U.S. DEPARTMENT OF EDUCATION

Inspector General's Semiannual Report to Congress, No. 56

October 1, 2007 - March 31, 2008

U.S. Department of Education

Office of Inspector General

Semiannual Report to Congress: No. 56

October 1, 2007 - March 31, 2008

Table of Contents

INSPECTOR GENERAL'S MESSAGE TO CONGRESS

OVERVIEW **1**

STUDENT FINANCIAL ASSISTANCE PROGRAMS **3**

Special Allowance Payments 4

American Education Services/Pennsylvania Higher Education Assistance Agency 4

FSA Operations 5

Central Processing System Edit Check 5

Title IV Program Participants 6

Capella University 6

Wilberforce University 7

Herzing College-Madison 7

Vatterott College-Des Moines 8

Investigations 8

California 8

Connecticut 9

Illinois 9

New York 9

Oklahoma 10

Pennsylvania 10

ELEMENTARY AND SECONDARY EDUCATION PROGRAMS **10**

ESEA/NCLB 11

ESEA Perspective Paper 11

Comparability of Services 11

Grantee Accountability 12

California: San Diego Unified School District 12

New Jersey: Elizabeth Public School District 12

Ohio: Migrant Education Program 13

High Risk Grantees 13

Investigations 14

Alabama 14

Washington, D.C. 14

Louisiana 15

Texas 15

Financial Management and Department Operations **16**

Financial Management 16

Financial Statement Audits 16

Drug Control Funds 17

Internal Operations 17

Unimplemented Recommendations 17

Financial Disclosures 17

Investigations 18

Alabama 18

HURRICANE-RELATED EFFORTS **19**

Temporary Emergency Impact Aid Funds 19

Georgia 19

Similar Findings in Other States 20

Restart Funds ... 20
Louisiana ... 20
Findings in Other States ... 21
OTHER NOTEWORTHY EFFORTS ... 21
Hotline Posters ... 21
Non-Federal Audits ... 21
President's Council on Integrity and Efficiency ... 21
OIG Testifies for PCIE before U.S. Senate Subcommittee ... 22
OIG Receives PCIE Alexander Hamilton Award ... 22
OMB Issues Best Practice Guide ... 22
PCIE/GAO 2008 Financial Statement Audit Conference ... 22
Reporting Requirements of the Inspector General Act, as amended ... 23
Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed ... 24
Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2007, to March 31, 2008) ... 25
Table 3: Other OIG Reports on Department Programs and Activities (October 1, 2007, to March 31, 2008) ... 27
Table 4: Inspector General Issued Audit Reports with Questioned Costs ... 28
Table 5: Inspector General Issued Audit Reports with Recommendations For Better Use of Funds ... 29
Table 6: Unresolved Reports Issued Prior to October 1, 2007 ... 29
Table 7: Statistical Profile : October 1, 2007 to March 31, 2008 ... 33

INSPECTOR GENERAL'S MESSAGE TO CONGRESS

We are pleased to provide this semiannual report on the activities and accomplishments of the Office of Inspector General (OIG), U.S. Department of Education (Department) from October 1, 2007, through March 31, 2008. The audits, inspections, investigations, and other activities highlighted in this report illustrate our on-going commitment to promoting accountability, efficiency, and effectiveness in federal education programs and operations.

Over the last six months, OIG issued 31 audit, inspection, and related reports. We identified over $45 million in questioned costs and over $5 million in unsupported costs. We closed 56 investigations, with over $6 million in recoveries, restitutions, fines, settlements, and forfeitures/seizures, and savings to the Department of over $10 million. As you will read in the pages of this report, our work identified a need for the Department to improve its monitoring and oversight in the programs and operations we reviewed. This conclusion was echoed in two reports released in March by the Government Accountability Office (GAO) on the Department's monitoring and oversight of two unrelated programs. You will find more information on the work we completed over the last six months in this report, including information on the third in our series of reports on overpayments made by the Department to lenders at the 9.5 percent special allowance payment rate.

Our audit report centered on the American Education Services/Pennsylvania Higher Education Assistance Agency (AES/PHEAA) and found that AES/PHEAA may have received an estimated $35 million in overpayments. Earlier this year, the Department issued its final determination on our AES/PHEAA audit, agreeing with most but not all of our findings. On January 25, the Department sent a letter to AES/PHEAA instructing officials to recalculate the subsidies it claimed on loans from October 2004 to September 2006 and to repay an estimated $14 million that it had inappropriately billed. Although we disagree with the Department's decision not to sustain all of our findings, we are pleased it is moving ahead to recover a substantial amount of loan subsidies improperly paid to AES/PHEAA. We currently have additional work in this area underway to help ensure that taxpayer dollars are protected.

As you continue to work to reauthorize the *Elementary and Secondary Education Act of 1965* (ESEA), as amended by the *No Child Left Behind Act of 2001*, I would once again like to bring to your attention our significant body of work on a number of key provisions of the law. Over the last seven years my office released over 130 ESEA-related reports, providing recommendations for improving the administration of the programs by the Department and its grantees. During this reporting period and based on our experience with the administration of the ESEA programs, we identified the most significant issues and suggestions that we believe can help improve accountability and integrity in ESEA programs. This information was presented in a report entitled, *An OIG Perspective on Improving Accountability and Integrity in ESEA Programs*. The report was provided to Congress in October 2007. This paper and other OIG final reports can be accessed via our website at http://www.ed.gov/about/offices/list/oig/index.html. Interested individuals may sign-up to receive email notification when a new report is issued by completing the information requested at: http://www.ed.gov/about/offices/list/oig/areports.html.

While we have produced a substantial body of work in recent years, please know that we face significant resource challenges in meeting the increased demand for our services. At our present funding level, combined with the Department's limited administrative budget, which impacts its ability to provide adequate monitoring and oversight of its programs and operations, we cannot assure the Congress or the

Department that these programs and operations are functioning as effectively and efficiently as they should.

Increases in our budget, while significant and appreciated, have failed to keep up with increases in the cost of doing business. In FY 1993, our full time employee (FTE) strength was at its highest in our history - 363 strong - when the Department had stewardship of over $190 billion. In FY 2007, our FTE was at 287 when the Department had responsibility for over $500 billion. Our current resources are spread so thin that we continue to put on hold a number of planned audits and other assignments, as staff has been reassigned to a growing number of statutory requirements and Congressionally-requested efforts.

As we have reported in our Semiannual Reports to Congress, OIG has historically recovered more on a yearly basis than our annual budget; thus dedicating additional resources to this office is a good investment. Such an investment would be one of the best ways to provide assurance to the Congress and the Department that Department programs and operations are functioning as effectively and efficiently as America's taxpayers demand and America's students deserve.

Finally, after nearly 40 years in federal service, including the last 28 with the OIG, I have made the decision to retire effective July 1, 2008. It has truly been an honor to have been given the opportunity to serve America's taxpayers and students in the role of Inspector General. Throughout my tenure, OIG has made significant contributions that better enable the Department to meet its mission and promote educational excellence throughout the nation. I am proud of our accomplishments and have enjoyed working with Congress in furthering the goals of this office and achieving our vital mission.

Thank you again for your support and for allowing me to serve this country in such an important capacity.

John P. Higgins, Jr.
Inspector General

OVERVIEW

We are pleased to provide this semiannual report on the activities and accomplishments of the Office of Inspector General (OIG), U.S. Department of Education (Department) from October 1, 2007, through March 31, 2008. The audits, inspections, investigations, and other activities highlighted in this report illustrate our on-going commitment to promoting accountability, efficiency, and effectiveness in federal education programs and operations.

The success of an organization's mission and the achievement of its goals depend on how well it manages its programs, and it cannot effectively manage its programs without establishing and maintaining appropriate internal control. "Internal control" is the plans, methods, and procedures aimed at helping an agency meet its goals and achieve its objectives, while minimizing operational problems. In 1999, the Government Accountability Office (GAO) released *Standards for Internal Control in the Federal Government* that presents an overall framework to help federal government agencies establish and maintain internal control. It established five standards for internal control to help agencies establish and maintain effective internal control, as well as identify and address major performance challenges and areas at greatest risk of fraud, waste, and abuse. One of the five standards is monitoring - an activity that the GAO report says should occur in the course of normal business to assess the quality of performance. Work completed by OIG over the last six months identified a need for the Department to improve its monitoring and oversight in the programs and operations we reviewed. This conclusion was echoed in two reports released in March by the GAO on the Department's monitoring and oversight of two additional and unrelated programs.

Our work continues to identify a similar need for improved monitoring and oversight by the Department's grantees and program participants reviewed during this reporting period in order to ensure that the federal education funds they receive are being used as required by law and regulations, and consistent with Department guidance. You will find more detailed information on this work in this report, which we have separated into four sections: work conducted in the area of student financial assistance; work conducted in the areas of elementary and secondary education; work specific to the Department's financial management and internal operations; and the hurricane-related audit work we conducted in response to recovery efforts in the wake of Hurricanes Katrina and Rita.

With $82 billion awarded in fiscal year (FY) 2007 through the student financial assistance programs and an outstanding loan portfolio of close to $500 billion, the Department's Federal Student Aid office (FSA) must provide adequate monitoring and oversight of its programs, operations, and participants to help protect these taxpayer dollars from waste, fraud, and abuse. In the first section of this report, you will find summaries of our more significant work in this area, including information on the third in our series of reports on overpayments made by the Department to lenders at the 9.5 percent special allowance payment rate. This audit report centered on the American Education Services/ Pennsylvania Higher Education Assistance Agency (AES/PHEAA) and found that AES/ PHEAA may have received an estimated $35 million in overpayments. We also released an audit that found that FSA does not have a process in place to effectively monitor resolution of comment codes from its Central Processing System by institutions disbursing federal student financial assistance. This audit found that, with respect to $1.5 billion in student financial aid disbursements, FSA did not have a record of whether institutions resolved certain comment codes. In addition to detailed information on these findings, you will also find summaries of our more significant investigative cases involving employees of postsecondary institutions or corporations involved in higher education.

In the second section of this report, we provide a summary of our recent work in the area of elementary and secondary education programs. In recent years, we have focused more of our resources on reviewing elementary and secondary education programs and program participants. Over the last seven years, OIG has released over 130 reports related to the *Elementary and Secondary Education Act of 1965* (ESEA), providing recommendations for the Department and, when applicable, Congress, to improve the Department's administration of the programs or that of its grantees. During this reporting period, we released a report that identified the most significant issues and suggestions that we believe can help improve accountability and integrity in ESEA programs. This information was presented to Congress in a report entitled *An OIG Perspective on Improving Accountability and Integrity in ESEA Programs*. The highlights, along with summaries of our more significant efforts in the elementary and secondary education area, can be found in this section of the report. As you will see, our work identified a need for the Department to improve its oversight and monitoring in the programs we reviewed. We found much of the same with the grantees we audited, where ineffective monitoring and oversight can impact a state educational agency's (SEA) and local educational agency's (LEA) ability to meet statutory requirements. Also in this section are summaries of our more significant investigative cases involving misuse of federal education funds by individuals, including teachers, school superintendents, and other officials.

In the third section of this report are highlights of the audits and reviews we completed on the Department's financial management and internal operations, areas where effective oversight and monitoring reduce an agency's vulnerability to waste, fraud, and abuse. In 2007, the Department received a "clean" audit opinion on its financial statements for the sixth year in a row. While this accomplishment is noteworthy, the audits did reveal that a renewed focus is warranted regarding program monitoring activities, credit reform estimates and financial reporting, and noted repeat control weaknesses within information technology (IT) security and systems indicating the need to address the root causes of security or control weaknesses uniformly across the organization. In addition, OIG completed work on two Congressionally-directed requests related to internal operations. The findings of these efforts can be found in this section of the report, along with a summary of an investigative case involving a former employee of a Department contractor.

With regard to Section 845 of the *National Defense Authorization Act for Fiscal Year 2008*, which requires each OIG to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings, OIG did not issue any such report over the last six months. In the future, we will include summaries of such reports in the "Internal Operations" section of our report.

In the fourth section of our report, we provide summaries of our audit products related to hurricane-related education funds. As reported in our previous Semiannual Reports to Congress, OIG conducted a series of audits to determine whether *Hurricane Education Recovery Act* (HERA) funds were expended as required by federal law, regulations, and Department guidance. Congress allotted over $1.9 billion for the HERA programs we reviewed. During this reporting period, we released our final two HERA-related audits. Our findings were consistent with work conducted and reported on in other states. You will find more details on our overall work in this section of the report.

OIG constantly strives to improve its operations through our work with the IG community. In the fifth section of this report, we highlight a number of our contributions and accomplishments over the last six months within the IG community, which includes OIG testifying on behalf of the President's Council on Integrity and Efficiency (PCIE) before a U.S. Senate Subcommittee on the PCIE's National Single Audit Sampling Project and OIG's receipt of the prestigious PCIE Alexander Hamilton Award for Excellence.

In the sixth and final section of this report, there is a compilation of tables of the audits, inspections, and investigations we concluded during this reporting period, as required by the *Inspector General Act of 1978,* as amended.

Copies of the reports discussed in this Semiannual Report may be found on the OIG website at *http://www.ed.gov/about/offices/list/oig/index.html*. Interested individuals may sign-up to receive email notification when a new report is issued by completing the information requested at: *http://www.ed.gov/about/offices/list/oig/areports.html*.

For more information on the work or activities discussed in this report, please contact the OIG Congressional Liaison at (202) 245-7023, or visit our website at *http://www.ed.gov/about/offices/list/oig/index.html*.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The federal student financial assistance programs involve over 6,000 postsecondary institutions, more than 3,000 lenders, 35 guaranty agencies, and many third party servicers. During FY 2007, FSA provided $82 billion in awards and managed an outstanding loan portfolio of close to $500 billion. As the office responsible for administering these programs, FSA must conduct effective monitoring and oversight of programs, operations, and participants to help protect higher education dollars from waste, fraud, and abuse. Work concluded over the last six months identified weaknesses in FSA's monitoring in the programs we reviewed and a need for the Title IV program participants we audited to ensure that the federal education funds they receive are spent in accordance with applicable law, regulations, and Department guidance.

In addition, OIG investigative staff continues to identify and pursue cases of theft of student financial assistance, especially by those in positions of trust in America's schools. Summaries of these reports and examples of our work in this area are highlighted below.

Special Allowance Payments

AMERICAN EDUCATION SERVICES/ PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY

In November, we released our audit of AES/PHEAA, where we sought to determine whether AES/PHEAA billed for certain special allowance payments in compliance with the requirements in the *Higher Education Act of 1965*, as amended (HEA) and regulations, and consistent with other guidance issued by the Department, for the period July 1, 2003, through June 30, 2006.

Special allowance payments are made to lenders on certain loans in the Federal Family Education Loan (FFEL) Program to ensure that lenders receive an equitable return on their loans. In general, the amount of a special allowance payment is the difference between the amount of interest the lender receives from the borrower or the government and the amount that is provided under requirements in the HEA. The HEA includes a special allowance calculation for loans that are funded by tax-exempt obligations issued before October 1, 1993. The quarterly special allowance payment for these loans may not be less than 9.5 percent, minus the interest the lender receives, divided by four. We refer to this calculation as the "9.5 percent floor." When interest rates are low, the 9.5 percent floor provides a significantly greater return than lenders receive for other loans.

Our audit found that AES/PHEAA's billing did not comply with requirements for the 9.5 percent floor. AES/PHEAA's billing under the 9.5 percent floor-

- Included loans that were refinanced after September 30, 2004, by taxable obligations and ineligible tax-exempt obligations. Under amendments to the HEA in the *Taxpayer-Teacher Protection Act of 2004*, these loans are not eligible for the 9.5 percent floor. We estimate that this non-compliance resulted in special allowance overpayments of about $14 million.
- Included loans that were funded by tax-exempt obligations issued on or after October 1, 1993. We determined that, under the HEA, loans funded by these obligations are not eligible for the 9.5 percent floor. We estimate that this non-compliance resulted in special allowance overpayments of about $21 million. (About $1.5 million of this amount is also in the overpayment listed above.)
- For the quarter ended March 31, 2006, contained two errors, which resulted in special allowance overpayments of about $134,000.
- Created a significant risk that loans billed by AES/PHEAA under the 9.5 percent floor were ineligible for that calculation because they were not eligible first-generation or second-generation loans. AES/PHEAA had no controls in place to ensure that the loans billed under the 9.5 percent floor were funded by the eligible sources of funds identified in law and regulation. Since the Department has stated that it will not seek repayment of prior improper payments if a lender agrees to certain terms--which include a separate independent audit-and since a separate independent audit is in process to identify AES/PHEAA's eligible first-generation and second--generation loans, we did not determine the extent to which AES/PHEAA's 9.5 percent floor billings included only eligible first-generation and second-generation loans.

In addition, we confirmed with AES/PHEAA that, other than in the change request forms it used to update its systems, it had no documented policies and procedures for the processes it used to manage its student loan portfolio. This lack of written policies and procedures may have caused its non-compliance and billing errors.

Based on our findings, we recommended that FSA instruct AES/PHEAA to return the special allowance overpayments we describe in our report, stop billing under the 9.5 percent floor for ineligible loans, and document and implement policies and procedures for managing its student loan portfolio. AES/PHEAA did not concur with our findings and recommendations.

Earlier this year, the Department issued its final determination on our AES/PHEAA audit, agreeing with most but not all our findings. On January 25, the Department sent a letter to AES/PHEAA instructing officials to recalculate the subsidies it claimed on loans from October 2004 to September 2006 and to repay an estimated $14 million that it had inappropriately billed. The Department, however, did not agree with our finding on loans funded by post-October 1, 1993, tax-exempt obligations because it concluded that loans refinanced prior to September 30, 2004, by these tax-exempt obligations remained eligible for the 9.5 percent floor unless the prior tax-exempt obligation used to acquire the loan was retired or defeased. Although we disagree with the Department's determination on this finding, we are pleased that the Department is moving ahead to recover a substantial amount of loan subsidies improperly paid to AES/PHEAA. We are currently conducting more work in this area to help ensure that taxpayer dollars are protected. *Click here* for a copy of our report.

FSA Operations

Central Processing System Edit Check

We conducted an audit to evaluate the effectiveness of the Department's processes for: (1) ensuring that institutions resolve comment codes generated by the Department's system for processing applications for federal student aid; and (2) monitoring and using data from comment codes. The Central Processing System (CPS) receives and processes student financial assistance application and correction information and initiates the process of determining the applicant's eligibility for aid. CPS generates and sends reports to the student applicant and the postsecondary institutions that are listed on the student's Free Application for Federal Student Aid (FAFSA). The reports contain comment codes that point out possible missing or inconsistent data that affect student aid eligibility such as student aid overpayments, citizenship, registration for Selective Service, drug convictions, or loan limits. Institutions are required to resolve these comment codes before disbursing federal student aid.

Our audit found that FSA does not have a process to effectively monitor comment codes known as Institution Student Information Report/Student Aid Report (ISIR/SAR) "C codes," does not use C code data to determine which institutions should be selected for program reviews based on high occurrences of these codes, and does not have a tracking mechanism to monitor institutions with high occurrences of C codes. Because FSA does not track or monitor whether the institution maintained documentation on C code resolution, the number of unresolved C codes identified in our analysis indicates that institutions may not be resolving all C codes. As a result, we determined that for the time period reviewed, over $1.5 billion of federal student financial assistance was disbursed to students whose eligibility may have been affected if C codes related to citizenship, Selective Service registration, Pell Grant overpayments, and loan limits were not appropriately resolved.

We made several recommendations aimed at improving the edit check process, including that FSA periodically obtain reports to track the frequency of C codes by schools and identify institutions that are not resolving those codes, and that FSA use the reports to select institutions for a program review that focuses solely on the resolution of C codes. We also recommended that FSA develop and implement a policy that requires follow-up with institutions that have excessively high rates of unresolved C codes.

FSA did not specifically state whether it concurred with our finding and related recommendations; however, it did state that its current audit resolution and program review processes for monitoring the resolution of C codes are very effective, indicating that it did not concur with our finding. In addition, FSA stated that the risk to over $1.5 billion suggested by our report is overstated, as the occurrence of C code data alone does not support our contention that institutions may not be resolving these codes. We did not alter our findings or recommendations based on FSA's comments, as the absence of findings in the audit or program review reports reviewed by FSA cannot support a conclusion that the risk associated with unresolved C codes is overstated. *Cick here* for a copy of our report.

Title IV Program Participants

CAPELLA UNIVERSITY

Capella University (Capella) is a proprietary school headquartered in Minneapolis, Minnesota. Capella provides all of its instruction online and does not have any "brick and mortar" classroom facilities. Capella currently offers more than 700 online courses that are part of certificate, undergraduate and graduate degree programs in more than 80 specialized areas of study. We conducted an audit to determine whether Capella complied with selected provisions of the HEA and regulations governing: (1) the return of Title IV program funds; (2) FFEL and Pell Grant disbursements; (3) institutional eligibility; (4) program eligibility; and (5) student eligibility. For the time period reviewed, Capella received over $328 million in Title IV funding.

Overall, we found that Capella generally complied with the provisions of the HEA and regulations governing institutional eligibility, program eligibility, and student eligibility; however, it did not comply with the provisions of the HEA and regulations governing return of Title IV program funds and FFEL and Pell Grant disbursements. Capella did not return all funds disbursed on behalf of students who dropped before the first day of class of the payment period. Capella lacked documentation of the students' attendance for its online programs, thus it returned about $588,000 less than it should have. Capella also disbursed FFEL and Pell Grants to students who were not enrolled in an eligible program at the time of the disbursement. As a result, it had the use of about $3.5 million in federal funds every quarter for 2 to 10 days, and the Department may have made unnecessary interest and special allowance payments related to these funds.

As a result of our findings, we made a number of recommendations, including that FSA require Capella to review its files and return the improperly retained Title IV funds, as well as develop and implement policies and procedures to provide reasonable assurance that funds are not disbursed to students who are not enrolled. Capella officials did not concur with all of our findings. *Click here* for a copy of the report.

Wilberforce University

We conducted an audit to determine whether Wilberforce University (Wilberforce), located in Ohio, complied with select provisions of the HEA and regulations governing the return of Title IV funds, student eligibility, disbursements, and award calculations. During the time period reviewed, Wilberforce disbursed over $21 million for these programs and we identified significant instances of noncompliance in all of these areas.

Among our findings: Wilberforce did not return over $61,900 in unearned Title IV funds; did not administer the Federal Work Study program in accordance with the HEA and regulations, resulting in payment of over $2.3 million in wages that lacked adequate supporting documentation; and disbursed over $38,600 in Title IV funds to ineligible students. We determined that Wilberforce did not comply with the Title IV requirements because it was not administratively capable. Wilberforce experienced significant staff turnover and lacked sufficient financial aid staff, and failed to develop and implement written policies and procedures. It also did not maintain all records needed to demonstrate compliance with the HEA and applicable regulations and did not ensure sufficient communication between the financial aid office and all other institutional offices at the school.

We made a number of recommendations, including that FSA place Wilberforce on provisional certification and the reimbursement payment method, and that it take appropriate action to fine, limit, suspend, or terminate Wilberforce's participation in the Title IV programs. Wilberforce did not concur with any of our findings and disagreed with all of our recommendations, except those involving implementation of written policies and procedures. *Click here* for a copy of the report.

Herzing College-Madison

Herzing College-Madison (HCM) is one of the Herzing Corporation's proprietary schools located in Madison, Wisconsin. During this reporting period, we reviewed HCM's compliance with the HEA and regulations governing: (1) general student eligibility; (2) return of Title IV funds; (3) institutional eligibility requirements under the 90/10 rule; and (4) Federal Perkins (Perkins) loan collections. For the time period reviewed, HCM received over $12.2 million in Title IV funds for these programs.

While we found that HCM generally complied with the HEA and regulations for the bulk of these programs, HCM did not always comply with the requirements governing Perkins loan collections. Specifically, HCM did not always promptly convert Perkins loan borrowers to repayment or provide the required exit counseling when borrowers ceased attending the school at last half time. Based on our finding, we recommended that FSA require HCM to review its files and ensure that all impacted students received the required

Perkins loan notifications, and confirm that it is providing exit counseling in accordance with federal regulations. HCM officials concurred with our finding and agreed with our recommendations. *Click here* for a copy of our report.

Vatterott College-Des Moines

Vatterott College, Des Moines (VC-DM) located in Iowa, is one of Vatterott Educational Centers Corporation's private career colleges. We conducted an audit to determine VC-DM's compliance with the HEA and regulations governing student eligibility (high school diplomas and General Education Development (GED) certificates only) and return of Title IV funds. VC-DM received over $11.4 million in Title IV program funding for the time period we reviewed.

Our work revealed that while VC-DM complied with requirements governing student eligibility and generally complied with requirements governing the return of Title IV funds, its L'Ecole Culinaire location did not include all charges in its return of Title IV calculations, and none of VC-DM's locations maintained documentation of students' official notice of withdrawal. Specifically, we found that L'Ecole Culinaire did not include uniforms, books, and supplies as institutional charges in return to Title IV calculations for the 2006-2007 award year. Instead, it treated these materials as non-institutional charges without substantiating that students were provided a real and reasonable opportunity to purchase the materials from an alternative source. School officials said they were not fully aware of the requirement and believed they were complying with the regulations. In addition, VC-DM did not maintain adequate documentation of students' official notifications of withdrawal. Not maintaining this documentation could have an effect on the withdrawal date used in return to Title IV calculations.

We recommended that FSA require VC-DM to either substantiate that L'Ecole Culinaire provided students a real and reasonable opportunity to purchase materials from an alternative source and maintain documentation of students' official notifications of withdrawal or return any amounts to the Department or FFEL lenders as appropriate. VC-DM officials did not agree with all of our findings or recommendations. *Click here* for a copy of our report.

Investigations

Identifying and investigating fraud and abuse in the student financial assistance programs has always been a top OIG priority. The following are summaries of some of our more significant cases of student financial assistance fraud conducted over the last six months involving school officials and student loan servicers.

California

Former Financial Aid Director of the University of West Los Angeles Law School and Two Middlemen Pled Guilty in $1.3 Million Fraud Scheme. The former financial aid director at the University of West Los Angeles (UWLA) Law School and two middlemen pled guilty in U.S. District Court, Central District of California, to charges related to a $1.3 million student aid fraud scheme. Our investigation disclosed that the former financial aid director entered into an agreement with the two middlemen to recruit individuals to participate in the scheme. The participants, who were not enrolled in the school and did not plan to enroll in the school, were given applications to apply for student aid, which they completed and returned to one of the middlemen, which were then returned to the former financial aid director. The former financial aid director required most of the loan recipients to kick-back approximately 50 percent of the loan amount. To date, 19 individuals have been charged for their roles in this scheme.

Former Westwood College Admissions Representatives Sentenced for Fraud. Two former Westwood College admission representatives were sentenced in U.S. District Court, Central District of California, for student financial aid fraud. Our investigation revealed that the two fraudulently caused student financial aid funds to be paid to Westwood College on behalf of ineligible students. The two representatives caused students to state falsely on admissions and financial aid applications that they were high school graduates or had completed high school equivalency programs, when in truth, they had not. In fact, the two officials knew that the students had not graduated from high school or completed such a program, and prepared phony high school diplomas, GED certifications and other materials to support the fraudulent claims. Both were sentenced to six months of home detention, 250 hours of community service, and are prohibited from being employed in any job in which they would submit documentation to a federal agency during the course of that employment. They also received fines ranging from $500 to $2,000.

CONNECTICUT

Loan Management Consultant Pled Guilty to Fraud. A consultant employed by a school in Branford, Connecticut, pled guilty in U.S. District Court, Northern District of New York, to charges related to student financial aid fraud. Our investigation revealed that the consultant, who was hired to provide default prevention services to the school, forged a signature on an application for deferment of a student loan and submitted it to the Direct Loan Servicing Center for processing.

ILLINOIS

Co-Founder and Former President of Native American Educational Services Sentenced. The co-founder and former president of Native American Educational Services (NAES) was sentenced in U.S. District Court, Northern District of Illinois, to five years of probation and 1,000 hours of community service and was ordered to pay over $91,700 in restitution for theft from a program receiving federal funds. Our investigation revealed that from 2001 through 2004, multiple signatures were forged on NAES checks and the funds diverted for this individual's personal use. The investigation determined that the former official used these funds to pay debts.

NEW YORK

Three Teachers and Others Sentenced in Transcript Tampering Scheme at Touro College. As a result of our joint investigation with the New York City Police Department and the Manhattan District Attorney's Office, three New York City Public School teachers were sentenced for participating in a fraudulent transcript scheme. Each teacher confessed to paying $3,000 in exchange for a fraudulent transcript indicating that they had received master's degrees from the school. The teachers subsequently submitted the fraudulent transcripts to the New York City Department of Education to further their teaching careers. The three were each sentenced to serve 8 days of community service and ordered to pay $160 in fees. They were also suspended from their teaching positions pending a termination hearing. Two additional individuals were also sentenced for bribing Touro College officials in order to obtain degrees without ever attending the school. Both individuals were sentenced to serve 7 days of community service and were ordered to pay $1,000 in fines and $160 in fees.

OKLAHOMA

DeMarge College Agrees to $231,000 Civil Settlement. DeMarge College, Inc. (DeMarge), entered into a civil settlement with the U.S. Attorney's Office for the Western District of Oklahoma, agreeing to pay over $231,000 to the Department. The settlement is a result of our investigation that found that DeMarge falsified student hours of attendance and other documentation necessary to increase the amount of Title IV funds the institution received/retained. The investigation further found that DeMarge falsified various student records to deceive the Department and impede a federal audit.

PENNSYLVANIA

Career Education Corporation Agrees to $2.2 Million Civil Settlement. Career Education Corporation (CEC) entered into a civil settlement agreement with the U.S. Attorney's Office, Western District of Pennsylvania, agreeing to repay the Department more than $2.2 million. The settlement came about as a result of our investigation that found that a former official at the Western School of Health of Business Careers (WSHBC) forged approval documents in order to secure Title IV funding for several of its programs. Those documents included letters purported to be from the Accrediting Commission of Career Schools and Colleges of Technology (ACCSCT) stating that the programs at the WSHBC were approved. CEC purchased the WSHBC in 2003 and was assured that all of the education programs offered by the school were fully accredited and approved and provided documentation related thereto. In early 2004, after its routine change of ownership review at the WSHBC, ACCST sent a letter to the CEC indicating that several of the WSHBC programs were not approved, and that several of letters in CEC's possession purportedly from the ACCST were forgeries. The former official pled guilty to charges related to his role in the scheme.

ELEMENTARY AND SECONDARY EDUCATION PROGRAMS

In our last Semiannual Report to Congress, we discussed a need for the Department to improve oversight and monitoring of its elementary and secondary education programs and program participants to ensure that vital federal education dollars are used as the law and regulations require. Work concluded during this reporting period shows this area continues to challenge the Department in the programs we reviewed, as well as with the SEAs and LEAs we reviewed. Ineffective monitoring and oversight can have a significant impact on SEAs' and LEAs' ability to meet statutory requirements and ensure critical education funds reach the intended recipients. You will find more on our reports and findings below, as well as summaries of our more significant investigations involving individuals in a position of trust to educate our children.

ESEA / NCLB

ESEA Perspective Paper

When enacted in January 2002, the NCLB reauthorized the ESEA and strengthened the flexibility and accountability that were embodied in the *Improving America's School Act of 1994*. The NCLB called for stronger accountability for results; greater flexibility for states, school districts, and schools in their use of federal funds; more choices for parents of children from disadvantaged backgrounds; and an emphasis on teaching methods that have been demonstrated to work.

During the last several years, OIG has completed a substantial body of work on a variety of the law's programs and topics. We also participated in the U.S. Comptroller General's Domestic Working Group and ESEA-related conferences; collaborated with the GAO, as well as state and local audit agencies on the key topic of state assessments and accountability; and worked with the Department on a number of oversight and program issues, including grant monitoring, high-risk grantees, and the Migrant Education Program (MEP). We have performed audits, inspections, and investigations at SEAs, LEAs, schools, and contractors' offices in most of the states and insular areas.

In anticipation of the next reauthorization of the ESEA, based on our experience with the administration of ESEA/NCLB programs over the last seven years, OIG released a report entitled *An OIG Perspective on Improving Accountability and Integrity in ESEA Programs*. The paper identifies five emerging issue areas that we believe, based on our work, the reauthorized ESEA should strive to address to improve accountability and integrity in ESEA programs. Those issues are:

- The need for essential and clear requirements, with an added need for consistent requirements across programs;
- The need for valid and reliable data quality;
- The need for improved monitoring and oversight;
- Improprieties in state and local programs; and
- Program-specific issues.

The paper provides specific suggestions for the Department and Congress to take to help improve accountability and integrity in these areas, and also includes a Compendium of OIG products relating to ESEA/NCLB, summarizing our findings and recommendations. The paper was provided to the Department and Congress for review and consideration in October 2007. *Click here* for a copy of the report.

Comparability of Services

"Comparability of services" is a provision of the ESEA/NCLB that requires LEAs to provide services to Title I schools that are essentially "comparable" or "the same" as the services that are provided to non-Title I schools. The SEAs are to provide leadership and guidance to LEAs in implementing all Title I provisions and the Department is responsible for conducting monitoring reviews of the SEAs' performance. The Department states it uses clear and consistent criteria (monitoring indicators) to determine the degree of implementation of SEA programs and activities, consisting of two major components: the desk review monitoring process and the on-site review. As reported in previous Semiannual Reports to Congress, we conducted comparability audits at three SEAs: the Ohio Department of Education; the Arizona Department of Education; and the Illinois State Board of Education. All three audits disclosed that the SEAs and LEAs were inconsistent in their policies and procedures for collecting, reviewing, and reporting comparability data, and that LEAs were not always reporting complete and accurate comparability information. As a result, some LEAs improperly classified some schools as comparable when they were not, resulting in non-compliant schools receiving Title I, Part A, funds in violation of the law.

During this reporting period, we reviewed these audits and reported that there are areas where the Department could improve the effectiveness and efficiency of its monitoring and guidance concerning the comparability requirement. We suggested that the Department revise its guidance to include: monitoring suggestions that the SEA should complete while at the LEAs; language that prohibits LEAs from using inflated, budgeted resources in its comparability calculations; a statement that LEAs should maintain source documentation that supports the data used to complete the comparability calculations; and language that requires SEAs to establish specific deadlines for when LEAs must determine their comparability calculations and complete the necessary corrective actions. The Department agreed with most of our suggestions. *Click here* for a copy of our report.

Grantee Accountability

California: San Diego Unified School District

We conducted an audit of the San Diego Unified School District's (SDUSD) use of federal funds for costs of its Supplemental Early Retirement Plan (SERP) that sought to determine whether SDUSD's charges to federal programs for SERP payments met applicable requirements under Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. Our review covered SERP costs charged to federal programs.

Our audit found that for the time period reviewed, SDUSD's charges did not meet the applicable requirements. Specifically, SDUSD did not obtain the required prior Department approval to charge SERP costs to federal programs and mistakenly concluded that SERP costs could be charged to federal programs as a fringe benefit that did not require Department approval. As a result, SDUSD improperly charged over $3.1 million of SERP costs to federal programs. Of that amount, about $1.9 million was charged to Department programs. As a result of our findings, we recommended that the Department require the California Department of Education (CDE) to ensure that SDUSD returns to its federal education program accounts or the Department, as appropriate, the more than $1.9 million of SERP costs and related indirect costs charged to federal education programs. CDE did not concur with our findings or recommendation. *Click here* for a copy of the report.

New Jersey: Elizabeth Public School District

During this reporting period, we concluded an audit that sought to determine whether the Elizabeth Public School District's (Elizabeth) ESEA, Title I, Part A expenditures, distributed through the New Jersey Department of Education (NJDOE), were allowable in accordance with applicable laws and regulations. For the time period reviewed, Elizabeth received $8.3 million in Title I funding.

Our work revealed that Elizabeth did not fully comply with applicable laws and regulations. Specifically, it charged over $822,000 in unsupported salary and non-salary expenditures to Title I and used over $618,000 of its Title I funds for unallowable purposes. Elizabeth also used over $505,000 in Title I funds to supplant non-federal funds for its after-school program. In addition, we concluded that Elizabeth did not maintain effective internal controls over its federal funds. Based on our findings, we made 13 recommendations, including that the Department instruct the NJDOE to require Elizabeth to provide support for the over $822,000 in salary and non-salary expenditures or return the funds, with applicable interest, to the Department and implement procedures to provide for the proper disbursement of and accounting for Title I expenditures. The NJDOE concurred with most of our recommendations. *Click here* for a copy of our report.

Ohio: Migrant Education Program

The MEP, authorized within the ESEA/NCLB, provides funds to states to support high quality education programs for migratory children and helps to ensure that migratory children who move among the states are not penalized by disparities among states in curriculum, graduation requirements, or academic content and student academic achievement standards. MEP funds are allocated to SEAs based on each state's per pupil expenditure for education and counts of eligible migratory children residing within the state. During this reporting period, we concluded an audit in Ohio to determine whether the Ohio Department of Education (ODE) administered MEP funds in accordance with grant requirements and federal laws and regulations specific to the allocation of funds to subgrantees, and the monitoring of subgrantees' use of those funds.

We found that ODE did not always allocate subgrants to local operating agencies (LOAs) in accordance with grant requirements. Specifically, the formula outlined in its approved application for MEP funds was not always used to determine subgrant allocations for the award years reviewed, and ODE did not document how the allocation amount was reached. In addition, ODE's monitoring procedures did not ensure the proper administration of the MEP. Further, ODE's inadequate oversight of contracts resulted in a conflict of interest in the contracts, ODE making contract payments for inaccurate re-interviews, and reducing the scope of work without adjusting the contract price. Also, one of the LOAs we visited was not in compliance with the priority for services and parent advisory council requirements. Based on our findings, we made a number of recommendations, including that the Department require ODE to develop and implement procedures to ensure it keeps documentation for its MEP subgrant allocation process. ODE did not agree with all of our findings. *Click here* for a copy of the report.

High Risk Grantees

Virgin Islands Department of Education

In 2002, the Department designated the Virgin Islands Department of Education (VIDE) as a "high-risk grantee" denoting that the grantee or subgrantee has a history of unsatisfactory performance or has not conformed to the terms and conditions of previous awards. As a result,VIDE entered into a three-year comprehensive Compliance Agreement with the Department in order for the two to develop integrated and systemic solutions to VIDE's problems with managing federal education funds and programs. As VIDE did not comply with the terms and conditions of the 2002 Compliance Agreement, it was required to hire a third-party fiduciary to manage all grant funds starting with the 2004 awards.

In December 2005, VIDE requested the Department's approval to reopen the 2003 Consolidated Grant, which is a single proposal for multiple funding sources. The Department responded to VIDE in February 2006 and requested that VIDE provide the amount obligated, the amount to be drawn, a reason for the need to reopen, an attestation that the obligations were valid and that the costs were allowable, and an explanation of the failure to liquidate funds in a timely manner. VIDE submitted a brief letter stating that it had more than $4.9 million in expenditures that could be charged to the 2003 Consolidated Grant. The Department approved the request to reopen the 2003 Consolidated Grant on March 24, 2006, and VIDE made three drawdowns totaling over $3.9 million.

During this reporting period, we concluded an audit to determine whether VIDE had sufficient evidence of obligations to support its request to reopen the 2003 Consolidated Grant. We found that VIDE did not have sufficient evidence, as it did not have documentation to support over $1 million of the $4.9 million requested. In addition, VIDE did not include an additional $1.3 million available for liquidation because it did not reconcile the grant balances. Therefore, $2.3 million of the 2003 Consolidated Grant may lapse. Based on our findings, we recommended that the Department require VIDE to provide additional documentation of the type and amount of expenditures when submitting a request to reopen a grant for late liquidation and ensure financial data is accurate, verified, and reconciled before it is provided to the Department. VIDE concurred with our findings and recommendations. *Click here* for a copy of the report.

Investigations

Our investigations into suspected fraudulent activity by SEAs, LEAs, and other federal education grantees have led to the arrest and conviction of a number of individuals for theft or misuse of federal education funds. We will continue to aggressively pursue those who seek to defraud federal education programs at the expense of our nation's students. Here are a few examples of our work in this area over the last six months.

ALABAMA

Former Alabama Principal Sentenced. A former high school principal was sentenced in U.S. District Court, Southern District of Alabama, to five years of probation and was ordered to pay $1,200 in restitution for charges relating to fraud involving Title I funds. Our investigation revealed that in 2005, the former principal was appointed to oversee the distribution of over $223,000 in Title I funds that were designated for professional development seminars. Within three weeks of his employment, the former principal fraudulently converted portions of those funds to his own personal use by filing reimbursement claims for teachers and others for providing services at the seminars -- services that were never provided. After reimbursement checks were mailed to those individuals, the former principal contacted the individuals and collected a portion of each reimbursement check.

WASHINGTON, D.C.

Former Executive Director of the District of Columbia's Office of Charter School Oversight Sentenced. The former Executive Director for the District of Columbia's Office of Charter School Oversight was sentenced to 35 months in prison and was ordered to pay over $383,000 in restitution in connection with a scheme to embezzle hundreds of thousands of dollars from D.C. public charter schools. Our investigation found that from March 2003 through May 2006, the former official used her position to direct money belonging to the District of Columbia Public Schools to her personal bank accounts and her daughter's personal bank account to which she had access. Over three years, she wrongfully paid herself more than $383,000. She also used her position to improperly obligate seven no-bid contracts to family members and friends totaling more than $444,000. In addition, the former official also used a fictitious business name to fraudulently obtain more than $203,000.

Former Internal Audit Director for the District of Columbia Public Schools Pled Guilty to Theft. The former Internal Audit Director for the District of Columbia Public Schools pled guilty in U.S. District Court, District of Columbia, to theft from a program receiving federal funds. The investigation disclosed that the former official was responsible for closing out the financial accounts of the New Vistas Charter School after the school's charter was revoked. The former official closed the original account and transferred the balance of over $500,000 into a new account and made himself the sole signator on the account. Several months later, the former official was terminated from his employment, but he did not close the account prior to that termination. Instead, the former official made unauthorized expenditures of more than $46,000 in cash.

LOUISIANA

Two Former Orleans Parish Employees Sentenced. A former Orleans Parish School System (OPSS) special education teacher and an OPSS assistant secretary were convicted after a seven day trial on charges relating to a scheme to illegally obtain OPSS funds. Our investigation revealed that the scheme involved fraudulently altering class coverage sheets of hours worked by teachers, submitting them for payment, and receiving a monetary kickback from the illicit proceeds. The former teacher and the former assistant secretary approached others to participate in the scheme making it clear to at least one potential recruit that if the individual did not participate, the assistant secretary could exclude or reduce the assignment of class coverage hours. The former assistant secretary was sentenced to 41 months in prison and three years of supervised release, and the former teacher was sentenced to 30 months in prison and three years of supervised release. Both were ordered to pay a proportional share of over $32,000 in restitution to OPSS. To date, eight individuals have been charged in this case.

TEXAS

Former Pharr San Juan Alamo Independent School District Officials Pled Guilty. A former superintendent and two former school board members of the Pharr-San Juan-Alamo Independent School District (PSJA-ISD) pled guilty in U.S. District Court, Southern District of Texas, to charges related to bribery and/or extortion at the PSJA-ISD. Our investigation with the FBI and IRS-CID revealed that the former officials received bribes from various contractors in exchange for using their official capacities with the PSJA-ISD to influence the awarding of district construction contracts. Bribes included a trip to Las Vegas, hotel rooms, and tickets to sporting events and concerts. To date, 13 individuals have been charged in this case.

Two Pled Guilty in Alien Smuggling Scheme Involving Teachers. Two individuals pled guilty in U.S. District Court, Western District of Texas, to charges relating to a conspiracy scheme involving alien smuggling and visa fraud. Our investigation, conducted jointly with a number of federal agencies revealed that the scheme involved bringing Philippine teachers to the U.S. to teach in Texas public schools. The defendants would offer school administrators all expense paid trips to the Philippines, Hong Kong, and China to interview and select the teacher candidates in exchange for the school districts agreeing to petition for 10 teachers to come to the U.S. for every administrator who went on the trip. The two lured Philippine teachers into the scheme by promising prosperous jobs, permanent residency, and the ability to bring their families to the U.S. Based on these false promises, the Philippine teachers paid large fees at usurious rates and signed what they believed to be legitimate contracts for employment. Upon arriving in the U.S., they found out that they did not have teaching positions.

Financial Management and Department Operations

Given the billions of dollars that the Department distributes each year, Department managers must give top priority to conducting effective oversight and monitoring of its programs and operations in order to minimize its vulnerability to waste, fraud, and abuse. Over the last six months, OIG coordinated the 2007 financial statement audits, where once again the Department and FSA received "clean" audit opinions. The audits, however, did reveal that a renewed focus is warranted regarding program monitoring activities, credit reform estimates and financial reporting, and noted repeat control weaknesses within IT security and systems indicating the need to address the root causes of security or control weaknesses uniformly across the organization. In addition, OIG completed work on two Congressional requests related to internal operations, the findings of which are described below, along with a summary of an investigative case involving a Department subcontractor.

Financial Management

Financial Statement Audits

In November, we transmitted the final audit reports covering the Department's and FSA's FY 2007 comparative financial statements and the Department's FY 2007 special-purpose financial statements. Ernst & Young, LLP, Certified Public Accountants (E&Y), conducted the audits, and we performed oversight and monitoring procedures considered necessary to provide negative assurance that E&Y conducted the audits in accordance with standards.

The Department and FSA each earned an unqualified or "clean" opinion on their respective comparative financial statements. The Reports on Internal Control for both the Department and FSA noted reportable conditions covering credit reform estimation and financial reporting processes, program monitoring activities, and controls surrounding information systems. Neither audit noted instances of noncompliance, exclusive of the *Federal Financial Management Improvement Act of 1996* (FFMIA); however, they did note that the Department's and FSA's financial management systems did not substantially comply with certain systems requirements of the FFMIA due to the control weaknesses surrounding IT systems.

The audits covering the Department's and FSA's comparative financial statements found that the controls over credit reform estimation and financial reporting could be strengthened by: continuing to improve the analytical tools used for the loan program cost estimation process; continuing efforts to more fully implement cohort reporting and analysis; and documenting, in detail, the consideration and ultimate resolution of scenarios under which deviation from patterns of prior cash flows may be appropriate in developing credit reform estimates. The audits also found renewed focus is warranted regarding program monitoring activities. These controls could be strengthened by continuing to: reassess oversight and monitoring practices to include a specific focus on the risks of each program in connection with its evaluation and assessment of internal control; and refine efforts already underway in the approach to program management. Finally, the audits found repeat control weaknesses within IT security and systems indicating the need to address the root causes of security or control weaknesses uniformly across the organization.

The Department also earned an unqualified opinion on its special-purpose financial statements, and the auditor's report disclosed no material weaknesses in internal control over the financial reporting process for these statements and no instances of noncompliance with Treasury Financial Manual Chapter 4700 requirements.

Drug Control Funds

As required by Section 1704(d) of Title 21, U.S. Code, and in accordance with the Office of National Drug Control Policy Circular *Drug Control Accounting*, we authenticated the Department's accounting of FY 2007 drug control funds and related performance by expressing a conclusion on the reliability of each assertion made in the Department's accounting and performance reports. Based upon our review, nothing came to our attention that caused us to believe that management's assertions contained in the Department's detailed accounting and performance reports are not fairly stated in all material respects.

Internal Operations

Unimplemented Recommendations

On December 7, 2007, Chairman Henry Waxman of the U.S. House of Representatives Committee on Oversight and Government Reform requested that OIG compile a list of recommendations that had not yet been implemented by the Department or by Congress. The information was requested to include recommendations made during the seven-year period January 1, 2001, through December 31, 2007. Our report included only those recommendations for which the Department is directly responsible for implementing corrective actions. We provided the report to the Committee on January 31, 2008.

For the time period requested, we identified 241 OIG products that included 1,519 recommendations. Of that universe, the Department reported that corrective action had been completed for 207 products (86 percent) and 1,363 recommendations (90 percent). The remaining 34 products included 156 recommendations that the Department had not yet implemented. We did not identify any recommendations issued prior to January 1, 2001, that the Department had not yet implemented. A complete list of the 34 audit products with detailed information on the 156 recommendations are included in the report. *Click here* for a copy of the report.

Financial Disclosures

In 2007, Chairman George Miller of the U.S. House of Representatives' Committee on Education and Labor, requested that OIG conduct a review to determine whether the Department's existing policies, procedures, guidance, and practices are adequate for ensuring the absence of financial conflicts of interest among Department employees and officers responsible for the oversight of FFEL. Specifically, Chairman Miller requested that we review, for the six most recent years, the Standard Form 278 Executive Branch Personnel Public Financial Disclosure Reports (SF 278) for these employees and officers. Chairman Miller also expressed interest in the extent to which the Department informs, trains, or counsels existing and newly hired or appointed officials on federal conflict of interest statutes and standards of ethical conduct.

In response to the Chairman's request, we conducted an inspection to determine whether the Department's process for reviewing the SF 278 was adequate to identify and address financial conflicts of interest or the appearance of conflicts of interest among employees responsible for oversight of the FFEL program who are required to submit an SF 278, and the extent to which the Department informs, trains, or counsels existing and newly hired or appointed officials of federal conflict of interest statutes and standards of ethical conduct.

Our inspection found that the Department's review process was adequate to identify and address financial conflicts of interest or the appearance of conflicts of interest among employees responsible for oversight of the FFEL program. We also determined that the Department informs, trains, and counsels all employees on all federal conflict of interest statutes and standards of ethical conduct. We did, however, find that the Department's reviewers did not consistently address repeated reporting errors made by filers. Examples of these errors include assets not appropriately reconciled, required asset information not disclosed in a clear and concise manner, and Excepted Investment Fund information not consistently and correctly reported for assets. Reports containing repeated reporting errors indicate that filers did not understand the reporting instructions. The Department does not provide formal training to filers on the basics of completing a public financial disclosure report. It does encourage filers to ask questions and seek advice if they are having any difficulty completing the report, but it does not appear that filers always seek that advice. Reviewers informed us that they believe the filers would benefit from some sort of training related to filing public financial disclosure reports.

Based on our findings, we recommended that the Department develop policies and procedures to ensure the consistent handling of reporting errors and develop a process to ensure that all filers receive appropriate training on public financial disclosure reports. The Department generally concurred with the findings and recommendations of our report. *Click here* for a copy of the report.

Investigations

ALABAMA

Former Employee of a Department Contractor Pled Guilty to Conspiracy. A former employee of Electronic Data Systems (EDS), a Department contractor, pled guilty in U.S. District Court, Middle District of Alabama, to conspiracy for aiding and assisting others in the preparation and presentation of fraudulent federal income tax returns. Our investigation, conducted jointly with the IRS-CID, found that the former employee provided stolen personal identifying information from systems maintained by EDS, including Department information on student loan borrowers who had consolidated loans, in exchange for money. The former employee provided the data to other individuals who used the information to file fraudulent tax returns.

HURRICANE-RELATED EFFORTS

During this reporting period, OIG concluded the final two audits in our series of work involving HERA funds. As reported in previous Semiannual Reports to Congress, OIG conducted audits to determine whether HERA funds were expended as required by federal law and regulations, and consistent with Department guidance. HERA authorized new grant programs to assist school districts and schools in meeting the educational needs of students displaced by Hurricanes Katrina and Rita and to help schools closed as a result of the hurricanes to re-open as quickly and effectively as possible. These programs included the Immediate Aid to Restart School Operations program (Restart), the Temporary Emergency Impact Aid for Displaced Students (EIA) program, Assistance for Homeless Youth (HY) program, funding for students and institutions of postsecondary education affected by the hurricanes, and funding for recruiting, retaining, and compensating new and current educators in Alabama, Louisiana, and Mississippi. Congress authorized more than $1.9 billion for these hurricane-related programs. With such a large amount of funding distributed in a short amount of time, establishing effective procedures, processes, and accountability measures for these programs was vital.

As reported in previous Semiannual Reports to Congress, we determined that the Department's procedures and processes for allotting HERA-related funds were consistent with legislative requirements, and it allocated funding using methodologies that were appropriate. For HERA funds allocated to states for higher education, we found the Mississippi Institutions of Higher Learning allocated funds in compliance with law and regulations, and consistent with Department guidance, but our work did identify weaknesses in monitoring controls of HERA higher education funds by the Louisiana Board of Regents. Our audits of HERA HY funds in Alabama, Georgia, Louisiana, Mississippi, and Texas found that the SEAs had adequate policies, procedures and controls over the administration of the program; however, at the time of our audits, most had not yet drawn down sufficient funding, so any testing would not have provided an accurate representation of whether or not the expenditures associated with the program were allowable and allocable.

During this reporting period, we released our final two reports of SEA allocations of EIA and Restart funding. We examined EIA funding at the Georgia Department of Education, as we had done in Alabama, Louisiana, Mississippi, and Texas; and reviewed Restart funding at the Louisiana Department of Education, as we had done in Alabama and Mississippi. As you will read in the summaries below, the findings in these states were generally consistent with our findings in the other states.

Temporary Emergency Impact Aid Funds

GEORGIA

The EIA program provided funds to SEAs to cover the cost of educating displaced students. To receive aid, eligible SEAs were required to provide quarterly enrollment counts of displaced students, and received up to $1,875 per quarter for each displaced student with disabilities and up to $1,500 per quarter for each displaced student without disabilities. Congress appropriated $880 million in EIA funds, of which the Department obligated over $55 million to Georgia. We conducted an audit to determine if the Georgia Department of Education (GDOE) and three selected LEAs established adequate systems of internal control to provide accurate displaced student count data, if the GDOE established an adequate system of internal control to make accurate allocations of EIA funds, and if the LEAs used EIA funds only for expenditures within the cost categories allowed by the terms of the grant and applicable laws and regulations. The three LEAs selected were the Dekalb County School District, Gwinnett County Public Schools, and the Cobb County School District. We selected these LEAs because they had the highest quarterly displaced student counts, comprising between 40 and 43 percent of Georgia's initial total number of displaced students.

Our audit found that all three of the LEAs reported inaccurate or unsupportable displaced student counts to GDOE, which submitted those numbers to the Department. As a result, GDOE may have received approximately $8 million in excess of its entitlement for EIA funds. The errors occurred because GDOE and the LEAs had weak internal controls over displaced student counts, and GDOE had no mechanism in place to test the reliability of the information received from LEAs prior to submitting the counts to the Department. Although GDOE established an adequate internal control system to make accurate EIA funding allocations, the allocations were based on inaccurate student counts. In addition, all three of the LEAs reviewed commingled EIA funds with general ledger funds, which prevented the audit team from validating that the funds were used for allowable expenditures as required by the terms of the grant and applicable laws and regulations.

Based on our findings, we made a number of recommendations, including that the Department require GDOE and/or its LEAs to provide support or repay close to $8 million in projected questionable EIA funding, as well as review their final lists of displaced students, report necessary adjustments, and return any ineligible funds identified as a result of those adjustments. GDOE did not state whether it concurred with the findings and did not agree with two of our nine recommendations. *Click here* for a copy of the report.

Similar Findings in Other States

As stated above, our findings with EIA funds in Georgia mirrored the findings of our audits in Alabama, Louisiana, Mississippi, and Texas, where incorrect displaced student counts may have resulted in approximately $30 million in EIA overpayments.

Restart Funds

Louisiana

The Restart program provided funding to SEAs in Alabama, Louisiana, Mississippi, and Texas to provide assistance or services to LEAs and non-public schools to help defray expenses related to the restart of operations in the reopening of, and the re-enrollment of students in, elementary and secondary schools. Congress appropriated $750 million for the Restart program, with the Department allotting more than $445 million in Restart funds to Louisiana. The Louisiana Department of Education (LDE) allocated the funds based on reviewing Restart applications from LEAs and non-public schools. We conducted an audit to determine if the LDE established an adequate system of internal control to make accurate allocations of Restart funds to the LEAs, and if the LDE and selected LEAs and non-public schools used Restart funds only for expenditures that were allowable under the terms of the grant and applicable laws and regulations. We found that for the time period examined, September 1, 2005, through June 30, 2007, the LDE and selected LEAs appropriately allocated and expended the Restart funds. *Click here* for a copy of the report.

FINDINGS IN OTHER STATES

As stated previously, the findings at the LDE were consistent with our findings for Restart expenditures in Alabama; however, our audit of Restart funding at the Mississippi Department of Education (MDE), while similar to the other states, identified additional issues. As reported in our last Semiannual Report to Congress, MDE awarded a Restart contract to monitor non-public schools to a contractor with an apparent conflict of interest; initially disbursed Restart funds directly to non-public schools in violation of the HERA; and did not maintain public control of the equipment purchased with that disbursement. We made a number of recommendations to address these weaknesses. MDE concurred with our findings and stated it was taking corrective action to address our recommendations.

OTHER NOTEWORTHY EFFORTS

Hotline Posters

On December 24, 2007, two new Federal Acquisition Regulations went into effect: the first requiring government contractors to prepare a Code of Business Ethics and Conduct; and the second requiring contractors that meet specific criteria to display an OIG hotline poster informing their employees and subcontractors on how to report waste, fraud, or abuse to the federal agency.

This requirement (FAR 52.203-14) mandates that impacted contractors prominently display hotline posters at contract work sites. In addition, if the contractor maintains a company website as a method of providing information to employees, the contractor is required to display an electronic version of the poster(s) on that website. OIG, with creative and design assistance from the Department's Graphics staff, created two hotline posters that are now available on our website via this link: *http://www.ed.gov/about/offices/list/oig/hotlineposters.html*. We encouraged the Department to share this link with any contractor that may meet the criteria for this requirement, as well as display the posters in its offices and make them available to grantees.

Non-Federal Audits

Participants in Department programs are required to submit annual audits performed by independent public accountants (IPAs). We perform quality control reviews (QCRs) of these audits to assess their quality. We completed 43 QCRs of audits conducted by 41 different IPAs, or offices of firms with multiple offices. We concluded that 14 (32.6 percent) were acceptable or acceptable with minor issues, 24 (55.8 percent) were technically deficient, and 5 (11.6 percent) were substandard.

President's Council on Integrity and Efficiency

Inspector General Higgins continues to chair the Audit Committee of the President's Council on Integrity and Efficiency (PCIE). Highlights from this reporting period include:

OIG Testifies for PCIE before U.S. Senate Subcommittee

In response to the findings of the PCIE's National Single Audit Sampling Project report (discussed in the last Semiannual Report to Congress, No. 55), the Senate Committee on Homeland Security and Governmental Affairs' Subcommittee on Federal Financial Management held a hearing on October 25 to discuss the study and what can be done to improve the quality of single audits. Participants included representatives from the OMB, GAO, the American Institute of Certified Public Accountants, and, representing the PCIE, Hugh Monaghan, the OIG Director for Non-Federal Audits, who led the PCIE's effort. Mr. Monaghan provided the Subcommittee with a summary of the report, its findings, and recommendations for changes to applicable requirements, standards, and procedures to improve the quality of single audits. The panelists commented on the report's recommendations aimed at improving the quality of single audits, and several provided updates on their organization's efforts to address those recommendations. The Senators participating in the hearing demonstrated a keen interest in the single audits and their quality and expressed the importance that the recommendations listed in the PCIE's report are acted upon.

OIG Receives PCIE Alexander Hamilton Award

In October 2007, the PCIE held its annual awards ceremony, acknowledging IG staffers and teams for their achievement, exceptional work, and service to the American taxpayer. For the first time in our history, our office received the PCIE Alexander Hamilton Award. The Hamilton Award is the highest honor the PCIE can bestow, recognizing outstanding achievements in improving the integrity, efficiency and effectiveness of Executive Branch agency operations. The award was presented to our office for our 2006 audit of 9.5 percent special allowance payments made to the student lender Nelnet. As reported in previous Semiannual Reports to Congress, the audit estimated that the Department improperly paid Nelnet more than $278 million and could improperly pay approximately $882 million more if Nelnet's billings were not corrected.

OMB Issues Best Practice Guide

In October 2007, OMB, in conjunction with the PCIE and Chief Financial Officers Council (CFOC), issued the revised PCIE/CFOC's *Best Practices Guide for Coordinating the Preparation and Audit of Federal Financial Statements*. The document, which was originally published in 2001, is intended to foster constructive working relationships between the OCFOs and OIGs in preparing and auditing agency's financial statements. The guide is built on the fundamental concept that effective relationships are cultivated when expectations are defined clearly, early, and often; communication is continuous; and parties share a commitment to improving financial management. The guide establishes 12 best practices for preparing and auditing federal financial statements.

PCIE/GAO 2008 Financial Statement Audit Conference

The 2008 PCIE/GAO Financial Statement Audit Conference was held on Tuesday, March 4. The conference, which was free to participants, included presentations on the Performance and Accountability Report pilot, international accounting and auditing standards, Federal accounting standards, PCIE/GAO Financial Audit Manual, and the Federal Information System Controls Audit Manual. Participants earned 6.5 hours of continuing professional education.

Reporting Requirements of the Inspector General Act, as amended

Section	Requirement	Table Number	Page Number
5(a)(1) and 5(a)(2)	**Significant Problems, Abuses, and Deficiencies**		
	Activities and Accomplishments		
5(a)(3)	**Uncompleted Corrective Actions**		
	Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	1	24
5(a)(4)	**Matters Referred to Prosecutive Authorities**		
	Statistical Profile	7	33
5(a)(5) and 6(b)(2)	**Summary of Instances Where Information Was Refused or Not Provided**		
5(a)(6)	**Listing of Reports**		
	OIG Audit Services Reports on Department Programs and Activities	2	25
	Other OIG Reports on Department Programs and Activities	3	27
5(a)(7)	**Summary of Significant Audits**		
	Activities and Accomplishments		
5(a)(8)	**Audit Reports Containing Questioned Costs**		
	Inspector General Issued Audit Reports with Questioned Costs	4	28
5(a)(9)	**Audit Reports Containing Recommendations That Funds Be Put to Better Use**		
	Inspector General Issued Audit Reports with Recommendations for Better Use of Funds	5	29
5(a)(10)	**Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period**		
	Unresolved Reports Issued Prior to October 1, 2007	6	29
5(a)(11)	**Significant Revised Management Decisions**		
5(a)(12)	**Significant Management Decisions with Which OIG Disagreed**		
5(a)(13)	**Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996**		

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per corrective Action Plan
					Open	Complete	
Section 5(a)(3) of the Inspector General Act (IG Act) as amended requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports.							

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per corrective Action Plan
					Open	Complete	
Federal Student Aid (FSA)							
A04E0006	Death and Total and Permanent Disability Discharges of FFEL and Direct Loan Program Loans (SAR 52, page 27)	11/14/05	2/24/06		1	3	8/30/08
A17G0004	Financial Statement Audits FY 2006 and FY 2005 - FSA *(Office of the Chief Financial Officer (OCFO) also designated as action official)* (SAR 54, page 30)	11/15/06	12/20/06		0	5	*
Office of the Chief Information Officer (OCIO)							
A11F0002	Review of the Department's Incident Handling Program and EDNet Security Controls *(OCIO is designated as lead action official and OCFO and FSA as the other action officials)* (SAR 52, page 28)	10/6/05	11/16/05		7	2	6/30/08
A11F0006	Audit of the Department's IT Contingency Planning Program - Asset Classification (SAR 52, page 28)	1/31/06	5/25/06		4	0	6/30/08
A11G0001	Review of the Department's Incident Handling Program and Intrusion Detection System *(FSA and the Office of the Under Secretary (OUS) also designated as action official)* (SAR 53, page 24)	9/28/06	11/17/06		5	5	6/30/08
A11G0004	Department of Education's Online Privacy Policy and Protection of Sensitive Information Review *(OUS also designated as action official)* (SAR 53, page 25)	9/29/06	11/17/06		1	1	6/30/08
A19F0009	Telecommunications Billing Accuracy (SAR 52, page 28)	2/1/06	3/22/06		4	3	9/30/08
Office of Management (OM)							
A19G0007	Audit of the Department of Education FY 2005 IT Equipment Inventory *(OCFO also designated as an action official)* (SAR 54, page 32)	11/29/06	1/8/07		1	7	12/31/08
Office of the Deputy Secretary (ODS)							
A09E0014	Departmental Actions to Ensure Charter Schools' Access to Title I and the Individuals With Disabilities Education Act Part B Funds *(Office of Elementary and Secondary Education (OESE) and the Office of Special Education and Rehabilitative Services (OSERS) also designated as action official)* (SAR 50, page 22)	10/26/04	1/10/05		1	5	3/30/08
Office of Planning, Evaluation & Policy Development (OPEPD)							
A11E0003	Audit of the Department's Performance Based Data Management Initiative (SAR 51, page 28)	9/29/05	3/28/06		0	14	*

Table 1: Recommendations Described in Previous SARs on Which Corrective Action Has Not Been Completed (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per corrective Action Plan
					Open	Complete	

* Closure of audit was not completed in the Department's audit tracking system (AARTS) by the end of reporting period (3/31/2008).

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2007, to March 31, 2008)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
Section 5(a)(6) of the IG Act requires a listing of each report completed by OIG during the reporting period.					
AUDIT REPORTS					
FSA					
A03G0014	Special Allowance Payments to the AES/PHEAA for Loans Funded by Tax-Exempt Obligations	11/19/07	$34,002,449		11
A03H0008	Gallaudet University's Compliance with Selected Aspects of Title IV of the HEA	2/22/08			None
A04G0002	Resolution of Institutional Student Information Report SAR C Codes Generated by the CPS Edit Check Process	1/9/08			3
A05G0017	Capella University's Compliance with Selected Provisions of the HEA and Corresponding Regulations	3/7/08	$589,892		9
A05G0029	Sanford-Brown College's Compliance with the 90-10 Rule for the 2003 Fiscal Year	11/22/05			2
A09F0008	Wilberforce University's Administration of HEA Title IV Programs	3/21/08	$116,403	$2,356,378	25
A05H0015	Herzing College-Madison's Compliance with Selected Provisions of the HEA and Corresponding Regulations	1/18/08			3
A07H0009	Bellevue University's Compliance with Selected Regulations and Department Guidance	10/30/07			None
A07H0018	Vatterott College - Des Moines' Compliance with Selected Provisions of the HEA and Corresponding Regulations	2/21/08		$151	2
A17H0004	Final Audit Reports Financial Statement Audits for FY 2007 and FY 2006 for FSA and the Department *(OCFO is also designated an action official)*	11/15/07			5
A17H0005	Final Audit Reports - Financial Statement Audits for FY 2007 and FY 2006 for the Department - Special Purpose Financial Statements *(The reports were also provided to the Secretary for her information)*	11/16/07			None
OESE					
A02G0020	Elizabeth Public School District Allowability of Title I, Part A Expenditures	10/9/07	$618,392	$1,328,533	14
A02H0006	Audit of the Virgin Islands Department of Education's 2003 Reopened Consolidated Grants	1/29/08			2

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2007, to March 31, 2008) (Cont.)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
A04G0015	Audit of Georgia Department of Education's Emergency Impact Aid Program Controls and Compliance	10/30/07	$8,209,117	$1,768,125	9
A05G0032	Ohio Department of Education's Administration of its Migrant Education Program	1/8/08		$30,000	6
A06H0018	Louisiana Department of Education's Compliance with Selected Hurricane Education Recovery Act-Immediate Aid to Restart School Operations Program Requirements	1/31/08			None
ALTERNATIVE PRODUCTS					
OCFO					
X17H0007	Final Management Letter FY 2007 and FY 2006 Financial Statement Audits for the Department and FSA *(Management Information Report addressed to OCFO, OCIO, and FSA)*	12/18/07			**
OESE					
A05H0024	Audit of selected operations of Academia.net in Indiana *(Audit Closeout Letter)*	10/29/07			None
X05H0017	Monitoring of the Title I, Part A, Comparability of Services Requirement *(Management Information Report - State and Local No. 08-01)*	10/31/07			None
A06G0007	Closure of our Audit of the Review of the Migrant Education Program *(Audit Closeout Memorandum)*	12/4/07			None
OPEPD					
B19I0001 ***	OIG Report on the Department's Detailed Accounting of FY 2007 Drug Control Funds *(Attestation Report)*	2/1/08			None
Office of Safe and Drug-Free Schools (OSDFS)					
B19I0001 ***	OIG Independent Report on the Department's Performance Summary Report for FY 2007 *(Attestation Report)*	2/1/08			None

* For purposes of this schedule, questioned costs include other recommended recoveries. Please see footnotes 2 and 3 under Table 4 for additional information regarding questioned and unsupported costs.

** Management Information Reports may make "suggestions" rather than "recommendations." Suggestions made in management information reports are not tracked for audit resolution purposes. *Management Information Report X17H0007* conveyed 11 suggestions. *Management Information Report X05H0017* made 2 suggestions.

*** Two attestation reports were generated from work performed by AS staff tracked in the OIG's Audit Tracking System (ATS) under control number B19I0001 - *"Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2007 Drug Control Funds, dated January 25, 2008"* issued to OPEPD on 2/1/08 and *"Office of Inspector General's Independent Report on the U.S. Department of Education's Performance Summary Report for Fiscal Year 2007, dated January 30, 2008"* issued to OSDFS on 2/1/08.

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2007, to March 31, 2008) (Cont.)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations

DESCRIPTION OF ALTERNATIVE PRODUCTS

Attestation reports convey the results of attestation engagements performed within the context of their stated scope and objective(s). Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. They include the examination, review, or performance of agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. *Attestation reports* are coded "B" in the OIG's Audit Tracking System.

Audit closeout memoranda/letters are issued to provide written notification to auditees of audit closure when the decision is made to close an assignment without issuing an audit report. The *audit closeout memorandum/letter* retains the audit's control number, coded "A" in the OIG's Tracking System.

Management information reports provide the Department management with information derived from audits (when the issuance of an audit report is not appropriate) or special projects that may be useful in its program administration or conduct of program activities. *Management information reports* are coded "X" in the OIG's Audit Tracking System.

Table 3: Other OIG Reports on Department Programs and Activities (October 1, 2007, to March 31, 2008)

Report Number	Title of Report	Date Issued
Section 5(a)(6) of the IG Act requires a listing of each report completed by OIG during the reporting period.		
OCFO		
L02I0028	Educational Testing Service's Improper Billings to the Department for the National Assessment of Educational Progress Contract No. ED-02-CO-0023[1] *(Alert Memorandum - State and Local No. 08-03) Institute for Education Science is also designated an action official)*	3/11/08
L09H0005	CDE Guidance to LEAs on Administrative Costs and Monitoring of LAUSD Corrective Actions on Single Audit Findings[1] *(Alert Memorandum - State and Local No. 08-02)*	11/16/07
L09H0024	LEAs May Be Charging Retirement Incentive Payments to Federal Programs Without Required Prior Approval From Cognizant Federal Agency[1] *(Alert Memorandum - State and Local No. 08-04)*	3/20/08
ODS		
S09H0007	An OIG Perspective on Improving Accountability and Integrity in ESEA Programs[2] *(Special Project)*	10/16/07
Office of the General Counsel (OGC)		
I13H0005	Review of the Department's Public Financial Disclosure Reports for Employees Responsible for Oversight of the FFEL Program[3] *(Inspection Report)*	3/12/08
Office of Innovation and Improvement (OII)		
L02H0018	Teach For America, Inc. Should be Considered a "High-Risk" Grantee with Special Conditions Placed on its Future Grants[1] *(Alert Memorandum - State and Local No. 08-01)*	12/12/07
Congressional Request		
S20I0003	Office of Inspector General Recommendations Not Yet Implemented by the Department - January 2001 through December 2007[2] *(Special Project)*	1/31/08

Table 3: Other OIG Reports on Department Programs and Activities (October 1, 2007, to March 31, 2008) (Cont.)

Report Number	Title of Report	Date Issued

DESCRIPTION OF TABLE 3 PRODUCTS

1 L02I0028 made five non-monetary suggestions and one suggestion, taking issue as to the propriety of an estimated $1.98 million in contract billings; L09H0005 made four non-monetary suggestions; L09H0024 made five non-monetary suggestions; and L02H0018 made one non-monetary suggestion.

2 S09H0007 made fourteen non-monetary suggestions; and S20I0003 was prepared in response to a December 7, 2007 request made to the OIG by Chairman Henry Waxman of the House of Representatives' Committee on Oversight and Government Reform. Chairman Waxman requested the OIG to compile a list of our recommendations made from January 1, 2001 to the present that had not yet been implemented by the Department or by Congress.

3 I13H0005 made two non-monetary recommendations.

Alert memoranda are prepared when a serious condition requiring immediate Department management action that is either outside the agreed-upon objectives of an on-going audit or inspection assignment or is identified while engaged in work not related to an on-going assignment when audit or inspection reports will not be issued. Alert memoranda are not on the OIG website and are not publicly distributed. *Alert memoranda* are coded "L" in the OIG's Audit Tracking System.

Inspections are analyses, evaluations, reviews or studies of the Department's programs. The purpose of an inspection is to provide Department decision makers with factual and analytical information, which may include an assessment of the efficiency and effectiveness of their operations, and vulnerabilities created by their existing policies or procedures. They are performed in accordance with the 2005 President's Council on Integrity and Efficiency Quality Standards for Inspections appropriate to the scope of the inspection. *Inspections* are coded "I" in the OIG's Audit Tracking System.

Special projects are work that result in the issuance of a product or report that may not follow audit, inspection, or investigation standards. *Special Projects* are coded "S" in the OIG's Audit Tracking System.

Table 4: Inspector General Issued Audit Reports with Questioned Costs[1]

		Number	Questioned[2] Costs	Unsupported[3] Costs
Section 5(a)(8) of the IG Act requires for each reporting period a statistical table showing the total number of audit reports, the total dollar value of questioned and unsupported costs, and responding management decision.				
A.	For which no management decision has been made before the commencement of the reporting period (as adjusted)	49	$1,010,548,489	$230,718,174
B.	Which were issued during the reporting period	9	$50,928,085	$5,483,187
	Subtotals (A + B)	58	$1,061,476,574	$236,201,361
C.	For which a management decision was made during the reporting period	11	$306,589,944	$23,056,577
	(i) Dollar value of disallowed costs		$306,589,944	$23,056,577
	(ii) Dollar value of costs not disallowed		$0	$0
D.	For which no management decision has been made by the end of the reporting period	47	$754,886,630	$213,144,784
E.	For which no management decision was made within six months of issuance	39	$703,962,272	$207,661,597

3 None of the audits reported in this table were performed by the Defense Contract Audit Agency.

2 Questioned costs are costs that are questioned because of either an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds or a finding that, at the time of the audit, such cost is not supported by adequate documentation or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. Other recommended recoveries are funds recommended for reasons other than questioned costs. Since the *IG Act* does not provide for this type of monetary finding, other recommended recoveries are combined with the "questioned costs" category for reporting in the Semiannual Report to Congress. The category is usually used for findings involving recovery of outstanding funds and/or revenue earned on Federal funds. The amount also includes any interest due the Department resulting from auditees' use of funds. In addition, amounts reported for this category are combined with unsupported costs for reporting in the Semiannual Report to Congress.

3 Unsupported costs are costs that are questioned because, at the time of the audit, such costs were not supported by adequate documentation.

Table 5: Inspector General Issued Audit Reports with Recommendations For Better Use of Funds[1]

		Number	Dollar Value
Section 5(a)(9) of the IG Act requires for each reporting period a statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use by management.			
A.	For which no management decision has been made before the commencement of the reporting period (as adjusted)	3	$892,327,577
B.	Which were issued during the reporting period	0	0
	Subtotals (A + B)	3	$892,327,577
C.	For which a management decision was made during the reporting period		
	(i) Dollar value of recommendations that were agreed to by management	2	$892,000,000
	(ii) Dollar value of recommendations that were not agreed to by management	0	$0
D.	For which no management decision has been made by the end of the reporting period	1	$327,577
E.	For which no management decision was made within six months of issuance	1	$327,577

[1] None of the audits reported in this table were performed by the Defense Contract Audit Agency.

Table 6: Unresolved Reports Issued Prior to October 1, 2007

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
Section 5(a)(10) of the IG Act requires a listing of each report issued before the commencement of the reporting period for which no management decision had been made by the end of the reporting period. (Status below represents comments provided by the Department, comments agreed to, or documents obtained from AARTS).				
New Since Last Reporting Period				
FSA				
A02H0005	EDUTEC's Administration of the Federal Pell Grant Program (SAR 55, page 27) ***Status:*** *FSA informed us it is currently working on this audit. AARTS shows FSA administrative stay was approved on 3/12/2008.*	9/27/07	$83,000	5
A06H0009	Career Point Institute's Administration of Title IV HEA Programs (SAR 55, page 27) ***Status:*** *The Program Determination Letter (PDL) was issued on 2/14/2007. OIG concurred with draft Audit Clearance Document (ACD)/PDL on 3/20/08; however, the verified amended ACD is needed in AARTS for resolution of this audit.*	9/28/07	$4,178	2
A06H0010	Eagle Gate College's Administration of Title IV HEA Programs (SAR 55, page 27) ***Status:*** *FSA informed us that it is currently working on this audit.*	9/28/07	$2,630	6
A07G0012	Vatterott College-Omaha's Compliance with Selected Provisions of the HEA and Corresponding Regulations (SAR 55, page 27) ***Status:*** *AARTS shows FSA administrative stay was approved on 12/18/2007. FSA informed us that on 3/31/2008 FSA requested an additional administrative stay as it is currently working on this audit. On 4/3/2008 OCFO approved the additional administrative stay. FSA is currently working on this audit.*	8/1/07	$37,964	7
OCFO				
A06G0011	Louisiana Hurricane Relief Funding (SAR 55, page 29) ***Status:*** *AARTS shows OCFO-Post Audit Group (PAG) administrative stay was approved on 1/11/2008.*	4/18/07		2

Table 6: Unresolved Reports Issued Prior to October 1, 2007 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A11F0005	Effectiveness of the Department's Financial Management Support System Oracle 11i Re-Implementation *(Report recommends Chief of Staff/Office of the Secretary direct the Investment Review Board Chair, Chief Financial Officer and the Chief Information Officer to take recommended actions)* (SAR 55, page 28) ***Status:*** *The resolution of the audit is pending an administrative action by OCFO.*	6/26/07		9
OESE				
A02G0007	Hempstead Union Free School District's ESEA, Title I, Part A Non-Salary Expenditures (SAR 55, page 28) ***Status:*** *The PDL was dated 3/31/2008; however, the required documentation for resolution of this audit was not in AARTS on 3/31/2008. This audit should be removed from this list by the next SAR.*	4/10/07	$121,260	11
A04G0012	Audit of Mississippi Department of Education's Emergency Impact Aid Program Controls and Compliance (SAR 55, page 28) ***Status:*** *AARTS shows OESE administrative stay was approved on 3/12/2008.*	8/8/07	$3,192,395	4
A05G0020	Audit of the Alabama State Department of Education's and Two Selected LEAs' Compliance with Temporary Emergency Impact Aid Program Requirements (SAR 55, page 28) ***Status:*** *AARTS shows OESE administrative stay was approved on 3/12/2008.*	9/27/07	$4,579,375	5
A05G0031	Columbus City School District's Compliance with Financial Accountability Requirements for Expenditures Under Selected NCLB Programs (SAR 55, page 29) ***Status:*** *AARTS shows OESE administrative stay was approved on 3/5/2008; however, the anticipated resolution date was 12/21/2007.*	6/20/07	$48,158	8
A05G0033	Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirements (SAR 55, page 29) ***Status:*** *AARTS shows OESE administrative stay was approved on 3/5/2008; however, the anticipated resolution date was 12/07/2007.*	6/7/07	$16,809,020	8
A06G0009	Audit of the Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable LEAs (SAR 55, page 29) ***Status:*** *AARTS shows OESE administrative stay was approved on 3/12/2008.*	9/18/07	$10,270,000	4
A06G0010	Louisiana Department of Education's Compliance with HERA, Temporary Emergency Impact Aid for Displaced Students Requirements (SAR 55, page 29) ***Status:*** *AARTS shows OESE administrative stay was approved on 3/12/2008.*	9/21/07	$6,303,000	4
Reported in Previous Semiannual Reports				
FSA				
A04B0015	Review of Cash Management and Student Financial Assistance Refund Procedures at Bennett College *(OPE designated as collateral action office for this report)* (SAR 45, page 16) ***Status:*** *FSA informed us that it will work on getting this audit closed in AARTS by 4/30/2008.*	9/26/02	$997,313	7
A04B0019	Advanced Career Training Institute's Administration of the Title IV *HEA* Programs (SAR 47, page 13) ***Status:*** *FSA informed us that it will work on getting this audit closed in AARTS by 6/30/08.*	9/25/03	$7,472,583	14
A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown, TN (SAR 49, page 14) ***Status:*** *FSA informed us that it is still waiting on policy decision to address and resolve this audit.*	9/23/04	$2,458,347	7

Table 6: Unresolved Reports Issued Prior to October 1, 2007 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A05E0013	Audit of the Administration of the Student Financial Assistance Programs at the Ivy Tech State College Campus in Gary, Indiana, During the Period July 1, 2002, through June 30, 2003 (SAR 50, page 21) ***Status:*** *FSA informed us that the audit was closed on 1/22/2007; audit will be closed 4/30/2008 in AARTS. The audit is not considered resolved or closed until it is certified through AARTS.*	2/25/05	$1,645,160	3
A06F0018	Philander Smith College's Administration of Title IV Student Financial Assistance Programs Needs Improvement (SAR 54, page 29) ***Status:*** *FSA informed us that it is currently working on this audit.*	11/2/06	$476,167	20
A0670005	Professional Judgment at Yale University (SAR 36, page 18) ***Status:*** *FSA informed us it is waiting on policy decision to address and resolve this finding in the final audit determination letter.*	3/13/98	$5,469	3
A0670009	Professional Judgment at University of Colorado (SAR 37, page 17) ***Status:*** *FSA informed us it is waiting on policy decision to address and resolve this finding in the final audit determination letter.*	7/17/98	$15,082	4
A06D0018	Audit of Saint Louis University's Use of Professional Judgment for the Two-Year Period from July 2000 Through June 2002 (SAR 50, page 21) ***Status:*** *FSA informed us it is waiting on policy decision to address and resolve this finding in the final audit determination letter.*	2/10/05	$1,458,584	6
A0723545	State of Missouri, Single Audit Two Years Ended June 30, 1991 ***Status:*** *FSA previously informed us it is currently researching options to resolve this issue.*	4/1/93	$1,048,768	18
A0733123	State of Missouri, Single Audit Year Ended June 30, 1992 ***Status:*** *FSA previously informed us it is currently researching options to resolve this issue.*	3/7/94	$187,530	18
A09D0024	American River College's Compliance with Student Eligibility Requirements for Title IV Student Financial Assistance Programs (SAR 50, page 21) ***Status:*** *FSA informed us that it will work on getting this audit closed in AARTS by 4/30/2008.*	12/1/04	$3,024,665	3
N0690010	Inspection of Parks College's Compliance with Student Financial Assistance Requirements (SAR 40, page 18) ***Status:*** *FSA informed us that the inspection report was previously not in AARTS when SAR 55 was done so that FSA ALO could close out the inspection report. The inspection report has been added into AARTS. FSA will work on getting this inspection report closed in AARTS by 6/30/2008. Required documents for resolution of this report are needed in AARTS.*	2/9/00	$169,390	1
OCFO				
A03F0010	The Education Leaders Council's Drawdown and Expenditure of Federal Funds *(OII also designated as action official)* (SAR 52, page 8) ***Status:*** *OCFO informed us that all resolution activities have been suspended until further notice.*	1/31/06	$760,570	12
A05D0041	University of Illinois at Chicago's Upward Bound Project *(OPE also designated as action official)* (SAR 50, page 22) ***Status:*** *OCFO informed us that it needs to review and analyze recent information.*	12/20/04	$223,057	8
A05E0002	Audit of the University of Illinois at Chicago's Student Support Services Program *(OPE also designated as action official)* (SAR 50, page 22) ***Status:*** *OCFO previously informed us that it needs to review and analyze recent information.*	12/15/04	$260,050	6

Table 6: Unresolved Reports Issued Prior to October 1, 2007 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A05E0018	University of Illinois at Chicago's Upward Bound Math and Science Project *(OPE also designated as action official)* (SAR 50, page 22) ***Status:*** *OCFO informed us that it needs to review and analyze recent information.*	12/17/04	$274,493	7
A07D0002	Audit of the Talent Search Program at Case Western Reserve University (SAR 47, page 14) ***Status:*** *OCFO informed us that information submitted by auditee needs to be reviewed and analyzed.*	7/11/03	$212,428	5
A09F0010	Pittsburg Pre-School and Community Council, Inc.'s Use of Early Reading First and Migrant Education Even Start Grant Funds *(OESE also designated as action official)* (SAR 52, page 9) ***Status:*** *OCFO informed us that additional information has been requested from the auditee.*	3/17/06	$910,217	21
A09G0010	KIPP Foundation's Administration of the Fund for the Improvement of Education Grants *(OII also designated as an action official)* (SAR 54, page 30) ***Status:*** *OCFO informed us that information submitted by the auditee needs to be reviewed and analyzed.*	12/6/06	$4,391	6
A17G0003	Financial Statement Audits for FY 2006 and FY 2005 *(FSA also designated as an action official)* (SAR 54, page 30) ***Status:*** *The resolution of the audit is pending an administrative action by OCFO.*	11/15/06		5
OESE				
A02F0005	New Haven School District's Administration of Title I, Part A Summer and After School Programs (SAR 53, page 25) ***Status:*** *The PDL was dated 3/31/2008; however, the required documentation for resolution of this audit was not in AARTS on 3/31/2008. This audit will be removed from this list by the next SAR..*	4/11/06	$3,780,000	4
A02G0002	Audit of New York State Education Department's Reading First Program (SAR 54, page 31) ***Status:*** *OESE informed us this audit is pending continued discussions with OIG on resolution.*	11/3/06	$215,832,254	8
A03G0006	The Department's Administration of Selected Aspects of the Reading First Program *(OCFO also designated as an action official)* (SAR 54, page 31) ***Status:*** *OESE informed us this audit has an ongoing corrective action.*	2/22/07		3
A04F0011	Audit of the Georgia Department of Education's Migrant Education Program (SAR 52, page 4) ***Status:*** *AARTS shows OESE administrative stay was approved on 1/11/2008.*	1/12/06		7
A05C0012	Audit of East Cleveland City Schools' Administration of the 21st Century Community Learning Centers Grant at Kirk Middle School (SAR 45, page 18) ***Status:*** *The PDL was dated 10/3/2007. However the required documentation for resolution of this audit was not in AARTS by 3/31/2008.*	9/18/02	$349,637	9
A06E0008	Audit of the Title I Funds Administered by the Orleans Parish School Board for the Period July 1, 2001, through December 31, 2003 (SAR 50, page 23) ***Status:*** *OESE informed us that it is discussing resolution of audit with OGC.*	2/16/05	$73,936,273	7
A06F0013	Oklahoma State Department of Education's Migrant Education Program (SAR 52, page 4) ***Status:*** *AARTS shows OESE administrative stay was approved on 1/11/2008.*	3/21/06	$509,000	3
A06F0016	Arkansas Department of Education's Migrant Education Program (SAR 53, page 25) ***Status:*** *AARTS shows OESE administrative stay was approved on 1/11/2008.*	8/22/06	$877,000	2

Table 6: Unresolved Reports Issued Prior to October 1, 2007 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A09F0024	California Department of Education's Migrant Education Program (SAR 54, page 31) **Status:** *AARTS shows OESE administrative stay was approved on 1/11/2008.*	12/1/06	See Note 1*	6
OPE				
A07B0011	Audit of Valencia Community College's Gaining Early Awareness and Readiness for Undergraduate Programs Matching Requirement (SAR 47, page 15) ***Status:*** *OPE informed us that OPE and OGC are reviewing additional documentation provided by Valencia.*	5/8/03	$1,822,864	5
OSERS				
A02B0014	Audit of the Puerto Rico Vocational Rehabilitation Administration (SAR 45, page 18) ***Status:*** *OSERS agrees that the audit is open and continues to work diligently towards completion.*	6/26/02	$15,800,000	5
A02E0020	The Virgin Islands Department of Health's Administration of the Infants and Toddlers Program *(see note 2)* (SAR 51, page 28) ***Status:*** *OSERS informed us that it intends to address this during the VIDE's visit to DC in April 2008.*	9/28/05		17
A06F0019	Results of five audits of the IDEA, Part B requirements at schools under the supervision of the Department of Interior's Bureau of Indian Affairs *(Report was addressed to the Bureau of Indian Education, Department of the Interior)* (SAR 54, page 32) ***Status:*** *OSERS informed us that a meeting was held on 1/23/08 with the auditee to discuss outstanding issues to be resolved prior to closure of audit. OSERS is awaiting the letter and attachments from the auditee needed to verify the issues that have been addressed.*	3/28/07	$328,000,000	6

Note 1 - We identified significant numbers of ineligible children in this report, but did not project estimated questioned costs. We recommended that more thorough reviews be conducted to determine the total numbers of ineligible children and the return of funds expended for the ineligible children found.
Note 2 - We identified $327,577 in one-time better use of funds in audit number A02E0020.

Table 7: Statistical Profile : October 1, 2007 to March 31, 2008

	Six-month Period Ending 3/31/08
OIG AUDIT REPORTS ISSUED	18
Questioned Costs	$45,444,898
Unsupported Costs	$5,483,187
Recommendations for Better Use of Funds	
OTHER OIG PRODUCTS ISSUED *(2 Alert Memoranda, 2 Attestation Reports, 1 Audit Closeout Letter, 1 Inspection, 1 Interim Audit Memorandum, 4 Management Information Reports, 1 Special Project)*	13
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	24
Questioned Costs Sustained	$83,533,367
Unsupported Costs Sustained	$23,533,367
Additional Disallowances Identified by Program Managers	$6,230,017
Management Commitment to the Better Use of Funds	$892,000,000

Table 7: Statistical Profile : October 1, 2007 to March 31, 2008

	Six-month Period Ending 3/31/08
INVESTIGATIVE CASE ACTIVITY	
Cases Opened	74
Cases Closed	56
Cases Active at End of Period	399
Prosecutorial Decisions	128
-Accepted	53
-Declined	75
INVESTIGATION RESULTS	
Indictments/Informations	38
Convictions/Pleas	37
Fines Ordered	$14,094
Restitution Payments Ordered	$1,164,766
Civil Settlements/Judgments (#)	9
Civil Settlements/Judgments ($)	$2,495,593
Recoveries	$2,053,474
Forfeitures/Seizures	$0
Savings	$10,684,069

U.S. Department of Education

Margaret Spellings
Secretary

Office of Inspector General

John P. Higgins, Jr.
Inspector General

Counsel's Office

Mary Mitchelson
Counsel to the Inspector General

May 2008

To order copies of this report:

- **Write** to: ED Pubs, Education Publications Center, U.S. Department of Education, P.O. Box 1398, Jessup, MD 20794-1398;
- **Fax** your request to: (301) 470-1244;
- **E-mail** your request to: *edpubs@inet.ed.gov*;
- **Call** in your request toll-free: 1-877-433-7827 (1-877-4-ED-PUBS). If 877 service is not yet available in your area, call 1-800-872-5327 (1-800-USA-LEARN). Those who use a telecommunications device for the deaf (TDD) or a teletypewriter (TTY) call 1-800-437-0833; or
- **Order online** at: *www.ed.gov/pubs.org*

This report is also available on the Department's Web site, at: *www.ed.gov/about/offices/list/oig*.

On request, this publication is available in alternate formats, such as Braille, large print, audiotape, or computer diskette. For more information, please contact the Department's Alternate Format Center at (202) 260-9895 or (202) 205-8113.

Anyone knowing of fraud, waste, or abuse involving Department of Education funds or programs should call, write, or e-mail the Office of Inspector General.

Call toll-free:
The Inspector General's Hotline
1-800-MIS-USED (1-800-647-8733)

Or Write:
Inspector General's Hotline
Office of Inspector General
U.S. Department of Education
550 12th Street, SW
Washington, DC 20202-1500

Or e-mail:
oig.hotline@ed.gov

Your report may be made anonymously or in confidence.

For information on identity theft prevention for students and schools, visit the

Office of Inspector General Identity Theft Web site at:
www.ed.gov/misused

Our mission is to ensure equal access to education and to promote educational excellence throughout the nation.
www.ed.gov