

## Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2015 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 five management challenges: improper payments, information technology security, oversight and monitoring, data quality and reporting, and information technology system development and implementation. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2015.

The FY 2015 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 recent OIG audit, inspection, and investigative work. A summary of each management challenge area follows. The full FY 2105 Management Challenges Report is available at <http://www2.ed.gov/about/offices/list/oig/managementchallenges.html>.

### Management Challenge 1—Improper Payments

#### Why This Is a Challenge

The Department must be able to ensure that the billions of dollars entrusted to it are reaching the intended recipients. The Department identified the Federal Pell Grant (Pell), William D. Ford Federal Direct Loan (Direct Loan), and Federal Family Education Loan (FFEL) programs as susceptible to significant improper payments.

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 payments, including 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, 2011, through March 31, 2014, included more than \$53 million in questioned or unsupported costs from audit reports and over \$47 million in restitution payments from our investigative activity.

### **Progress in Meeting the Challenge**

The Department has revised its estimation methodologies for each of its risk-susceptible programs (Pell, Direct Loan, and FFEL) and the Office of Management and Budget approved the new estimation methodologies for all three programs in September 2014. Although the Office of Management and Budget (OMB) approved the estimation methodologies, improvements are needed to ensure their completeness.

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 planned or completed numerous corrective actions. These actions 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); improved verification requirements; enhanced system edits within the Central Processing System, Common Origination and Support System, and the National Student Loan Data System; continued use of data analytics; and various internal controls to prevent and detect errors integrated into its grant and Direct Loan program-related 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 to develop estimation methodologies that adequately address recommendations made in our audit work.

## **Management Challenge 2—Information Technology Security**

### **Why This Is a Challenge**

The OIG has identified repeated problems in information technology (IT) security and noted increasing threats and vulnerabilities to Department systems and data. 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.

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 Federal Student Aid (FSA) PIN system, mobile IT devices, malware, incident response, and e-mail spear phishing.

### **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 that is scheduled to be fully operational in the latter part of 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 is 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 2014, the Federal Government planned to provide \$161.3 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2015 budget request outlines \$169.8 billion in Federal student aid, including \$29.2 billion in Pell Grants

and more than \$133.7 billion in student loans. Nearly 12.8 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

Our audits and inspections, along with work the Government Accountability Office conducted, continue to identify weaknesses in 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 help ensure that SFA funds are delivered accurately and efficiently. For example, FSA makes software and updates available to SFA program participants to assist them in managing Federal funds. FSA also provides training opportunities to financial aid professionals that are intended to enhance their ability to effectively implement the Department's student aid programs. Additionally, FSA reported that it has continued to develop its risk management processes by enhancing the agency's analytical capabilities and strengthening its ability to recognize and mitigate risks in its operational and credit portfolios.

### ***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 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***

Management of distance education programs presents a challenge for the Department and school officials because of few or no in-person interactions to verify the student's identity or attendance. In addition, laws and regulations are generally modeled after the campus-based classroom environment, which does not always fit delivering education through distance education. 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. 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.

Our investigative work has noted an increasing risk of people attempting to fraudulently obtain Federal student aid through 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 2013–2014 award year), applicants selected for verification who 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. Schools will follow up with these applicants to ensure they are attending school with an educational purpose, or the Department will not disburse aid. The Department has also begun tracking applicants who use the same e-mail and IP address for multiple applications using different names.

### ***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 to analyze the differences between campus-based education and distance education. Based on this analysis, the Department should develop and implement requirements to specifically address potential problems inherent in distance education.

The Department should develop regulations that require schools offering distance education to establish processes to verify the student's identity as part of the enrollment process. Once these regulations are implemented, the Department should establish requirements for independent public accountants to assess the effectiveness of schools' processes for verifying distance education student's identity. Finally, the Department should also work with Congress to amend the *Higher Education Act* to specify that a school's cost of attendance budget for a distance education student include only those costs that reflect actual educational expenses.

## **Oversight and Monitoring—Grantees**

### ***Why This Is a Challenge***

Effective monitoring and oversight is 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 16,900 public school districts and 50 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 2015 request would deliver \$14.4 billion to help 23 million students in high-poverty schools make progress toward State academic standards. Another key program is 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 6.6 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 risk analysis tool that is intended to help identify areas of potential risk in the Department's grant portfolio and develop appropriate monitoring, technical assistance, and oversight plans as a part of grants management. Finally, the Department plans to develop a working group to consider potential regulations and other measures to address SEA monitoring issues.

### ***What Needs to Be Done***

The Department should continue to improve its monitoring efforts for recipients of formula and discretionary grant funds. This includes 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 programs authorized by the *Elementary and Secondary Education Act of 1965*, as amended, when the Education Department General Administrative Regulations are revised.

## **Oversight and Monitoring—Contractors**

### ***Why This Is a Challenge***

The Department must effectively monitor performance to ensure that it receives the quality and quantity of products or services for which it is paying. As of May 2014, over \$6.6 billion has been obligated towards the Department's active contracts. Proper oversight is necessary to ensure that contractors meet the terms and conditions of each contract; fulfill agreed-on 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, such as systems development, operation, and maintenance; loan servicing and debt collection; technical assistance for grantees; administrative and logistical support; and education research and program evaluations.

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**

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and reliable. The Department uses data to make funding decisions, evaluate program performance, and support a number of management decisions.

Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the SEA and LEA level, as well as actions the Department can take to clarify requirements and provide additional guidance. This includes weaknesses in controls over the accuracy and reliability of program performance and academic assessment data.

### **Progress in Meeting the Challenge**

The Department has completed corrective actions to address issues with implementation of the *GPR Modernization Act*. These include developing internal guidance related to strategic goals and plans, and the quarterly performance review process, and including disclosures related to data limitations in all applicable performance reports. The Department has also reported several planned corrective actions to address deficiencies in internal controls over assessment results, which include requiring SEAs to respond to all flagged comments related to assessments and accountability, updating its monitoring plan, and revising the peer review manual. Additionally, the Department plans to issue Dear Colleague letters to address identifying and monitoring high-risk schools, timely reporting and resolving of test irregularities, implementing of test security procedures, and strengthening of test administration practices.

To address concerns related to one program's performance data, the Department plans to provide training to staff on assessing the SEA's efforts to sufficiently test performance data and provide reasonable assurance that the data are valid and complete. It also plans to revise its site visit monitoring instrument to ensure staff sufficiently evaluates 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 they could take to help ensure the integrity of the data used to measure student achievement. The Department also has a contract that runs through 2015 to provide technical assistance to improve the quality and reporting of outcomes and impact data from Department grant programs.

### **What Needs to Be Done**

While the Department has demonstrated its commitment to improving staff and internal system capabilities for analyzing data and using data to improve programs, it must work to ensure that effective controls are in place at all applicable levels of the data collection, aggregation, and analysis processes and 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 full-time equivalent staffing level has declined by 9 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.

According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2014 was \$682.9 million. The Department identified 38 major IT investments, accounting for \$587.9 million of its total IT spending. Our recent work has identified weaknesses in the Department's processes to oversee and monitor systems development; these weaknesses have negatively impacted operations and may have resulted in improper payments. In its *FY 2012 Agency Financial Report*, 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 the Direct Loan and FFEL programs are ongoing. Actions include researching borrower balances and analyzing root causes of system limitations to inform recommendations on system and process fixes. In response to issues surrounding its defaulted loan servicing system, FSA awarded an operations and maintenance contract to a new vendor.

**What Needs to Be Done**

The Department needs to continue to monitor contractor performance to ensure that contractors correct system deficiencies 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 the Department obtains appropriate expertise to managing system contracts (including accepting deliverables).