Management Challenges for Fiscal Year 2006

2005 marks the 25th anniversary of the U.S. Department of Education (Department), with its mission to ensure equal access to education and to promote educational excellence throughout the nation, as well as to improve the management, efficiency, and accountability of federal education programs and activities. The U.S. Congress has entrusted the Department with increasing sums of taxpayer dollars to fulfill this mission. The Department's funding has grown five-fold, from approximately $14 billion for fiscal year (FY) 1981 to over $71 billion for FY 2005. The Department exercises stewardship over these taxpayer dollars and has an obligation to carry out this responsibility with diligence. America's taxpayers and students require and deserve nothing less.

For nearly a quarter of a century, effective financial management of its programs and operations has been a fundamental challenge for the Department. In the 1990s, the Government Accountability Office (GAO) cited the Department's student financial assistance programs as "high risk," noting their significant vulnerability to waste, fraud, and abuse.

Since 2002, the Department has made noteworthy progress in improving its financial management systems and information technology (IT) security. The Department received a clean audit opinion for FY 2002, FY 2003, and FY 2004. In 2004, the Department won the President's Quality Award for Financial Management, and received a "green" score on financial management from the Office of Management and Budget, signifying that it had satisfied the requirements of the *President's Management Agenda* for that area. In January 2005, GAO removed the student financial assistance programs from its "high risk" list. These are achievements for which the Department should be commended. However, additional steps should be taken for continuous improvement of the Department's financial management accountability.

While the Department's improved systems are helping it to identify a number of problem areas and possible misappropriations of federal funds, the Department has much to do to fully achieve effective oversight, accountability, and enforcement throughout its programs and operations. To improve its stewardship of the taxpayer dollars with which it has been entrusted, the Department must increase its diligence to prevent waste, fraud, and abuse. For example, the Office of Inspector General (OIG) has recently found:

- Widespread improper payments in the Migrant Education Program, which has distributed more than $1.5 billion in federal funds since FY 2000.
- Although a Department internal review found that between fiscal years 2001 and 2004, $25.6 million was awarded to potentially ineligible Hispanic-Serving Institutions, the Department has not yet taken immediate action to fix the problem or recover misappropriated funds.
- Failure to appropriately monitor the expenditure of grant funds in various instances to ensure that grantees comply with federal statutes and regulations.
- Failure to provide required oversight to some Department contracts and contractors, including inability to account for contract deliverables.
- Ongoing deficiencies in internal and external audit follow-up processes leave the Department susceptible to risks that related programs are not being effectively managed and Department funds are not being used as intended.

To correct these problems, the Department has implemented numerous actions since the last reporting period. It has established a new Internal Control and Evaluation staff group to assist in the review of the monitoring of programs, continues with initiatives and corrective action plans to identify high-risk grantees, implemented a procurement training program for Contracting Officer's Representatives, implemented data mining techniques to identify improper payment risks, and adapted program monitoring procedures. While these are positive actions, the Department still lacks an overall strategy to improve accountability.

The *Reports Consolidation Act of 2000* requires OIG to annually identify and summarize the top management and performance challenges facing the Department, as well as to provide information on the Department's progress in addressing those challenges. This report summarizes those key areas where effective stewardship is warranted. While this report discusses the progress the Department is making, it is evident that additional focus, attention, and emphasis are needed.

The Department must continue to make the goal of effective stewardship of taxpayer dollars a priority. It must establish effective accountability of its grantees, its program participants, its contractors, and its employees. Only by emphasizing oversight and enforcement can the Department provide effective stewardship over the hundreds of billions of dollars supporting its programs and operations.

Following are some specific areas in which the Department faces the challenge of effective accountability of its programs and operations.

Program Accountability

The Challenge—Student Financial Assistance

The Department's student financial assistance programs are large and complex. The loan and grant programs rely upon over 6,000 postsecondary institutions, more than 3,000 lenders, 35 guaranty agencies, and many contractors. The size and scope of the programs have increased greatly in recent years, with total program dollars doubling in the last 10 years alone. Continued developments in the modes of education delivery (e.g., non-traditional terms, distance education) and virtual paperless electronic delivery of program funds bring new challenges to ensure adequate oversight to identify and manage risks. With approximately $70 billion awarded annually through the student financial assistance programs and an outstanding loan portfolio of over $400 billion, the Department must ensure all entities involved in the programs are adhering to statutory and regulatory requirements. The Department's Office of Federal Student Aid (FSA) must provide adequate program monitoring to reduce fraud and abuse in these programs.

The Department's responses to OIG audits have shown that stewardship remains a challenge for the Department, as it has not taken sufficient actions to protect federal funds or recover funds to which entities were not entitled. Examples include:

- In February 2005, we issued our audit report on Direct Consolidation Loans. We found the Department's procedures did not ensure that all of an applicant's eligible loans were consolidated in a Direct Consolidation Loan. When a loan holder failed to return a loan verification certificate (LVC) time, or failed to provide all the information requested on the LVC, the Department did not take effective action to ensure that the applicant's loan was consolidated. In addition, the Department provided inappropriate guidance to applicants when their loan holders failed to return timely or complete LVCs.

- In 1997, OIG reported a problem in regard to foreign school Federal Family Education Loan (FFEL) borrowing. The problem persists today. An example is the case of an individual who pled guilty to student financial aid fraud in February 2003 after obtaining $161,000 in FFEL funds by falsely claiming that he and his brother were enrolled at a university in the United Kingdom. Our investigation developed information that the individual was responsible for the submission and/or preparation of an additional 2,370 loan applications requesting disbursement of approximately $43.8 million. Additionally, an OIG audit in August 2005 found that two guaranty agencies responsible for approximately 79 percent of all foreign school loans did not have policies and procedures in place to provide compliance with Dear Colleague Letter G-03-348. This Dear Colleague Letter was issued specifically to provide assurance that borrowers, who are receiving FFEL disbursement checks directly, were indeed enrolled at the foreign institution.

The Department's Progress. FSA has agreed to improve its management and to develop and implement consistent oversight procedures among its regions. In December 2004, OIG and FSA representatives initiated the OIG/FSA Joint Fraud Initiative—a proactive approach to identify and reduce fraud and abuse in federal student financial assistance programs.

The Challenge—Risk Management of Elementary and Secondary Education Programs

The funds the Congress has provided to elementary and secondary programs have grown from $6.9 billion in FY 1980 to nearly $38 billion in FY 2005. Identifying and taking corrective action to detect and prevent fraudulent activities by state and local employees, as well as addressing accountability and compliance issues by program participants, remains a challenge for the Department. Some recent examples follow.

- An OIG audit of the Wyandanch Union Free School District in New York found that Wyandanch's records for $6.6 million of Title I and Title II expenditures from July 1, 1999, through June 30, 2004, were unauditable. Specifically, we noted that Wyandanch had weak controls over its accounting functions, including reconciliations, reclassifications, and recording of expenditures for Title I and Title II funds.
- An OIG audit of telecommunications charges at the New York City Department of Education found approximately $1.5 million (75 percent of sampled transactions from July 1, 1999, through June 30, 2003) that could not be supported.
- A federal task force consisting of OIG, the Federal Bureau of Investigation (FBI), Internal Revenue Service/Criminal Investigation Division, U.S. Department of Agriculture, and the Texas Education Agency developed information that led to the conviction and sentencing of a number of officials of a charter school in Texas for their roles in defrauding federal and state government agencies. Our investigation found that the school misreported student attendance data and consequently received funding for which it was not entitled. From academic year 1999–2000 ending through academic year 2001–02, the school received approximately $2,566,565 in federal funding.
- OIG conducted both an audit and an investigation related to the accountability of Title I funds by the Orleans Parish School Board (Orleans Parish). The audit found that Orleans Parish did not properly account for nearly $69.3 million of Title I funds from July 1, 2001, through December 31, 2003. Our investigation, conducted jointly with the FBI and the New Orleans

Police Department, uncovered a $70,000 kickback scheme. Seven former employees of Orleans Parish have pled guilty for their roles in the scheme to date.

- A recent OIG audit of the Migrant Education Program administered by the Puerto Rico Department of Education found that from a sample of 171 enrolled students, all were determined to be ineligible. In May 2003, the Department visited the Puerto Rican department, and although the team examined eligibility certificates, it did not test the accuracy of the data. Had the Department performed such testing, the inaccuracy and fabrication of enrollment data most likely would have been uncovered. Also, we are currently performing Migrant Education Program audits in Georgia, Oklahoma, and Arkansas, and reviewing allegations regarding inflated migrant student counts in a number of other states. Increased awareness by program managers regarding their responsibility to oversee programs carefully, rather than to focus exclusively on technical assistance, would help prevent these losses and protect program integrity.

The Department's Progress. The Department has made risk management a priority. Its interoffice Risk Management Team, under the leadership of the Under Secretary, is undertaking projects to address accountability and compliance issues, as identified by OIG audits, referrals, and single audits conducted by nonfederal auditors. It works with program offices to designate grantees as "high-risk" when the situation warrants and has dedicated a weekly meeting to risk management issues. In addition, the Department has sent multidisciplinary teams into key locations, as identified through OIG audits, to review and assess the progress the "high-risk" entity is making in addressing its weaknesses.

The Challenge—Unsolicited Grants and Congressional Earmarks

Unsolicited grants are awards made by the Department, in most cases, as a result of grantee initiative. Such awards do not result from formal Department solicitations for applications. Complications can arise with unsolicited grants, as many recipients of these funds tend to be first-time participants in federal education programs. They are often unfamiliar with applicable regulations and require additional direction, guidance, and support with the compliance processes. In FY 2004, unsolicited grants totaled more than $47 million for 59 grantees. The Department must ensure that unsolicited grant applications receiving awards are genuinely unsolicited, contrary to the evidence in some of our recent audits.

Like unsolicited grants, congressional earmarks do not result from formal solicitations for applications. Congress earmarked specific education appropriations totaling nearly $400 million for 1,175 local projects in FY 2005, an increase of more than 40 percent over the previous year. The Department is required to ensure that recipients of its funds use them in accordance with applicable laws and regulations. However, the Department has stated it does not have enough staff to administer and properly monitor the recipients of congressional earmarks. It should be noted that some grant projects that begin as unsolicited grants receive congressional earmarks in subsequent years.

The Department's Progress. The Department plans to develop a toolkit to help new grantees properly administer their grant programs and to continue to re-engineer its grants monitoring process.

The Challenge—Data Reliability

Data reliability is both a compliance issue and a performance issue. For example, the *No Child Left Behind Act*, which ties funding directly to student achievement and accountability, requires states to report on performance in many areas. The utility of this reporting, and ultimately funding decisions, depends on the collection of reliable data. Without reliable data, the Department cannot make effective decisions on its programs, or know if the funds it disburses are indeed reaching the intended recipients. OIG has performed a number of audits of Title I, Part A, and the *Carl D. Perkins Vocational and Technical Education Act* education programs and concluded that management controls must be strengthened at the local, state, and federal levels to ensure that data are complete, accurate, and reliable.

The Department's Progress. The Department recognized the need to improve its data quality and data reliability, and, in FY 2003, launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network is expected to provide state educational agencies and the federal government the capacity to transfer and analyze information about education programs.

Operations Accountability

The Challenge—IT Capital Investment

The Department anticipated its FY 2006 IT capital investment portfolio will be $385.8 million. It is critical that the Department have a sound information technology investment management control process that can ensure that technology investments are appropriately evaluated, selected, justified, and supported. The Department needs to continue to improve its capital planning and investment control oversight. The Department has focused significant attention on this area and has made an effort to make this process more efficient. In the past few months, the Department has revised the charter of the Investment Review Board (IRB) and restructured the Planning and Investment Review Working Group, the working group that supports the IRB. It is premature to judge the effectiveness of these changes.

Many critical IT projects are pending, such as the Oracle 11i project. In 2004, OCFO and FSA announced plans to consolidate their separate platforms into one functional financial management system, using version 11i of Oracle Federal Financials, by October 2006. However, in February 2005, we were informed that the Department had decided to forego this consolidation. Although this decision is bound to mitigate significant risks associated with the consolidation and changes in interfacing systems, the initiative is still quite complex and high risk. We have recommended, due to the growing complexity and costs for IT projects, the Department consider, at least for its most major investments, arranging for an independent, professional assessment of those projects as part of its capital investment process. While the Department appears to be routinely including Earned Value Management in its business cases, as required by the Office of Management and Budget (OMB), and including Independent Verification and Validation contracts in several projects, these actions alone will not provide the type of expert, outside assessment that we believe would greatly benefit the Department's capital investment process, particularly if this assessment occurs prior to the initiation of a major project.

The Department's Progress. The Department has made an effort to better articulate the relationship between IT projects and the Department's lines of business. It has also strengthened its business cases and is doing a better job of systematically tracking its high-risk IT investments. In 2004, it also deployed the Electronic Capital Planning and Investment Control system, which will assist in the management of IT projects across the Department.

The Challenge—IT Systems

The Department is required to adequately manage and safeguard IT assets and meet e-government requirements. Its 60 IT systems comprise a number of complex and costly investments that are essential to conducting ongoing business and meeting the agency's core mission. The Department needs to complete its development of a well-defined enterprise architecture, practice sound system analysis, and design concepts and ensure that robust system acquisition and development life cycle methodologies are in place and adhered to. Currently, there is a lack of common understanding of the life cycle of systems development processes across the agency, and varied methods of life cycle development execution have led to inefficient use of both time and resources. The Department must continue moving forward in ensuring that its systems are secure, in accordance with the *Federal Information Security Management Act of 2002*, in order to protect the data they contain and the operations they support. Lastly, the Department must ensure that it is effectively managing its transition to governmentwide system solutions and in addressing OMB's Line of Business initiative, a governmentwide analysis of five lines of business supporting the *PMA* goal of expanding electronic government.

The Department's Progress. The Department has embarked on several modernization efforts that have the potential to increase business efficiency and improve customer service. It is moving forward with its ongoing system development and consolidation efforts planned for FY 2006. It has also devoted time and resources to enhance security for its systems, including formally certifying most of its general support systems and major applications. We noted that the process did not adequately identify the residual risks that Department officials were accepting at the time of system certification, and the Department implemented a corrective action plan. In addressing OMB's Line of Business initiative, the Department currently has an E-Authentication Program that represents its commitment to the implementation of E-Authentication and lays out the roles and responsibilities for implementing the initiative.-

The Challenge—Procurement

The Department contracts for many services that are critical to its operations, at a value of over $929 million in FY 2004 alone. The Department must improve its procurement and contract management process to ensure that it is receiving quality goods and services in accordance with the contract terms. The Department needs to use pre-award audits, strengthen its ability to clearly and completely define contract requirements, ensure effective communication between relevant contracting and program office personnel, and ensure that contractors are performing in accordance with contract terms and conditions.

The Department's Progress. In 2005, the Secretary directed the Chief Acquisition Officer and Contracts and Acquisition Management Director to develop a training program reinforcing the Department's contracting processes and applicable laws and regulations. Senior managers, contracting personnel, and relevant program office personnel will be required to attend this training. The Secretary has also directed each Principal Officer leading a program office to take immediate steps and personal responsibility for ensuring contracts are awarded properly and effectively monitored, and has designated a senior advisor reporting directly to her to oversee transformation activities to ensure effective investing and risk management of contracts.

The Challenge—Human Capital Management

Like most federal agencies, the Department will see a significant percentage of its work force eligible for retirement in 2006. The Department is also continuing to see a significant change in critical skill requirements for many of its staff. Identification of needed action steps and prompt implementation of those action items to adequately address these work force and succession planning issues, including recruitment, hiring, and retention, is critically important. Absent sufficient well-trained and highly skilled staff, the Department cannot provide program or operations accountability. In 2004, the Department recognized that its OneED plan, which it developed in 2001 in response to the *President's Management Agenda*, was not a comprehensive human capital plan, and it developed and began implementing a new plan in fall 2004. The development of this plan was a positive step by the Department; however, it is premature to judge the extent to which the specific needs of the individual offices are being identified or effectively addressed as the plan is being implemented.

The Department's Progress. As noted, in 2004, the Department released a new Human Capital plan that replaced its OneED report. The Department has begun implementation of the plan. In 2005, FSA, with the aid of a consultant, also developed its own Human Capital plan. The FSA plan specifically focuses on the needs of FSA and is intended to help SFA attract and retain a highly skilled and motivated work force.