

## Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2017 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. On September 22, 2016, the Office of the Deputy Secretary announced an initiative to review the identified management challenges, assigned senior managers to be accountable for each, and assembled a workgroup of other senior managers throughout the Department to address the noted challenges. The Department further noted that this effort is intended to help identifying systemic root causes and ensure that Department's actions are impactful and produce results. We consider this initiative to be a positive step towards addressing long-standing management challenges and encourage the Department to continue to explore approaches that result in targeted focus within each of these areas. Although the Department made some progress in addressing these areas, each remains as a management challenge for fiscal year (FY) 2017.

The FY 2017 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 2017 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 and the William D. Ford Federal Direct Loan (Direct Loan) programs as susceptible to significant improper payments. In addition, the Office of Management and Budget (OMB) has designated these programs as high-priority programs, which are subject to greater levels of oversight.

Our recent work has demonstrated that the Department remains challenged to meet required improper payment reduction targets and to intensify its efforts to successfully prevent and identify improper payments. We have identified concerns in numerous areas relating to improper payments, including the completeness, accuracy, and reliability of improper payment estimates and methodologies.

In May 2016, we reported that the Department's published improper payment estimates for both the Pell Grant and Direct Loan programs were inaccurate and unreliable because they used incorrect formulas in performing calculations and deviated from OMB-approved methodologies. We concluded that the Department did not comply with IPERA because it did not meet the annual reduction target for the Direct Loan program. The Department's recalculated FY 2015 improper payment rate (2.63 percent) for the Direct Loan program to correct for formula execution errors we identified did not meet its reduction target (1.49 percent).

Our semiannual reports to Congress from April 1, 2013, through March 31, 2016, included more than \$2.3 million in questioned or unsupported costs from audit reports and more than \$59 million in restitution payments from our investigative activity.

### Progress in Meeting the Challenge

The Department stated that it had developed internal controls that are intended to prevent, detect, and recover improper payments. The Department stated that it strives to provide timely and accurate payments to grant recipients and students while ensuring that the related controls are not too costly or burdensome to fund recipients. The Department further noted that it also relies on controls established by fund recipients who make payments on behalf of the Department.

In response to OIG recommendations, the Department stated that it developed and implemented corrective actions to improve the accuracy and completeness of its 2016 improper payment estimates. This included the establishment of a working group with OIG and OMB participation to review changes to the Department's alternative improper payment estimation methodology to resolve identified risks. The Department also convened a senior level working group to identify and evaluate estimation methodology options for 2017 that would ensure IPERA compliance going forward. The Department added that it had revised its 2016 estimation methodology to decrease the volatility of the estimate and to address the other issues noted by the OIG.

The Department reported that it continues to assess and enhance its controls over student aid payments. The Department stated that it routinely analyzes application and payment data and considers other factors, such as program reviews and audit reports, to inform control enhancements and to devise ways to further reduce the risk of improper payments. The Department added that it has implemented an internal control framework intended to prevent or detect improper payments and has established processes to annually assess the design and operating effectiveness of these controls. The Department also stated that when weaknesses are identified, it identifies root causes and establishes corrective action plans.

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

The Department's efforts to revise its estimation methodology are a good step forward to better identifying improper payments, so that corrective actions can be developed and tracked. The OIG will continue to review the Department's efforts, with a focus on assessing how the new methodology is functioning to identify potential sources of improper payments. Ultimately, the ability of the Department to address this management challenge hinges on its ability to identify root causes, develop corrective actions, and demonstrate that its efforts have resulted in reductions in improper payments. While the Department correctly acknowledges that it relies on the internal controls of fund recipients who make payments on behalf of the Department, it is important that the Department's efforts to reduce improper payments includes processes to identify high-risk recipients and ensure that those recipients have effective systems of internal control.

## **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.

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

The Department stated that it has taken a number of steps to strengthen the cybersecurity posture of the Department's networks and systems over the past fiscal year, including:

- Working to identify and protect high value information and assets that resulted in a better understanding of the potential impact from a cyber incident and helped to ensure

that physical and cybersecurity protections were in place for the Department's high value assets.

- Strengthening its capability to respond to cybersecurity incidents and identifying a plan for future action to establish a mature incident response capability.
- Establishing daily integrated Security Operations Center calls to communicate events or requirements with all necessary stakeholders.
- Deploying enhanced capabilities for the detection of cyber vulnerabilities and protection from cyber threats.
- Strengthening its partnership with the Department of Homeland Security to accelerate the deployment of continuous diagnostics and mitigation capabilities.

The Department expected that recent actions would sustain and improve the advances seen over the past fiscal year. The Department stated that it had completed a significant step toward improving overall cybersecurity by requiring all privileged users use hardware-based Personal Identity Verification cards or alternative forms of strong authentication. The Department added that other significant activities included leveraging existing capabilities to perform independent verification and validation of contractor submitted data, reviewing contractual requirements and assessments for contractor abilities to provide infrastructure services and malware detection, continuing employee awareness training, and developing IT security staff skills and competencies.

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

The Department reported significant progress towards addressing long-standing IT security weaknesses in the past fiscal year. However, we continue to identify significant weaknesses in our annual FISMA audits despite the Department's reported corrective actions to address our prior recommendations. While we commend the Department for placing a priority on addressing these weaknesses, it needs to continue its efforts to develop and implement an effective system of IT security controls. Our FISMA audits will continue to assess the Department's efforts and this will remain a management challenge until our work corroborates that the Department's system of controls achieves expected outcomes.

### **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 and programs are achieving goals and objectives. 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. Two subareas are included in this management challenge—Student Financial Assistance (SFA) program participants and grantees.<sup>1</sup>

## **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. The Department's FY 2017 budget request includes 139.7 billion in new grants, loans, and work study assistance to help an estimated 12.1 million students and their families pay for college.

The growth of distance education has added to the complexity of the Department's oversight of SFA program participants. The management of distance education programs presents challenges to the Department and school officials because little or no in-person interaction between the school officials and the student presents difficulties in verifying the student's identity and academic attendance. The overall growth and oversight challenges associated with distance learning increases the risk of school noncompliance with the federal student aid laws and regulations and creates new opportunities for fraud, abuse, and waste in the SFA programs. Our investigative work has identified numerous instances of fraud involving the exploitation of vulnerabilities in distance education programs to obtain federal student aid.

Our audits and inspections, along with work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants. Our audits of individual SFA program participants frequently identified noncompliance and waste and abuse of SFA program funds.

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

Overall, the Department reported that FSA remains committed to use more innovative and efficient methods to bolster its oversight and compliance efforts. This included efforts intended to expand the Department's ability to perform these activities in a more proactive and preemptive fashion. The Department reported that it focused on three priority areas in its efforts to improve the oversight and monitoring of SFA program participants during FY 2016; (1) bolstering capacity to provide adequate Title IV enforcement; (2) enhancing oversight of contracts, loan servicing activities, and schools; and (3) expanding *Clery Act* and borrower defense work.

As part of this effort, the Department created the Enforcement Office within FSA to respond more quickly and efficiently to allegations of illegal actions by higher education institutions.

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<sup>1</sup> This area includes two changes from our previous Management Challenges report. In FY 2016 we included *Distance Education* as a distinct management challenge; however it is included as an element of *Oversight and Monitoring – SFA Program Participants* in this report. The change was made after consideration of the Department's feedback to our prior report. Our FY 2016 report also included *Oversight and Monitoring – Contractors* as a subpart to this section. That element was removed because our current body work does not support its continued reporting as a challenge to the Department.

FSA also noted accomplishments in enhancing its oversight activities made by its multiregional review team, Program Compliance unit, and Clery team.

With respect to the challenges presented by distance education, the Department stated that FSA's Program Compliance unit enhanced the Recipient Data Sheet that is used to determine which students are receiving a portion or all of their education via distance education. The Department added that in FY 2016, Program Compliance developed and delivered a training program for program reviewers on the process to evaluate distance education. The training program included three components: a lecture on distance education requirements, case studies, and a question-answer session. In addition, a recommended work tool was created to assist reviewers in evaluating distance education courses. The Department believed that enhanced outcomes were evidenced in subsequent reviews of distance education programs. FSA plans to conduct continuous training to current and new reviewers to reinforce distance education review requirements and plans to monitor program reviews for distance education outcomes. The Program Compliance team also plans to work with other parts of FSA to offer training to institutions on distance education requirements through conference sessions, webinars, and other trainings.

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

The Department identified several important accomplishments that are intended to collectively improve its ability to provide effective oversight. We recognize the progress being made and the need to balance controls with both cost and the ability to provide necessary services effectively. However, our audits and investigations involving FSA programs continue to identify numerous instances of noncompliance and fraud.

Overall, the Department needs to ensure that the activities of its Program Compliance office result in effective processes to monitor FSA program participants and reduce risk. It also should work to ensure that its program review processes are designed and implemented to effectively verify that high-risk schools meet requirements for institutional eligibility, financial responsibility, and administrative capability. The Department further needs to ensure that development and implementation of its Enforcement Office effectively provides the intended additional protections to students and taxpayers. Finally, the Department could enhance its oversight of FSA programs by developing and implementing improved methods to prevent and detect fraud. This includes methods to limit the effectiveness of organized activities involving distance fraud rings.

## **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 18,200 public school districts and 50 million students attending more than 98,000 public schools and 32,000 private schools. Key programs administered by the Department include Title I of the *Elementary and Secondary Education Act*, which under the President's 2017 request would deliver \$15.4 billion to help more than 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 \$11.9 billion

to help States and school districts meet the special educational needs of 6.7 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***

To further improve monitoring and promote effective grant oversight, the Department has issued guidance to offices that manage formula and discretionary grant programs, provided training for staff, and engaged in technical assistance to both staff and external stakeholders to enhance business operations in the area of grant award monitoring and oversight. In addition, some program offices have piloted new processes to improve coverage, efficiency, and consistency in fiscal monitoring across programs.

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

The Department's issuance of new grant management guidance to its program offices should provide an improved basis for their monitoring activities. However, the Department still needs to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable federal education programs. We acknowledge that the Department has worked to enhance the knowledge and capabilities of its existing employees. However, given the Department's generally limited staffing in relation to the amount of federal funding it oversees, it is important for the Department to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. This could include methods to use the single audit process and updates to the OMB 2 CFR 200, Subpart F—Compliance Supplement as ways to improve its monitoring efforts and help mitigate fraud and abuse in its programs.

## **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 certain 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 Department, SEA, and LEA level. This included weaknesses in controls over the accuracy and reliability of program performance and academic assessment data.

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

The Department stated that it continues to work to promote SEA controls over data, improve its own controls over data submitted by grantees, and ensure the transparency of data quality. The Department's efforts to improve the data that it collects, publishes, and uses to inform grant management are coordinated by senior officials who are members of the Department's Data Strategy Team and the *EDFacts* Governing Board. The Department

also reported that in the past year it had taken steps to promote grantee awareness of data quality issues and strengthen its review of grantee data.

The Department further stated that it has multiple initiatives underway to improve data quality and help strengthen the accuracy and reliability of data reported by the Department. These included (1) strengthening the procedures for tracking issues with grantee data, (2) communicating the importance of grantee internal controls over data quality in monitoring, (3) strengthening the language in the certifications that grantees sign when submitting data to the Department, (4) improving the process for following up and resolving questions about grantee data submitted to ED*Facts*, and (5) supporting State agencies in improving their own data quality procedures.

The Department added that it continues to include information about data limitations when reporting data in the Annual Performance Report and other publications and was implementing a corrective action plan in response to the OIG's recommendation that the Department improve its data quality through monitoring efforts.

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

The Department continues to complete significant work that is intended to improve the overall quality of data that it collects and reports. This work should remain a priority, as data quality contributes to effective program management and helps ensure the credibility of information published by the Department. While the Department has made progress in strengthening both grantees' data quality processes and its own internal reviews of grantee data, this area is an ongoing challenge.

Our recent audits have found weaknesses in grantees' internal controls over the accuracy and reliability of program performance data and student testing data. Overall, the Department needs to ensure that it is providing effective oversight and monitoring to grantees regarding their controls over data quality. Of note, the Department's efforts to strengthen its procedures for tracking issues with grantee data could serve as a basis for sharing information across its program offices and identify entities for enhanced monitoring and support. The Department should also continue its efforts to provide appropriate technical assistance to grantees as necessary. Overall, the Department must continue to work to implement effective controls at all applicable levels to the data collection and review processes to ensure that accurate and reliable data are reported.

## **Management Challenge 5—Information Technology System Development and Implementation**

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

The President's budget for FY 2017 stated that ensuring the efficiency, effectiveness, and security of federal IT has never been more central to how Americans are served by their government. It further notes that the current administration has focused on driving efficiencies in the way the government buys, builds, and delivers IT solutions to provide improved services to citizens. It adds that with the ongoing evolution of technology, the federal government has an unprecedented opportunity to accelerate the quality and timeliness of services delivered to the American people.

The Department faces an ongoing challenge of efficiently providing services to growing numbers of program participants and managing additional administrative requirements with declining staffing levels. The Department reported that it has the smallest staff but the third-largest discretionary budget among the 15 Cabinet agencies. The Department further reported that between 2005 and 2015 it experienced a 6 percent decrease in full-time equivalent usage. This makes effective information systems development and implementation and the greater efficiencies such investments can provide critical to the success of the Department's activities and the achievement of its mission.

The Department's current IT investments include systems that support business processes such as student application processing and eligibility determination for federal student financial assistance; grant and loan award processing; procurement and acquisition; and the collection, storage, and reporting on Title IV aid disbursements and aid recipients. According to data from the Federal IT Dashboard, the Department's total IT spending for FY 2015 was \$689 million, with FSA's IT spending accounting for more than \$458 million of the total.

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.

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

The Department reported that it had made progress in the overall program management and oversight of IT systems. This included developing a Lifecycle Management Methodology at FSA, conducting Independent Validation and Verification of a high risk system, and establishing a formal contract monitoring plan. The Department stated that it planned to continue its progress within this area by further educating project owners of lifecycle processes, enhancing program management oversight capabilities, and providing additional guidance to new IT system contracts.

In addition, the Department stated that it continues to execute its *Federal Information Technology Acquisition Reform Act* (FITARA) implementation plan and at the time of this report was on track to meet internal CIO and external OMB commitments in the FITARA areas of budget formulation and planning, acquisition planning, acquisition execution, and organization and workforce. The Department reported that of the 44 baseline tasks, 33 have been completed and 11 are in progress and scheduled for completion by December 31, 2016. Finally the Department stated that its FITARA working group continues to meet and address challenges that include improving planning and execution processes.

### **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. The Department further needs to enhance its management and oversight of system modifications and enhancements and ensure that appropriate expertise to manage system contracts is in place. While Lifecycle Management Methodology was established in FSA, management needs to ensure it is implemented and followed.

Looking forward, the Department also needs to continue implementing the requirements of the *Federal Information Technology Acquisition Reform Act* and the revised OMB Circular A-130, "Managing Information as a Strategic Resource."