Other Information

About the Other Information Section

This section includes improper payments reporting details, the schedule of spending, and views of the Office of Inspector General about the Department's management and performance challenges for FY 2014.

Improper Payments Reporting Details

This revised section has been reorganized and streamlined to make it more readable. Links have been added to provide context and increase the amount of information available in fewer pages.

The Improper Payments Information Act of 2002 (IPIA; Public Law 107-300), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA; Public Law 111-204), and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA; Public Law 112-248), requires agencies to annually report information on improper payments to the President and Congress, focusing on risk assessments, statistical sampling, and corrective actions.

Schedule of Spending

The Schedule of Spending (SOS) presents an overview of how and where agencies are spending (i.e., obligating) money for the reporting period. This schedule is prepared based on the same underlying data used to populate the Statement of Budgetary Resources (SBR). The SOS presents total budgetary resources and fiscal year-to-date total obligations for the reporting entity.

Summary of Financial Statement Audit and Management Assurances

All agencies are required to provide a summary table of Financial Statement Audit and Management Assurances for any material weaknesses reported by the agency or through the audit process.

Office of Inspector General's Management and Performance Challenges

The Office of Inspector General's Management and Performance Challenges for Fiscal Year 2014 report is summarized in this section. The FY 2014 management challenges are:

(1) Improper Payments,
(2) Information Technology Security,
(3) Oversight and Monitoring,
(4) Data Quality and Reporting, and
(5) Information Technology System Development and Implementation.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through OIG's recent audit, inspection, and investigative work. A summary of each management challenge area follows. For the full report, including the Department's response, visit the OIG web site.

Improper Payments Reporting Details

The Department is committed to preventing improper payments with front end controls, and detecting and recovering them if they occur. In FY 2013, the Department strengthened efforts to: 1) assess the risk of improper payments, 2) estimate improper payments, 3) address root causes of improper payments, and 4) recover improper payments. These four efforts are described in more detail below.

The Department implemented actions that meet the requirements of the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) (Public Law 112-248) and the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Public Law 111-204), both of which amend the *Improper Payments Information Act of 2002* (IPIA) (Public Law 107-300), as well as the Office of Management and Budget's (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. OMB also has established specific reporting requirements for agencies with programs that possess a significant risk of erroneous payments and for reporting on the results of recovery auditing activities. Agencies are required to review and assess all programs and activities to identify those susceptible to significant improper payments. The OMB guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually or that exceed $100 million.

Internal Controls and Accountability

The Department has the internal controls, human capital, and information systems and other infrastructure it needs in order to reduce improper payments to the levels the agency has targeted. As detailed in the *Analysis of Controls, Systems, and Legal Compliance* portion of this AFR, the Department's internal control framework is robust. It includes important controls at many levels of the payment process that are designed to help prevent and detect improper payments. These controls are periodically assessed for design and operating effectiveness as part of Department self-assessments of internal controls. For example:

- Schools are responsible and held accountable for recipient verification for need-based aid. FSA certifies a school's eligibility for participation in Title IV programs, conducts periodic program reviews of schools to verify compliance, and evaluates school financial statement and compliance audits to ensure any potential compliance issues or control weaknesses are resolved. In addition, FSA offices, managers, and staff responsible for these programs are accountable for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, and promptly detects and recovers any improper payments that may occur. Offices and managers are held accountable through a variety of mechanisms and controls, including annual performance measures aligned to the strategic plan, organizational performance review criteria, and individual annual performance appraisal criteria. FSA contractors are held accountable through various contract management and oversight activities and functions, control assessments, and audits.
- Department program staff work with the Department's Risk Management Service (RMS) to use the Decision Support System (DSS) Entity Risk Reviews (ERR) to assess

grantee risk and assist in the determination of special conditions for grant awards. In FY 2013, for 7 of 8 requesting Principal Offices, RMS produced 77 reports assessing risk for 1,768 applicants, including 91 competitions for new competitive grant awards, or 85 percent of all awards.

- The Department leverages continuous controls monitoring software to help detect anomalies and potential issues in agency payment-related data, including Department and FSA payments made through the core financial system.

Risk Assessments

As required by the OMB Circular A-123, Appendix C, the Department conducts an assessment of the risk of improper payments in each program at least once every three years. Below is a summary of these assessments.

Risk Assessment Results		
Program	**Last Risk Assessment**	**Risk-Susceptible?**
FSA Managed Programs		
Federal Pell Grants	FY 2011	Yes
Academic Competitiveness Grants	FY 2011	No
National Science and Mathematics Access to Retain Talent Grant	FY 2011	No
The Teacher Education Assistance for College and Higher Education Grant	FY 2011	No
Federal Supplemental Educational Opportunity Grant	FY 2011	No
Leveraging Educational Assistance Partnership/Special Leveraging Educational Assistance Partnership	FY 2011	No
Iraq and Afghanistan Service Grant	FY 2011	No
Federal Perkins Loan Program	FY 2011	No
Federal Direct Loan Program	FY 2011	Yes
Federal Family Education Loan Program	FY 2011	Yes
Federal Work-Study Program	FY 2011	No
Other Department Programs		
Other Grant Programs	FY 2013	No
Contract Payments	FY 2013	No

FSA-Managed Programs

The Department performed a risk assessment for all FSA-managed programs during FY 2011 and determined that the Direct Loan (DL), Federal Family Education Loan (FFEL), and Pell Grant programs were susceptible to risk of significant improper payments. The methodology and results can be found in the FY 2011 AFR. For each program, risk assessment meetings were held with program owners, key personnel, and other designees to discuss the following ten risk factors:

- Volume of Payments;
- Prior Improper Payments Reporting Results;
- Newness of Program or Transactions;
- Complexity of Program or Transactions;
- Level of Manual Intervention;
- Changes in Program Funding Authorities, Practices, and Procedures;
- History of Audit Issues;
- Human Capital Management;
- Nature of Program Recipients; and
- Management Oversight.

A risk rating was assigned to each factor based on established criteria. Weighted percentages were assigned to each risk factor rating based on the probability of an improper payment. An overall risk score was then computed for each program, calculated by the average of the sum of the weighted scores for each risk factor and overall rating scale.

Other Department Programs

The Department performed a risk assessment for all non-FSA grant programs during FY 2013 using the methodology described in the FY 2011 AFR. This methodology relies on an examination of the total questioned costs for each program that result from required OMB Circular A-133 Single Audits. The Department's FY 2013 assessment determined that none of these non-FSA grant programs were susceptible to significant improper payments. The specific grant programs reviewed are provided on our website.

During FY 2013, the Department also performed a risk assessment of all contract payments, including those for FSA. The risk assessment was based on the results of an ongoing FY 2013 contingency-based contract to review FY 2007 through FY 2012 contract payments as well as cyclical A-123 risk assessments. Based on an evaluation of the risk assessments and results of the recapture audit, we determined that contract payments are not susceptible to significant improper payments.

The Department intends to expand its risk assessment to other administrative payments in FY 2014, to include salary, benefits and travel payments.

Improper Payment Estimate Methodologies

FSA-Managed Programs

The Department continues to work with OMB to seek a mutually agreeable strategy for estimating improper payments in the FSA programs. While this work continues, OMB has agreed to the Department's use of proposed methodologies to estimate DL and FFEL program improper payments only for FY 2013 AFR reporting. The Department previously developed an estimation methodology for the Pell program that compares student-reported data on FAFSA with IRS data on income levels. This methodology and its limitations are described in the FY 2012 AFR. In an effort to address the limitations, FSA developed an alternate methodology for use in the DL, FFEL, and Pell programs that leverages data collected through FSA program reviews, which may include verifying student-reported income levels, student academic performance, and eligibility on the disbursed funds for a sample of students in each review. OMB has tentatively approved the reporting of provisional improper payment rates in the FY 2013 AFR derived from the alternative methodology for the DL and FFEL programs pending an overall agreement on a revised strategy for estimating improper payments across the FSA portfolio. OMB did not approve use of the alternative methodology for the Pell program, but instead, agreed that FSA use its previously approved methodology to estimate the improper payments for the Pell program using the IRS data. The methodologies for all three programs are described on the Department's improper payment website. The Department and OMB continue to work collaboratively on suitable estimation methodologies for all three programs.

The Department believes improper payment estimates from these new methodologies yield the most accurate estimates using available program data. The approach is cost effective and it maximizes integration of existing program reviews. However, the Department acknowledges that its approach is not designed to use strict random sampling techniques intended solely to estimate improper payment rates. Accordingly, the Department considers its approach to use alternative sampling methodologies. The Department will continue working with OMB to examine our current methodologies versus other approaches with a goal of agreement in FY 2014 on the most cost effective long-term methodologies for the Pell, DL, and FFEL programs.

Elementary and Secondary Education Act of 1965, Title I, Part A Program

The Department estimates improper payments for this program using questioned cost data in audit reports. This methodology is described in the FY 2012 AFR. No reduction targets are proposed since the Department's risk assessments have not identified Title I as a program susceptible to significant improper payments; Title I is included in the table because it is a Section 57 program.

Improper Payment Estimates

Improper Payment Reduction Outlook ($ in millions)															
Program or Activity	FY 2012			FY 2013			FY 2014			FY 2015			FY 2016		
	Outlays $[2]	IP %	IP $	Outlays $[3]	IP %	IP $	Outlays $[4]	IP %	IP $	Outlays $[4]	IP %	IP $	Outlays $[4]	IP %	IP $
Pell Grants[1]	33,299	2.49	829	32,338	2.26	731	34,149	2.26	772	37,245	2.26	842	33,776	2.26	763
Direct Loan	N/A	N/A	N/A	102,497	1.03	1,056	174,708	1.03	1,799	181,173	1.03	1,866	186,639	1.03	1,922
FFEL	N/A	N/A	N/A	10,817	0.00	0	8,438	0.00	0	7,594	0.00	0	7,173	0.00	0
Title I	15,208	.186	28.3	14,724	.385	56.7	14,003	.385	53.9	11,862	.385	45.7	13,327	.385	51.3

[1] Pell estimates are reported using the previously developed methodology that relies on a comparison of student data with IRS data. As a point of comparison, the FY 2013 estimate for Pell using the alternate methodology that relies on data from FSA program reviews is 2.22 percent or $718 million.

[2] The source of FY 2012 outlays for Pell is FMS as presented in the FY 2012 AFR.

[3] The source of FY 2013 outlays for all program amounts is FMS.

[4] The source of FY 2014–2016 Pell outlay amounts is the supporting documentation for the FY 2014 President's Budget request. The source of FY 2014–2016 Direct Loan and FFEL outlay amounts is the supporting documentation for the FY 2014 President's Budget request at the Mid-Session Review.

NOTE: The FY 2013 Pell overaward improper payment rate estimate is 1.56 percent or $505 million and the underaward improper payment rate estimate is 0.70 percent or $226 million. The FY 2013 Direct Loan overaward improper payment rate estimate is 0.95 percent or $974 million and the underaward improper payment rate estimate is 0.08 percent or $82 million. The FY 2013 FFEL overaward and underaward improper payment rate estimates round down to 0.000 percent or $0 million.

Root Causes and Corrective Actions

General program information, charts summarizing the root causes of improper payments by program and the corrective actions in progress or planned are presented in this section.

FSA continues to utilize the Internal Revenue Service Data Retrieval Tool (IRS DRT), which enables Title IV student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from an IRS website directly to their online Free Application for Federal Student Aid (FAFSA). In addition, FSA continues to enhance verification procedures and require selected schools to verify specific information reported on the FAFSA by student aid applicants. These and other ongoing corrective actions, such as system edits, program reviews, and compliance audits, are described in the FY 2012 AFR.

In the charts that follow for each risk-susceptible program, the root causes presented were identified through improper payment testing and categorized by the *Improper Payments Information Act of 2002* Error Category. The corrective actions presented are recommendations to the schools (for Pell Grants and Direct Loans) and financial institutions (for FFEL) for findings that resulted from FSA program reviews.

Pell Grant Program. The Pell Grant Program includes the drawdown of funds by schools and the disbursement of aid from the school to the student; year-end closeout and the return of unsubstantiated funds; return of undisbursed funds to Title IV collections from schools; and collections by the school on overpayments from recipients.

Direct Loan Program. The Direct Loan Program includes the drawdown of funds by schools, the origination of a loan and disbursement of funds from the school to the student (or their account); consolidations; servicing of the loan and collections from loan holders; and return of Title IV collections (undisbursed funds or overpayments) from schools.

Root Causes and Corrective Actions for the Pell Grant and Direct Loan Programs

IPIA Error Category	Root Cause	Corrective Actions
Documentation and Administrative Errors	Incorrect Awards based on Expected Family Contribution (EFC)	• Institutions with this finding are required to improve policies and procedures to ensure that discrepancies between student's application and Institution Student Information Report (ISIR) have been resolved prior to disbursement of funds and EFC calculations are properly calculated and verified. • Institutions with this finding are required to improve written procedures to properly complete and retain EFC Verification Worksheets. • Institutions with this finding are required to improve written procedures to properly calculate Pell Grant and/or Direct Loan disbursement amounts.

IPIA Error Category	Root Cause	Corrective Actions
	Incorrect Processing of Student Data During Normal Operations	• Institutions with this finding are required to improve policies and procedures to ensure timely updates of student data are made. • Institutions with this finding are required to improve written procedures to track and monitor the completion of clock hours and to determine whether the student is adequately progressing towards the completion of the program within the maximum timeframe.
	Student Account Data Changes Not Applied or Processed Correctly	• Institutions with this finding are required to regularly conduct staff training courses (semi-annually) designed to ensure proper and timely processing of student data. • Institutions with this finding are required to improve policies and procedures to ensure timely updates of student data are made.
Verification Errors	Ineligibility for a Pell Grant/Direct Loan (e.g., validity of high school attended, history of degrees obtained)	• Institutions with this finding are required to regularly conduct staff training courses (semi-annually) designed to prevent ineligible students from receiving Pell Grants and/or Direct Loans. • Institutions with this finding are required to implement standards of care and diligence in administering and accounting for Pell Grants and Direct Loans. Institutions are required to constantly remind Financial Aid Administrators that their fiduciary responsibilities obligate them to the highest level of due care. • Institutions with this finding are required to develop a systematic process of oversight and internal tracking to ensure correct student files are obtained and retained.
	Satisfactory Academic Progress (SAP) Not Achieved	• Institutions with this finding are required to administer semi-annual audits of student's academic transcripts. Institutions are required to calculate Grade Point Averages (GPA), course completion, and maximum timeframes to establish conformity with Title IV policies. • Institutions with this finding are required to improve procedures and control mechanisms that will ensure that students receiving Pell Grants and/or Direct Loans are eligible in accordance with policies.
	Incorrectly Calculated Return Period	• Institutions with this finding are required to improve written procedures to properly perform Return to Title IV calculations and return applicable funds to the correct party.

Root Causes and Corrective Actions for the Direct Loan Consolidation Program

IPIA Error Category	Root Cause	Corrective Actions
Documentation and Administrative Errors	Incorrect Processing of Loan Verification Certificate (LVC)	• The underlying root causes of improper payments identified were due to processing errors at the servicer level; however, the legacy servicer's contract is ending and the day-to-day servicing of newly made traditional Direct Loan Consolidations will be transferred to three of the Title IV Additional Servicers (TIVAS) platforms for FY 2014. FSA will continue to monitor the transition of the consolidation function to these servicers. • Improper payments identified through the Direct Loan Consolidation testing for FY 2013 were remediated or are in the process of being remediated.
	Processing of Duplicate LVCs	
	Loan Not Intended for Consolidation was Processed	

FFEL Program. During FY 2013, the FFEL Program made no new loan originations. FY 2013 payment types and cash flows associated with the guarantees on loans originated in prior years (i.e., the existing FFEL portfolio) include: Special Allowance (SAP), Interest Benefits, Lender Fees, Origination Fees, Consolidation Loan Rebate Fees, Reinsurance, and Account Maintenance Fees.

Root Causes and Corrective Actions for the FFEL Program

Most of the reporting errors observed during FY 2013 were the result of smaller lenders using software systems that were not updated or were processed on bank systems not designed for processing the reporting of FFEL Program loans.

IPIA Error Category	Root Cause	Corrective Actions
Documentation and Administrative Errors	Manual Entries Processed Erroneously (e.g., using only one payment code during the billing quarter when an activity occurred that required the use of two billing codes)	• Lenders with this finding are required to regularly conduct staff training courses designed to prevent incorrect usage of payment codes, including SAP codes, and incorrect calculation of average daily balances. • Lenders with this finding are required to establish procedures that eliminate reporting errors related to manual entries processed erroneously. • Lenders with this finding are required to hire sufficient staff/employees that are knowledgeable of the FFEL program. • If unable to perform servicing requirements, lenders are required to seek the services of other individuals or firms to reduce and eliminate reporting errors due to manual processing.

IPIA Error Category	Root Cause	Corrective Actions
	Incorrect Calculation of the Average Daily Balance due to Software Formula Errors	• Lenders are required to obtain and install any necessary updates to their systems to certify software formulas are accurate.

Root Cause Summary

Consistent with FY 2012, the results of the root cause analysis of improper payments across all risk-susceptible programs from FY 2013 highlighted that the underlying root cause was due to the processing errors which occur at the institution level.

Further analysis of the improper payment findings identified through testing and associated root causes resulted in the following percentages of improper payment findings in dollars, attributed to Documentation and Administrative Errors (i.e., the absolute dollar amount of improper payments identified within the category proportional to the total dollar amount of error in the sample reviewed) and Verification Errors (i.e., the absolute dollar amount of improper payments identified within the category proportional to the total dollar amount of error in the sample reviewed), as follows:

IPIA Error Category	Pell Grants	Direct Loans	Direct Loan Consolidations	FFEL
Documentation and Administrative Errors	27%	31%	100%	100%
Verification Errors	73%	69%	0%	0%

Recovery Auditing

Agencies are required to conduct recovery audits for contract payments and programs that expend one million dollars or more annually if conducting such audits would be cost effective. The following table presents a summary of the Department's cost-benefit analysis.

Additional Recovery Auditing Cost Effectiveness	
Recovery Audit Program Area	Cost Effective
Non-FSA Grant Programs	No
FSA Programs	No
Contracts	No

A comprehensive report on the cost effectiveness of the various recapture audit programs can be found in the Department's FY 2012 Report on the Department of Education's Payment Recapture Audits.

Contract Payment Recapture Audits. Although the Department has not found prior contract recovery audits to be cost effective, the Department issued a contingency-based contract during FY 2013 to audit all FY 2007 through FY 2012 contract payments for possible errors and recapture. This contract was awarded with the expectation that advances in data mining techniques might be able to detect payment errors that were previously undetected. Although the audit is ongoing, as in prior years, the results indicate a minimal level of improper payments.

The following chart presents the results of previous recapture efforts:

Contract Payment Recapture Audit Reporting ($ in millions)	
Amount Subject to Review for Current Year (2013) Reporting*	$10,027
Actual Amount Reviewed and Reported (2013)*	$10,027
Amounts Identified for Recovery (2013)	$0
Amounts Recovered (2013)	$0
% of Amount Recovered out of Amount Identified (2013)	NA
Amount Outstanding (2013)	$0
% Amount Outstanding out of Amount Identified (2013)	NA
Amount Determined Not to be Collectable (2013)	$0
% Amount Determined Not to be Collectable out of Amount Identified (2013)	NA
Amounts Identified for Recovery Prior Years (2005–13)	$0
Amounts Recovered (2005–13)	$0
Cumulative Amounts Identified for Recovery (2005–13)	$0
Cumulative Amounts Recovered (2005–13)	$0
Cumulative Amounts Outstanding (2005–13)	$0
Cumulative Amounts Determined Not to be Collectable (2005–13)	$0

*Includes FY 2007 through FY 2012 contract payments subject to the FY 2013 recapture audit contract.

The Department has not established formal recovery targets for contract payments given the consistently insignificant findings. Since FY 2004, the Department's audits have found no improper payments for recovery, and there are no outstanding overpayments to report. Should future contract payments be identified for recovery, the Department will establish recovery targets, taking into consideration the nature of the overpayments and any potential barriers to recovering funds.

Recoveries of Improper Payments. The Department works with grantees and Title IV (FSA) program participants to resolve and recover amounts identified in Compliance Audits, OIG Audits, and Department-conducted program reviews as potential improper payments. Accounts receivable are established for amounts determined to be due to the Department and collection actions are pursued. Recipients of Department funds can appeal the management decisions regarding funds to be returned to the Department, thereby delaying or decreasing the amounts the Department is able to collect. The following chart provides estimates of the amounts identified and recovered through all Compliance Audits, OIG Audits, and program reviews for FY 2011 through FY 2013. The Department anticipates recovering similar amounts in FY 2014.

Overpayments Recaptured Outside of Payment Recapture Audits ($ in millions)						
Agency Source	Amount Identified (FY 2013)	Amount Recovered (FY 2013)*	Amount Identified (FY 2012)	Amount Recovered (FY 2012)*	Cumulative Amount Identified (FY 2011–13)	Cumulative Amount Recovered (FY 2011–13)
Compliance Audit Reports	19.8	7.7	21.7	4.3	70.2	16.2
OIG Audit Reports	22.1	5.2	2.7	.2	38.3	8.8
Program Reviews	38.9	8.0	30.7	6.7	107.9	24.5

*Includes all amounts recovered during the year, not just the recoveries of amounts identified during the year.

In addition to the amounts above, for the Pell Grant Program, recoveries also occur when overpayments to students are assigned to Federal Student Aid for collection. Pell amounts recovered through student debt collection were approximately $13.0 million in FY 2013, $6.2 million in FY 2012, and $100.0 million cumulative from FY 2013 to FY 2004. While all programs may have student debts transferred to debt collection, the categorization of resulting collections as an improper payment recovery is unique to Pell. Unlike loans, Pell grant payments transferred to debt collection commonly indicate a potential improper payment at time of disbursement.

Statutory and Regulatory Barriers

The high burden of proof in the requirements of the *General Education Provisions Act* (GEPA) is a significant reason why the Department generally recovers a small percentage of the original questioned costs in audits. The GEPA, 20 U.S.C. 31 Subchapter IV § 1234a, requires the Department to establish a prima facie case for the recovery of funds, including an analysis reflecting the value of services obtained. In accordance with 20 U.S.C. 31 Subchapter IV § 1234b, any amount returned must be proportionate to the extent of harm the violation caused to an identifiable federal interest.

Schedule of Spending

The Schedule of Spending (SOS) presents the total amounts agreed to be spent by the Department broken out by (a) what money was available to spend and (b) how the money was spent. The total amounts agreed to be spent on the SOS are the same as the obligations incurred amounts reported on the Statement of Budgetary Resources (SBR). The SBR provides useful information on the budgetary resources provided to a federal agency as well as the status of those resources at the end of a fiscal year. USASpending.gov is a searchable website provided by the Office of Management and Budget (OMB) that provides information on federal awards and is accessible to the public at no cost.

Department of Education
Schedule of Spending
For the Years Ended September 30, 2013 and 2012

(Dollars in Millions)

	FY 2013		FY 2012	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
Section I: What Money Is Available to Spend?				
This section presents resources that were available to spend by the Department.				
Total Resources	$ 102,544	$ 257,395	$ 104,710	$ 270,274
Amount Available but Not Agreed to be Spent	(13,700)	-	(10,480)	(1)
Amount Not Available to be Spent	(2,507)	(11,315)	(2,142)	(18,992)
Total Amounts Agreed to be Spent	**$ 86,337**	**$ 246,080**	**$ 92,088**	**$ 251,281**
Section II: How Was the Money Spent?				
This section presents services and items purchased, is grouped by major program, and is based on outlays.				
Increase College Access, Quality, and Completion				
Credit Program Loan Disbursements and Claim Payments	$ 79	$ 141,724	$ 56	$ 154,449
Credit Program Subsidy Transfers	6,405	48,598	8,337	40,650
Federal Interest Payments	-	28,453	-	26,629
Other Credit Program Payments	3	1,692	4	2,581
Federal Student Loan Reserve Fund Valuation	279	-	419	-
Grants	38,344	-	39,364	-
Personnel Compensation and Benefits	258	-	258	-
Contractual Services	1,216	671	1,073	475
Rent, Utilities, and Communication	31	-	25	-
Land, Structures, and Equipment	4	-	4	-
Travel and Transportation	3	-	5	7
Other [1/]	2	-	3	-
	46,624	**221,138**	**49,548**	**224,791**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs				
Grants	22,334	-	22,154	-
Personnel Compensation and Benefits	72	-	74	-
Contractual Services	86	-	114	-
Rent, Utilities, and Communication	12	-	11	-
Land, Structures, and Equipment	1	-	2	-
Travel and Transportation	1	-	1	-
	22,506	**-**	**22,356**	**-**

Department of Education
Schedule of Spending
For the Years Ended September 30, 2013 and 2012

(Dollars in Millions)

	FY 2013		FY 2012	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
Ensure Effective Educational Opportunities for All Students				
Grants	16,713	-	16,889	-
Personnel Compensation and Benefits	160	-	168	-
Contractual Services	57	-	64	-
Rent, Utilities, and Communication	21	-	20	-
Land, Structures, and Equipment	1	-	2	-
Travel and Transportation	2	-	3	-
	16,954	**-**	**17,146**	-
Enhance the Education System's Ability to Continuously Improve				
Grants	1,330	-	1,179	-
Personnel Compensation and Benefits	82	-	88	-
Contractual Services	433	-	399	-
Rent, Utilities, and Communication	13	-	11	-
Land, Structures, and Equipment	1	-	2	-
Travel and Transportation	1	-	2	-
Other [1/]	16	-	1	-
	1,876	**-**	**1,682**	-
American Recovery and Reinvestment Act and Education Jobs Fund				-
Other Credit Program Payments	-	-	4	-
Grants	2,598	-	7,787	-
Personnel Compensation and Benefits	-	-	10	-
Contractual Services	15	-	-	-
	2,613	-	**7,801**	-
Total Spending	**$ 90,573**	**$ 221,138**	**$ 98,533**	**$ 224,791**
Amounts Remaining to be Spent[2/]	(4,236)	24,942	(6,445)	26,490
Total Amounts Agreed to be Spent	**$ 86,337**	**$ 246,080**	**$ 92,088**	**$ 251,281**

[1/] Other primarily consists of building rental payments, equipment purchases, and transportation.
[2/] The "Amounts Remaining to be Spent" line item shown in the schedule above represents the difference between spending and amounts agreed to be spent during the fiscal year presented. Actual spending during a particular fiscal year may include spending associated with amounts agreed to be spent during previous fiscal years, which may result in negative amounts shown for the "Amounts Remaining to be Spent" line.

Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditor's report can be found beginning on page 94 and the Department's management assurances on pages 33–42.

Summary of Financial Statement Audit

Audit Opinion: Unmodified (Unqualified)
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting—*Federal Managers' Financial Integrity Act* (FMFIA) 2

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

The Department had no material weaknesses in the design or operation of the internal control over financial reporting.

Effectiveness of Internal Control over Operations—FMFIA 2

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**	**0**

Conformance with Financial Management System Requirements—FMFIA 4

Statement of Assurance: The Department systems conform to financial management system requirements.

Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformance	**1**	**0**	**1**	**0**	**0**	**0**

Compliance with *Federal Financial Management Improvement Act*

	Agency	Auditor
Overall Substantial Compliance	**No noncompliance noted**	**Noncompliance noted**
1. System Requirements	**No noncompliance noted**	**Noncompliance noted**
2. Federal Accounting Standards	**No noncompliance noted**	**No noncompliance noted**
3. United States Standard General Ledger at Transaction Level	**No noncompliance noted**	**No noncompliance noted**

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

October 30, 2013

MEMORANDUM

TO: The Honorable Arne Duncan
Secretary of Education

FROM: Kathleen S. Tighe
Inspector General

SUBJECT: Management Challenges for Fiscal Year 2014

The Reports Consolidation Act of 2000 requires the U.S. Department of Education (Department), Office of Inspector General 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. To identify management challenges, we routinely examine past audit, inspection, and investigative work, as well as issued reports where corrective actions have yet to be taken; assess ongoing audit, inspection, and investigative work to identify significant vulnerabilities; and analyze new programs and activities that could post significant challenges because of their breadth and complexity.

Last year, we presented four management challenges: improper payments, information technology security, oversight and monitoring, and data quality and reporting. While the Department remains committed to addressing these areas and has taken or plans action to correct many of their underlying causes, each remains as a management challenge for fiscal year (FY) 2014. We also added a new challenge related to the Department's information technology system development and implementation.

The FY 2014 management challenges are:

(1) Improper Payments,
(2) Information Technology Security,
(3) Oversight and Monitoring,
(4) Data Quality and Reporting, and
(5) Information Technology System Development and Implementation.

We provided our draft challenges report to Department officials and considered all comments received. We look forward to working with the Department to address the FY 2014 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 245-6900.

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2014 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) 2014. We also added a new challenge related to the Department's information technology system development and implementation.

The FY 2014 management challenges are:

(1) Improper Payments,
(2) Information Technology Security,
(3) Oversight and Monitoring,
(4) Data Quality and Reporting, and
(5) Information Technology System Development and Implementation.

These challenges reflect continuing vulnerabilities and emerging issues faced by the Department as identified through OIG's recent audit, inspection, and investigative work. A summary of each management challenge area follows.[1]

Management Challenge 1—Improper Payments

Why This Is a Challenge

The Federal Pell Grant (Pell) program is 1 of 13 programs the Office of Management and Budget (OMB) designated as "high-priority." In addition to the Pell program, the Department identified the William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) programs as susceptible to significant improper payments. The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients.

Our recent work has demonstrated that the Department remains challenged to meet new requirements and to intensify its efforts to successfully prevent, identify, and recapture improper payments. We have identified concerns in numerous areas relating to improper

[1] The FY 2014 management challenges report will be available at http://www2.ed.gov/about/offices/list/oig/managementchallenges.html.

payments to include calculation of the estimated improper payment rate for the Pell, FFEL, and Direct Loan programs, and improper payments involving grantees and contractors. Our Semiannual Reports to Congress from April 1, 2010, through March 31, 2013, included audit reports with findings involving more than $88 million in questioned or unsupported costs.

Progress in Meeting the Challenge

The Department has revised its estimation methodologies for each of its risk-susceptible programs (Pell, Direct Loan, and FFEL); however, the Department was working to obtain OMB approval of the new methodologies as of September 2013.

The Department has identified root causes for improper payments in its risk-susceptible programs that included documentation, administrative, and verification errors. In response, the Department identified numerous corrective actions that were planned or completed. This included a voluntary data exchange program with the Internal Revenue Service that is intended to improve the accuracy of financial aid applicant's income data reported on the online Free Application for Federal Student Aid (FAFSA), enhanced system edits within the National Student Loan Data System to flag students with unusual enrollment history to assist in identifying applications for verification, and various internal controls to prevent and detect errors integrated into its Direct Loan systems and activities.

What Needs to Be Done

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. The Department should continue to work with OMB to ensure its improper payment estimation methodologies and reporting are reasonable.

Management Challenge 2—Information Technology Security

Why This Is a Challenge

Department systems contain or protect an enormous amount of confidential information such as personal records, financial information, and other personally identifiable information. Without adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks. Unauthorized access could result in losing data confidentiality and integrity, limiting system availability, and reducing system reliability.

OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. Over the last several years, IT security audits have identified controls that need improvement to adequately protect the Department's systems and data. This included weaknesses in configuration management, identity and access management, incident response and reporting, risk management, security training, plan of action and milestones, remote access management, and contingency planning. In addition, investigative work performed by the OIG has identified IT security control concerns in areas such as the FSA PIN system, mobile IT devices, malware, incident response, email spear phishing, and the Department's external email interface.

Progress in Meeting the Challenge

The Department provided corrective action plans to address the recommendations in our audits and has procured services to provide additional intrusion detection capabilities for its primary enterprise environment and related data center. The Department also awarded a contract for a continuous monitoring program of its enterprise infrastructure. It has nearly completed the requirement of implementing two-factor authentication for Government and contractor employees, and is well into the process of supplying and implementing multifactor authentication for its external business partners.

The Department also stated that it is laying a foundation for increased security oversight and efficiency with an in-house Cyber Security Operations Center, with initial operating capability planned for late FY 2013 and full capacity planned by mid FY 2014.

What Needs to Be Done

The Department needs to continue its efforts to develop more effective capabilities to respond to potential IT security incidents. It also should continue its progress towards fully implementing and enforcing the use of two-factor authentication when accessing its system. The Department should strive towards a robust capability to identify and respond to malware installations.

Management Challenge 3—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 subareas are included in this management challenge—Student Financial Assistance (SFA) program participants, distance education, grantees, and contractors.

Oversight and Monitoring—SFA Program Participants

Why This Is a Challenge

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, and abuse. In FY 2013, the Federal Government planned to provide $170.3 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2014 budget request outlines $182.9 billion to Federal student aid, including $35.3 billion in Pell Grants and over $145 billion in student loans. Nearly 14.7 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

Our audits and inspections and work conducted by the Government Accountability Office continue to identify weaknesses in Federal Student Aid's (FSA's) oversight and monitoring of SFA program participants. In addition, our external audits of individual SFA program participants frequently identified noncompliance, waste, and abuse of SFA program funds. OIG investigations have also identified various schemes by SFA program participants to fraudulently obtain Federal funds.

Progress in Meeting the Challenge

FSA identified numerous initiatives that were completed, in progress, or under consideration to assist in ensuring that SFA funds are delivered accurately and efficiently. For example, FSA provides training opportunities to financial aid professionals that are intended to enhance their ability to effectively implement the Department's student aid programs. Other planned actions include the use of automation to improve various aspects of operations. This includes projects such as an enhanced online origination tool to improve the application process; an expanded Common Origination and Disbursement system to improve funds control; and the Integrated Partner Management initiative to improve management of partner entities, ranging from schools to third party servicers, as they administer Title IV Financial Aid for Students.

What Needs to Be Done

Overall, FSA needs to continue to assess and improve its oversight and monitoring of postsecondary institutions; FFEL program guaranty agencies, lenders, and servicers; and other SFA program participants. It further needs to act effectively when issues are identified in its oversight and monitoring processes. FSA also needs to evaluate the risks within its programs and develop strategies to address risks identified to ensure effective operations. It further needs to assess its control environment, using information from OIG reviews, and other sources as appropriate, and implement actions for improvement.

Oversight and Monitoring—Distance Education

Why This Is a Challenge

Distance education refers to courses or programs offered through a technology, such as the Internet, that supports regular and substantive interaction between postsecondary students and instructors, either synchronously or asynchronously. The flexibility offered is popular with students pursuing education on a nontraditional 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. In addition, laws and regulations are generally modeled after the traditional classroom environment which does not always fit delivering education through distance education. Our investigative work has noted an increasing threat to fraudulently obtain Federal student aid from distance education programs. Our audits have identified noncompliance by distance education program participants that could be reduced through more effective oversight and monitoring.

Progress in Meeting the Challenge

The Department has taken or plans to take numerous actions in response to our work in this challenge area. For example, starting in the January 2013 FAFSA cycle (for the 2013–14 award year), applicants selected for verification that are in a distance education program must provide a notarized copy of a government-issued identification to the school. For the same FAFSA cycle, the Department began screening applicants for unusual attendance, such as a pattern of enrolling at several schools, receiving aid, and then withdrawing. In these instances, schools will need to follow up with the applicant to assure their educational purpose to attend school, or aid cannot be disbursed. The Department has also begun tracking applicants using the same email and IP address and will consider implementing new controls for the January 2014 FAFSA cycle (for the 2014–2015 school year).

What Needs to Be Done

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should also gather information to identify students who are receiving SFA program funds to attend distance education programs—and gather other information as needed—in order to analyze the differences between traditional education and distance education. Based on this analysis, the Department should develop and implement requirements to specifically address potential problems inherent in distance education.

Oversight and Monitoring—Grantees

Why This Is a Challenge

Effective monitoring and oversight are essential for ensuring that grantees meet grant requirements and achieve program goals and objectives. The Department's early learning, elementary, and secondary education programs annually serve nearly 16,000 public school districts and 49 million students attending more than 98,000 public schools and 28,000 private schools. Key programs administered by the Department include Title I of the *Elementary and Secondary Education Act* (ESEA), which under the President's 2014 request would deliver $14.5 billion to help 23 million students in high poverty schools make progress toward State academic standards and the *Individuals with Disabilities Education Act,* Part B Grants to States, which would provide $11.6 billion to help States and school districts meet the special educational needs of 6.5 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve Local Educational Agency (LEA) fiscal control issues, State Educational Agency (SEA) control issues, fraud perpetrated by LEA and charter school officials, and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

The Department has planned or completed numerous corrective actions in response to our audits. This includes enhancing guidance to applicants and reviewers, updating and clarifying internal guidance and policy, developing formal monitoring plans, and developing training to grantees and Department staff. The Department has also developed and implemented a software analysis tool that is intended to assist in identifying areas of potential risk in the Department's grant portfolio and developing appropriate monitoring, technical assistance, and oversight plans as a part of grants management.

What Needs to Be Done

The Department should continue to improve its monitoring efforts for recipients of formula and discretionary grant funds. This includes pursuing efforts to enhance risk management, increase financial expertise among its grants monitoring staff, and develop mechanisms to share information regarding risks and monitoring results. The Department also should consider adding language to its regulations so that prime recipients are fully cognizant of their responsibilities related to minimum requirements for monitoring subrecipients. The Department should include a reporting requirement for fraud and criminal misconduct in connection with all ESEA-authorized programs when the Education Department General Administrative Regulations are revised.

Oversight and Monitoring—Contractors

Why This Is a Challenge

Contract monitoring is an integral part of the Federal acquisition life cycle. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-upon obligations pertaining to quality, quantity, and level of service; and comply with all applicable regulations. The Department contracts for many services that are critical to its operations. These services include systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations. As of May 2013, the value of the Department's active contracts exceeded $5.5 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 audits have identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance. This is primarily related to the appropriateness of contract payments and the effectiveness of contract management. In addition, OIG investigations have noted contractor activities, such as false claims, that resulted in improper billings and payments.

Progress in Meeting the Challenge

The Department has provided corrective action plans to address the issues noted in our audit work. It has also developed and implemented several training programs and procedures within this area.

What Needs to Be Done

The Department needs to ensure that it has an appropriately qualified staff in place and in sufficient numbers to provide effective oversight of its contracts.

Management Challenge 4—Data Quality and Reporting

Why This Is a Challenge

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. The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data is accurate and reliable.

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. This includes weaknesses in controls over the accuracy and reliability of program performance, academic assessments, and *American Recovery and Reinvestment Act of 2009* recipient data.

Progress in Meeting the Challenge

To address concerns related to one program's performance data the Department plans to provide training to staff around assessing the SEA's efforts to sufficiently test performance data and provide reasonable assurance of its validity and completeness. It also plans to revise its site visit monitoring instrument to ensure staff sufficiently evaluate SEA monitoring activities related to the reliability of program performance data.

The Department requires management certifications regarding the accuracy of some SEA-submitted data. The Department also conducts an ongoing peer review process to evaluate State assessment systems, and it currently includes a review of test security practices during its scheduled program monitoring visits. In June 2011, the Secretary sent a letter to Chief State School Officers suggesting steps that could be taken to help ensure the integrity of the data used to measure student achievement. The Department also has a contract to provide technical assistance to improve the quality and reporting of outcomes and impact data from Department grant programs that runs through 2015.

What Needs to Be Done

While the Department identified its commitment to work to improve staff and internal system capabilities for analyzing data and using it to improve programs, it must continue to work to ensure that effective controls are in place at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data is reported.

Management Challenge 5—Information Technology System Development and Implementation

Why This Is a Challenge

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with consistent staffing levels. The Department reported that its inflation adjusted administrative budget is about the same as it was 10 years ago while its FTE has declined by 6 percent. This makes effective information systems development and implementation, and the greater efficiencies such investments can provide, critical to the success of its activities and the achievement of its mission.

Data from the Federal IT Dashboard reported the Department's total IT spending for FY 2013 as $622.5 million. The Department identified 30 major IT investments accounting for $506.5 million of its total IT spending. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development that have negatively impacted operations and may have resulted in improper payments. In addition, the Department self-reported two material weaknesses relating to financial reporting of federal student aid data and operations of the Direct Loan and FFEL programs that resulted from system functionality issues occurring after large-scale system conversions in October 2011.

Progress in Meeting the Challenge

The Department reported it has taken action to correct the financial reporting deficiencies associated with the system conversions. It also reported that FSA implemented other internal control improvements that resulted in system fixes and restored system functionality.

The Department further reported that actions to correct the root causes of the internal control deficiencies impacting operation of Direct Loan and FFEL programs are ongoing. Actions include research into borrower balances and root cause analysis of system limitations to inform recommendations on system and process fixes.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that system deficiencies are corrected and that system performance fully supports the Department's financial reporting and operations. Further actions needed to address this challenge include improving management and oversight of system development and life cycle management (to include system modifications and enhancements) and ensuring that appropriate expertise to managing system contracts (to include acceptance of deliverables) is obtained.

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