

Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2016 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) 2016.

The FY 2016 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. This FY 2016 Management Challenges Report is available at http://www2.ed.gov/about/offices/list/oig/management_challenges.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) and the William D. Ford Federal Direct Loan (Direct Loan) 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. In May 2015, we reported that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 because it did not meet the

annual reduction target for the Direct Loan program. We have identified concerns in numerous areas relating to improper payments, including the completeness, accuracy, and reliability of improper payment estimates and methodologies and improper payments involving grantees. Our semiannual reports to Congress from April 1, 2012, through March 31, 2015, included more than \$1.4 million in questioned or unsupported costs from audit reports and more than \$36 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that it faces a significant challenge in striking the right balance between providing timely and accurate payments to grant recipients and students while at the same time ensuring that its policies and controls are not too costly and burdensome to the Department and fund recipients. The Department stated that it continuously assesses its business processes and controls to further enhance them, while striving to balance risks, costs, and benefits.

The Department stated that it has developed corrective actions in response to OIG recommendations that are intended to improve the accuracy and completeness of its improper payment estimates, provide more detailed reporting, and enhance its controls over student aid payments. It routinely analyzes payment data and considers other factors, such as OIG reports, to detect and recover improper payments that have occurred and to help devise ways to further reduce the risk of improper payments. The Department further stated that its primary strategy for minimizing improper payments is to implement front-end controls that prevent improper payments from occurring before it disburses Federal funds.

The Department added that the office of Federal Student Aid (FSA) has continued its efforts to catalog improper payment and fraud-related controls and to assess them for effectiveness. Additionally, FSA has improved its coordination with the OIG on fraud referrals, to include developing processes to analyze referrals and identify potential fraud indicators for suspicious student activity. The Department added that FSA plans to build on this collaboration with the OIG and establish a fraud group during FY 2016 to oversee its intake, analysis, and disposition of fraud referrals.

What Needs to Be Done

The Department needs to continue to explore additional opportunities for preventing, identifying, and recapturing improper payments. Overall, the Department needs to develop estimation methodologies that improve the accuracy, completeness, and reliability of improper payment estimations. 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 sensitive 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, remote access management, and contingency planning. In addition, OIG investigative work has identified IT security control concerns in areas such as the FSA personal identification number system.

Progress in Meeting the Challenge

The Department identified numerous activities intended to improve its IT security in its response to our draft Management Challenges report. The Department stated that it provided corrective action plans to address the recommendations in FY 2012, FY 2013, and FY 2014 OIG audits. It further indicated it had completed actions designed to help address this challenges that included the following:

- implementing a new Department-wide Security Operations Management system, to provide overall case management and Security Operations Center operations;
- implementing a solution to provide two-factor authentication for accessing email remotely from personal computers and mobile devices, replacing the username and password authentication method;
- implementing a new student identification system as part of FSA's Enterprise Identity Management Program; and
- implementing the FSA Security Operations Center to strengthen FSA's network and data security.

What Needs to Be Done

Overall, the Department needs to effectively address IT security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

The Department needs to develop more effective capabilities to respond to potential IT security incidents. Although the Department and FSA have begun to implement their own incident response teams and establish Security Operations Centers, this capability is still being developed. The Department needs to continue to make progress within this area to ensure the timeliness and effectiveness of its response processes.

While the Department has made process towards implementing its two-factor authentication plans, it needs to continue its process of implementing and enforcing the use of two-factor authentication for all Federal employees, contractors, and other authorized users.

Vulnerabilities continue to exist in the programs intended to identify and protect critical technologies. The Department must continue to strive towards a robust capability to identify and respond to malware installations or intruder activity.

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. During the 2014–2015 award year, FSA provided about \$169.6 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. The Department's FY 2016 budget request outlines \$176.1 billion in Federal student aid, including \$28.9 billion in Pell Grants and more than \$141.7 billion in student loans. More than 13.2 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

In its response to our draft Management Challenges report, the Department stated that it has made significant progress in providing the public with information about financial assistance options available for postsecondary education, while working at the same time to manage the risks inherent in providing Federal student aid.

The Department stated that FSA has a broad compliance and oversight monitoring program that includes making referrals to the OIG when it identifies potential fraud. The Department further reported that its reviews of institutions are risk-based and that FSA uses predictive analytics and data matching as part of its processes to address student financial assistance fraud.

The Department identified numerous specific activities designed to improve its effectiveness in overseeing and monitoring SFA program participants. This included the following:

- implementing and enhancing a customized verification process for Free Application for Federal Student Aid data elements that must be verified before an applicant received Title IV aid,
- providing training for Department employees,
- issuing guidance and proposing regulations,
- implementing a Quality Control Process regarding program reviews, and
- restructuring its external audit follow-up process.

What Needs to Be Done

Given the significant challenges that FSA faces in overseeing and monitoring SFA program participants, the Department needs to improve its systems to ensure it has controls in place to ensure funds are disbursed for only eligible students and to effectively manage the performance of the Federal student loan portfolio.

Additionally, FSA needs to establish systematic procedures to evaluate the risks within its programs, develop strategies to address risks identified, and implement those strategies to ensure effective operations. FSA further needs to assess its control environment to ensure that it is working to address known and newly identified risks including those OIG reviews and other sources have identified.

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 there are 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 uses certain technologies to deliver instruction to students who are separated from the instructor and to support regular and substantive interaction between the student and the instructor. The flexibility it offers 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 OIG issued an Investigative Program Advisory Report in 2011 alerting FSA to significant fraud vulnerability in distance education programs. The OIG report provided recommendations that, if implemented, would mitigate future risk of fraud ring activity in the Title IV programs. The Department reported that it has implemented numerous controls to address these concerns, including expanding data analysis capabilities to detect patterns and predict potential fraud and enhancing verification requirements. The Department stated

that it is now incumbent on schools to verify certain data elements, such as the student's identity and whether the student completed secondary school or its equivalent. The Department added it has also expanded the program review procedures to strengthen oversight of distance education programs. The procedures were revised to expand general assessment reviews, collect additional distance education recipient data, and expand the annual risk assessment.

What Needs to Be Done

FSA needs to increase its monitoring and oversight of schools providing distance education. The Department should gather information to identify students who are receiving SFA program funds to attend distance education programs and other information needed to analyze the differences between traditional education and distance education. Because FSA does not require schools to indicate when a student is enrolled in a distance education program, it cannot identify, analyze, and mitigate system problems related to distance education. Our work indicates that the Department still needs to define instruction and attendance in a distance education environment and clarify how to calculate the return of Federal student aid in a distance education environment.

In addition, the Department should develop regulations that require schools offering distance education to establish processes to verify a student's identity as part of the enrollment process. Finally, the Department should work with Congress to amend the Higher Education Act to specify that a school's cost of attendance budget for a distance education student should include only those costs that reflect actual educational expenses.

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 16,900 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, which under the President's 2016 request would deliver \$15.4 billion to help nearly 24 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 about \$11.7 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

In its response to our draft Management Challenges report, the Department stated that actions completed during FY 2015 included issuing policy and guidance and providing

training and technical assistance to program staff to enhance business operations in the area of grant award monitoring and oversight. The Department reported that it planned additional activities for FY 2016 to improve its monitoring and oversight efforts that include new training for Department employees on grant monitoring in on-site and virtual environments, as well as training for grantees in the areas of cash management, internal controls, discretionary and formula grants administration, and indirect cost.

What Needs to Be Done

Effective implementation of the Office of Management and Budget Uniform Grant Guidance, with specific focus on requirements relating to internal control and recipient and subrecipient monitoring, provides an excellent opportunity for the Department to address longstanding challenges. The Department should also consider methods to use the single audit process and updates to the Office of Management and Budget A-133 Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs. Given its vast oversight responsibilities and limited resources, it is especially important for the Department to effectively implement actions that build its own capacity and leverage the resources of other entities that have roles in grantee oversight.

In addition to its efforts to improve grant administration and oversight, the Department should pursue several regulatory or statutory changes that would strengthen its ability to detect and address fraud and abuse in its programs.

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 2015, more than \$5.6 billion² 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. 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.

OIG audits have identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance. These issues are primarily related to the appropriateness of contract pricing and the effectiveness of contract management.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that its high percentage of fixed-price contracts and deliverable-based payment schedules inherently lowers the risk of improper payments and unsuccessful contract performance.

² This figure, from the Department's *active contracts* list, represents the total amount obligated to currently active contracts awarded by FSA, the Office of Chief Financial Officer's Contracts and Acquisition Management, and the National Assessment Governing Board. This list does not capture the amount obligated on contracts awarded by the principal office's executive office warrant holders.

The Department believed that this approach, coupled with annual Contract Monitoring Plan and Contract Management reviews, provides a comprehensive appraisal of contractor performance and helps ensure that the Department manages and monitors its contracts properly.

The Department stated that FSA's contractor control environment has been strengthened through process improvements and that FSA has recently established a Quality Assurance team within its acquisition organization. The Department also reported that its Contracts and Acquisitions Management function has undertaken actions to ensure that the Department has appropriately qualified staff in place and in sufficient number to provide effective oversight of its contracts.

What Needs to Be Done

The Department has outlined numerous processes and efforts that have to the potential to improve its oversight and monitoring of contractors. The Department needs to develop methods that can assist it in demonstrating the effectiveness of recent process changes. These may include items such as assessing the effect of FSA's Quality Assurance team on its contractor control environment and the success of hiring and training activities intended to increase its staffing of qualified contractor oversight professionals.

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 cited controls in place to help it mitigate risks and verify and validate the data it relies on that included data system monitoring and edit checks, program monitoring, evaluation of the accuracy and effectiveness of reporting, and partnering with third-party reviewers. The Department further identified strategies that it is developing, considering, or implementing to ensure continuous improvements. These strategies include developing policies and procedures to improve and strengthen integrity in obtaining and reporting data; coordinating technical assistance with stakeholders to establish a common understanding of the verifiability, validity, and reliability of data sources; and continuing efforts to improve data quality in the ED*Facts* system.

What Needs to Be Done

The Department is working to improve staff capabilities and internal systems for analyzing data and using it to improve programs. It must continue to work to implement effective controls at all applicable levels of the data collection, aggregation, and analysis processes to ensure that accurate and reliable data are reported. The multiple initiatives that the Department has put in place to improve data quality show both the scope of the challenge it faces as well as the effort needed to address this challenge area. In particular, its efforts to develop and implement consistent policies and procedures and to assess the reliability of key data are important steps needed to show progress in addressing this challenge.

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 8 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 2015 was \$683.1 million. 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. For example, we reported that FSA could not ensure that its contractor delivered a fully functional debt management collection system because FSA did not develop an adequate plan, ensure milestones were met, or use appropriate systems development tools. We also identified additional areas for improvement, such as involving FSA's Technology Office to provide technical expertise in the analysis of cost proposals, future contract negotiations, and evaluations of contractor cost overruns.

Progress in Meeting the Challenge

In its response to our draft Management Challenges report, the Department stated that managing changes for numerous integrated systems requires effective enterprise change management and investment management processes and continuous review of and improvement on existing project and portfolio management activities. The Department stated that to build on these capabilities, it must hire qualified staff and ensure that they are appropriately trained.

The Department stated that FSA has established project and portfolio management practices that support information technology systems development and implementation.

The Department further stated that it has addressed the OIG-identified and FY 2012 self-reported issues related to Debt Management Collection System (DMCS) and ACS, Inc., Education Servicing System. A new contract was awarded to manage DMCS, and the new

contract included explicit requirements related to the management and tracking of software development activities. The Department also noted that an independent validation and verification contract was awarded to bring more focus on DMCS development activities. The Department stated that FSA has not experienced any further material deficiencies related to system implementations, as the OIG confirmed in the FY 2014 financial statement audit, and has seen significant improvement in a number of areas related to DMCS operations and financial reporting.

What Needs to Be Done

The Department needs to continue to monitor contractor performance to ensure that it corrects system deficiencies and that system performance fully supports the Department's financial reporting and operations. Similarly, the Department should ensure that all agreed-on corrective actions are completed timely.

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 manage system contracts (to include acceptance of deliverables) is obtained.