

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2018 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, four of the five remain as a management challenge for fiscal year (FY) 2018. We removed information technology system development and implementation because our current body of work does not support its continued reporting as a challenge to the Department. Our planned work for FY 2018 includes audits of the Department's implementation of the Federal Information Technology Acquisition Reform Act and the Department's implementation of the Portfolio of Integrated Value-Oriented Technologies Contracts. Our conclusions from this and other work could result in this area returning as a management challenge in future years.

The FY 2018 management challenges are:

- (1) Improper Payments,
- (2) Information Technology Security,
- (3) Oversight and Monitoring, and
- (4) Data Quality and Reporting.

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 2018 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) 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. In May 2017, we reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete; however, we identified opportunities for the Department to improve (1) its policies and procedures over the Direct Loan and Pell program's improper payment calculations, (2) the completeness of its improper payment corrective action reporting, and (3) the evidence or support for its Agency Financial Report reporting. We also concluded that the Department did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) because it (1) did not meet the reduction targets it established for the Direct Loan and Pell programs, (2) did not comply with applicable guidance regarding its risk assessment for the Vocational Rehabilitation State Grants program, and (3) did not consider all required risk factors in completing its risk assessments for certain grant programs and contracting activities.

Overall, our semiannual reports to Congress from April 1, 2014, through March 31, 2017, included more than \$2.3 million in questioned or unsupported costs from audit reports and more than \$44 million in restitution payments from our investigative activity. We also recently issued a report on Western Governors University that identified over \$700 million in questioned costs.

Progress in Meeting the Challenge

The Department stated that it places a high value on maintaining payment integrity to ensure that Federal funds reach intended recipients in the right amount and for the right purpose. The Department stated that its work to sustain payment integrity in response to this challenge includes establishing policies, business processes, and controls over key payment activities that are intended to prevent, detect, and recover improper payments. The Department added that its efforts intend to achieve the appropriate balance between making timely and accurate payments to recipients, while at the same time ensuring the controls are not too costly or overly burdensome.

The Department reported that it had developed and implemented corrective actions in response to OIG recommendations to improve the accuracy and completeness of its 2017 improper payment estimates for the Direct Loan and Pell Grant programs. The Department added that it developed and implemented corrective actions to improve its improper payment risk assessment process for non-Federal Student Aid (FSA) grant programs and contracts.

The Department stated that it continues to assess and enhance its controls over payments. According to the Department, this includes routinely analyzing application and payment data and considering other factors, such as program reviews and audit reports, to help identify ways to further reduce risks and enhance its controls. The Department also stated that its payment integrity internal control framework includes more than 500 controls designed to help prevent and detect improper payments. According to the Department, those controls are included in the universe of internal controls that are tested annually to assess their design and operating effectiveness. When control deficiencies are detected, the Department works to identify the root causes, develops corrective action plans, and tracks the plans through resolution.

Finally, the Department stated that it has increased its efforts to enhance payment integrity through three new or ongoing initiatives. These included (1) establishing a payment integrity workgroup, (2) developing a continuous control monitoring system, and (3) developing policies and new business processes to more accurately report the number and amount of improper payments detected and collected.

What Needs to Be Done

The Department needs to continue to take action to improve its ability to reduce improper payments. The Department should continue its work to complete planned corrective actions to bring programs into compliance with IPERA and improve its quality control processes, process documents, and policies and procedures. While the Department continues to review its controls, it should continue to explore additional opportunities for preventing improper payments. Although the Department has added controls and seeks to strike a balance between burden and controls, it needs to consider options to strengthen existing internal controls and to develop new and cost-effective controls to reduce the level of risk.

The Department needs to develop and implement processes to more effectively and efficiently monitor Student Financial Assistance (SFA) program recipients, State educational agencies (SEA), and local educational agencies (LEA) to ensure they properly spend and account for Federal education funds. This area will remain a management challenge until the Department fully meets the expectations of IPERA and its monitoring systems provide greater assurance that Federal funds are both properly distributed and appropriately used by recipients.

MANAGEMENT CHALLENGE 2—INFORMATION TECHNOLOGY SECURITY

Why This Is a Challenge

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, 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.

The OIG's work related to information technology continues to identify control weaknesses and ineffective security management programs that the Department needs to address to adequately protect its systems and data. For example, our most recent report on the Department's compliance with the Federal Information Security Modernization Act of 2014 (FISMA) concluded that the Department's and FSA's overall information security programs were generally not effective. We found the Department and FSA were generally effective in two of the five security functions reviewed—identify and recover. However, they were not generally effective in the three remaining security functions—protect, detect, and respond.

Our report included specific findings in the areas of configuration management, identity and access management, security and privacy training, information security continuous monitoring, and incident response. We made recommendations to assist the Department and FSA with increasing the effectiveness of their information security program so that they fully comply with all applicable requirements.

Progress in Meeting the Challenge

The Department reported that it continued to make progress in implementing actions to mitigate risks associated with information technology security during FY 2017. The Department stated that it completed a cybersecurity workforce capability assessment to identify current gaps in the Department's cybersecurity workforce skills and certifications and developed several new cybersecurity guidance documents. The Department also noted that the Chief Information Security Officer (CISO) is leading coordination efforts to meet deadlines for assigning new cybersecurity codes to positions with information technology, cybersecurity, and cyber-related functions.

The Department further responded that beginning in December 2016, the CISO formally established and led a Cybersecurity Steering Committee to improve the Department's cybersecurity posture and communicate critical information. The Department stated that the committee also coordinated and resolved issues that impacted the quality and timely reporting of performance measures; coordinated reporting for the Department's high-value assets; ensured timely completion of high visibility, government-wide security operations directives; and completed risk assessment actions required by the President's Executive Order, Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure, and OMB M-17-25.

The Department reported that the CISO led a number of cybersecurity policy updates that include improving the Department's overarching cybersecurity policy guidance, revising its Handbook for Cybersecurity Incident Response and Reporting, and developing a Cybersecurity Strategy and Implementation Plan. According to the Department, its plan highlights Departmental cybersecurity initiatives, strategies, and action items that are directly mapped to the Cybersecurity Framework categories. Finally, the Department stated that it completed numerous other actions that included the completion of risk assessments for all systems in the FISMA inventory and the formal designation of a Senior Accountable Official for cybersecurity risk.

What Needs to Be Done

The Department is reporting significant progress towards addressing longstanding information technology security weaknesses. 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 information technology security controls, particularly in the areas of configuration management and identity and access management. Within configuration management, we identified weaknesses that include the Department using unsupported operating systems, databases, and applications in its production environment and not adequately protecting personally identifiable information. Within identity and access management, we identified weaknesses where the Department has not fully implemented its network access control solution or two-factor authentication and where the Department and FSA did not adhere to the required Federal background investigation process for granting and monitoring access to its external users.

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

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—SFA program participants and grantees.

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 2018 budget request includes \$134.2 billion in new grants, loans, and work-study assistance to help an estimated 12.2 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 work conducted by the Government Accountability Office continue to identify weaknesses in FSA's oversight and monitoring of SFA program participants.

Progress in Meeting the Challenge

The Department reported that it employs several oversight tools in its work to ensure program participants' compliance with statutes and regulations and to mitigate the inherent risks associated with the administration of financial assistance programs. These include (1) program reviews, (2) review and resolution of program participant's annual compliance audits and financial statements to ensure administrative capability and financial responsibility, and (3) certification activities to ensure continued eligibility for participation in the Federal student aid programs.

The Department stated that during FY 2017, FSA implemented actions to improve its oversight and monitoring process for schools, lenders, servicers, and guaranty agencies. In August 2017, the Department announced that FSA was adding several key senior executives to help lead and implement a more comprehensive, broader approach to its oversight function. The Department also reported that FSA had begun establishing an integrated system of oversight functions that were intended to better ensure compliance by all participating parties. The Department intends for this approach to oversight to begin with proactive risk management that identifies and mitigates risks before they pose a threat.

The Department stated that it has also taken steps to strengthen its accreditation oversight. According to the Department, this includes improving data sharing, enhancing its processes to determine agency effectiveness, and improving its processes to assess whether agencies evaluate institutions in a manner consistent with the Secretary's Criteria for Recognition.

The Department stated that this management challenge reflects the inherent risks associated with Federal student aid and the ongoing challenge to mitigate these risks through oversight and monitoring.

What Needs to Be Done

The Department continues to identify important accomplishments that are intended to improve its ability to provide effective oversight. We recognize the progress the Department is making and the need to balance controls with both cost and the ability to effectively provide necessary services. However, our audits and

investigations involving SFA programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to improve its processes.

The financial responsibility provisions that were planned to go into effect in July 2017 as part of the borrower defense regulation changes would have included tools to improve the Department's oversight of schools. Enforcement of such regulations could have improved FSA's processes for mitigating potential harm to students and taxpayers by giving FSA the ability to obtain financial protection from schools based on information that is broader and more current than information schools provide in their annual audited financial statements. The Department needs to implement provisions that will allow it to receive important, timely information from publicly traded, private for-profit, and private nonprofit schools that experience triggering events or conditions. Collecting and analyzing this information could improve FSA's processes for identifying Title IV schools at risk of unexpected or abrupt closure.

Overall, the Department needs to ensure that the activities of its new efforts to better coordinate oversight result in effective processes to monitor SFA program participants and reduce risk. It 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 its oversight functions work together to effectively provide the intended additional protections to students and taxpayers. Finally, the Department could enhance its oversight of SFA 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 2018 request would deliver \$15.9 billion for local programs that provide extra academic support to help nearly 25 million students in high-poverty schools meet challenging 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 6.8 million students with disabilities.

OIG work has identified a number of weaknesses in grantee oversight and monitoring. These involve LEA and SEA control issues; fraud relating to education programs; fraud perpetrated by SEA, LEA, and charter school officials; and internal control weaknesses in the Department's oversight processes.

Progress in Meeting the Challenge

The Department noted that mitigating the risks associated with grants awarded to States, school districts, institutions of higher education, and other entities remains a significant challenge given the Department's relatively limited resources for oversight and monitoring. The Department stated that in response to this challenge, it initiated an enterprise-approach to risk management in FY 2017 and implemented targeted actions to improve support for grant recipients. The Department added that these actions focused on increasing staff expertise and leveraging risk-based tools and approaches to provide improved technical assistance and oversight.

The Department also reported that it completed several activities that were intended to improve its monitoring skills and capacity across offices through a variety of collaborative training and development efforts. Examples included developing training related to distance monitoring and providing technical assistance.

The Department added that it has implemented a number of new risk-based monitoring tools and approaches. The Department stated that its Risk Management Service provided analysis of complex monitoring issues that are intended to support well-informed, timely decision-making and preparation for site monitoring visits. The Department further

reported that it deployed two monitoring tools that were intended to (1) assist in analyzing risk and create risk-based monitoring plans and (2) centralize and automate key monitoring data while expanding the monitoring information into new areas.

The Department also noted that its grant offices had implemented a number of new risk-based approaches to better target limited resources on those educational agencies and entities in need of the most assistance. This included the expansion of the Office of Elementary and Secondary Education's (OESE) fiscal monitoring pilot that leverages joint reviews across its programs. The Department reported that this approach has better positioned it to work more proactively with SEAs and LEAs, identify issues of concern, and share best practices and lessons learned.

The Department further reported other improvements that included the Office of Career, Technical, and Adult Education's enhancements to its comprehensive monitoring web portal, the Office of Postsecondary Education's collaboration with other offices in developing and implementing a standard discretionary grant site visit monitoring tool, and the Institute of Education Sciences' efforts to improve the oversight of privacy and information security.

What Needs to Be Done

The Department acknowledges that this area is a major risk and points out actions it has taken to address this challenge. In particular, its efforts to pilot joint program fiscal monitoring reviews appear to leverage its limited resources to focus on areas of risk. The Department should closely review the results of this pilot and look for ways to improve it and expand it into other areas. Also, the Department should continue to make use of risk-based information, develop common training and procedures, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs.

As various offices implement improvements to monitoring, such as those cited above, the Department should review their effectiveness and replicate effective practices to other program areas. Given the Department's generally limited staffing in relation to the amount of Federal funding it oversees, it is important for the Department to continue to explore ways to more effectively leverage the resources of other entities that have roles in grantee oversight. Another area where there is the potential to make use of limited resources to improve oversight is to review the results of single audits and program monitoring efforts in order to revise the single audit process and updates to the 2 C.F.R. 200, Subpart F—Compliance Supplement to improve program compliance and help mitigate fraud and abuse.

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 relies on program data to evaluate program performance and inform 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 graduation rate information provided to the Department.

Progress in Meeting the Challenge

The Department reported that it made progress in FY 2017 to implement actions that are intended to mitigate the inherent risks associated with data quality. The Department stated that it continued to build standardized procedures to evaluate the quality of SEA-submitted data. As an example, the Department noted that two of its offices used a new tool to identify, follow-up, and track individual State data quality concerns after the submission of School Year 2015–16 Consolidated State Performance Reports.

The Department stated that it developed a policy that promotes a comprehensive approach to active and strategic data management with clearly identified roles and responsibilities for data management work. The Department added that the EDFacts Data Governance Board continues to promote and support program offices' stewardship of data through a unified Information Collection package, standardized technical reporting instructions, centralized data submission systems, and increasingly standardized post-submission data quality procedures. The Department also reported that it implemented a new certification for Consolidated State Performance Reports. The certification served as reminder that the person certifying the data was providing assurance, on behalf of the State, of the accuracy of the data submission to the Department.

The Department stated that the EDFacts Data Governance Board routinely meets to exchange best practices. For example, board members shared strategies used with State grantees to document data review procedures, build replicable processes, and generate meaningful and timely messages back to the grantees post-data submission. The Department further stated that the National Center for Education Statistics developed a basic Data Quality Summary Form that will be shared with the Department principal offices for use in their reviews of submitted data files.

The Department also reported that OESE initiated work to develop a plan to address issues of data quality, data security, data reporting, and overall data management. As part of the effort, OESE is using prior OIG data quality recommendations as areas for possible improvement. Finally, the Department stated that the Office of Career, Technical, and Adult Education continues to offer several ongoing initiatives to help States develop and implement accountability systems that yield valid, reliable, and complete data on the progress of career and technical education students. The Department reported that these efforts included annual conferences

to improve the quality and consistency of the definitions and measurement approaches that States use to report performance data, conference calls to discuss emerging issues in accountability, and customized technical assistance to States to improve the validity, reliability, and completeness of their data.

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 effort remains important, as data quality contributes to effective program management and helps ensure the credibility of information published by the Department. Although 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 continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's efforts by the EDFacts Data Governance Board to promote common strong practices across its program offices is an important step to improving the quality of data the Department relies on. In addition, efforts to strengthen data certification statements and reach out to States and other entities that report data to the Department are important steps to reinforce the importance of good data quality practices. The Department should continue to monitor the quality of the data it receives, work to implement effective controls to address known weaknesses, and take steps to ensure that strong data management practices are implemented across the Department as well as by entities that submit data to the Department. The Department should also make use of its current oversight mechanisms, such as single audits and program monitoring protocols, to ensure that program participants have strong controls to ensure the quality of data submitted to the Department and to ensure that they have good practices to support the data certifications they sign.