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.