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Office of Inspector General
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Inspector General

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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 April 1, 2017, through September 30, 2017. This is our 75th Semiannual Report to Congress, a milestone for our office and the commitment we share with you on behalf of America's taxpayers and students. The audits, investigations, and related work highlighted in the report are products of our mission to identify and stop fraud, waste, and abuse, and promote accountability, efficiency, and effectiveness through our oversight of the Department's programs and operations.

Over the last 6 months, we closed 25 investigations involving fraud or corruption related to the Department's programs and operations, securing more than $20 million in restitution, settlements, fines, recoveries, forfeitures, and savings. In addition, as a result of our investigative work, criminal actions were taken against a number of people, including school officials, vendors, and service providers who cheated both students and taxpayers. We also issued 7 audits that contained recommendations to improve program operations. The following are some examples of the results of our audits and investigations over the last 6 months.

- Our audit determined that Western Governors University did not comply with the institutional eligibility requirement that limits the percentage of students who may enroll in correspondence courses. As a result, the school received more than $712 million in Federal student aid funds that it was not eligible to receive. We also found that the school did not comply with requirements governing Federal student aid disbursements and did not always comply with the requirements governing the return of Federal student aid.

- For the third year in a row, we determined that the Department did not comply with the Improper Payments Elimination and Recovery Act. Our audit found that the Department reported improper payment rates for the William D. Ford Federal Direct Loan Program and the Federal Pell Grant program that did not meet the fiscal year 2016 reduction targets, did not report the Vocational Rehabilitation State Grants program as a program that may be susceptible to significant improper payments, and did not consider all nine required risk factors in its assessments.

- We disagreed with the Department's decisions regarding two higher education regulations: borrower defense and gainful employment. On borrower defense, we did not agree with the Department's delay of financial responsibility provisions that provided tools to improve the Department's oversight options for schools at risk of closure. We previously reported that these provisions were needed to avoid costs to students and taxpayers that result from school closures. On gainful employment, we did not agree with the Department's decision to delay a provision requiring schools to provide consumer protection disclosures directly to students before they enroll and Federal student aid funds are committed or disbursed. Because schools are still required to prepare and post the disclosures on their websites and are engaged with students during the enrollment process, we saw minimal burden to schools to ensure that students actually receive disclosures before financially committing to a school.

- Our audit found that the Alabama State Department of Education's (Alabama) system of internal control did not provide reasonable assurance that reported high school graduation rates were accurate and complete. Alabama also misreported Adjusted Cohort Graduation Rate data to the Department because the former State superintendent decided to continue counting students who earned an alternative diploma after being advised by the Department that those students could not be included as graduates. As a result, both Alabama and the Department are at risk of using inaccurate and incomplete data when describing and reporting on Alabama's progress toward raising graduation rates, as well as their accountability as an academic indicator to measure student achievement and school performance.

- Our audit found internal control weaknesses in the Indiana Department of Education's (Indiana)

longitudinal data system that houses personally identifiable information of K–12 students. These weaknesses increase the risk that Indiana will be unable to prevent or detect unauthorized access and disclosure of that personally identifiable information.

- Our investigations led to criminal actions against a number of high-ranking K–12 school officials, vendors, and service providers, including the former business manager of Missouri's Grandview R-2 School District who pled guilty to stealing $1.6 million from the school district; the former superintendent of Oklahoma's Grant-Goodland Public Schools who was indicted on embezzlement charges; and the former finance director of the Providence Plan in Rhode Island who was sentenced to prison for embezzling more than $742,000.

- As a result of our investigation with the Internal Revenue Service Criminal Investigations Division and the U.S. Postal Inspection Service, two men pled guilty in Indiana to running an elaborate identity theft, false claims, and phony tax return scam that targeted more than $12 million in Federal funds. The men obtained the stolen identities in several ways, and in many cases used those stolen identities to obtain taxpayer information through the Data Retrieval Tool on the Department's Free Application for Federal Student Aid website, and used the information to file false tax returns with the Internal Revenue Service.

- The former Secretary of the Puerto Rico Department of Sports and Recreation and six others were indicted for their alleged roles in a kickback, fraud, and money laundering conspiracy involving more than $9.8 million. The conspirators allegedly split profits of the scam and used the funds for other purposes, including operating and promoting boxing events, television shows, travel, political campaigns, and business ventures.

- Our investigations into student aid fraud rings—loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid—resulted in criminal actions taken against participants in rings that targeted more than $10 million in Federal funds. This includes the indictment of a mother-daughter team who drove around their Mississippi neighborhood to recruit ring participants.

- The founder of the now-defunct Latin Academy Charter School in Georgia was indicted on additional charges in connection with his alleged theft of more than $735,000 from schools he controlled—the largest alleged theft in the history of Georgia charter schools.

In this report, you will find more information on these efforts, as well as summaries of other audits issued and investigative actions taken over the last 6 months. I am very proud of the results of our efforts and the people who performed this work and carry out the mission of the OIG every day. They are dedicated, resilient, determined, and compassionate. Perhaps there is no clearer evidence of this than their response to the recent hurricanes. Although our office in Puerto Rico was spared from devastation by Hurricane Maria, some of the homes of our Puerto Rico-based staff unfortunately were not. Most of our staff has relocated to the mainland, some remain in Puerto Rico, and all are in the process of rebuilding their lives. But, remarkably, they are still working to carry out their OIG assignments. Their resiliency is inspiring. I am also tremendously proud of the OIG special agents who volunteered to provide on-the-ground assistance to those impacted by the hurricanes in Florida. These agents left their homes and families to help those in need and to provide protection assistance to medical teams working in the disaster areas. Other OIG staff are helping from their home bases in many ways, including by supporting their colleagues and others affected by the hurricanes. This is who they are as OIG employees, as public servants, and as citizens of this great country. It is an honor to lead them.

I look forward to continuing to work with this outstanding team, the Department, members of Congress, and my colleagues in the inspector general community to provide our nation's taxpayers with assurance that the Federal Government is using their hard-earned money effectively and efficiently.

Kathleen S. Tighe
Inspector General

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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 and effectiveness of the U.S. Department of Education's (Department) programs. To achieve this goal, we conduct audits, investigations, and other activities that examine Department programs impacting its mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. In our audit work, the Office of Inspector General (OIG) evaluates program results compared to program objectives, assesses internal controls, identifies systemic weaknesses, identifies financial recoveries, and makes 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. Investigative work that contributed to this goal over the last 6 months includes cases involving public corruption and charter schools. Below are summaries of our work related to this goal.

Audit

During this reporting period, we issued an audit of a State educational agency's (SEA) oversight of its online charter schools. We examined this issue because the Department has recognized the challenges of implementing Federal programs in a virtual environment and has issued guidance to clarify grantees' roles and responsibilities. Our audit sought to determine whether the Idaho State Department of Education (Idaho) and two Idaho-based online charter schools— the Idaho Virtual Academy and the Inspire, the Idaho Connections Academy (Inspire)—exercised adequate oversight to ensure that (1) students received intended services in accordance with Title I, Part A (Title I) of the Elementary and Secondary Education Act of 1965, as amended; (2) students received intended services in accordance with Part B of the Individuals with Disabilities Education Act, as amended (IDEA); and (3) schools hired highly qualified teachers in accordance with applicable program requirements. Below you will find the results of our review.

Idaho State Department of Education's Oversight of Online Charter Schools

We found that Idaho's oversight of the Title I and IDEA, Part B programs was adequate to determine whether services were being provided to students and that teachers were highly qualified, or that deficiencies were identified and corrective actions were required. Specifically, we found that it had sufficient policies and procedures for overseeing schools' compliance with Federal program requirements. Idaho also conducted monitoring activities that supported implementation of these policies and procedures. However, we also found that Idaho needs to ensure full and prompt implementation of corrective actions and improve its Federal program oversight, as the issues we identified at one of the virtual charter schools, Inspire, were nearly identical to issues Idaho had identifi d several years earlier. Specifically, we found that Inspire (1) did not evaluate its schoolwide plan in accordance with Federal requirements, despite providing Idaho an assurance that it had done so; (2) did not have sufficient documentation to support that it provided special education and related services in accordance with IDEA Part B for 52 percent of the students in our sample; and (3) did not ensure that it hired highly qualified teachers as required and did not appropriately maintain supporting documents for teachers' "high quality teacher" status. Based on our findings, we made two recommendations, including

that Idaho determine whether Inspire has fully implemented previously required corrective actions for Title I and IDEA, Part B. Idaho agreed with our findings and recommendations. A04N0010

Investigations

The following are summaries of two investigations related to this goal.

More Charges Filed Against Founder of Now-Defunct Latin Academy Charter School (Georgia)

In 2016, the founder of the Latin Academy Charter School was indicted for allegedly stealing more than $735,000 from the school—the largest alleged theft in the history of Georgia charter schools. He allegedly wired money from the school's bank accounts into his personal bank account and used the money at adult entertainment establishments; he also made cash withdrawals and spent thousands of dollars at car dealerships, on auto expenses, and on travel. The losses allegedly forced the school to close last year. During this reporting period, more charges were filed against the founder: he was indicted for allegedly stealing more than $350,000 from two of the other schools he founded—the Latin Grammar School and Latin Preparatory School. He is currently being held in jail.

Founder of Family Foundations Academy Charter School Sentenced (Delaware)

In our last Semiannual Report to Congress, we reported that the former director of finance and operations of the Family Foundations Academy charter school pled guilty to embezzling more than $161,000 from the school. We also noted that the school's founder and chief academic officer was arrested for theft. During this reporting period, the founder was sentenced to serve 1 year of probation for using the school's credit cards to make more than $23,500 in personal purchases.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Inspector General Community

- **Data Act Interagency Advisory Committee.** Inspector General Tighe is a member of this committee that provides strategic direction in support of the implementation of the Digital Accountability and Transparency Act of 2014.

Reviews of Legislation, Regulations, Directives, and Memoranda

- **Charter Schools Program Grants to Charter Management Organizations for the Replication and Expansion of High-Quality Charter Schools Proposed Priorities, Requirements, Definitions, and Selection Criteria.** The OIG offered recommendations related to applicant requirements.

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 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 fraud, waste, and abuse, but also to protect the interests of the next generation of our nation's leaders—America's students.

Audit

To be eligible to participate in the Federal student aid programs, authorized by the Higher Education Act of 1965, as amended (HEA), institutions of higher education must meet certain criteria. These criteria include requirements related to programs offered by the institutions, student enrollment, institutional operations, and the length of academic programs. In 2008, Congress amended the HEA and differentiated distance education programs from correspondence courses by requiring that distance education programs support regular and substantive interaction between students and the instructor. An institution is ineligible to participate in the Federal student aid programs if more than 50 percent of its courses are offered by correspondence or if 50 percent or more of its students are enrolled in correspondence courses. During this reporting period, we issued an audit report on whether Western Governors University, a private, nonprofit university offering distance education programs, was meeting HEA requirements and thus was eligible to participate in the Federal student aid (Title IV) programs. Below you will find the results of our audit, along with summaries of our investigative work involving Title IV fraud.

Western Governors University Was Not Eligible to Participate in Title IV Programs

The objectives of our audit were to determine whether Western Governors University complied with the HEA and selected Title IV regulations governing (1) institutional eligibility, (2) program eligibility, (3) disbursements, and (4) return of Title IV aid. For institutional eligibility, we found that more than 50 percent of the school's regular students were enrolled in at least one correspondence course during award year 2013–2014; therefore, the school became ineligible to participate in the Title IV programs as of June 30, 2014. For program eligibility, we did not identify any evidence indicating that Western Governors University violated the requirement that prohibits a school from awarding Title IV funds to students based on credit for learning that took place before they enrolled in the school's courses. For disbursements, we determined that Western Governors University disbursed funds to students based on the requirements for a term-based program, resulting in disbursements to students who were ineligible for such disbursements at the time the school made them and resulting in the school not properly adjusting students' awards. The school

defined its academic year as 52 weeks of instructional time during which a full-time, undergraduate student was expected to complete at least 24 competency units. However, the design of the school's courses did not ensure that the school provided 52 weeks of instructional time to eight of the nine students in our sample. The number of weeks of instructional time provided to the eight students varied from 8 through 40 weeks, with six students being provided fewer than the minimum number of weeks for an academic year (30 weeks) required by the HEA. Additionally, the design of the school's courses did not ensure that Western Governors University provided at least 26 weeks (one half of the school-defined academic year or one payment period) of instructional time before disbursing Title IV funds for the students' subsequent payment periods. Because its academic year and payment periods did not provide the minimum weeks of instructional time required by the HEA, Western Governors University should have considered its programs to be nonterm programs, defined payment periods as prescribed by regulations, disbursed Title IV funds for subsequent payment periods based on the requirements for a nonterm program, and adjusted Federal Pell Grant Program awards based on the regulations for nonterm programs. We also concluded that the school did not always comply with the requirements governing the return of Title IV aid. As a result, the school returned $10,509 less than required for four students.

> "We made 9 recommendations, including that the Department require the school to return more than $712 million in Title IV funds it received.

Based on our findings, we made 9 recommendations, including that the Department initiate appropriate administrative action against the Western Governors University and require the school to return more than $712 million in Title IV funds it received from July 1, 2014, through June 30, 2016, and any additional funds it received after June 30, 2016. Western Governors University disagreed with our findings and recommendations. A05M0009

Investigations of Schools and School Officials

Identifying and investigating fraud in the Federal student fi ancial 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 Federal student aid funds, significant civil fraud actions against entities participating in the Federal student aid programs, and hundreds of millions of dollars returned to the Federal Government in fines, restitutions, and civil settlements.

Former Pontifical Catholic University Director Pled Guilty to Theft (Puerto Rico)

The former purchasing director at Pontifical Catholic University in Puerto Rico pled guilty to theft of Federal funds. The former director used the school's credit card for

unauthorized personal expenses, including household utility bills, school tuition, and vacations to destinations including Disney World, New York, France, and Canada. To conceal her crime, the former director altered and created fictitious credit card statements where she hid her personal charges by increasing the amounts of other legitimate charges to the card, or by deleting the charges altogether before submitting the statements to the school's finance department for payment. In addition, because the credit card's limit was $80,000, the former director forged her supervisor's signature on letters to the credit card company requesting limit increases. This enabled her to charge more than $655,400 to the school's card.

Former Director of HDS Trucking Institute Indicted for Fraud (Arizona)

The former director of HDS Trucking Institute was indicted on charges of student aid fraud, bank fraud, and identity theft. The former director allegedly used his position to implement various schemes to fraudulently obtain more than $900,000. Among these schemes, the former director allegedly deposited HDS students' financial aid award balances to bank accounts he controlled and caused the school to pay fictitious financial obligations he created and deposited the funds into bank accounts he controlled.

Former Baruch College Athletics Official Charged With Stealing More Than Half a Million Dollars (New York)

A former Baruch College athletics official, who also served as basketball coach during his tenure at the school, was arrested and charged with embezzling about $600,000 intended for the school's athletic facilities. The former official allegedly rented the school's gym to outside parties, ostensibly on behalf of Baruch College. In instructions to the renting parties, however, the former official allegedly directed that payments be made directly to him or to entities that he controlled, unbeknownst to the renters or the school. The former official allegedly used the bulk of the funds on personal expenses, such as renovations on his home.

Former Owner of Alden's School of Cosmetology Convicted for Theft and Fraud (Louisiana)

After a 4-day trial, a jury found the former owner and chief executive officer of Alden's School of Cosmetology and Alden's School of Barbering guilty of theft, fraud, and money laundering. The former chief executive officer misrepresented that certain students attending the schools were enrolled in programs eligible for Federal student aid when in fact they were not, certifi d hours that students never completed, and transferred criminally derived property between numerous bank accounts. As a result of these criminal actions, the former chief executive officer and the schools received more than $100,000 in Federal student aid.

Vice-President of Regina's College of Beauty Pled Guilty to Conspiracy Charges (North Carolina)

The vice president of the now-defunct Regina's College of Beauty—a for-profit cosmetology school that operated campuses in North Carolina and Georgia—pled

guilty to conspiracy and student financial aid fraud charges. The former official failed to remit to students or to the Department students' credit balance overages totaling over $89,000—money she used for her personal benefit.

Former City University of New York School of Professional Studies Budget Director Agrees to Deferred Prosecution and Restitution (New York)

The former budget director of the City University of New York School of Professional Studies, who had been arrested and charged with embezzlement and fraud, entered into a deferred prosecution agreement. From 2007 through 2012, the former official used his access to the school's finances and bank accounts to steal money from the school, which he used for personal expenses. The former official agreed to pay $18,500 in restitution.

City University of New York Medgar Evers Lecturer Charged with Fraud (New York)

A full-time, tenured lecturer at the City University of New York Medgar Evers College was arrested and charged with fraud, corruption, and obstruction related to his allegedly selling sham certificates of completion of health care courses to students that the students then used to obtain employment in the health care field, including New York City hospitals. From 2013 through 2017, the lecturer allegedly provided students with the sham certificates in exchange for fees up to $1,000, money he kept for himself.

Action Taken Against Former Antelope Valley College Employee (California)

A former financial aid technician at Antelope Valley College entered into a pretrial diversion for using her position to access the school's database to change the student loan disbursement dates for the father of her children. The man was not eligible for the disbursements because he failed to maintain satisfactory academic progress.

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. Fraud rings are large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. The cases below are just a sample of the large number of actions taken against fraud ring participants during this reporting period. Also during this reporting period, we concluded our E-Fraud Query System fraud ring project. The proactive investigative project employed an OIG-developed analytical model to identify potential fraud. Using the model, we validated more than $97 million in potential fraud associated with our cases and referred more than $35 million in potential fraud. We will continue to use the E-Fraud Query System to vet fraud ring complaints and ensure that potential fraud is referred as appropriate.

Two Members of $3 Million Fraud Ring Indicted (California)

Two members of a fraud ring that sought to obtain more than $3 million in Federal student aid were indicted on charges of fraud and aggravated identity theft. The women allegedly obtained the personally identifiable information of unwitting people through brokers or people they knew were in prison and used those identities to apply for admissions to and receive Federal student aid from a number of colleges, including the University of Phoenix, Ashford University, American Public University, Capella University, Rio Salado College, Everest College, Southern New Hampshire University, and San Joaquin Delta College. The student aid refund balances were allegedly sent to addresses the two controlled.

Leader of $2.5 Million Fraud Ring and Her Mother Indicted (Mississippi)

A fraud ringleader and her mother were indicted for their roles in a fraud ring that sought to obtain more than $2.5 million in Federal student aid. According to the indictment, the two allegedly drove around the city of Greenwood, Mississippi, recruiting people to participate in the scam. They allegedly obtained the personally identifiable information of the recruits and then used that information to apply for admissions to and receive Federal student aid from online college programs, knowing that none of them planned to attend classes. The student aid refund balances were allegedly sent to addresses controlled by the ringleader and her mother. The two allegedly gave a portion of the refund balance to the recruits for the use of their identities.

Leader of $1.2 Million Fraud Ring Indicted (Arizona)

The leader of a fraud ring that targeted $1.2 million in Federal student aid was indicted on 17 counts of fraud and aggravated identity theft. The ringleader allegedly used the identities of at least 144 people, some obtained through identity theft, which she used to apply for admissions to and receive student aid from various community colleges in Arizona. Proceeds of the fraud were allegedly loaded onto prepaid debit cards and were mailed to addresses that the ringleader and her co-conspirators controlled.

Members of $1 Million Fraud Ring Pled Guilty (Michigan)

All members of a three-person fraud ring that sought to obtain more than $1 million in Federal student aid pled guilty in Michigan. The ring used the personally identifiable information of more than 100 people to apply for admissions and Federal student aid from the University of Maryland University College and other colleges. They created and submitted fraudulent Free Applications for Federal Student Aid and had student aid prepaid debit cards sent to addresses they controlled.

More Actions Taken Against Members of $500,000 Fraud Ring (Colorado)

In our last Semiannual Report to Congress, we shared that two people pled guilty for their roles in a fraud ring that sought to obtain more than $500,000 in Federal student aid. During this reporting period, two of their co-conspirators were indicted for participating in the ring. From 2010 through 2012, the ring used the stolen

identities of prison inmates to apply for admission to and receive Federal student aid from various community colleges in Colorado. As a result of their efforts, the ring received more than $500,000 in Federal student aid to which they were not entitled.

Ring Composed Mostly of Former Prison Inmates Indicted in $488,500 Student Aid Fraud (Colorado)

Nine people, most of whom were connected through their various periods of incarceration and some of their family members, were indicted on charges that included racketeering, conspiracy, and student aid fraud. The ring allegedly applied for and received more than $488,500 in student aid by using personally identifiable information, most of which they stole from unwitting victims, including from the business clients of one of the participant's on-site cleaning company, and stolen wallets. Another participant used her position and access at the Department of Motor Vehicles to supply additional information needed to complete fraudulent admissions and student aid applications.

Ringleaders of Fraud Ring That Targeted Student Aid and Mortgage Loans Sentenced (Illinois)

The two leaders of a fraud ring that sought to obtain more than $2.7 million in student aid, mortgages, bank, and small business loans were sentenced to prison and were ordered to pay hundreds of thousands of dollars in restitution. Between 2010 and 2012, the ring submitted at least 40 fraudulent admissions and financial aid applications to Harper College, Elgin Community College, and Joliet Junior College. For some of the applications, the ring used stolen identities that it obtained through credit card and mortgage fraud schemes. Financial aid refund checks were sent to several addresses that the ring controlled. They cashed the checks and used the proceeds for themselves. One of the ringleaders was sentenced to serve 39 months in prison and 2 years of supervised release, while the other was sentenced to serve 33 months in prison and 1 year of supervised release. Both men were ordered to pay nearly $400,000 in restitution.

Actions Taken Against Members of $358,000 Fraud Ring (Texas)

Actions were taken against members of a fraud ring that sought to fraudulently obtain more than $358,700 in student aid. The ringleader allegedly recruited his sister, his mother, and other people to participate in the ring. With the use of their personally identifiable information, he fraudulently applied for admissions to and received Federal student aid from LeTourneau University Kilgore College knowing that none of the participants planned to attend classes. The alleged ringleader was indicted, his sister, his mother, and another participant pled guilty, and two others were sentenced for their roles in the scam. One of the participants was sentenced to serve 5 years of probation and was ordered to pay more than $25,300 in restitution;

the other was sentenced to 4 years of probation and was ordered to pay more than $24,600 in restitution.

Leader of $97,000 Fraud Ring Pled Guilty (Virginia)

A man who led a fraud ring that targeted Federal student aid schools that included the University of Phoenix and American Public University pled guilty in Virginia. From 2009 through 2016, the man obtained the personally identifiable information of 70 people—some of whom knowingly provided their information while others were the victims of identity theft—which he used to enroll them in online courses at the schools solely for the purpose of obtaining Federal student aid. As a result of his efforts, the ring fraudulently obtained more than $97,000 in student aid.

Investigations of Other Student Aid Fraud Cases

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

Two Men Pled Guilty in $12 Million Identity Theft, Student Aid, Phony Tax Return Scam (Indiana)

As a result of our investigation with the Internal Revenue Service Criminal Investigations Division and the U.S. Postal Inspection Service, two men pled guilty for using thousands of stolen identities to fraudulently obtain more than $12 million. The men obtained the identities in several ways, including through the Data Retrieval Tool on the Department's Free Application for Federal Student Aid website. They then used the stolen information to file false tax returns with the Internal Revenue Service. The two, along with others, directed the Internal Revenue Service to deposit tax refunds resulting from the false returns onto prepaid debit cards that they used to purchase money orders at several locations in Indiana and Georgia.

Print Shop Owner Sentenced in Phony Transcripts, Diplomas, GED Scheme (Louisiana)

In our last Semiannual Report, we shared that the owner of Superior Printing was charged with conspiracy for running a fake documents scam out of his print shop. During this reporting period, the owner was sentenced to serve 1 year of probation and pay a $100 assessment. The business owner produced and sold phony high school transcripts, diplomas, GED certificates, and other materials, including pre-addressed envelopes with the Louisiana Department of Education as the return address. When selling the fraudulent materials to students, the owner encouraged them to mail the documents from Baton Rouge so the documents would look more legitimate. About 100 students used the phony documents to apply for admissions to and receive more than $480,000 in Federal student aid from Delgado Community College.

Man Pled Guilty to 15-Year $500,000 Fraud (Virginia)

A man pled guilty to running a 15-year scam that targeted more than $500,000 in Federal student aid and other Federal grants. The man fraudulently obtained more than $366,000 in Federal student aid by using three different Social Security numbers issued in his own name, as well as those of his mother and father without their consent. He also fraudulently obtained more than $136,000 in Federal grant benefits from the National Science Foundation. In his guilty plea, the man agreed to pay more than $500,000 in restitution and through forfeiture.

Singing Group Leader Sentenced for $297,600 Fraud Scam (Arkansas)

The leader of the singing group Pardoned Ministries was sentenced to serve 33 months in prison and 3 years of supervised release and was ordered to pay more than $297,600 in restitution for fraud. The woman used the identity of a family friend to obtain 21 student loans on behalf of herself, her daughter, son, son-in-law, and husband, most of whom did not attend school during the period for which the loans were sought. The funds were deposited into a bank account maintained for Pardoned Ministries and used for purposes other than school.

Former Tulane University Student Charged in $280,000 Student Aid Fraud Scheme (Louisiana)

A former Tulane University student was charged with aggravated identity theft and theft of government funds. The former student allegedly used the identities of 30 people—some of whom knowingly provided their information while others were the victims of identity theft—to fraudulently apply for admissions to and receive more than $280,000 in Federal student aid from the school. The man allegedly paid some people $100 for use of their information in the scam.

Man Sentenced in Conspiracy Involving Stolen Coworkers' Identities in Student Aid Fraud Scam (Tennessee)

In our last Semiannual Report, we noted that a woman was sentenced to prison and was ordered to pay more than $103,000 in restitution for participating in an identity theft and student aid scam. During this reporting period, her partner in the conspiracy was sentenced to serve 30 months in prison and 3 years of supervised release and was ordered to pay nearly $104,000 in restitution for his role in the scam. The two conspired to steal the personally identifiable information of a number of the woman's coworkers. She provided the information to her conspirator who used the information to apply for admissions to and receive Federal student aid from schools including Missouri State University, Southeast Missouri State University, Southern Illinois University at Carbondale, University of Mississippi, and Eastern Illinois University.

Former Jefferson College Student Sentenced for Using Another Man's Identity to Attend School (Missouri)

A former Jefferson College student pled guilty to using another man's identity, with his consent, to attend the school. The former student used the identity to

apply for admission to and receive Federal student aid from the school, as well as obtain student housing and on-campus employment. In a previous Semiannual Report, we shared that the man who allowed his identity to be used in this way was sentenced to serve 7 months of home confinement and was ordered to pay nearly $15,000 in restitution.

Woman Sentenced, Actions Taken Against Others for Scamming Multiple Agencies Out of Nearly $900,000 in Federal Funds (Kansas)

A woman was sentenced to prison for conspiring to obtain nearly $900,000 in Federal funds through a variety of schemes, including filing false tax returns and using stolen Social Security numbers to apply for unemployment insurance. The woman also used a different name and Social Security number to apply for and receive more than $74,500 in Federal student aid after defaulting on student loans in her own name and losing eligibility for aid. The woman was sentenced to serve 75 months in prison and was ordered to pay more than $894,000 in restitution. In addition, two people pled guilty for their roles in the scam, one of whom agreed to serve 18 months in prison and pay about $531,000 in restitution. A fourth person awaits trial.

Cameroon National Sentenced for Running Multiple Fraud Scams, Including Student Aid Fraud (New York)

A man originally from Cameroon was sentenced to 48 months in prison and was ordered to pay more than $93,000 in restitution for running numerous fraud scams, including student aid fraud. From 2011 through 2015, the man used the personally identifiable information of another person to illegally obtain more than $83,000 in student aid fraud.

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

- **Department's Draft Interim Final Rule to Delay Implementation of Borrower Defense Regulations, Notice on the Postponement of the Effective Date for the Borrower Defense Final Regulations, and Notice of Proposed Rulemaking to Further Delay, Until July 1, 2019, the Effective Date of Selected Provisions of the Final Regulations that Include Borrower Defense.** The OIG recommended excluding changes to the financial responsibility regulations from the Department's proposal to delay the effective date of the borrower defense regulations, noting that the enforcement of the financial responsibility regulations would improve FSA's processes for mitigating potential harm to students and taxpayers.
- **Department's Draft Regulatory Action Memo and Notice to Allow Additional Time for Institutions to Comply with Certain Disclosure Requirements in the Gainful Employment Regulations.** The OIG recommended that the Department not delay gainful employment regulations' requirements that institutions offering nondegree or career education programs disclose graduate employment rates and debt levels to prospective students.
- **Department's Draft Regulatory Action Memo and Gainful Employment Announcement of Alternate Earnings Appeals Deadline Notice.** The OIG commented that the Department's extension for schools to file alternate earnings appeals could be abused to avoid the consequences of the gainful employment regulations.

Goal 3

FEDERAL RESERVE NOTE
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Secretary of the Treasury
Treasurer of the United States

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 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 to protect public education funds for eligible students by identifying those who abuse or misuse Department funds and helping hold them accountable for their unlawful actions.

Audits

In support of this goal, the OIG issued four audit reports. The first audit examined whether the Alabama State Department of Education implemented a system of internal controls over calculating and reporting graduation rates sufficient to provide reasonable assurance that reported graduation rates were accurate and complete. Calculating and reporting graduation rates is a requirement of the Every Student Succeeds Act, and is considered an academic indicator to measure student achievement and school performance. This was the first audit in a series. We will share the findings of our additional work once completed. The second audit examined the internal controls the Indiana Department of Education has to prevent, detect, report, and respond to unauthorized access and disclosure of personally identifiable information of its K–12 students contained in their Statewide Longitudinal Data Systems. This was the third audit in our series. We reported the findings of the previous two audits (Oregon and Virginia) in a previous Semiannual Report. The final two audits determined whether entities previously audited had completed corrective actions to remediate our audit findings, and if not, why and whether risks still exist because they did not do so. The two auditees were the Harvey Public School District 152 in Illinois and the Wyandanch Union Free School District in New York. Below you will find summaries of the four audits.

Calculating and Reporting Graduation Rates in Alabama

Our audit found that the Alabama State Department of Education's (Alabama) system of internal control did not provide reasonable assurance that reported graduation rates were accurate and complete for the time period covered by our audit (school year 2013–2014). In addition, we found that Alabama misreported Adjusted Cohort Graduation Rate (ACGR) data to the Department because the former State superintendent decided to continue including students who earned an alternative diploma as graduates in the ACGR despite being advised by the Department that those students could not be included. As a result, Alabama's reported ACGR was not accurate and complete. This means that both Alabama and the Department are at risk of using inaccurate and incomplete data when describing and reporting on both Alabama's progress toward raising graduation rates, as well as their accountability as an academic indicator to measure student achievement and school performance.

The audit determined that (1) Alabama did not oversee or otherwise monitor local educational agencies' (LEAs') internal controls over the reliability of ACGR data, (2) Alabama's manual adjustment process controls did not provide reasonable assurance that students were accurately accounted for, and (3) Alabama's Cohort Application did not always adequately account for students in the appropriate cohort. These weaknesses occurred because Alabama did not implement a process to monitor the LEAs' systems of internal control or the LEAs' processes to ensure the accuracy and completeness of LEA data. To address these weaknesses, we made four recommendations, including that Alabama develop and implement a process to monitor the LEAs' systems of internal control and processes to ensure that data they submit are accurate and complete and that students are counted in the correct cohort, and that it review its current cohorts that have not been reported to the Department to ensure their accuracy.

Based on our findings for school year 2013–2014, we determined that Alabama's reported graduation rates for school years 2010–2011 and 2012–2013 were also inflated. To address this, we recommended that Alabama remove the alternative diploma recipients from its ACGR until it can be shown that the program is fully aligned with the State's standard diploma academic requirements and disclose to the Department known data limitations for its ACGR data for school years 2010–2011 through 2013–2014. Alabama agreed with our findings and recommendations. A02P0010

Indiana Department of Education's Protection of Personally Identifiable Information in Statewide Longitudinal Data Systems

The Department's Institute of Education Sciences provides grants to State educational agencies (SEA) to develop Statewide Longitudinal Data Systems (SLDS) that collect and maintain detailed, high-quality, student- and staff-level data that are linked across entities and provide a complete academic and performance history for each student. The grants also provide money for making these data accessible through report and analysis tools. Due to the sheer volume of personally identifiable information included in these systems, it is critical that SEAs have established and implemented internal controls to protect these vital data. To determine whether the Indiana Department of Education (Indiana) had internal controls to prevent, detect, report, and respond to unauthorized access and disclosure of personally identifiable information in its SLDS, we examined its Indiana Network of Knowledge system that Indiana developed with SLDS grant funds and that contains students' information. We found that Indiana did not provide adequate oversight of the Management and Performance Hub during the development of the Indiana Network of Knowledge system to ensure that the system met the minimum security requirements found in the Indiana Code and the Indiana Office of Technology Information Security Framework. Specifically, we found that Indiana did not ensure that the system had a System Security Plan, underwent a compliance audit and/or a risk assessment, and had its security level classified. Because Indiana did not ensure that the Indiana Network of Knowledge system met the minimum security requirements, it was not in compliance with the Institute of Education Sciences' SLDS grant requirements.

There was also no assurance that the Indiana Network of Knowledge system contained controls regarding the prevention and detection of unauthorized access and disclosure of information. In addition, we found that Indiana did not ensure that its data warehouse, which feeds data to the Indiana Network of Knowledge, met the minimum security requirements identified in the Indiana Office of Technology Information Security Framework. Specifically, Indiana's Chief Information Officer stated that there were no written policies and procedures for the protection of personally identifiable information in its data warehouse. Indiana did not begin to follow the requirements of the Indiana Office of Technology Information Security Framework until December 2016; therefore, there is no assurance that Indiana's data warehouse has the required security controls and Indiana may be unaware of vulnerabilities in its data warehouse. To address the issues identified, we made four recommendations, including that Indiana ensure that system controls are implemented to ensure the prevention and detection of unauthorized access and disclosure of personally identifiable information in the Indiana Network of Knowledge system, ensure that the system is in compliance with the terms of the approved SLDS grant and any approved grant extension requests, and ensure that system controls identified in the Indiana Office of Technology Information Security Framework are implemented in its data warehouse. Indiana neither agreed nor disagreed with our findings; however, it stated that it was strengthening controls around its own data warehouse and was committed to addressing our findings and recommendations regarding the Indiana Network of Knowledge system. A06Q0001

Followup on Previous Title I Audits

During this reporting period, we completed two audits in a series to determine whether school districts previously audited by the OIG completed corrective actions to remediate previous audit findings; if they had not, we attempted to determine why not and determine whether risks still existed because they did not complete the corrective actions. The two auditees were the Harvey Public School District 152 in Illinois and the Wyandanch Union Free School District in New York.

Harvey Public School District 152

In 2008, we reported that Harvey Public School District 152 (District 152) had significant weaknesses in its internal control over accounting for and using Title I funds. To resolve the audit, the Department required the Illinois State Board of Education (Illinois) to perform monitoring of District 152. Illinois completed the required monitoring and reported in 2011, 2012, and 2015 that District 152 still had weaknesses in internal control over the Title I program similar to the weaknesses identified in the 2008 OIG report. We evaluated the status of the required corrective actions as of June 2016 and concluded that District 152 had designed policies that should have been sufficient to remediate the previously reported findings relevant to inventory management, unallowable and inadequately documented personnel and nonpersonnel costs, and payments to excluded parties. We also concluded that District 152 implemented the policies, procedures, and practices that it designed to remediate previously reported findings of unallowable and inadequately documented personnel and nonpersonnel costs. Additionally, in 2012, Illinois started disbursing Title I funds to subrecipients based on the reimbursement method of funding. Therefore, findings of excess cash could no longer occur unless a district overstated the expenditures it reported to Illinois. Furthermore, District 152 implemented the

policies, procedures, and practices that it designed to remediate previously reported findings of payments to excluded parties. However, we found that District 152 did not always follow the policies that it designed to remediate previously reported findings of inadequate inventory management and did not design procedures to provide reasonable assurance that it submitted accurate periodic expenditure reports to the State. As a result, assets purchased with Title I funds might be lost or misused, and Illinois might reimburse District 152 for more or fewer Title I expenditures than the district incurred. To correct the identified deficiencies, we recommended that Illinois (1) require District 152 to provide evidence that it can locate the eight Title I assets that we could not locate, and, if it cannot, provide evidence proving that it properly disposed of and accounted for those assets in accordance with Illinois' equipment disposition procedures; (2) direct District 152 to implement policies and procedures for ensuring that inventory sheets and disposal reports are reviewed for completeness and accuracy (by someone other than the preparer) before the information is entered in the fixed asset database; and (3) require District 152 to provide evidence to Illinois that it is maintaining accurate and complete inventory records. Illinois agreed with our finding and our recommendations. A05Q0003

Wyandanch Union Free School District

In 2005, we reported that Wyandanch Union Free School District (Wyandanch), similar to District 152 above, had significant weaknesses in its internal control over accounting for and using Title I funds. To resolve the audit, the Department required the New York State Education Department (New York) to conduct an audit of Wyandanch to ensure that it corrected the significant internal control weaknesses. New York completed the required audit and, on June 27, 2008, reported that Wyandanch had not implemented all the corrective actions that the Department required. New York recommended essentially the same corrective actions that the Department required Wyandanch to complete to resolve the 2005 OIG audit report. We evaluated the status of Wyandanch's corrective actions as of June 2016 and concluded that Wyandanch had taken corrective actions that should be sufficient to remediate findings relevant to the issues identified in our 2005 audit. Specifically, Wyandanch had developed and implemented policies, procedures, and processes to ensure its financial management system accurately accounted for Title I funds, resulting in its Title I-relevant financial records for fiscal year 2015 being complete and accurate. Additionally, Wyandanch implemented policies, procedures, and processes for ensuring that personnel and nonpersonnel costs are adequately documented and allowable. Finally, Wyandanch generally strengthened its system of internal control over Title I funds. A05Q0005

Investigations of School Officials and Contractors

OIG investigations include criminal investigations involving bribery, embezzlement, and other criminal activity, often involving State and local education officials, vendors, and contractors who have abused their positions of trust for personal gain. Examples of some of these investigations follow.

Former Cabinet Member and Six Others Indicted in $9.8 Million Kickback, Fraud, and Money Laundering Scheme (Puerto Rico)

The former secretary of the Puerto Rico Department of Sports and Recreation, his assistant, and five others were indicted for their alleged roles in a kickback, fraud, and money laundering conspiracy involving more than $9.8 million in fraudulently awarded contracts. According to the indictment, the former secretary used his position to enter into contracts with three Puerto Rico Department of Education and Puerto Rico Public Housing Department vendors in exchange for kickbacks. The former secretary allegedly awarded federally funded contracts without a competitive bidding evaluation process and awarded contracts for services at inflated prices. Federal funds fraudulently obtained through this scheme were allegedly used to operate and promote boxing events, television shows, travel, political campaigns, and business ventures. According to the indictment, the former secretary also allegedly entered into a lease agreement with one of his co-conspirators for a facility at an inflated price and used the overpayments for kickbacks.

“The former secretary of the Puerto Rico Department of Sports and Recreation, his assistant, and fi e others were indicted for their alleged roles in a kickback, fraud, and money laundering conspiracy involving more than $9.8 million in fraudulently awarded contracts.

Former Grandview R-2 School District Office Pled Guilty to Stealing $1.6 Million (Missouri)

The former business manager for the Grandview R-2 School District pled guilty to embezzling about $1.6 million from the district. For 20 years, due to her position with the school, she had access to the school's accounts, from which she made unauthorized payments to herself. She then falsified the school district's records to conceal her crimes. In some cases, she concealed the embezzlement by inflating the reported wages of other school district employees, causing those coworkers to pay more than $13,300 in income taxes that they did not owe.

Former Grant-Goodland Public School Superintendent Indicted for $1.2 Million Fraud Scheme (Oklahoma)

The former superintendent of the Grant-Goodland Public School system was indicted on charges involving embezzlement and fraud. According to the indictment, from 2010 through 2016, the former superintendent, with assistance from a school employee, created phony invoices, purchase orders, and payment requests in the names of legitimate school district vendors, prepared and presented checks to the school board for payment of those purchases and services that were never provided, converted the checks to himself, and pocketed the money.

Education Finance Director for Providence Plan Sentenced for Embezzling More Than $742,000 (Rhode Island)

The former finance director for the Providence Plan, a nonprofit educational entity that receives Federal education and other grants for support education and other programs for adults and children in Rhode Island, was sentenced for devising and executing a scheme in which he fraudulently converted more than $742,000 of Providence Plan funds for his own use. The former director forged and issued unauthorized Providence Plan checks to CMG Enterprises, a company he controlled. He made multiple withdrawals from the company's accounts in various forms, including credit card payments, check payments, and cash withdrawals at a casino. The former official was sentenced to serve 33 months in prison and 3 years of supervised release and was ordered to pay more than $630,000 in restitution.

Former Grand Prairie Independent School District Official Pled Guilty to $600,000 Theft (Texas)

The former chief financial officer of the Grand Prairie Independent School District pled guilty to stealing more than $600,000 from the school district. From 2014 to 2015, the former chief financial officer used her position to embezzle the money. She ordered the money withdrawn from district bank accounts and had it delivered by armored truck to the district's offices. She told finance department employees that the money was for special cash awards for teachers for school supplements and for settlements in lawsuits, none of which was true.

Former Garland Independent School District Director Pled Guilty to Conspiracy Charges (Texas)

The former executive director of human resources for the Garland Independent School District pled guilty to conspiracy to commit false statements in connection with immigration documents. From 2007 through 2013, the former director conspired with outside recruiters to recruit and hire foreign teachers whom the school district did not necessarily need in exchange for kickbacks. He falsely certified that all U.S. workers who applied for certain school district positions were rejected for lawful job-related reasons in order to hire the foreign teachers. As a part of his plea agreement, the former director will pay more than $317,400 in restitution.

Former Plano Independent School District Employee Sentenced (Texas)

A former Plano Independent School District employee was sentenced to prison for stealing more than $120,000 from the school district. The former employee used the money to pay for personal items, such as storage units, tools, furniture, and electronics. She also facilitated the falsification of time sheets for one of her three children, all of whom worked for the school district at various times. The former employee was sentenced to 13 months in prison and 3 years of supervised release and was ordered to pay $120,000 in restitution.

Former Lincoln-Way School Superintendent Indicted (Illinois)

The former superintendent of Lincoln-Way Community High School District 210 was indicted for allegedly misappropriating school funds for his own benefit and concealing the district's financial deficit from the public. The former superintendent is alleged to have used at least $50,000 in district funds to build and operate a dog obedience training school that provided no benefit to the school district, misappropriated at least $16,500 by paying himself a retirement stipend that was not in his employment contract, pocketed $14,000 by claiming it was compensation for unused vacation days, and fraudulently inflated the school district's financial health by using bond funds to pay operating expenses, causing the district to assume as least $7 million in additional debt.

Investigations of Supplemental Educational Services Providers

The following are summaries of OIG criminal investigations involving the fraud, theft, and other misuse of Supplemental Educational Services (SES) funds—monies that should have gone toward tutoring and other academic enrichment activities for disadvantaged students to help improve achievement in reading, language arts, and math.

Former Chief Financial Officer of American Tutor Sentenced for $1.4 Million Tax Fraud Scheme (New Jersey)

The former chief financial officer of American Tutor, an SES provider, was sentenced to 19 months in prison and 3 years of supervised release for corporate tax evasion and aiding and assisting in the filing of a false tax return. The former chief financial officer, who is also a certified public accountant, filed a tax return on behalf of the company that contained materially false information to reduce the company's tax liability. He also prepared and filed fraudulent tax returns that excluded significant income for tax year 2010. He admitted that his fraudulent actions resulted in a tax loss of nearly $1.4 million to the Internal Revenue Service.

Teacher Pled Guilty in Rocket Learning Fraud Scam (Puerto Rico)

In a previous Semiannual Report, we noted that 51 people had been indicted for their alleged roles in an SES fraud scheme involving the tutoring company Rocket Learning. During this reporting period, a teacher pled guilty to participating in the scam. Rocket Learning and the scam participants allegedly billed the Puerto Rico Department of Education more than $954,000 for tutoring services that were never provided.

Another Teacher Sentenced for Role in Brilliance Academy Scam (Texas)

In recent Semiannual Reports to Congress, we described our investigation involving Brilliance Academy and its wholly owned subsidiary Babbage Net School, tutoring companies that received SES funds from some 200 schools in 19 States. The owners of the Illinois-based companies had pled guilty to their roles in a widespread fraud scam: they misrepresented the services that the companies provided, gave substandard educational materials to students, falsely inflated invoices for tutoring services, and distributed false student programs and improvement reports to the schools that paid the companies. In addition, the two paid bribes to school officials and others in exchange for their participation in the scam. During this reporting period, the former assistant principal and SES coordinator at Fox Tech High School was sentenced for participating in the scam. He received cash, checks, money orders, and a Caribbean cruise for two in exchange for awarding two SES contracts to Brilliance Academy. He was sentenced to serve 3 years of probation and to perform 300 hours of community service and was fined $8,000.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Federal and State Law Enforcement-Related Groups

- **FBI Cyber Crime Investigations Task Force.** The OIG is a formal member of this task force of Federal, State, and local law enforcement agencies conducting cybercrime investigations nationwide, with agents physically located in Washington, DC and Boston, MA. OIG agents are currently assisting with investigations in Alabama, Connecticut, Florida, Georgia, Louisiana, and Texas associated with this task force.

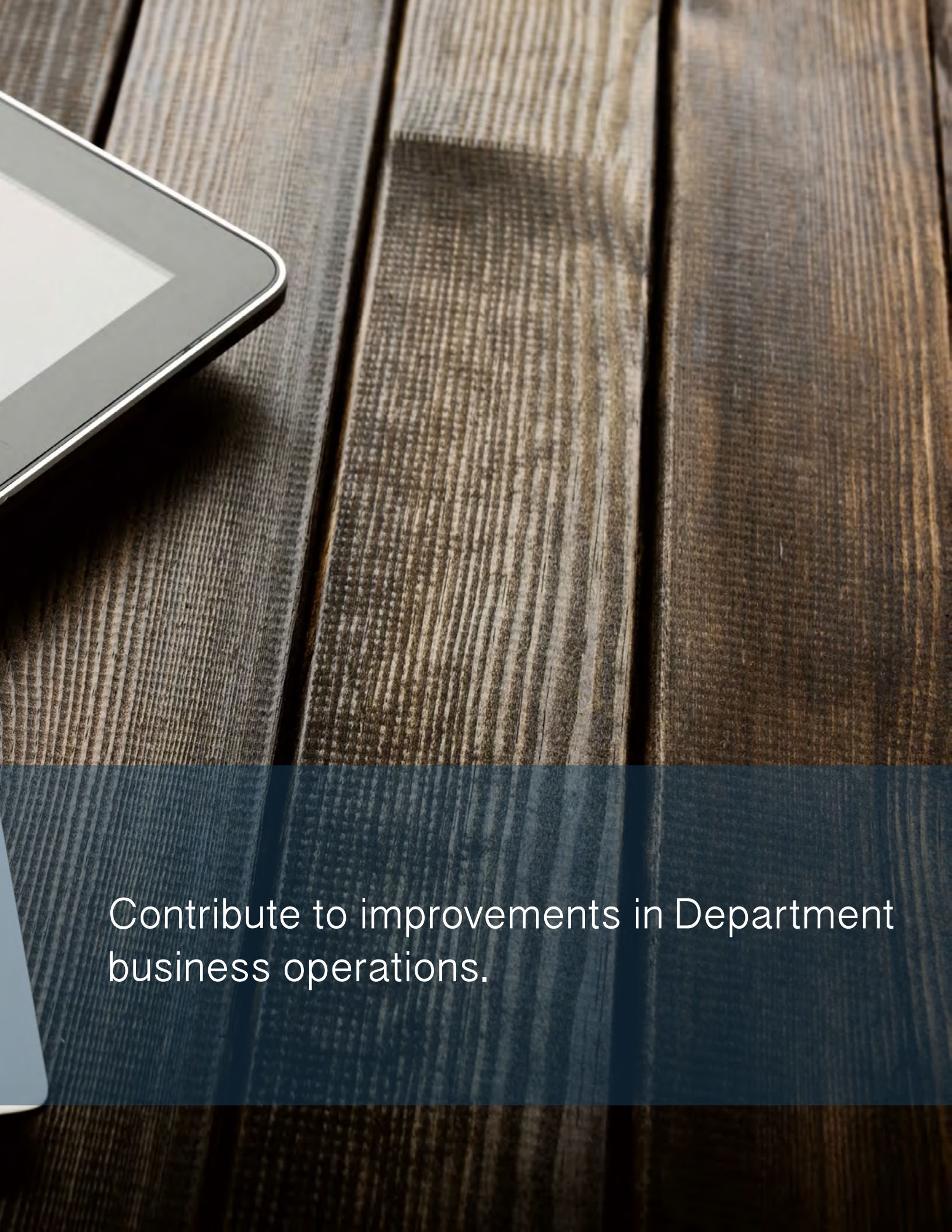
Federal and State Audit-Related Groups

- **Association of Government Accountants Partnership for Management and Accountability.** The 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.
- **Government Accountability Office's Domestic Working Group.** Inspector General Tighe serves on this working group focused on advancing accountability in Federal, State, and local government.

Review of Legislation, Regulations, Directives, and Memoranda

- **FY 2017 Professional Development for Arts Educators FAQs.** The OIG recommended clarifying terms in the FAQs.
- **Prior Approval under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements Notice of Proposed Rulemaking.** The OIG posed questions regarding how the Department would determine whether a State had failed to effectively implement its prior approval authority regarding subgrantees, has insufficient internal controls over this process, or has failed to appropriately monitor its subgrantees.

Goal 4



Contribute to improvements in Department business operations.

Effective and efficient business operations are critical to ensure that the Department effectively manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. Our reviews in this area seek to help the Department accomplish its objectives by ensuring its compliance with applicable laws, policies, and regulations and the effective, efficient, and fair use of taxpayer dollars with which it has been entrusted.

Audits and Reviews

OIG work completed over the last 6 months that contributed to this goal includes our statutory audit involving the Department's compliance with the Improper Payments Elimination and Recovery Act (IPERA), which requires Federal agencies to conduct annual risk assessments to determine which agency programs are susceptible to significant improper payments and to estimate, reduce, and recover improper payments. We also issued a response to a request from members of Congress about the Department's processes and compliance with legal standards for preserving certain electronic records as Federal records and its responsiveness to Congressional information requests. Summaries of these reports follow, as well as a summary of Inspector General Tighe's testimony before two Congressional subcommittees on the OIG's FY 2016 IPERA assessment.

Compliance with the Improper Payments Elimination and Recovery Act for FY 2016

For the third year in a row, we found that the Department did not comply with IPERA. The Department did not comply with IPERA for FY 2016 because it did not meet two of IPERA's six compliance requirements. First, the Department reported improper payment rates for the William D. Ford Federal Direct Loan Program (Direct Loan) and the Federal Pell Grant (Pell) program that did not meet the FY 2016 reduction targets it established in its FY 2015 Agency Financial Report. Second, the Department's improper payment risk assessments for its Department-managed grant programs and Federal Student Aid-managed contracting activities did not conform to the Improper Payments Information Act of 2002, as amended, and with Office of Management and Budget guidance, because it did not consider all nine required risk factors in its assessments. In addition, the Department did not report the Vocational Rehabilitation State Grants program as a program that may be susceptible to significant improper payment in its Agency Financial Report even though the Department's risk assessment showed that the program exceeded the statutory thresholds to be reported as such. The Department did, however, meet the remaining four compliance requirements. Specifically, it published an Agency Financial Report, published improper payment estimates, published a report on actions to reduce improper payments, and reported improper payment rates of less than 10 percent for the Direct Loan and Pell programs.

Our audit found that the Department's improper payment estimates, methodologies, and reporting were generally accurate and complete; however, we identifi d issues in all three areas. First, the Department needs to improve its policies and procedures over the Direct Loan and Pell programs' improper payment estimates because we found errors with how the Department included the results of five program reviews in the two programs' improper payment calculations. However, we concluded that correcting for these errors for the Direct Loan and Pell programs would have increased the FY 2016 improper payment rates by only 0.17 and 0.42 percent, respectively. Second, we found the Department needs to clarify its methodologies for estimating improper payments because the methodologies are not explicit regarding improper payments that are applicable to one award year that were identified through a sample of recipients drawn from another award year. Third, we found that the Department did not report in its FY 2016 Agency Financial Report as required the results of four of the five implemented improper payment corrective actions. In addition, the Department's FY 2016 Agency Financial Report contained unsupported information regarding the low volume of improper payments related to its contracts.

Finally, based on our review, we determined that the Department recaptured more improper payments for FY 2016 than it did in FY 2015, and that it adequately assessed improper payment risks associated with its two high-priority programs: Direct Loan and Pell. The Department also adequately described its oversight and financial controls to identify and prevent improper payments. We made 10 recommendations to help the Department comply with IPERA and improve its improper payment reporting, estimates, and methodologies. Our recommendations included that the Department (1) submit to Congress, as required, proposed statutory changes necessary to bring the Direct Loan program into compliance with IPERA; (2) submit to Congress a plan describing actions the Department will take to bring the Pell program into compliance and actions the Department will take to ensure that its risk assessments conform with improper payments requirements; and (3) identify the Vocational Rehabilitation program in the FY 2017 Agency Financial Report as a program that may be susceptible to significant improper payments and produce and report an improper payment estimate for the program. The Department indicated that it would take actions to respond to our recommendations. A04Q0011

Special Reports to Congress

During this reporting period, we completed a review at the request of members of Congress. A summary of this review follows.

Electronic Records Preservation and Cooperation with Congressional Information Requests

In June, Senator Claire McCaskill and Senator Tom Carper requested that the OIG review the Department's processes and compliance with applicable legal standards for preserving certain electronic records as Federal records and the Department's cooperation with Congressional requests. Specifically, the Senators asked the OIG to determine whether any Department official directed or advised any employee to delay or withhold a response to a Congressional request for information; whether any Department official directed or advised any employee or Congressional staff member that the Department would provide requested documents or information only to a Committee chair; whether the Department issued any guidance related to the use of smartphone applications that support encryption or the ability to automatically delete messages after they are read or sent for work-related communications; whether any Department official failed to abide by Federal law or guidance from the National Archives Records Administration or the Department regarding the preservation of electronic records; and whether the OIG previously provided recommendations to the Department regarding its management of the preservation of electronic records and compliance with all Congressional document requests.

Based on our review, we found no evidence that the Department was directing its employees not to respond to Congressional requests for information or that it was responding only to requests from a Committee chair. We also found very limited use on Department-issued smartphones of applications that allow for encryption or automatic deletion of messages. We found that the Department relies primarily on its training of employees to inform them of Federal records requirements. Finally, we found that the Department has limited ability to detect whether Federal records are created using personal accounts and has not issued specific guidance on how to capture and preserve records created on these types of smartphone applications.
Read the Response

Investigations

The following is a summary of two OIG investigations related to our fourth goal.

Former State Department Employee Pled Guilty to $198,000 Fraud (Virginia)

A former employee in the U.S. Department of State's bureau of Diplomatic Security pled guilty to defrauding the Federal government of about $198,000 in funds paid under the Federal Employee's Compensation Act, commonly referred to as worker's compensation. While receiving worker's compensation, the former employee made false statements on various government forms about his income, omitting that he was the president and majority owner of a company that received more than $2 million in government contracts and salary. In his guilty plea, the former Federal employee agreed to pay $3,650 to the U.S. Department of Education because he made false statements about his income that allowed him to receive Federal Pell grants that he was not entitled to receive.

Internal Revenue Service Employee Charged in Student Loan Unemployment Deferment Scam (New Jersey)

An Internal Revenue Service employee was charged with making false statements on student loan deferment forms in connection with two parent PLUS student loans totaling more than $86,000. The employee allegedly submitted unemployment deferment requests, falsely certifying that she was unemployed in order to discharge the loans, when in fact she was employed with the Internal Revenue Service. The employee also used her work email address on the deferment requests and submitted some of them by an Internal Revenue Service fax machine.

Congressional Testimony

Below is a summary of testimony that the Inspector General presented before Congress during this reporting period.

Improper Payments

In May, Inspector General Tighe testified before a joint hearing of the U.S. House of Representatives Committee on Oversight and Government Reform Subcommittee on Government Operations and Subcommittee on Intergovernmental Affairs on the findings of the OIG's recent IPERA audits. The Inspector General noted that the Department was making progress in its efforts to measure improper payments but that challenges remain. The Inspector General shared the findings of our FY 2014 and FY 2015 IPERA audits, noting that in both years, the Department did not comply with IPERA because it reported improper payment rates that did not meet reduction targets for the Direct Loan program. She also highlighted other findings from those reports, including that the Department's improper payment estimates and estimation methodologies for the Pell and Direct Loan programs were inaccurate, incomplete, and unreliable, and the estimates deviated from methodologies that the Office of Management and Budget approved. She shared with the subcommittee that in response to those audits, the Department revised its estimation methodologies which resulted in significant increases in the improper payments estimates for FY 2016, but those new estimates were much more realistic. The Inspector General then provided details of the findings of our FY 2016 IPERA review and highlighted 4 of the 10 recommendations for corrective action included in the report. Inspector General Tighe also discussed the Internal Revenue Service Data Retrieval Tool and the fraudulent activity that led to it being disabled in March. The Inspector General shared with the subcommittee that the OIG was conducting a criminal investigation into the matter with the Treasury Inspector General for Tax Administration and the Internal Revenue Service Criminal Investigations Division. Read the Testimony

Non-Federal Audit Activities

The Inspector General Act of 1978, as amended, 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

The Office of Management and Budget's "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" requires entities such as State and local governments, universities, and nonprofit organizations that spend $750,000 or more in Federal funds in one year to obtain an audit, referred to as a "single audit." Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in specific Federal student aid programs are required to undergo annual audits performed by independent public accountants in accordance with audit guides that the OIG issues. 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. The Council of the Inspectors General on Integrity and Efficiency issued the following guidance regarding the classification of quality control review results.

- Pass—audit documentation contains no quality deficiencies or only minor quality deficiencies that do not require corrective action for the audit under review or future audits.
- Pass with Deficiencies—audit documentation contains quality deficiencies that should be brought to the attention of the auditor (and auditee, as appropriate) for correction in future audits.
- Fail—audit documentation contains quality deficiencies that affect the reliability of the audit results or audit documentation does not support the opinions contained in the audit report and require correction for the audit under review.

During this reporting period, we completed 26 quality control reviews of engagements conducted by 24 independent public auditors or offices of firms with multiple offices.

We concluded that 5 (19 percent) were Pass, 6 (23 percent) were Pass with Deficiencies, and 15 (58 percent) were Fail. In addition, we referred one independent public auditor to the independent public auditor's State Board of Accountancy for possible disciplinary action. We made this referral due to the independent public auditor's unacceptable work.

OTHER ACTIVITIES

Participation on Committees, Work Groups, and Task Forces

Department

- **Department of Education Senior Assessment Team.** The OIG participates in an advisory capacity on this team that provides oversight of the Department's assessment of internal controls and related reports. The team also 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 Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."
- **Department of Education Investment Review Board and Planning and Investment Review Working Group.** The OIG participates in an advisory capacity in these groups that review technology investments and the strategic direction of the information technology portfolio.
- **Department Human Capital Policy Working Group.** The OIG participates in this group that 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. Formerly the chair of CIGIE's Information Technology Committee, Inspector General Tighe is now the at-large member of CIGIE's Executive Council. Inspector General Tighe is also a member of CIGIE's Audit Committee, and the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee.
- OIG staff served as chair of the Council of Counsels to the Inspectors General until January 2017, and vice chair of the CIGIE Data Analytics Working Group of the Information Technology Committee. OIG staff are also members of CIGIE's Assistant Inspector General for Investigations Subcommittee, the Cyber Security Working Group, the Grant Reform Working Group, the OIG Human Resources Directors' Roundtable, and the New Media Working Group. OIG staff lso participate in the following.
    - **Financial Statement Audit Network.** OIG staff have a leading role in this Government-wide 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 Treasury on the annual audit of the Government's financial statements.

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

Federal and State Audit-Related Groups and Entities

- **Intergovernmental Audit Forums.** OIG staff chair and serve as officers of a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work 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 served as the Federal representative for the National Forum, vice chair of the Southwestern Forum, and officers of the Southeastern Forum, the Southwestern Forum, and the New York/New Jersey Forum.
- **Interagency Working Group for Certification and Accreditation.** The OIG participates in this group that 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.** The OIG participates in this group that shares best practices in data mining and evaluates data mining and risk modeling tools and techniques that detect patterns indicating possible fraud and emerging risks.

Reviews of Legislation, Regulations, Directives, and Memorandum

- **Department Directive, Handbook for Cybersecurity Incident Response and Reporting.** The OIG made technical comments.
- **Department Directive, Handbook for External Audit Process.** The OIG made technical comments.
- **Department Directive, Computer Matching Agreement.** The OIG made technical comments.
- **Department Directive, Space Management.** The OIG made technical comments.
- **Human Capital Policy, Within-Grade Increases.** The OIG made technical comments.

Required Reporting

Required Tables and Appendices

The following provides acronyms, definitions, and other information relevant to the tables that follow.

Acronyms and Abbreviations Used in the Required Tables

C.F.R.	Code of Federal Regulations
FFEL	Family Federal Education Loan
FSA	Federal Student Aid
HEA	Higher Education Act of 1965, as amended
IES	Institute of Education Sciences
IG Act	Inspector General Act of 1978, as amended
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OCO	Office of Communications and Outreach
ODS	Office of the Deputy Secretary
OESE	Office of Elementary and Secondary Education
OPE	Office of Postsecondary Education
OSDFS	Office of Safe and Drug Free Schools
OSERS	Office of Special Education and Rehabilitative Services
OUS	Office of the Under Secretary
OVAE	Office of Vocational and Adult Education
Recs	Recommendations
RMS	Risk Management Service
RSA	Rehabilitation Services Administration

Definitions

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.

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.

Special Project Reports. Special projects include OIG work that is not classified as an audit, attestation, inspection, or any other type of alternative product. Depending on the nature and work involved, the special project may result in a report issued outside the OIG. Information presented in the special project report varies based on the reason for the special project (for example, response to congressional inquiry or other evaluation and analysis). The report may contain suggestions.

Questioned Costs. As defined by the Inspector General Act of 1978 (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 Website Availability Policy

OIG final issued products are generally considered to be public documents, accessible on OIG's website 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, the OIG redacts exempt information from the product so that nonexempt information contained in the product may be made available on the OIG website.

Required Reporting

The following pages presents summary tables and tables containing statistical and other data as required by the IG Act, the Inspector General Empowerment Act of 2016, and the National Defense Authorization Act for Fiscal Year 2008.

Section	Requirement	Table Number	Page Number
-	Statistical Summary of Audit and Other Report Accomplishments (Fiscal Year 2017: October 1, 2016, through September 30, 2017)	1	48
-	Statistical Summary of Investigations Accomplishments (Fiscal Year 2017: October 1, 2016, through September 30, 2017)	2	49
Section 5(a)(1) and 5(a)(2) of the IG Act	Significant Problems, Abuses, and Deficiencies Related to the Administration of Programs and Operations	11	65
Section 5(a)(3) of the IG Act	Significant Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed (April 1, 2017, through September 30, 2017)	4	52
Section 5(a)(4) of the IG Act	Matters Referred to Prosecutive Authorities (April 1, 2017, through September 30, 2017)	2	49
5(a)(5) and 6(c)(2) of the IG Act	Summary of Instances in Which Information or Assistance Was Refused or Not Provided	11	65
Section 5(a)(6) of the IG Act	Listing of Reports Audit and Other Reports and Products on Department Programs and Activities (April 1, 2011, through September 30, 2017)	5	53
Section 5(a)(8) of the IG Act	Questioned Costs Audit and Other Reports With Questioned or Unsupported Costs	6	54
Section 5(a)(9) of the IG Act	Better Use of Funds Audit and Other Reports With Recommendations for Better Use of Funds	7	55
Section 5(a)(10) of the IG Act	Unresolved Reports Unresolved Audit and Other Reports Issued Before April 1, 2017	8	56
Section 5(a)(10)(B) of the IG Act	Summary of Audit Reports for Which No Agency Comment Was Returned to the OIG Within 60 days of Issuance	11	65
Section 5(a)(10)(C) of the IG Act	Outstanding Unimplemented Recommendations Before Reporting Period, with Aggregate Potential Cost Savings	8	56
Section 5(a)(11) of the IG Act	Significant Revised Management Decisions	11	65
Section 5(a)(12) of the IG Act	Significant Management Decisions with Which the OIG Disagreed	3	51

Section	Requirement	Table Number	Page Number
Section 5(a)(13) of the IG Act	Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996	11	65
Section 5(a)(14)-(16) of the IG Act	Peer Review Results	10	64
Section 5(a)(17) of the IG Act	Investigative Reports Issued Number of Persons Referred to the U.S. Department of Justice Number of Persons Referred to State and Local Prosecuting Authorities Indictments and Criminal Informations That Resulted from Prior Referrals to Prosecuting Authorities	2	49
Section 5(a)(18) of the IG Act	Description of the Metrics Used for Developing the Investigative Data for the Statistical Tables Under 5(a)(17)	2	49
Section 5(a)(19) of the IG Act	Report on Each Investigation Conducted by the OIG Involving a Senior Government Employee (GS-15 or Above) Where the Allegations of Misconduct Were Substantiated	11	65
Section 5(a)(22)(B) of the IG Act	Description of Investigations Involving Senior Government Employees (GS-15 or Above) That Were Closed but Not Disclosed to the Public	9	64
Section 5(a)(20) of the IG Act	Description of Instances of Whistleblower Retaliation	11	65
Section 5(a)(21) of the IG Act	Description of Attempt by Agency to Interfere with OIG Independence	11	65
Section 5(a)(22)(A) of the IG Act	Description of Audits Closed but Not Disclosed to the Public	11	65
Section 845 of the National Defense Authorization Act for Fiscal Year 2008	Contract-Related Audit Products with Significant Findings	11	65

Table 1. Statistical Summary of Audit and Other Report Accomplishments (FY 2017: October 1, 2016, through September 30, 2017)

Accomplishment	October 1, 2016–March 31, 2017	April 1, 2017–September 30, 2017	FY 2017 Total
Audit Reports Issued	8	7	15
Inspection Reports Issued	0	0	0
Questioned Costs (Including Unsupported Costs)	$0	$712,681,125	$712,681,125
Recommendations for Better Use of Funds	$0	$0	$0
Other Products Issued	5	0	5
Reports Resolved By Program Managers	14	4	18
Questioned Costs (Including Unsupported Costs) Sustained	$661,336	$242,816	$904,152
Unsupported Costs Sustained	$121,311	$0	$121,311
Additional Disallowances Identifi d by Program Managers	$478,220	$286,636	$764,856
Management Commitment to the Better Use of Funds	$0	$0	$0

Table 2. Statistical Summary of Investigative Accomplishments (FY 2017: October 1, 2016, through September 30, 2017)

Accomplishment	Description of the Metric	October 1, 2016–March 31, 2017	April 1, 2017–September 30, 2017	FY 2017 Total
Investigative Cases Opened	Number of cases that were opened as full investigations or converted from a complaint or preliminary inquiry to a full investigation during the reporting period.	44	25	69
Investigative Cases Closed	Number of investigations that were closed during the reporting period.	37	32	69
Cases Active at the End of the Reporting Period	Number of investigations not closed before the end of the reporting period.	255	254	N/A
Investigative Reports Issued	Number of Reports of Investigation issued during the reporting period.	52	36	88
Number of Persons Referred to State and Local Prosecuting Authorities	Number of individuals and organizations formally referred to State or local prosecuting authorities for prosecutorial decisions during the reporting period.	3	2	5
Number of Persons Referred to the U.S. Department of Justice	Number of individuals and organizations formally referred to the U.S. Department of Justice for prosecutorial decisions.	35	11	46
Indictments and Criminal Informations that Result from Prior Referrals to Prosecuting Authorities	Number of individuals who were indicted or for whom a criminal information was fi ed during the reporting period.	35	50	85
Convictions/Pleas	Number of criminal convictions, pleas of guilty or nolo contendere, or acceptance of pretrial diversions that occurred during the reporting period.	31	34	65
Fines Ordered	Sum of all fines ordered during the reporting period.	$1,016,800	$9,400	$1,026,200
Restitution Payments Ordered	Sum of all restitution ordered during the reporting period.	$2,234,627	$4,811,365	$7,045,992

Accomplishment	Description of the Metric	October 1, 2016–March 31, 2017	April 1, 2017–September 30, 2017	FY 2017 Total
Civil Settlements/ Judgments (number)	Number of civil settlements completed or judgments ordered during the reporting period.	7	1	8
Civil Settlements/ Judgments (amount)	Sum of all completed settlements or judgments ordered during the reporting period.	$29,876,322	$24,486	$29,900,808
Recoveries	Sum of all administrative recoveries ordered by the Department or voluntary repayments made during the reporting period.	$243,765	$15,567,082	$15,810,847
Forfeitures/Seizures	Sum of all forfeitures/seizures ordered during the reporting period.	$4,100,000	$0	$4,100,000
Estimated Savings	Sum of all administrative savings or cost avoidances that result in a savings to, or better use of funds for, a program or victim during the reporting period. These are calculated by using the prior 12 month period of funds obtained or requested and then projecting that amount 12 months forward.	$0	$0	$0
Suspensions Referred to Department	Number of suspensions referred to the Department during the reporting period.	5	0	5
Debarments Referred to Department	Number of debarments referred to the Department during the reporting period.	7	6	13

Table 3. Significant Management Decisions with Which the OIG Disagreed

Issue	Description
Gainful Employment Nonconcurrence	Since the 1998 reauthorization of the HEA, the OIG has recommended that Congress define the requirement that certain institutions are eligible to participate in the Title IV student financial assistance only if, among other requirements, they prepare students for gainful employment in a recognized occupation. Unfortunately, Congress never acted. The Gainful Employment regulations established such a definition of gainful employment. The OIG notified the Department that delaying distribution of the Gainful Employment disclosures can harm prospective students. Since schools remain obligated to complete and post on their websites the disclosure template by July 1, 2017, the OIG recommended that the distribution requirements under 34 C.F.R. § 668.412(e) remain in effect. Since schools should have completed the disclosure template and schools will already be directly engaged with students as they enter into a financial commitment to attend a school, the burden of complying with §668.412(e)(3) to provide the template to prospective students should be negligible. This would ensure that students are fully informed before enrollment and before Title IV funds are committed or disbursed. This is consistent with the Secretary's concern when announcing renegotiation of the Borrower Defense and Gainful Employment regulations that the regulations did not do enough to protect students. Granting what would effectively be an 18-month extension of regulatory requirement negatively impacts program integrity.
Borrower Defense Nonconcurrence	The OIG recommended excluding the changes to the financial responsibility regulations in 34 C.F.R. §668.171 and §668.175 from the proposal to delay the effective date of the Borrower Defense regulations. The financial responsibility provisions include tools to improve the Department's oversight of schools and avoid the costs to students and taxpayers associated with precipitous school closures, including situations unrelated to the qualification of students for borrower defense discharges. The OIG has identified the oversight and monitoring of Title IV program participants as one of the Department's most serious management challenges. As noted in the OIG's FY 2017 Management Challenges report, the Department needs to improve its oversight and monitoring of program participants and take effective actions when problems are identified. In the recent audit report, "FSA's Processes for Identifying At-Risk Title IV Schools and Mitigating Potential Harm to Students and Taxpayers" (A09Q0001), the OIG highlighted some of the benefits that the new regulations concerning schools' financial responsibility could provide FSA in its monitoring efforts and improve FSA's ability to identify schools at risk of unexpected closure. The OIG noted that the enforcement of these provisions would improve FSA's processes for mitigating potential harm to students and taxpayers by giving FSA the ability to obtain financial protection from schools based on information that is broader and more current than information currently collected from schools.

Table 4. Significant Recommendations Described in Previous Semiannual Reports to Congress on Which Corrective Action Has Not Been Completed (April 1, 2017, through September 30, 2017)

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 Completed	Projected Action Date
FSA	Audit A04O0014 New	FSA Oversight of the Development and Enhancement of Information Technology Products *(SAR 73, page 52)*	6/30/16	8/15/16	5	0	12/31/17
ODS	Audit A06O0001 New	Management Certifications of Data Reliability *(SAR 72, page 57)*	2/11/16	5/9/16	1	4	7/5/18

Table 5. Audit and Other Reports on Department Programs and Activities (April 1, 2017, through September 30, 2017)

Office	Report Type and Number	Report Title	Date Issued	Questioned Costs (Includes Unsupported Costs)	Number of Recs
FSA	Audit A05M0009	Western Governors University Was Not Eligible to Participate in the Title IV Programs	9/20/17	$712,681,125	9 (and 1 suggestion)
OCFO	Audit A04Q0011	U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2016 (FSA is also designated as an action official)	5/12/17	-	10
OCFO	Audit A06Q0001	Protection of Personally Identifiable Information in Indiana's Statewide Longitudinal Data System (IES is also designated as an action official)	7/10/17	-	4
OESE	Audit A02P0010	Calculating and Reporting Graduation Rates in Alabama	6/14/17	-	6
OESE	Audit A04N0010	Idaho State Department of Education's Oversight of Online Charter Schools (OSERS is also designated as an action official)	9/28/17	-	2
OESE	Audit A05Q0003	Harvey Public School District 152: Status of Corrective Actions on Previously Reported Title I-Relevant Control Weaknesses	5/18/17	-	5
OESE	Audit A05Q0005	Wyandanch Union Free School District: Status of Corrective Actions on Previously Reported Title I Findings	5/19/17	-	-
Total				**$712,681,125**	**36 (and 1 suggestion)**

Table 6. Audit and Other Reports with Questioned or Unsupported Costs

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 questioned or unsupported costs during this reporting period.

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	2	$415,980	$0
B. Which were issued during the reporting period	1	$712,681,125	$0
Subtotals (A + B)	3	$713,097,105	$0
C. For which a management decision was made during the reporting period	1	$242,816	$0
(i) Dollar value of disallowed costs		$242,816	
(ii) Dollar value of costs not disallowed		$0	
D. For which no management decision was made by the end of the reporting period	2	$712,854,289	$0

Table 7. Audit and Other Reports with Recommendations for Better Use of Funds

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 was made before the commencement of the reporting period	0	$0
B. Which were issued during the reporting period	0	$0
Subtotals (A + B)	0	$0
C. For which a management decision was made during the reporting period:		
Dollar value of recommendations that management agreed to	0	$0
Dollar value of recommendations that management did not agreed to	0	$0
D. For which no management decision has been made by the end of the reporting period	0	$0

Table 8. Unresolved Reports and Unimplemented Recommendations Before April 1, 2017

The Department tracks audit resolution and the implementation of corrective actions related to OIG recommendations in its Audit Accountability and Resolution Tracking System. The Office of the Chief Financial Officer maintains this system, which includes input from OIG and responsible program officials. The Audit Accountability and Resolution Tracking System includes recommendation-level detail for all internal reports where the Department is directly responsible for implementing corrective action. The system includes less detailed information on the status of individual recommendations made to external auditees, such as State educational agencies, local educational agencies, institutions of higher education, other grantees and other participants in the Federal student aid programs, and contractors. We generally do not estimate monetary benefits in our internal audits of the Department's management of its programs and operations, other than to identify better uses of funds.

We consider an audit resolved when the OIG and agency management or contracting officials agree on actions to be taken on reported findings and recommendations.

The Department commented on all reports within 60 days of issuance.

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
FSA	Philander Smith College's Administration of Title IV Student Financial Assistance Programs Needs Improvement A06F0018	The audit determined that the school often did not comply with the Title IV program requirements reviewed. As a result, it did not meet the administration capability standards for Title IV programs. **Current Status:** FSA informed us that the audit is currently under the appeal process.	11/2/06	Yes	20	$476,167
FSA	Technical Career Institute's Administration of the Federal Pell Grant and Federal Family Education Loan Program A02H0007	The audit found that although the school met requirements for institutional, program, and student eligibility and for award calculations, it improperly paid FFEL lenders to pay off ts students' loans and prevent default, and it had internal control deficiencies in its administration of the Title IV programs. **Current Status:** FSA informed us that the audit is currently under the appeal process.	5/19/08	Yes	13	$6,458
FSA	Special Allowance Payments to Sallie Mae's Subsidiary, Nellie Mae, for Loans Funded by Tax-Exempt Obligations A03I0006	The audit found that although its billings for the special allowance payments under the 9.5 percent floor complied with laws, Sallie Mae's billing for Nellie Mae did not comply with other requirements for the 9.5 percent floor calculation. **Current Status:** FSA informed us that the audit is currently under the appeal process.	8/3/09	Yes	3	$22,378,905

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
FSA	Ashford University's Administration of the Title IV HEA Programs A05I0014	The audit found that, for its distance education systems, the school designed a compensation plan for enrollment advisors that provided incentive payments based on success in securing enrollment, did not properly perform Federal student aid calculations, did not return Federal student aid funds timely, retained student credit balances without proper authorizations, did not always disburse Federal student aid funds in accordance with Federal regulations or its own policy, and did not maintain supporting documentation for students' leaves of absence. **Current Status:** FSA informed us that the audit is resolved but all corrective actions have not been completed.	1/21/11	Yes	13	$29,036
FSA	Saint Mary-of-the-Woods College's Administration of the Title IV Programs A05K0012	The audit found that the school had been ineligible to participate in Federal student aid programs since 2005 because at least half of its students were enrolled in ineligible correspondence courses. **Current Status:** FSA informed us that the audit is currently under the appeal process.	3/29/12	Yes	19	$42,362,291
FSA	Metropolitan Community College's Administration of Title IV Programs A07K0003	The audit found that the school did not establish that students had high school diplomas or their equivalent or passed an approved Ability-to-Benefit test that was properly administered, resulting in improper disbursements; did not ensure that students whose records we reviewed were meeting the satisfactory academic progress requirement; disbursed funds to ineligible students; did not properly administer its Federal Work Study program; and did not properly calculate return of Title IV funds. **Current Status:** FSA informed us that the audit is resolved but all corrective actions have not been completed.	5/15/12	Yes	22	$232,918
FSA	Colorado Technical University's Administration of Title IV Programs A09K0008	The audit determined that the school did not comply with Federal requirements regarding student eligibility for Title IV funds, the identification of withdrawn students, and authorizations to retain credit balances. **Current Status:** FSA informed us that it is currently working to resolve this audit.	9/21/12	No (proposed resolution date about 60 days)	8	$173,164

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
FSA	SOLEX College's Administration of Selected Aspects of the Title IV Programs A05O0007	The audit found that the school improperly disbursed Federal student aid to students who were enrolled in programs that were not qualified to participate in Federal student aid programs under the HEA. **Current Status:** FSA informed us that the audit is currently under the appeal process.	9/30/15	Yes	6	$1,795,500
FSA	Final Independent Auditor's Report Fiscal Years 2016 and 2015 Financial Statements Federal Student Aid (Budget Service also designated as an action official) A17Q0002 New	The OIG's contracted auditors identifi d two significant deficiencies in internal control over financial reporting: controls over the Department's processes for modeling activities need improvement, and that management needs to mitigate persistent information technology deficiencies. The auditors also found one instance of noncompliance with Treasury law related to referring delinquent student loans to Treasury. **Current Status:** FSA informed us that the audit is resolved, but all corrective actions have not been completed.	11/14/16	Yes	13	$0
IES	The Institute of Education Sciences' Contractor Personnel Security Clearance Process A19R0002 New	Our audit found that IES did not effectively implement Department requirements for the contractor personnel security screening process. **Current Status:** IES did not provide status information for this audit during this reporting period.	3/18/17	Yes	11	$0
OCFO	Audit of the University of Illinois at Chicago's Gaining Early Awareness and Readiness for Undergraduate Programs Project (OPE also designated as action official) A05D0017	The audit of the school's GEAR UP program found that it did not serve the number of participants it was funded to serve and that its partnership did not provide the required matching funds. **Current Status:** OCFO did not provide status information for this audit during this reporting period.	1/14/04	Yes	4	$1,018,212

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
OCFO	The North Carolina Department of Public Instruction's Administration of its Race to the Top Grant (OESE also designated as an action official) A05O0005	The audit found that the North Carolina Department of Public Instruction could improve its administration of its Race to the Top grant by strengthening its system of internal control over contracting and by more closely monitoring the fi cal activity of participating local educational agencies and charter schools to ensure that they complied with all applicable Federal requirements. **Current Status:** OCFO did not provide status information for this audit during this reporting period.	7/13/15	Yes	6	$47,508
OCFO	Massachusetts Department of Elementary and Secondary Education's Oversight of Local Educational Agency Single Audit Resolution A09P0001	The audit found that the Massachusetts Department of Elementary and Secondary Education's oversight of local education agency single audit resolution was not sufficient, as it did not always work collaboratively or communicate effectively with local educational agencies that had audit findings to ensure that they took timely and appropriate corrective action; did not have internal controls that were sufficient to ensure that it provided adequate oversight of the local educational agency audit resolution process; and did not appear to make local educational agency audit resolution a high priority. **Current Status:** OCFO did not provide status information for this audit during this reporting period.	1/25/16	Yes	5	$0
OCFO	The Tennessee Department of Education's Administration of a Race to the Top Grant A05O0004	The audit determined that, for the specific areas reviewed, the Tennessee Department of Education generally administered its Race to the Top grant in accordance with program requirements and its approved grant application. However, it did not ensure that one of the two local educational agencies included in our review developed and implemented fi cal control and fund accounting procedures that provided reasonable assurance that the local educational agency accounted for and spent Race to the Top funds in accordance with Federal requirements and the approved grant application. **Current Status:** OCFO did not provide status information for this audit during this reporting period.	3/30/16	Yes	11	$242,816

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
OCFO	Protection of Personally Identifiable Information in the Commonwealth of Virginia's Longitudinal Data System (Note: Audit was transferred from IES to OCFO.) A02P0006	The audit identified internal control weaknesses in the State's system that contains students' personally identifiable information that increases the risk that the State will be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. **Current Status:** OCFO did not provide status information for this audit during this reporting period.	7/12/16	No (proposed resolution date unknown)	3	$0
OCFO	Protection of Personally Identifiable Information in Oregon's Statewide Longitudinal Data System (Note: Audit was transferred from IES to OCFO.) A02P0007	The audit found that the Oregon's statewide longitudinal data system had a lack of documented internal controls in the system that increases the risk that the State will be unable to prevent or detect unauthorized access and disclosure of personally identifiable information. **Current Status:** OCFO did not provide status information for this audit during this reporting period.	9/27/16	No (proposed resolution date unknown)	3	$0
OCFO	Illinois State Board of Education's Oversight of Local Educational Agency Single Audit Resolution A02P0008 New	The audit found that the Illinois State Board of Education did not provide effective oversight to ensure that local educational agencies took timely and appropriate action to correct single audit fi dings. **Current Status:** OCFO informed us that the audit is resolved, but all corrective actions have not been completed.	11/7/16	Yes	7	$0
OCFO	Final Independent Auditors' Report Fiscal Years 2016 and 2015 Financial Statements U.S. Department of Education (OCIO and Budget Service also designated as action officials) A17Q0001 New	The OIG's contracted auditors identifi d two significant deficiencies in internal control over financial reporting. This included controls over the Department's processes for modeling activities need improvement, and that management needs to mitigate persistent information technology deficiencies. The auditors also found one instance of noncompliance with Treasury law related to referring delinquent student loans to Treasury. **Current Status:** OCFO did not provide status information for this audit during this reporting period.	11/14/16	Yes	13	$0

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
OCIO	The U.S. Department of Education's Federal Information Security Modernization Act of 2014 Report For Fiscal Year 2016 (Report addressed to ODS and OUS) A11Q0001 New	We found that although the Department and FSA made some progress in strengthening their information security since FY 2015, weaknesses remained, leaving their systems vulnerable to security threats. **Current Status:** OCIO informed us that the audit is resolved, but all corrective actions have not been completed.	11/10/16	Yes	15	$0
ODS	Nationwide Assessment of Charter and Education Management Organizations A02M0012	The audit determined that charter school relationships with charter management organizations and education management organizations pose three significant risks to Department program objectives: (1) financial risk, (2) risk associated with a lack of accountability over Federal funds, and (3) performance risk. The audit also found that the Department did not have effective internal controls to evaluate and mitigate the risk that charter school management and education management organization pose to Department program objectives. **Current Status:** ODS informed us that the audit is resolved but all corrective actions have not been completed.	9/29/16	Yes	5	$0
OESE	Philadelphia School District's Controls Over Federal Expenditures (OSERS, OSDFS, and RMS also designated as action officials) A03H0010	The audit determined that, for the period of our review, the school district did not have adequate fi cal controls in place and that expenditures from selected Federal education grants funds were either unallowable or inadequately supported. We found that the school district did not have written policies and procedures for certifying personnel costs charged to Federal grants, supplanted State and local funds with Federal funds, did not adequately enforce its policies and procedures for a number of its internal operations, and did not have written policies and procedures for a number of fi cal processes. **Current Status:** OESE informed us that the audit is currently in the Department's audit closure process.	1/15/10	Yes	27	$138,769,898

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
OESE	Puerto Rico Department of Education's Award and Administration of Personal Services Contracts (OVAE, OSDFS, and RMS also designated as action officials) A04J0005	The audit found that Puerto Rico lacked sufficient controls to ensure compliance with State and Federal laws in awarding personal service contracts and in ensuring that those services were allowable and adequately supported. **Current Status:** OESE informed us that the audit is resolved, but all corrective actions have not been completed.	1/24/11	Yes	11	$15,169,109
OESE	Audit of the Department's Oversight of the Rural Education Achievement Program (OCO also designated as an action official) A19P0006	The audit found that improvements were needed within the Department's Office of School Support and Rural Programs' monitoring of Rural Education Achievement Program grantees' performance and use of funds. Despite the need for improvements in monitoring, we concluded that the Department's rural education coordination efforts appear to be effective. **Current Status:** OESE informed us that the audit is resolved, but all corrective actions have not been completed.	9/12/16	Yes	10	$0
OPE	The Western Association of Schools and Colleges Senior College and University Commission Could Improve Its Evaluation of Competency-Based Education Programs to Help the Department Ensure Programs Are Properly Classified for Title IV Purposes A05P0013	The audit found that the Commission did not have internal controls in its accreditation process that could provide reasonable assurance that it properly classified (for Federal student aid purposes) the methods of delivery of student learning for competency-based education programs. **Current Status:** OPE informed us that the audit is resolved, but they are currently working to complete the audit.	8/2/16	Yes	6	$0
OSERS	Pennsylvania's Department of Labor and Industry, Office of Vocational Rehabilitation's Case Service Report Data Quality A03P0002	The audit found that the State agency's lack of adequate internal controls over data quality contributed to its reporting of unverifiable and incorrect data on its case services reports. **Current Status:** OSERS informed us that the audit is currently in the Department's audit closure process.	3/2/16	Yes	5	$0

Office	Report Title and Number	Summary of Report and Status of Audit/Recommendations	Date Issued	Audit Resolved	Number of Recs	Dollar Value of Aggregate Potential Cost Savings
OSERS	Rehabilitation Services Administration's Internal Controls Over Case Service Report Data Quality A03N0006 New	Our audit found that RSA did not have adequate internal controls to provide reasonable assurance that data State vocational rehabilitation agencies submitted in their RSA-911 reports were accurate and complete. **Current Status:** OSERS informed us that the audit is resolved but not all corrective actions have been completed.	12/8/16	Yes	7	$0

Table 9. Description of Investigations Involving Senior Government Employees (GS-15 or Above) That Were Closed But Not Disclosed to the Public

Description
The OIG received anonymous allegations that a deputy assistant secretary had allowed employees to be promoted to the GS-13 level without the appropriate qualifications, and that the official was aware of an employee using Government resources for non-Governmental business purposes, yet did not take appropriate disciplinary action. The OIG investigation did not substantiate the allegations. The deputy assistant secretary resigned during the course of the investigation.

Table 10. Peer Review Results

Description
No peer review reports were issued during this reporting period. As reported in SAR 72, the last peer review of OIG Audit Services was completed in 2015. We received a rating of pass with no outstanding recommendations. As reported in SAR 71, the last peer review of the OIG Investigation Services was completed in 2015. We received a rating of pass with no outstanding recommendations. In 2016 and as reported in SAR 72, our peer review of the U.S. Department of Labor OIG resulted in a rating of pass. There were no outstanding recommendations.

Table 11. Other Reporting Requirements

Requirement	Results
Significant Problems, Abuses, or Deficiencies Related to the Administration of Programs and Operations	Nothing to Report
Summary of Instances in Which Information Was Refused or Not Provided	Nothing to Report
Summary of Audit Reports for Which No Agency Comment Was Returned to the OIG within 60 Day of Issuance	Nothing to Report
Significant Revised Management Decisions	Nothing to Report
Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996	Nothing to Report
Report on Each Investigation Conducted by the OIG Involving a Senior Government Employee (GS-15 or Above) Where the Allegations of Misconduct Were Substantiated	Nothing to Report
Description of Instances of Whistleblower Retaliation	Nothing to Report
Description of Attempt by the Agency to Interfere with OIG Independence	Nothing to Report
Audits Closed But Not Disclosed to the Public	Nothing to Report
Contract-Related Audit Products With Significant Findings	Nothing to Report

Acronyms and Abbreviations

CIGIE	Council of the Inspectors General on Integrity and Efficiency
Department	U.S. Department of Education
FSA	Federal Student Aid
FY	fiscal year
HEA	Higher Education Act of 1965, as amended
IPERA	Improper Payments Elimination and Recovery Act
LEA	local educational agency
OIG	Office of Inspector General
SEA	State educational agency
SES	Supplemental Educational Services

FY 2018 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 that the OIG identified for FY 2018.

1. Improper Payments, meeting 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 and grantees.
4. Data Quality and Reporting, specifically program data reporting requirements to ensure that accurate, reliable, and complete data are reported.

For a copy of our FY 2018 Management Challenges report, visit our website at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

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://oighotline.ed.gov

We encourage you to use the automated complaint form on our website; however, you may call toll-free or write the Office of Inspector General.

Inspector General Hotline
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(1-800-647-8733)

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

You may make a report anonymously.

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