

Office of Inspector General's Management Challenges for Fiscal Year 2011 Executive Summary

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires OIG to identify and summarize the most significant management challenges facing the Department each year.

Last year, we reported three management challenges: the *American Recovery and Reinvestment Act of 2009 (Recovery Act)*; student financial assistance (SFA) programs, with a focus on the *Ensuring Continued Access to Student Loans Act of 2008*; and information security and management. All three have been updated as challenges for FY 2011, and Data Quality and Reporting, previously a sub-area, is presented as a separate challenge. The FY 2011 management challenges are:

- (1) Implementation of New Programs/Statutory Changes, including the *Recovery Act* and changes to the SFA loan programs;
- (2) Oversight and Monitoring, including SFA program participants, distance education, grantees, and contractors;
- (3) Data Quality and Reporting, including program data and *Recovery Act* reporting requirements; and
- (4) Information Technology Security.

Implementation of New Programs and Statutory Changes

New programs or changes to existing programs often require the development of new guidance, grant applications, or other documents, new competitions, and other activities. Technical assistance and outreach activities are needed to ensure that recipients and/or other program participants understand the new requirements and any new responsibilities. Internal training efforts are required to ensure that responsible U.S. Department of Education (Department) staff fully understand the requirements. These activities often must take place within very short timeframes and generally without additional resources. This places a strain on Department staff to absorb the increased workload.

Recovery Act. The *Recovery Act* provided significant additional funding to help improve the economy and enhance education reforms. This included funding for new educational programs and existing programs. The Office of Inspector General (OIG) and the Government Accountability Office (GAO) have conducted significant amounts of work at the Department, State agencies, and Local Educational Agencies (LEAs). This work identified a number of control weaknesses related to the use of funds, cash management, subrecipient monitoring, and impacts on maintaining levels of funding for education programs. We made recommendations to improve implementation of *Recovery Act* programs. The Department has taken proactive measures to coordinate the effective implementation of the *Recovery Act* and to provide technical assistance to recipients. Additional oversight and monitoring could enhance the Department's ability to ensure that Federal funds are effectively managed and that deficiencies noted in audits and other reviews are corrected timely. Congress recently authorized an additional \$10 billion for the Education Jobs Fund to be

administered by the Department. The Department must provide further guidance and assistance to recipients on this new program, which includes *Recovery Act* reporting provisions as well as the previously authorized *Recovery Act* programs, identify and obtain additional resources for program monitoring, and take timely corrective actions to address issues noted in audits and other reviews.

Changes to the SFA Loan Programs. The *Student Aid and Financial Responsibility Act (SAFRA)* prohibited the making (origination) of new Federal Family Education Loan Program (FFELP) loans after June 30, 2010. New loans will be originated under the William D. Ford Federal Direct Loan (Direct Loan) Program. The Department's challenge is to expand its capacity to originate and service the increased Direct Loan volume, train and monitor schools new to the program, and continue oversight of FFELP lenders and guaranty agencies that service the existing portfolios. If the Department's implementation of *SAFRA* is not successful, the availability and delivery of student loans may be disrupted, impacting students and their families. The Department has taken actions to prepare for the transition, including providing outreach and technical support to schools, enhancing the key information systems, contracting with additional loan servicers, hiring additional staff, and developing contingency plans. We suggested that the Department establish effective contract monitoring practices and require appropriate system testing to ensure that systems perform adequately under the increased loan volume.

Oversight and Monitoring

Effective oversight and monitoring of the Department's programs and operations are critical to ensure that funds are used for the purposes intended, programs are achieving goals and objectives, and the Department is obtaining the products and level of services for which it has contracted. This is a significant responsibility for the Department given the numbers of different entities and programs requiring monitoring and oversight, the amount of funding that flows through the Department, and the impact that ineffective monitoring could have on the students and taxpayers. Four areas are included in this management challenge—SFA program participants, distance education, grantees, and contractors.

SFA Program Participants. Effective oversight and monitoring of participants in the SFA programs under Title IV of the *Higher Education Act of 1965*, as amended (*HEA*) are needed to ensure that the programs are not subject to fraud, waste, abuse, and mismanagement. Under the President's budget, the Department expects to provide more than \$173.6 billion in grants, loans, and work-study assistance in FY 2011. Each year, approximately 14.8 million students and their families—47 percent of all students and 62 percent of full-time undergraduates—rely on the SFA programs to help fund their postsecondary educations. Participants in the SFA programs include postsecondary institutions, lenders, guaranty agencies, and third-party servicers. Our work has identified weaknesses in the Department's oversight and monitoring of these participants. The Department has taken corrective actions to address many of the recommendations contained in our prior reports. However, the Department needs to continue to assess and improve its oversight and monitoring of program participants and take effective actions when problems are identified.

Distance Education. Distance education refers to courses or programs offered through telecommunication, such as through Internet connection with a postsecondary institution. The flexibility offered is popular with students pursuing education on a non-traditional

schedule. Many institutions offer distance education programs as a way to increase their enrollment. Management of distance education programs presents a challenge for the Department and school officials because of limited or no physical contact to verify the student's identity or attendance. OIG audit work has found that for distance education programs, schools face a challenge in determining when a student attends, withdraws from, or drops a course. Attendance is critical because it is used to determine the student's eligibility for Federal student aid and to calculate the return of Federal student aid if the student withdraws from or drops out. Our investigative work has also found that those interested in defrauding the Federal student aid programs find it easier to enroll numerous times under different names, to falsify information on the Free Application for Federal Student Aid, and to initiate other schemes to receive funds illegally. Also, some program requirements for residential programs do not translate clearly for distance education programs, and guidance is not available to address these issues. The Department needs to develop requirements specific to distance education and to increase its oversight of schools providing programs through distance education.

Grantees. Effective monitoring and oversight is essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our work has identified a number of weaknesses in grantee oversight and monitoring. We have found pervasive fiscal control weaknesses among a number of grantees, weaknesses in grant payback programs, as well as fraud committed by LEA and charter school officials. The Department is responsible for monitoring the activities of grantees to ensure compliance with applicable Federal requirements and achievement of performance goals. The Department has taken corrective actions to address many of the recommendations contained in our reports. However, the Department needs to continue to assess and improve its oversight and monitoring of grantees and take effective actions when issues are identified.

Contractors. The Department relies heavily on contractor support to accomplish its mission and to ensure the effective operations of its many systems and activities. The Department spends more than \$1 billion each year on contracts for products and services. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. OIG reports have identified numerous deficiencies in the area of contract monitoring and recommendations for corrective action. The Department has taken action to address many of the issues noted. A critical issue hampering significant improvement, however, is the shortage of appropriately qualified staff to adequately monitor contractor performance. The Department needs to ensure its human capital plans address this critical area.

Data Quality and Reporting

The Department, its grantees, and subrecipients must have controls in place and effectively operating to ensure that accurate, reliable data are reported. Data are used by the Department to make funding decisions, to evaluate program performance, and to support a number of management decisions. Under the *Recovery Act*, data reported provide transparency and allow access by the general public as to how funds are being spent. Two areas are included in this management challenge—program data reporting and *Recovery Act* reporting requirements.

Program Data Reporting. State educational agencies (SEAs) annually collect data from LEAs and report various program data to the Department. The Department evaluates

program data to make critical funding and other management decisions. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. Establishing more consistent definitions for data terms will enhance reporting accuracy and comparability.

Recovery Act Reporting Requirements. The *Recovery Act* places a heavy emphasis on accountability and transparency, including reporting requirements related to the awarding and use of funds. All recipients and subrecipients are mandated to provide information about their awards on www.federalreporting.gov, a publicly available Web site authorized by the statute. The new reporting requirements required Federal, State, and local agencies to quickly develop the systems and infrastructure to collect and report the required information. The Department must educate recipients about the reporting requirements, assess the quality of the reported information, and use the collected information effectively to monitor and oversee *Recovery Act* programs and performance. Our initial work has noted a number of weaknesses in controls over data quality and reporting, both externally at SEAs and LEAs, and internally at the Department. Ensuring that accurate and complete data are reported is critical to achieving the transparency goals of the *Recovery Act*.

Information Technology Security

The Department collects, processes, and stores a large amount of personally identifiable information regarding employees, students, and other program participants. OIG has identified repeated problems in IT security and noted increasing threats and vulnerabilities to Department systems and data. For the last 3 years, OIG's IT audits have identified management, operational, and technical security controls that need improvement to adequately protect the confidentiality, integrity, and availability of Department systems and data. We have identified security weaknesses in the incident handling process and procedures, personnel security controls, and configuration management. Compromise of the Department's data would cause substantial harm and embarrassment to the Department and may lead to identity theft or other fraudulent use of the information.

An Additional Area of Emphasis—Improper Payments

One additional area will be a focus of Department and OIG activity for FY 2011 and beyond—improper payments. Across the Federal Government, agencies reported nearly \$100 billion in improper payments for FY 2009. The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. A number of new requirements related to improper payments were issued in FY 2010. In November 2009, the President signed an Executive Order entitled, Reducing Improper Payments and Eliminating Waste in Federal Programs, to reduce improper payments by holding agencies accountable. In March 2010, a Presidential Memorandum entitled, Finding and Recapturing Improper Payments, was issued to expand the use of recovery audits. In July, the *Improper Payments Elimination and Recovery Act of 2010* was passed to amend the *Improper Payments Information Act of 2002*, incorporating changes to requirements for identifying and reporting improper payments. In addition to actions required by the Department, there are new requirements for OIG to monitor and evaluate Department activities related to improper payments. To view the full report, go to:

<http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>