

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2013

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: improper payments, information technology security, oversight and monitoring, and data quality and reporting. While we noted some progress by the Department in addressing these areas, each remains as a management challenge for Fiscal Year (FY) 2013.

The FY 2013 management challenges are:

- (1) Improper Payments,
- (2) Information Technology Security,
- (3) Oversight and Monitoring, and
- (4) Data Quality and Reporting.

Improper Payments. In FY 2010, the President established a goal to avoid \$50 billion in improper payments government-wide by the end of FY 2012. Legislation was enacted and implementing guidance was issued to assist in meeting this goal. While PaymentAccuracy.gov reported that the Federal Government avoided over \$20 billion in improper payments in FYs 2010 and 2011 combined, Federal agencies still reported an estimated \$115 billion in improper payments for FY 2011. The Department estimated its Pell Grant program had more than \$1 billion in improper payments in FY 2011, making it one of 14 programs identified as "high-error" at PaymentAccuracy.gov. A recent OIG audit identified weaknesses in the methodologies and data used to calculate the estimated improper payment rates for the Title I, Pell, and Direct Loan programs. In addition, OIG audit and investigative work over the past several years have identified improper payments in the Student Financial Assistance (SFA) programs, to or by State educational agencies (SEA) and local educational agencies (LEA), to other grantees, and to contractors. 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. Overall, the Department remains challenged to meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments.

Information Technology Security. Recent audit work performed by the Department's financial statement auditor and OIG continue to identify control weaknesses within Information Technology (IT) security and systems that need to be addressed. The Department's financial statement auditor has identified IT controls as a significant deficiency for the past 3 years based on weaknesses related to access controls,

noncompliant passwords, configuration management, and administrator account monitoring. The OIG has found similar issues through its own work and identified additional weaknesses in operational, managerial, and technical security controls. Recent OIG reports identified weaknesses in compliance with configuration management, identity and access management, incident response and reporting, risk management, security training, remote access management, and contingency planning. Compromise of the Department's data or systems could cause substantial harm to the Department, negatively impact operations, and lead to identity theft or other fraudulent use of information. The Department provided corrective action plans to address the recommendations in our audits and has reported that some corrective actions are completed. However, vulnerabilities continue to exist and the Department needs to effectively address and eliminate IT security deficiencies where possible, continue to provide mitigating controls for vulnerabilities, and implement remaining planned actions to correct system weaknesses.

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 stakeholders. Four areas are included in this management challenge—SFA program participants, distance education, grantees, and contractors.

- **SFA 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. The Department estimated \$193.5 billion will be used for SFA programs in FY 2013. This level of funding will provide an estimated 15.2 million students with assistance in paying the cost of their postsecondary education. 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 and our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. 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 an 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. The OIG also reported that the control weaknesses in distance education programs increase their susceptibility to “fraud rings”—large, loosely affiliated groups of criminals that seek to exploit distance education programs in order to fraudulently obtain Federal student aid. The Department has taken corrective actions to address many of the recommendations contained in our reports. However, the Department needs to increase its monitoring and oversight of schools providing distance education and develop requirements specifically to address potential problems inherent in distance education.

- **Grantees.** Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our work on Recovery Act and other grant programs has identified a number of weaknesses in grantee oversight and monitoring. These include LEA and SEA fiscal control issues; internal control weaknesses in the Department's oversight processes; and fraud perpetrated by LEA, SEA, 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 value of the Department's active contracts as of April 2012 was approximately \$6.3 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. The OIG has identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance, primarily related to the appropriateness of contract prices and payments, and the effectiveness of contract management. OIG investigations have noted inappropriate activities by contractor employees that resulted in improper billings and payments. The Department has taken action to address many of the issues noted. However, because the Department relies on its contractors to help run its various programs and operations, effective contract management is critical for ensuring effective performance, that the Department receives the specified level and quality of products or services, and that payments made are appropriate. The Department still needs to work to ensure that it has an appropriately qualified staff in place and in sufficient numbers to provide effective oversight of its contracts.

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. SEAs annually collect data from LEAs and report various program data to the Department. 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. Ensuring that accurate and complete data are reported is critical to support effective management decisions.