Office of Inspector General's (OIG) Management Challenges for Fiscal Year 2012
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 the OIG to identify and report annually on the most serious management challenges the Department faces. The Government Performance and Results Modernization Act of 2010 requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges.

Last year we presented four management challenges: implementation of new programs/statutory changes, oversight and monitoring, data quality and reporting, and information technology security. All of the prior management challenges remain challenges for FY 2012. The first FY 2011 challenge, implementation of new programs/statutory changes, which incorporated aspects of the American Recovery and Reinvestment Act of 2009 (Recovery Act), and the Ensuring Continued Access to Student Loans Act of 2008, has been incorporated into the oversight and monitoring challenge. In addition, we have added a new challenge related to improper payments.

The FY 2012 management challenges are:

(1) Improper Payments,

(2) Information Technology Security,

(3) Oversight and Monitoring, and

(4) Data Quality and Reporting.

Improper Payments. A significant challenge for management in FY 2012 is the prevention, identification, and recapturing of improper payments. Across the Federal Government, agencies reported an estimated $125.4 billion in improper payments for FY 2010. The Department estimated that it had more than $1 billion in improper payments in the Pell Grant program alone in FY 2010. The Department, as well as other agencies, must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The President has established an aggressive goal to reduce government-wide improper payments by $50 billion by FY 2012. To meet these goals, various pieces of legislation were enacted and implementing guidance was issued. The Department will be challenged to take actions to meet all the new requirements, and to intensify its efforts to prevent, identify, and recapture improper payments.

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 Information Technology (IT) security and noted increasing threats and vulnerabilities to Department

systems and data. For the last several years, OIG's IT audits and Investigative Program Advisory Reports 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 could lead to identity theft or other fraudulent use of the information.

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. Five areas are included in this management challenge—student financial assistance (SFA) program participants, distance education, Recovery Act programs, grantees, and contractors.

- **Student Financial Assistance Program Participants.** The Department must provide effective oversight and monitoring of participants in the SFA programs under Title IV of the Higher Education Act of 1965 as amended 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 $189 billion in grants, loans, and work-study assistance for these programs in FY 2012. An estimated 15.9 million students and their families will 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 school, 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 funds if the student withdraws or drops out. Our investigative work has also identified numerous instances of fraud involving distance education programs. These cases involved the exploitation of vulnerabilities in distance education programs to fraudulently obtain Federal student aid. Also, some 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.

- **Recovery Act Programs.** 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. Over the last year, the challenge for the Department has moved from implementing the programs to monitoring the programs to ensure that program funds are expended for the purposes intended and that the goals and objectives of the programs are being met. In FY 2012, the Department will also be providing oversight of the winding down of the programs and funding provided. The OIG and the Government Accountability Office 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 and monitoring of Recovery Act programs. The Department has taken proactive measures to coordinate the effective implementation and oversight 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. The Department must continue to provide guidance and assistance to recipients on these programs, identify and obtain additional resources for program monitoring, and take timely corrective actions to address issues noted in audits and other reviews.

- **Grantees.** Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. In addition to our work on Recovery Act programs, our work on other grant programs has identified a number of weaknesses in grantee oversight and monitoring. We have identified pervasive fiscal control weaknesses at a number of grantees, weaknesses in a grant payback program, 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 that performance goals are being achieved. 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 current value of the Department's active contracts is nearly $5.4 billion. 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 included numerous deficiencies in the area of contract monitoring, and we have made 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. A concerted effort is needed to develop and implement an aggressive human capital plan to address this issue.

- **Data Quality and Reporting.** The Department, its grantees, and its 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, evaluate program performance, and support a number of management decisions. State education agencies (SEAs) annually collect data from LEAs and report various program data to the Department. 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 a publicly available Web site authorized by the statute. The new reporting requirements required Federal, State, and local agencies to develop the systems and infrastructure quickly 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 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. For Recovery Act programs, our work noted 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, as well as supporting effective management decisions.

The FY 2012 Management Challenges report is published by the Department's Office of Inspector General. To view the full report, go to: http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.