigations Subcommittee, chair the Information Technology Subcommittee for Investigations, the Cyber Security Working Group, the Inspections and Evaluations Working Group, the Council of Counsels to the Inspectors General, and the New Media Working Group.

    - *New Auditor Training*. During this reporting period, the OIG led coordination of a session of CIGIE-sponsored Introductory Auditor Training, which provided entry-level IG auditors with Federal audit skills and standards.

    - *Financial Statement Audit Network*. OIG staff chair this Governmentwide working group that identifies and resolves key issues concerning audits of agency financial statements and provides a forum for coordination with the Government Accountability Office and the Department of the Treasury on the annual audit of the Government's financial statements.

    - *CIGIE/Government Accountability Office Annual Financial Statement Audit Conference*. OIG staff chair the Planning Committee for the annual conference that covers current issues related to financial statement audits and standards.

    - *Cloud Computing Working Group*. OIG participated in this IG-community group that developed cloud computing contract clauses to ensure that OIGs have adequate data access for the purposes of audits and criminal investigations. In January, the group met with members of the Federal Acquisition Regulatory

Council to provide issue awareness and discussed the possibility having the proposed language as part of future cloud computing contracts.

Federal and State Audit-Related Groups and Entities

- *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.

- *Intergovernmental Audit Forums.* OIG staff have chaired and served as officers of a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work to improve audit education and training and exchange information and ideas regarding the full range of professional activities undertaken by government audit officials. During this reporting period, OIG staff chaired the New Jersey-New York Forum and the Midwestern Forum and served as officers of the Southeastern Forum and the Southwestern Forum.

- *Interagency Working Group for Certification and Accreditation.* OIG participates in 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.

- *Interagency Fraud and Risk Data Mining Group.* OIG participates in this group that shares best practices in data mining and evaluates data mining and risk modeling tools and techniques to detect patterns indicating possible fraud and emerging risks.

- *AICPA Government Audit Quality Center's Single Audit Roundtable.* OIG staff responsible for single audit policy and quality participate in this discussion group, which meets semiannually and consists of Federal, State, and local government auditors and accountants who perform single audits. The participants discuss recent or anticipated changes in single audit policy, such as the Compliance Supplement to Office of Management and Budget Circular A-133, new auditing standards, and issues of audit quality found in recent quality control reviews.

Review of Legislation, Regulations, Directives, and Memoranda

- *Improper Payments Elimination and Recovery Improvement Act of 2012.* OIG offered technical suggestions related to improving the determination of improper payments by Federal agencies and the "Do Not Pay" initiative.

- *DATA Act.* OIG suggested that the Act define a conference to require attendance of at least 51 attendees, reflecting the DATA Act sponsor's recent request for agencies to report overnight conferences attended by more than 50 employees.

- *Agency Financial Report for FY 2012.* OIG provided technical comments to the Department on its Department's FY 2012 Financial Report.

- *Federal Student Aid FY 2012 Performance Annual Report to Congress.* OIG provided technical comments to FSA on its annual report to Congress.

- *FY 2013 Departmental Acquisition Plan.* OIG provided technical comments to the Department on its acquisition plan relating to OIG's acquisition plan for FY 2013.

- *FY 2012 Annual Performance Report.* OIG provided technical comments to the Department on its report, clarifying language relating to OIG.

Annexes and Required Tables

Annex A. Contract-Related Audit Products With Significant Findings

Section 845 of the National Defense Authorization Act for Fiscal Year 2008 requires each Inspector General to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings.

No contract-related audit products with significant findings were issued during this reporting period.

Annex B. Peer Review Results

Title IX, Subtitle I, Sec. 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203) requires the Inspectors General to disclose the results of their peer reviews in their Semiannual Reports to Congress.

No peer reviews were completed during this reporting period.

Required Tables

The following provides acronyms, definitions, and other information relevant to Tables 1–6.

Acronyms and Abbreviations Used in the Required Tables

AARTS	The Department's Audit Accountability and Resolution Tracking System
FSA	Federal Student Aid
ISU	Implementation and Support Unit
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
ODS	Office of the Deputy Secretary
OESE	Office of Elementary and Secondary Education
OGC	Office of the General Counsel
OII	Office of Innovation and Improvement
OPEPD	Office of Planning, Evaluation and Policy Development
OS	Office of the Secretary
OSDFS	Office of Safe and Drug Free Schools
OSEP	Office of Special Education Programs
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
PAG	Post Audit Group
PDL	Program Determination Letter
RMS	Risk Management Services
Recs	Recommendations

Definitions

Alert Memoranda. Alert memoranda are used to communicate to the Department significant matters that require the attention of the Department when the identified matters are not related to the objectives of an ongoing assignment or are otherwise outside the scope of the ongoing assignment. The matter may have been identified during an audit, attestation, inspection, data analysis, or other activity.

Attestation Reports. Attestation reports convey the results of attestation engagements performed within the context of their stated scope and objectives. Attestation engagements can cover a broad range of financial and nonfinancial subjects and can be part of a financial audit or a performance audit. Attestation engagements are conducted in accordance with American Institute of Certified Public Accountants attestation standards, as well as the related Statements on Standards for Attestation Engagements.

Inspections. Inspections are analyses, evaluations, reviews, or studies of the Department's programs. The purpose of an inspection is to provide Department decision makers with factual and analytical information, which may include an

assessment of the efficiency and effectiveness of their operations and vulnerabilities created by their existing policies or procedures. Inspections may be conducted on any Department program, policy, activity, or operation. Typically, an inspection results in a written report containing findings and related recommendations. Inspections are performed in accordance with quality standards for inspections approved by the Council of Inspectors General for Integrity and Efficiency.

Management Information Reports. Management information reports are used to provide the Department with information and suggestions when a process other than an audit, attestation, or inspection is used to develop the report. For example, OIG staff may compile information from previous OIG audits and other activities to identify overarching issues related to a program or operational area and use a management information report to communicate the issues and suggested actions to the Department.

Questioned Costs. As defined by the IG Act, as amended, questioned costs are identified during an audit, inspection, or evaluation because of (1) an alleged violation of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) such cost not being supported by adequate documentation; or (3) the expenditure of funds for the intended purpose being unnecessary or unreasonable. OIG considers that category (3) of this definition would include other recommended recoveries of funds, such as recovery of outstanding funds or revenue earned on Federal funds or interest due the Department.

Unsupported Costs. As defined by the IG Act, as amended, unsupported costs are costs that, at the time of the audit, inspection, or evaluation, were not supported by adequate documentation. These amounts are also included as questioned costs.

OIG Product Web Site Availability Policy

OIG final issued products are generally considered to be public documents, accessible on OIG's Web site unless sensitive in nature or otherwise subject to Freedom of Information Act exemption. Consistent with the Freedom of Information Act, and to the extent practical, OIG redacts exempt information from the product so that nonexempt information contained in the product may be made available on the OIG Web site.

Reporting Requirements of the Inspector General Act, as Amended

Section	*Requirement* (Table Title)	Table Number
5(a)(1) and 5(a)(2)	*Significant Problems, Abuses, and Deficiencies*	N/A
5(a)(3)	*Uncompleted Corrective Actions* Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed	1
5(a)(4)	*Matters Referred to Prosecutive Authorities* Statistical Profile for October 1, 2012, through March 31, 2013	6
5(a)(5) and 6(b)(2)	*Summary of Instances Where Information was Refused or Not Provided*	N/A
5(a)(6)	*Listing of Reports* Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (October 1, 2012, through March 31, 2013)	2
5(a)(7)	*Summary of Significant Audits*	N/A
5(a)(8)	*Questioned Costs* Audit, Inspection, and Evaluation Reports With Questioned or Unsupported Costs	3
5(a)(9)	*Better Use of Funds* Audit, Inspection, and Evaluation Reports With Recommendations for Better Use of Funds	4
5(a)(10)	*Unresolved Reports* Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to October 1, 2012 Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5-A 5-B
5(a)(11)	*Significant Revised Management Decisions*	N/A
5(a)(12)	*Significant Management Decisions With Which OIG Disagreed*	N/A
5(a)(13)	*Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996*	N/A

Table 1. Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed (October 1, 2012, through March 31, 2013)

Section 5(a)(3) of the IG Act, as amended, requires identification of significant recommendations described in previous Semiannual Reports on which management has not completed corrective action.

This table is limited to OIG internal audit reports of Departmental operations because that is the only type of audit in which the Department tracks each related recommendation through completion of corrective action.

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Date of Management Decision	Number of Significant Recs Open	Number of Significant Recs Closed	Projected Action Date
FSA	Audit A17L0002	Financial Statement Audits Fiscal Years 2011 and 2010 Federal Student Aid *(SAR 64, page 36)*	11/15/2011	1/10/2012	1	11	10/18/2013
OCIO	Audit A11L0001	EDUCATE Information Security Audit *(SAR 63, page 36)*	9/30/2011	11/29/2011	1	41	9/30/2013
OCIO	Audit A11L0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act for Fiscal Year 2011 (FSA is also designated as an action official) *(SAR 64, page 36)*	10/18/2011	1/3/2012	7	11	3/31/2015
OESE	Audit A19I0002	Office of Indian Education's Management of the Professional Development Grant Program *(SAR 60, page 40)*	2/2/2010	8/17/2011	1	13	6/30/2013

Table 2. Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (October 1, 2012, through March 31, 2013)

Section 5(a)(6) of the IG Act, as amended, requires a listing of each report completed by OIG during the reporting period.

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
FSA	Audit A17M0002	Financial Statement Audits Fiscal Years 2012 and 2011, Federal Student Aid (OCFO is also copied on the report)	11/16/12	-	-	19
OCFO	Audit A03M0004	U.S. Department of Education's Compliance with Executive Order 13520, "Reducing Improper Payments" for Fiscal Year 2011 (FSA is also designated as an action official)	10/22/12	-	-	1
OCFO	Audit A03N0001	U.S. Department of Education's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2012 (FSA is also designated as an action official)	3/15/13	-	-	6
OCFO	Audit A17M0001	Financial Statement Audits Fiscal Years 2012 and 2011, U.S. Department of Education (FSA is also copied on the report)	11/16/12	-	-	19
OCFO	Audit A17M0003	Financial Statement Audits for Fiscal Years 2012 and 2011, U.S. Department of Education Special Purpose Financial Statements	11/16/12	-	-	1
OCIO	Audit A11M0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act of 2002 for Fiscal Year 2012 (FSA is also designated as an action official)	11/7/12	-	-	22
ODS	Audit A03M0005	Delaware: Final Recovery Act Expenditures Supplemental Report	12/19/12	-	-	2

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs	Number of Recs
ODS	Audit A09M0003	Arkansas: Final Recovery Act Expenditures Supplemental Report (OESE and OSERS are also designated as action officials)	12/20/12	$237,302	-	2
OESE	Audit A03K0009	Maryland: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs (ODS and OSERS are also designated as action officials)	1/3/13	$736,582	$373,643	8
OESE	Audit A04M0014	Puerto Rico: Final Recovery Act Expenditures Supplemental Report (OSERS is also designated as an action official)	2/20/13	$14,303[2]	-	8
OESE	Audit A19L0005	Teacher Incentive Fund Stakeholder Support and Planning Period Oversight	2/8/13	-	-	4
OM	Audit A19L0006	The Department's Management of the Federal Real Property Assistance Program	10/23/12	-	-	8
OII	Inspection I13M0001	The Department's Monitoring of Investing in Innovation Program Grant Recipients	2/21/13	-	-	3
FSA	Alert Memo L02M0008	Debt Management Collection System 2	12/13/12	-	-	5
FSA	Management Information Report X18M0001	Student Aid Fraud Ring Assessment (OPE is also designated as an action official)	1/17/13	-	-	None[3]
OESE	Attestation Report B19N0001A	Office of Inspector General's Independent Report on the U.S. Department of Education's Performance Summary Report for Fiscal Year 2012	2/28/13	-	-	None
OPEPD	Attestation report B19N0001	Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2012 Drug Control Funds	1/31/13	-	-	None
Total				**$988,187**	**$373,643**	**108**

[2] Figure includes $7,303 of questioned costs and $7,000 of cost recovery during audit.

[3] Management Information Report X18M0001 contained one suggestion.

Table 3. Audit, Inspection, and Evaluation Reports With Questioned or Unsupported Costs

Section 5(a)(8) of the IG Act, as amended, requires for each reporting period a statistical table showing the total number of audit and inspection reports, the total dollar value of questioned and unsupported costs, and responding management decision.

None of the products reported in this table were performed by the Defense Contract Audit Agency.

Requirement	Number	Questioned Costs (Includes Unsupported Costs)	Unsupported Costs
A. For which no management decision has been made before the commencement of the reporting period	32	$343,733,405[4]	$219,595,923
B. Which were issued during the reporting period	3	$988,187	$373,643
Subtotals (A + B)	35	$344,721,592	$219,969,566
C. For which a management decision was made during the reporting period	12	$82,796,315	$71,246,816
(i) Dollar value of disallowed costs		$82,696,606	$71,147,107
(ii) Dollar value of costs not disallowed		$99,709	$99,709
D. For which no management decision was made by the end of the reporting period	23	$261,925,277	$148,722,750

[4] Figure adjusted for correction of costs questioned in A04J0005, one of the audits for which no management decision was made by the end of the SAR 65 reporting period.

Table 4. Audit, Inspection, and Evaluation Reports With Recommendations for Better Use of Funds

Section 5(a)(9) of the IG Act, as amended, requires for each reporting period a statistical table showing the total number of audit, inspection, and evaluation reports and the total dollar value of recommendations that funds be put to better use by management.

None of the products reported in this table were performed by the Defense Contract Audit Agency. The OIG did not issue any inspection or evaluation reports identifying better use of funds during this reporting period.

Requirement	Number	Dollar Value
A. For which no management decision has been made before the commencement of the reporting period	2	$18,200,000
B. Which were issued during the reporting period	0	$0
Subtotals (A + B)	2	$18,200,000
C. For which a management decision was made during the reporting period		
(i) Dollar value of recommendations that were agreed to by management	1	$5,200,000
(ii) Dollar value of recommendations that were not agreed to by management	0	$0
D. For which no management decision was made by the end of the reporting period	1	$13,000,000

Table 5-A. Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to October 1, 2012

Section 5(a)(10) of the IG Act, as amended, requires a listing of each report issued before the commencement of the reporting period for which no management decision had been made by the end of the reporting period. Summaries of the audit and inspection reports issued during the previous SAR period follow in Table 5-B.

Reports that are new since the last reporting period are labeled "New" after the report number. All other reports were reported in a previous SAR.

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
FSA	Audit A07K0003 (New)	Metropolitan Community College's Administration of Title IV Programs *(SAR 65, page 40)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	5/15/12	$232,918	22
FSA	Audit A09K0008 (New)	Colorado Technical University's Administration of Title IV Programs *(SAR 65, page 40)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	9/21/12	$173,164	8
OII	Audit A02L0002 (New)	The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants *(SAR 65, page 40)* **Current Status:** OII informed us that it is currently working to resolve this audit.	9/25/12	-	7
ODS	Inspection report I13L0001 (New)	Department's Nonprocurement Suspension and Debarment Process *(SAR 65, page 41)* **Current Status**: ODS informed us that it is currently working to resolve this audit.	6/22/12	-	5
FSA	Audit A03I0006	Special Allowance Payments to Sallie Mae's Subsidiary, Nellie Mae, for Loans Funded by Tax-Exempt Obligations *(SAR 59, page 41)* **Current Status:** FSA informed us that it is working to resolve this audit in AARTS by June 30, 2013.	8/03/09	$22,378,905	3
FSA	Audit A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown *(SAR 49, page 14)* **Current Status:** FSA informed us that it is developing the draft audit determination/PDL.	9/23/04	$2,458,347	7

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
FSA	Audit A05G0017	Capella University's Compliance with Selected Provisions of the HEA and Corresponding Regulations *(SAR 56, page 25)* **Current Status:** FSA informed us that the draft audit determination/PDL is currently under review.	3/7/08	$589,892	9
FSA	Audit A05I0011	Special Allowance Payments to the Kentucky Higher Education Student Loan Corporation for Loans Made or Acquired with the Proceeds of Tax-Exempt Obligations *(SAR 59, page 41)* **Current Status:** FSA informed us that it is working to resolve this audit in AARTS by June 30, 2013.	5/28/09	$9,018,400	4
FSA	Audit A05I0014	Ashford University's Administration of the Title IV HEA Programs *(SAR 62, page 24)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	1/21/11	$29,036	13
FSA	Audit A05K0012	Saint Mary-of-the-Woods College's Administration of the Title IV Programs *(SAR 64, page 36)* **Current Status:** FSA informed us that it is currently working to resolve this audit.	3/29/12	$42,362,291	19
FSA	Audit A0670005	Professional Judgment at Yale University *(SAR 36, page 18)* **Current Status:** FSA informed us that it is waiting on outcome of Secretary's decision of school's appeal of professional judgment finding for Saint Louis University before it can resolve this audit.	3/13/98	$5,469	3
FSA	Audit A0670009	Professional Judgment at University of Colorado *(SAR 37, page 17)* **Current Status:** FSA informed us that the draft audit determination/PDL is currently under review.	7/17/98	$15,082	4
FSA	Audit A06D0018	Audit of Saint Louis University's Use of Professional Judgment from July 2000 through June 2002 *(SAR 50, page 21)* **Current Status:** FSA informed us that it is waiting on outcome of Secretary's decision of school's appeal of professional judgment finding for Saint Louis University before it can resolve this audit.	2/10/05	$1,458,584	6

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
OCFO	Audit A09H0020	California Department of Education Advances of Federal Funding to LEAs *(SAR 58, page 31)* **Current Status:** OCFO informed us that it is developing the draft PDL.	3/9/09	$728,651	10
ODS	Audit A06K0002	Oklahoma: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) *(SAR 62, page 25)* **Current Status:** OSERS/OSEP informed us that it is finalizing the draft PDL. OCFO/PAG issued PDL on 9/21/2012. OESE issued a PDL on 9/25/2012. ODS/ISU issued a PDL on 1/8/2013.	2/18/11	$16,150,803	10
ODS	Audit A07K0002	Missouri: Use of and Reporting on Selected Recovery Act Program Funds (OCFO and OESE are also designated as action officials) *(SAR 63, page 36)* **Current Status:** ODS/ISU and OESE joint PDL was issued on 4/30/12. OCFO informed us that its draft PDL is currently under review.	6/7/11	-	4
ODS	Audit A19J0001	Department's Implementation of the State Fiscal Stabilization Fund Program *(SAR 61, page 34)* **Current Status:** ODS/ISU informed us that it is currently working to resolve this audit.	9/24/10	-	4
OESE	Audit A02J0002	Camden City Public School District's Administration of Federal Education Funds (OSERS is also designated as an action official) *(SAR 63, page 37)* **Current Status:** OESE informed us that the draft PDL is currently under review. OSERS/OSEP informed us that it is developing the draft PDL.	6/6/11	$7,534,509	15
OESE	Audit A02K0014	Camden City Public School District's Administration of Non-Salary Federal Education Funds *(SAR 64, page 37)* **Current Status:** OESE informed us that the draft PDL is currently under review.	3/6/12	$1,585,204	18
OESE	Audit A03G0006	The Department's Administration of Selected Aspects of the Reading First Program (OCFO also designated as an action official) *(SAR 54, page 31)* **Current Status:** OESE informed us that it is currently working to resolve this audit.	2/22/07	-	3

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
OESE	Audit A03H0010	Philadelphia School District's Controls Over Federal Expenditures (OSERS, OSDFS, and OPE also designated as action officials) *(SAR 60, page 39)* **Current Status:** OCFO/PAG informed us that it is reviewing documentation submitted by the Philadelphia School District regarding unresolved aspects of the audit findings. A PDL on these findings is anticipated by 9/30/13. OESE and OSERS/OSEP issued a joint PDL on 9/29/11.	1/15/10	$138,769,898	27
OESE	Audit A04J0005	Puerto Rico Department of Education's Award and Administration of Personal Services Contracts (OVAE, OSDFS, and RMS are also designated as action officials) *(SAR 62, page 25)* **Current Status:** OESE informed us that the final PDL is currently under review. OVAE informed us that the final PDL is currently under review. OSERS/OSEP informed us that a joint draft PDL is currently under review.	1/24/11	$15,169,109	10
OESE	Audit A04K0007	Alabama: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs (OCFO, OSERS, and the ODS/ISU are also designated as action officials) *(SAR 64, page 37)* **Current Status:** OCFO informed us that it is developing the draft PDL. OSERS/OSEP issued a PDL on 2/12/2013. OESE and ODS/ISU issued a joint PDL on 4/26/2012.	2/15/12	-	7
OESE	Audit A05K0005	Illinois: Use of Funds and Data Quality for Selected Recovery Act Programs (ODS/ISU,OESE, and OSERS are also designated as action officials) *(SAR 63, page 36)* **Current Status:** OSERS/OSEP issued a PDL for one finding on 2/12/2013. They informed us they are currently working to resolve an additional finding. OESE and ODS/ISU issued a joint PDL on 8/21/2012. OCFO/PAG issued a PDL on 12/5/2011.	6/9/11	$6,770	8
OPEPD	Audit A04J0003	Georgia Department of Education's Controls Over Performance Data Entered in ED*Facts* (OSDFS, OESE, and OSERS also designated as action officials) *(SAR 61, page 34)* **Current Status:** OPEPD informed us that it is currently working to resolve this audit.	4/7/10	-	9

Office	Report Type and Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recs
OSERS	Audit A04K0001	Systems of Internal Controls over Selected Recovery Act Funds in Puerto Rico (OCFO, OESE, and OSERS are also designated as action officials) *(SAR 62, page 25)* **Current Status:** OSERS/OSEP informed us that it is finalizing the draft PDL. OESE and ODS/ISU issued a joint PDL on 7/26/2012.	12/16/10	$2,051,000	16
OSERS	Audit A06K0003	Louisiana: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and ODS are also designated as action officials) *(SAR 63, page 37)* **Current Status:** OSERS/OSEP issued a PDL for one finding on 2/20/2013. They informed us they are currently working to resolve an additional finding.	4/11/11	$209,058	5
OGC	Inspection report I13I0004	Inspection to Evaluate the Adequacy of the Department's Procedures in Response to Section 306 of the FY 2008 Appropriations Act – Maintenance of Integrity and Ethical Values Within the Department (OGC was designated as the action official by OS) *(SAR 57, page 27)* **Current Status:** OGC informed us it is currently working to resolve this audit.	4/21/08	-	2
Total				**$260,927,090**	**258**

Table 5-B. Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Where Management Decision Has Not Yet Been Made

Section 5(a)10)of the IG Act, as amended, requires a summary of each audit, inspection, or evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. These are the narratives for new entries. Details on previously issued reports can be found in Table 5-A of this Semiannual Report.

Office	Report Title, Number, and Date Issued	Summary and Current Status
FSA	Metropolitan Community College's Administration of Title IV Programs Audit A07K0003 5/15/2012	Among the more significant issues, we found that during the first three quarters of award year 2009–2010, Metropolitan Community College— • Did not establish that students had a high school diploma or its equivalent or passed an approved Ability-to-Benefit test that was properly administered, resulting in the improper disbursement of more than $73,800 to students whose records we reviewed. Based on our statistical sample, we estimated that the school disbursed as much as $406,000 to students for whom the school maintained no evidence of a high school diploma or its equivalent or a passing score on an Ability-to-Benefit test. • Did not ensure that students whose records we reviewed were meeting the satisfactory academic progress requirement before disbursing more than $12,200 in Title IV funds. We estimated that the school disbursed between $350,000 and $4 million to students not maintaining satisfactory academic progress. • Disbursed nearly $27,000 in Title IV funds to students who had exceeded the maximum number of allowable credit hours of remedial coursework. • Disbursed more than $88,000 in Title IV funds to students who were not enrolled in eligible programs. • Did not properly administer its Federal Work Study program, resulting in improper payments of more than $21,200. • Did not properly identify students who never attended their courses, and for student withdrawals, did not properly calculate the amounts to return to the Title IV programs. We estimated that Metropolitan improperly retained between $248,000 and $523,000 in Title IV funds. We recommended that FSA require the school to (1) return nearly $233,000 in Title IV funds, (2) review the records for students who were not included in our samples and return all Title IV funds that were improperly disbursed, and (3) ensure that its personnel are adequately trained in the administration of the Title IV programs. The school did not agree with all of our findings or recommendations. **Current Status:** FSA informed us that it is currently working to resolve this audit.

Office	Report Title, Number, and Date Issued	Summary and Current Status
FSA	Colorado Technical University's Administration of Title IV Programs Audit A09K0008 9/21/2012	Our audit determined that CTU Online did not comply with Federal requirements regarding student eligibility for Title IV funds, the identification of withdrawn students, and authorizations to retain credit balances. Specifically, CTU Online did not • ensure that students were eligible for Title IV funds at the time of disbursement, which resulted in CTU Online improperly disbursing more than $155,000 for 37 of the 50 students we reviewed (the results for our sample of 50 students cannot be projected to the entire CTU student population); • identify students who had unofficially withdrawn, which resulted in CTU Online improperly retaining unearned Title IV funds totaling more than $18,000 for 20 of the 50 students we reviewed; or • obtain proper authorizations to retain students' credit balances. Other than the exceptions noted above, we determined that CTU Online generally complied with Federal requirements applicable to the return of Title IV funds and the payment of incentive compensation to admissions representatives. We recommended that FSA require CTU to (1) return more than $173,100, which represents the amount of Title IV funds improperly disbursed or retained for the students included in our review; (2) develop and implement written policies and procedures to ensure future compliance with Title IV requirements regarding student eligibility for program funds, identification of withdrawn students, and authorizations to retain students' credit balances; and (3) review records of all CTU Online students who were not included in our review for all terms from July 5, 2009, until such time as written policies have been implemented, and return all other Title IV funds that were improperly disbursed or retained. CTU did not concur with our findings and recommendations. **Current Status:** FSA informed us that it is currently working to resolve this audit.

Office	Report Title, Number, and Date Issued	Summary and Current Status
OII	The Office of Innovation and Improvement's Oversight and Monitoring of the Charter Schools Program's Planning and Implementation Grants Audit A02L0002 9/25/2012	The audit examined two grant programs: the Charter Schools Program's State Educational Agency (SEA) Planning and Implementation Grant (SEA grant) and the Charter School Program non-SEA Planning and Implementation Grant (non-SEA grant) to determine whether the grantees and subgrantees met grant goals and objectives. We found that the Department did not effectively oversee and monitor the SEA and non-SEA charter school grants and did not have an adequate process to ensure that SEAs effectively oversaw and monitored their subgrantees. We selected three SEAs (Arizona, California, and Florida) based on a risk matrix we developed of SEAs that received charter school grants during our audit period (2007–2011). We found that the Department did not have an adequate corrective action plan process in place to ensure that grantees corrected deficiencies noted in annual monitoring reports, did not have a risk-based approach for selecting non-SEA grantees for monitoring, and did not adequately review SEA and non-SEA grantees' fiscal activities. In addition, we found that the Department did not provide the SEAs with adequate guidance on the monitoring activities they were to conduct in order to comply with applicable Federal laws and regulations. We also found that none of the three SEAs adequately monitored charter schools receiving the SEA grants, had adequate methodologies to select charter schools for onsite monitoring, or monitored authorizing agencies. Additionally, we found that Florida did not track how much SEA grant funding charter schools drew down and spent and that California had unqualified reviewers performing onsite monitoring. We also determined that the Department did not ensure that SEAs had procedures to properly account for SEA grant funds spent by closed charter schools or for disposed-of assets purchased with SEA grants. We made a number of recommendations, including that the Department develop and implement policies and procedures for issuing and tracking corrective action plans to help ensure that all reported deficiencies are correctly timely. The Department agreed with all of our findings and almost all of our recommendations. **Current Status:** OII informed us that it is currently working to resolve audit.
ODS	Department's Nonprocurement Suspension and Debarment Process Inspection report I13L0001 6/22/2012	Our inspection found that the Department's nonprocurement suspension and debarment process was inefficient and lacked characteristics the Government Accountability Office identified as common in effective suspension and debarment programs. Unlike the other 31 Federal agencies we reviewed, the Department's policy requires both a notice official and a deciding official in the suspension and debarment process. We found that this two-tiered process required more human capital resources than necessary. Each tier reviews the same information but, in order to provide more due process, does not communicate with one another at any point in the process. This duplication occurred even in matters that were not contested by the outside entity or individual, which was the case more than 90 percent of the time for FY 2010–2011. We also found that the Department lacked detailed policies and procedures that provided guidance on referrals, which the Government Accountability Office has identified as common in effective suspension and debarment programs. We found the Department's guidance to be outdated and in need of revision and that the Department took nearly 7 years to conform to OMB regulatory requirements for suspension and debarment. In addition, we found that the Department's nonprocurement suspension and debarment program does not receive referrals from program offices but relies solely on OIG referrals, which are based on indictments and convictions. This limits the Department's ability to fully use suspension and debarment as a means to protect the Federal interest. Further, we identified delays in referrals from OIG that affected the Department's ability to take timely suspension and debarment actions. Our recommendations included that the Department eliminate the two-tiered process, update its outdated policies and procedures, ensure that its program offices are aware of suspension and debarment as a resource, and develop a system for processing referrals from program offices. The Department neither concurred nor nonconcurred with our findings and recommendations. In addition, OIG agreed to take steps to improve the timeliness of its referrals. **Current Status:** ODS informed us that it is currently working to resolve this audit.

Table 6. Statistical Profile for October 1, 2012, through March 31, 2013

Audits, Inspections, Other Products	October 1, 2012–March 31, 2013
Audit Reports Issued	12
Inspection Reports Issued	1
Questioned Costs (Including Unsupported Costs)	$988,187
Recommendations for Better Use of Funds	$0
Other Products Issued	4
Reports Resolved By Program Managers	25
Questioned Costs (Including Unsupported Costs) Sustained	$82,696,606
Unsupported Costs Sustained	$71,147,107
Additional Disallowances Identified by Program Managers	$11,551
Management Commitment to the Better Use of Funds	$5,200,000
Investigative Cases Opened	41
Investigative Cases Closed	59
Cases Active at the End of the Reporting Period	386
Prosecutorial Decisions Accepted	61
Prosecutorial Decisions Declined	71
Indictments/Informations	54
Convictions/Pleas	55
Fines Ordered	$121,500
Restitution Payments Ordered	$8,144,483
Civil Settlements/Judgments (number)	15
Civil Settlements/Judgments (amount)	$25,573,795
Recoveries	$4,007,263
Forfeitures/Seizures	$3,782,303
Estimated Savings	$2,918,330
Suspensions Referred to Department	26
Debarments Referred to Department	24

Acronyms and Abbreviations

Acronyms and Abbreviations Used in This Report

CIGIE	Council of Inspectors General on Integrity and Efficiency
CTU	Colorado Technical University
Department	U.S. Department of Education
DMCS2	Debt Management Collection System 2
DOJ	U.S. Department of Justice
DRT	Data Retrieval Tool
FAFSA	Free Application for Federal Student Aid
FISMA	Federal Information Security Management Act of 2002
FSA	Federal Student Aid
FY	Fiscal Year
HEA	Higher Education Act of 1965, as Amended
i3	Investing in Innovation
IG Act	Inspector General Act of 1978, as Amended
IPERA	Improper Payments Elimination and Recovery Act
IRS	Internal Revenue Service
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRDE	Puerto Rico Department of Education
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
SAR	Semiannual Report
SEA	State Educational Agency
TIF	Teacher Incentive Fund

For acronyms and abbreviations used in the required tables, see page 35.

FY 2013 Management Challenges

The Reports Consolidation Act of 2000 requires the OIG to identify and summarize the most significant management challenges facing the Department each year. Below are the management challenges OIG identified for FY 2013.

1. Improper Payments, meeting all new requirements and intensifying efforts to prevent, identify, and recapture improper payments.
2. Information Technology Security, including management, operational, and technical security controls to adequately protect the confidentiality, integrity, and availability of its systems and data.
3. Oversight and Monitoring, including Federal student aid program participants, distance education, Recovery Act, grantees, and contractors.
4. Data Quality and Reporting, including program data and Recovery Act reporting requirements.

For a copy of our FY 2013 Management Challenges report, visit our Web site at www.ed.gov/oig.

Anyone knowing of fraud, waste, or abuse involving U.S. Department of Education funds or programs should contact the Office of Inspector General Hotline:

http://www2.ed.gov/about/offices/list/oig/hotline.html

We encourage you to use the automated complaint form on our Web site; however, you may call or write the Office of Inspector General.

Inspector General Hotline
U.S. Department of Education
Office of Inspector General
400 Maryland Ave., S.W.
Washington, D.C. 20202

Call Toll-Free:
Inspector General Hotline
1-800-MISUSED
(1-800-647-8733)

Your report may be made anonymously.

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

www.ed.gov