

Testimony of Inspector General Kathleen S. Tigue
U.S. Department of Education Office of Inspector General before the
Subcommittee on Labor, Health and Human Services, Education, and Related Agencies
Committee on Appropriations, U.S. House of Representatives
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Chairman Kingston, Ranking Member DeLauro, and members of the Subcommittee, thank you for inviting me here today to discuss the management challenges facing the U.S. Department of Education (Department). For fiscal year (FY) 2013, the Office of Inspector General (OIG) identified four management challenges facing the Department: (1) improper payments, (2) information technology security, (3) oversight and monitoring, and (4) data quality and reporting.

Management Challenge—Improper Payments

In FY 2010, the Office of Management and Budget designated the Federal Pell Grant (Pell) program as a high-priority program. The Department estimated that the Pell program had \$993 million in improper payments in FY 2011 and \$829 million in FY 2012. The Department also identified the William D. Ford Federal Direct Loan (Direct Loan) program and Federal Family Education Loan (FFEL) program as susceptible to significant improper payments in FY 2012. Our recent work has found that although the Department is making progress, it must intensify its efforts to successfully prevent, identify, and recapture improper payments. For example, our March 2013 audit of the Department's compliance with improper payment requirements found flaws in the Department's methodologies for the Pell, Direct Loan, and FFEL programs.

Management Challenge—Information Technology Security

The Department collects, processes, and stores a large amount of sensitive personally identifiable information, such as names and social security numbers of employees, students, and other program participants. OIG has identified repeated problems in the Department's information technology

security and its ability to combat threats and vulnerabilities to its systems and data. For example, OIG's FY 2012 report on the Department's compliance with the Federal Information Security Management Act of 2002 noted that 6 of the 11 security control areas reviewed contained repeat findings from OIG reports issued during the prior 3 years. Further, the last three audits of the Department's financial statements identified information technology controls at the Department as a significant deficiency. Although the Department has provided corrective action plans to address most of our recommendations, vulnerabilities continue to exist.

Management Challenge—Oversight and Monitoring

Effective oversight and monitoring is a significant responsibility for the Department given the number 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 areas included in this management challenge are (1) Student Financial Aid (SFA) program participants, (2) distance education, (3) grantees, and (4) contractors.

Student Financial Aid Program Participants

The Department must effectively oversee and monitor SFA program participants to ensure that SFA programs are not subject to fraud, waste, abuse, or mismanagement. The Department estimated that \$193.5 billion will be used for Federal student aid in FY 2013. We completed several reviews in FY 2011 and FY 2012 that identified weaknesses relating to the Federal Student Aid office's (FSA) oversight and monitoring activities. Additionally, our external audits of individual SFA program participants have frequently identified noncompliance, waste, and abuse of Federal student aid program funds. OIG investigations have identified various schemes by SFA program participants to fraudulently obtain Federal student aid funds. Although the Department is working to address weaknesses and deficiencies in SFA oversight and monitoring, our work continues to identify serious problems.

Distance Education

Management of distance education programs presents a challenge for the Department and school officials because of limited or no physical contact to verify the student's identity or attendance. OIG audit work has found that for distance education programs, schools face a challenge in determining when a student attends, withdraws from school, or drops a course. These factors are critical because they are used to determine the student's eligibility for Federal student aid and to calculate the return of funds if the student withdraws or drops out. Another area of concern involves distance education "fraud rings"—large, loosely affiliated groups of criminals who seek to exploit distance education programs in order to fraudulently obtain Federal student aid. Because all aspects of distance education take place through the Internet, students are not required to present themselves in person at any point, and institutions are not required to verify prospective and enrolled students' identities. As a result, fraud ringleaders have been able to use the identities of others (with or without their consent) to target distance education programs. Fraud rings mainly target lower cost institutions because the Federal student aid awards are sufficient to pay institutional charges, such as tuition, and the student receives the award balance to use for other educational expenses, such as books, room and board, and commuting. In 2011, we issued a report on fraud rings that offered nine specific actions for the Department to take to address this type of fraud. Although the Department has taken some action to mitigate fraud rings, work still remains. In January 2013, we provided the Department with the results of our risk analysis related to student aid fraud rings, which estimated a probable loss of more than \$187 million in Federal student aid funds from 2009 through 2012 as a result of these criminal enterprises.

Grantees

The Department's early learning, elementary, and secondary programs annually serve nearly 16,000 public school districts and 49 million students attending more than 98,000 public schools

and 28,000 private schools. The Department is responsible for monitoring the activities of grantees to ensure compliance with applicable Federal requirements and that performance goals are being achieved. OIG audit and investigative work has identified a number of weaknesses in grantee oversight and monitoring. These involve weaknesses in fiscal and internal controls at State and local educational agencies and in the Department's oversight processes. The OIG also identified fraud perpetrated by officials at State and local educational agencies and charter schools.

Contractors

The value of the Department's active contracts as of November 30, 2012, was about \$5.3 billion. Once a contract is awarded, the Department must effectively monitor performance to ensure that it receives the correct quantity and quality of products or services for which it is paying. OIG has identified issues relating to the lack of effective oversight and monitoring of contracts and contractor performance, including the appropriateness of contract prices and payments and the effectiveness of contract management. In 2012 we found that the Debt Management Collection System 2 (DMCS2), FSA's system for managing defaulted student loans that was updated by a contractor, was unable to accept transfer of certain defaulted student loans from FSA's loan servicers. Since DMCS2 was implemented in October 2011, the entities that service Federal student aid loans have accumulated more than \$1.1 billion in defaulted student loans that should be transferred to the Department for management and collection. Because DMCS2 has been unable to accept transfer of these loans, the Department is not pursuing collection remedies and borrowers are unable to take steps to remove their loans from default status. The inability of DMCS2 to accept these transfers also contributed to a material weakness in internal control over financial reporting that was identified in FSA's FY 2012 financial statement audit. Based on our interaction with FSA officials to date, FSA has yet to implement effective corrective action to bring these affected loans into collection, correct the problems with DMCS2, and pursue contractual remedies.

Management Challenge—Data Quality and Reporting

The Department, its grantees, and its subgrantees must have controls in place and effectively operating to ensure that accurate, reliable data are reported. The Department uses data to make funding decisions, evaluate program performance, and support a number of management decisions. State educational agencies annually collect data from local educational agencies and report various program data to the Department. Our work has identified a variety of weaknesses in the quality of reported data and recommended improvements at the State and local level, as well as actions the Department can take to clarify requirements and provide additional guidance. Ensuring that accurate and complete data are reported is critical to support effective management decisions.

Conclusion

Each of the management challenges listed above is discussed in more detail in our FY 2013 Management Challenges report, which is available on our Web site (<http://www2.ed.gov/about/offices/list/oig/misc/MgmtChall2013a.pdf>). We believe that this report is a valuable tool for Department officials to use in their efforts to address the management and performance issues identified, and we are committed to helping them do so. This includes conducting additional work in these challenge areas throughout FY 2013. You will find detailed information on these and our other high-priority efforts in our FY 2013 Annual Plan, which is available on our Web site (<http://www2.ed.gov/about/offices/list/oig/misc/wp2013.pdf>). This concludes my written statement. I am happy to answer any of your questions.