

OFFICE OF INSPECTOR GENERAL'S (OIG) MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2019 EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The OIG works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (the Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses. The *Reports Consolidation Act of 2000* requires the OIG to identify and report annually on the most serious management challenges the Department faces. The *Government Performance and Results Modernization Act of 2010* requires the Department to include in its agency performance plan information on its planned actions, including performance goals, indicators, and milestones, to address these challenges.

Last year, we presented four management challenges:

- (1) improper payments,
- (2) information technology security,
- (3) oversight and monitoring, and
- (4) data quality and reporting.

Although the Department made some progress in addressing these areas, each remains a management challenge for fiscal year (FY) 2019.

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 2019 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 needs to intensify its efforts to successfully prevent and identify improper payments. In May 2018, we issued an audit report on the Department's compliance with improper payment requirements for FY 2017. We found that the Department did not comply with the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) because it did not meet its reduction target for the Pell program. The Department reported a FY 2017 improper payment rate of 8.21 percent for the Pell program, which exceeded its reduction target of 7.85 percent. We found that the Department met the FY 2017 reduction target for the Direct Loan program. We reported that the Department's improper payment reporting, estimates, and methodologies were generally accurate and complete. We also found that the Department adequately described the oversight and financial controls it has designed and implemented to identify and prevent improper payments.

This was the Department's second consecutive year of not meeting its reduction target for the Pell program. Under IPERA and OMB guidance, if an agency is not in compliance with IPERA for two consecutive fiscal years for the same program or activity, the Director of OMB will review the program and determine whether additional funding would help the agency come into compliance. In addition, OMB may require agencies that are not compliant with IPERA (for one, two, or three years in a row) to complete additional requirements beyond the measures listed in the guidance. For example, if a program is not compliant with IPERA, OMB may determine that the agency must reevaluate or reprioritize its corrective actions, intensify and expand existing corrective action plans, or implement or pilot new tools and methods to prevent improper payments. OMB will notify agencies of additional required actions as needed.

Overall, our semiannual reports to Congress from April 1, 2015, through March 31, 2018, included more than \$715 million in questioned or unsupported costs from audit reports, which may be determined to be improper payments, and more than \$45 million in restitution payments from our investigative activity.

Progress in Meeting the Challenge

The Department stated that it is committed to maintaining the integrity of payments to ensure that the billions entrusted to it reach intended recipients in the right amount and for the right purpose. The Department stated that it sustains payment integrity by establishing policies, business processes, and controls over key payment activities, to include those pertaining to payment data quality, cash management, banking information, and financial reports. Payment integrity includes robust controls designed to prevent, detect, and recover improper payments. The Department added that in designing such controls, it strives to strike the right 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 noted that it must rely in part on controls established by the recipients of Federal funds, including State, local, and private organizations that further distribute those funds on behalf of the Department. The Department stated that because these third-party controls are outside of the Department's operational authority, they present a higher risk than the payments made directly by the Department, as evidenced by the OIG work and the Department's root cause analyses.

The Department stated that its current nonstatistical estimation methodology for improper payments in student aid programs limits the ability to establish accurate out-year reduction targets. The Department noted that it coordinated with OMB and other stakeholders in 2018 to develop a statistically valid methodology that will be implemented in 2019 to estimate improper payments for the Pell Grant and Direct Loan programs. The Department believed that this new methodology will improve the accuracy of the estimates and the Department's ability to meet reduction targets.

In addition, the Department stated that it is pursuing legislation that would authorize the Internal Revenue Service to disclose tax return information directly to the Department for the purpose of administering programs

authorized by Title IV of the *Higher Education Act of 1965*, through which the Department awarded more than \$120 billion in FY 2017. The Department expects the exemption would allow for significant simplification of and improvement to the administration of Title IV programs, including reduction in improper payments.

The Department stated that it is also developing an updated portfolio of risks through its Enterprise Risk Management program that is intended to help ensure that the risk of improper payments across the Department is managed strategically. The Department further stated that it is working to integrate its Enterprise Risk Management framework with its internal control program to help prevent and detect improper payments. The Department's internal control framework over payment integrity includes over 500 controls designed to help prevent, detect, and recover improper payments. These controls are included in the universe of internal controls the Department tests annually to assess their design and operating effectiveness. When the Department detects control deficiencies, it identifies the root causes, develops corrective action plans, and tracks the completion of the corrective action through resolution.

What Needs to Be Done

The Department needs to continue to take action to improve its payment integrity. The Department should continue its work to develop a methodology to accurately estimate improper payments, identify root causes, meet reduction targets, develop corrective action plans, and complete these plans to ensure programs comply with IPERA. The Department should also review and improve its business processes and controls over key payment activities to explore additional opportunities for preventing improper payments.

The Department needs to develop and implement processes to more effectively and efficiently monitor institutions participating in the student financial assistance programs, State education agencies, and local educational agencies 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 lost data confidentiality and integrity, limited system availability, and reduced 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) noted that the Department and Federal Student Aid (FSA) made progress in strengthening their information security programs; however, we found weaknesses in the Department's and FSA's information systems and those systems continued to be vulnerable to security threats.

As guided by the maturity model used in the FY 2017 Inspector General FISMA Metrics, we found that the Department and FSA were not effective in all five security functions—Identify, Protect, Detect, Respond, and Recover. We also identified findings in all seven metric domains: (1) Risk Management, (2) Configuration Management, (3) Identity and Access Management, (4) Security Training, (5) Information Security Continuous Monitoring, (6) Incident Response, and (7) Contingency Planning. 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 stated that it has made significant progress managing risk associated with information technology security. In particular, the Department noted that it has focused on addressing information technology control issues that were identified in prior-year OIG FISMA audits. The Department stated that it has continued to implement a comprehensive set of solutions that strengthen the overall cybersecurity of its networks, systems, and data.

The Department stated that it had taken actions to improve cybersecurity across the five security functions. Examples of actions identified by the Department within each area include the following.

- **Identify.** The Department stated that it implemented the use of a risk scorecard as a risk management tool and established a quantitative methodology for identifying, analyzing, and managing system-level cybersecurity risks. The Department stated that the risk scorecards are used to perform regular framework-based risk assessments to identify security gaps and opportunities to enhance the Department's cybersecurity capabilities and better protect its network assets and data.
- **Protect.** The Department stated that it had provided three cybersecurity training courses and had also executed six simulated phishing exercises in FY 2018. The Department believed that these exercises strengthened its ability to reduce risks to systems and information through modified user behavior and improved resilience to spear phishing, malware, and drive-by attacks.
- **Detect.** The Department stated that it completed acquisitions that included a database scanning tool and a Security Information Event Management solution. The Department also stated that it adjusted the network access control solution to further limit opportunities for potential malicious activity to occur and continued its work with the Department of Homeland Security to implement Continuous Diagnostics and Mitigation tools within its primary network infrastructure.
- **Respond.** The Department stated that it had increased forensics and vulnerability management capabilities and had reduced the turnaround time for security analysis through the acquisition and implementation of additional tools and hardware. The Department stated that multiple improvements in security reporting were also implemented to provide a quick view of activity statuses and security posture, including an improved Chief Information Officer weekly report.
- **Recover.** The Department stated that it implemented a new enterprise cybersecurity offering to system stakeholders that focused on testing system contingency plans and the incident response processes.

What Needs to Be Done

The Department reported 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, identity and access management, and information security continuous monitoring.

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 information technology 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: student financial assistance program participants and grantees.

**OVERSIGHT AND MONITORING—
STUDENT FINANCIAL ASSISTANCE
PROGRAM PARTICIPANTS****Why This Is a Challenge**

The Department must provide effective oversight and monitoring of participants in the student financial assistance 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 2019, FSA expects to provide \$129.5 billion in new Federal student aid grants and loans (excluding Direct Consolidation Loans) to almost 11.4 million postsecondary students and their families.

The growth of distance education has added to the complexity of the Department's oversight of student financial assistance 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 student financial assistance 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 student financial assistance program participants.

Progress in Meeting the Challenge

The Department stated that it has implemented robust oversight and monitoring processes for schools, lenders, servicers, guaranty agencies, and accrediting agencies. The Department further stated that FSA's process for oversight and monitoring includes performing program reviews, reviewing and resolving annual compliance audits and financial statements submitted by program participants to ensure that these participants are administratively capable and financially responsible, and conducting certification activities to ensure that program participants continue to be eligible to participate in the student aid programs.

The Department stated that the Next Generation Federal Student Aid transformation will bring significant improvements to FSA's capabilities to monitor the performance of servicing and collections vendors in addition to monitoring servicing and collections performance generally. As part of this initiative, FSA will implement a business intelligence platform designed to capture and report on performance metrics, which will include vendor contract performance metrics and data.

What Needs to Be Done

While the Department stated that it has implemented robust oversight and monitoring processes, our audits and investigations involving student financial assistance programs continue to identify instances of noncompliance and fraud, as well as opportunities for FSA to further improve its processes. The Department should enhance its oversight of student financial assistance 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.

Overall, the Department needs to ensure that its efforts to better coordinate oversight result in effective processes to monitor student financial assistance program participants and reduce risk. It should work to ensure that its program review and compliance audit 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.

Our audits and investigations of student financial assistance program participants and audits of the Department's related oversight and monitoring processes will continue to assess a wide variety of effectiveness and compliance elements. This area remains a management challenge given our continued findings in this area.

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 more than 18,300 public school districts and 55 million students attending more than 98,000 public schools and 34,000 private schools. Key programs administered by the Department include the Title I program, which under the Department's FY 2019 budget appropriation would deliver more than \$15.8 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 more than \$12.3 billion to help States and school districts meet the special educational needs of 6.9 million students with disabilities.

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

Progress in Meeting the Challenge

The Department stated that it is working to maximize the value of grant funding by applying a risk-based, data-driven framework that balances compliance requirements with demonstrating successful results for the American taxpayer. The Department noted that there is significant inherent risk that State educational agencies, local educational agencies, and grant recipients may not always comply with financial or programmatic requirements, thereby negatively impacting program outcomes. The Department stated that it continues to take a number of actions to manage this risk and support State and local efforts, as well as postsecondary agencies and institutions, to improve outcomes. The Department's new *Strategic Plan* includes key objectives and strategies focused on providing greater support to grantees through a number of ways, including flexibility, technical assistance, partnership, and dissemination of evidence.

The Department also stated that it continues to develop improved strategies to oversee and monitor grant recipients. According to the Department, one of these strategies is increasing the expertise of program staff to provide effective monitoring and oversight. The Department stated that its Risk Management Service developed and offered multiple courses covering basic to advanced strategies and resources to monitor formula and discretionary grantees. The Department has also focused on improving its technical support processes.

The Department reported accomplishments in grantee oversight and monitoring across multiple offices. As examples, the Department reported the following.

- The Office of State Support implemented a performance review system designed to provide effective performance management and support to State educational agencies in administering and leveraging grant programs that include Title I, Part A; Title II, Part A; and Title III.

- The Office of Elementary and Secondary Education increased the number of engagements in its fiscal monitoring pilot, which is in its second year, and successfully increased focus on improving grantee financial management.
- The Office of Special Education and Rehabilitative Services and the Office of Elementary and Secondary Education collaboratively planned and hosted two major public events to provide States with technical assistance on assessment topics and implementing the *Every Student Succeeds Act*.
- Multiple offices also routinely collaborate in monitoring activities, focusing on areas such as assessments, accountability, and data reporting.

What Needs to Be Done

The Department continued to report progress in enhancing its grantee oversight processes, citing numerous actions it had taken to address risks and improve outcomes across multiple program offices. The Department should periodically assess the results of these efforts, identify the most promising approaches, and determine whether these best practices can be effectively applied in other program offices.

The Department should also continue its efforts to offer common training, encourage effective collaboration and communication across program offices, and take steps to ensure that its program offices are consistently providing effective risk-based oversight of grant recipients across applicable Federal education programs. Given the flexibilities offered by the *Every Student Succeeds Act*, the Department needs to ensure that its monitoring approaches support State and local efforts while providing effective oversight of financial stewardship and ensuring progress towards positive program outcomes.

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.

The Department's oversight and monitoring of grantees remains a management challenge given our continued findings in this area.

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 and at State and local educational agencies. 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 acknowledged that there is significant inherent risk associated with the quality of data reported to the Department by grant recipients. However, the Department reported that it is committed to a number of actions to strengthen the quality, accessibility, and use of education data. The Department believes that its efforts to strengthen its data life cycle management, governance, and quality framework will help ensure that data the Department uses for decision-making are accurate and reliable.

The Department stated that it developed a tool to track data quality concerns and State responses to data-related questions that contributed to the School Year 2015–16 Assessment, Adjusted Cohort Graduation Rate, and Consolidated State Performance Report data quality follow-up efforts. The Department tracks data quality findings through multiple review cycles with input from States and data stewards. The Department further reported that the Office of Elementary and Secondary Education implemented a process to track Consolidated State Performance Report data quality follow-up and streamlined the process to load Consolidated State Performance Report data quality findings into a main repository.

The Department reported that it continues to work in other areas to improve the data management and verification process and better mitigate the risk that the Department might unknowingly accept or use inaccurate data. Notably, the Department plans to leverage single

audits to help assess grant recipient data quality. The Department is working with OMB on language for the compliance supplement that would add focus to the review of grant recipients' internal controls that support the quality of performance data submitted to the Department. The Department believed that this would better ensure that data reported by States are accurate and reliable.

What Needs to Be Done

The Department's efforts to improve the overall quality of data that it collects and reports remain important to its program management and reporting. 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 continue to find weaknesses in grantees' internal controls over the accuracy and reliability of program performance and graduation rate information.

The Department's effort to promote common strong practices across its program offices is an important step to improving data quality. In addition, efforts to strengthen data certification statements and to perform outreach 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 follow through on its plans to leverage single audits to help assess grant recipient data quality.