

Management Challenges for Fiscal Year 2008

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations, and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses.

The Reports Consolidation Act of 2000 requires OIG annually to identify and summarize the top management and performance challenges facing the Department, as well as to provide information on the Department's progress in addressing those challenges. Based on our recent work and knowledge of the Department's programs and operations, we have identified six specific challenge areas for the Department for fiscal year (FY) 2008: (1) student financial assistance programs and operations; (2) information security and management; (3) new programs and programs nearing reauthorization; (4) grant and contract awards, performance, and monitoring; (5) data integrity; and (6) human resources.

The predominant challenge facing the Department within each of these areas is implementation and coordination of effective internal controls. "Internal controls" are the plans, methods, and procedures aimed at providing reasonable assurance that an agency meets its goals and achieves its objectives, while minimizing operational problems. While the Department is working to make progress in these areas, it is evident that additional focus, attention, and emphasis are needed. Only by significantly improving its internal controls and demanding accountability by its managers, staff, program participants, and contractors will the Department be an effective steward of the billions of taxpayer dollars supporting its programs and operations.

Challenge: Student Financial Assistance Programs and Operations

The federal student financial aid programs involve over 6,000 postsecondary institutions, more than 3,000 lenders, 35 guaranty agencies, and many third party servicers. During FY 2007, Federal Student Aid (FSA), the

Department office with responsibility for these programs, provided \$82 billion in awards and oversaw an outstanding loan portfolio of over \$400 billion. FSA must conduct effective monitoring and oversight and demand accountability from its staff, program participants, and contractors to help protect higher education dollars from waste, fraud, and abuse. OIG work has shown that this is a significant challenge for FSA, as it does not have the capacity and resources necessary to identify and implement effective oversight and monitoring of its program participants.

The Department's Progress: FSA has agreed to improve its management of its programs and to develop and implement consistent oversight procedures. FSA made changes to the organizational structure of one of its internal offices, Financial Partners, and transferred the regional offices out of Financial Partners to a new Program Compliance organization in 2006. In addition, the Department has taken steps in response to our audit work on 9.5 percent special allowance payments (SAP). The Department now requires all lenders billing at the 9.5 percent SAP rate to be paid at the regular rate until the Department receives the results of audits to determine the eligibility of loans for payments at the 9.5 percent rate. The Department, with advice from OIG, established a methodology to determine the eligibility of loans to be billed at the 9.5 percent SAP rate, and has hired a contract auditor, or requires the lender to hire its own auditor, to conduct a 9.5 percent SAP audit in accordance with an Audit Guide issued by the OIG. Also, in response to an OIG recommendation, the Department agreed to add the issue of lender inducements to negotiated rulemaking sessions held this year. When the negotiators could not reach an agreement, the Department formed a lender task force to advise the Secretary on needed regulations. Rules addressing inducements and preferred lender lists were issued on November 1, 2007. Last year, the Department also established a separate inducement task force to compile and assess all allegations of improper inducements and design corrective actions as needed.

Challenge: Information Security and Management

The *Federal Information Security Management Act* (FISMA) requires each federal agency to develop, document, and implement an agency-wide program to provide information security and develop a comprehensive framework to protect the government's information, operations, and assets. To ensure the adequacy and effectiveness of information security controls, Inspectors General conduct annual independent evaluations of the agencies' information security programs and report the results to the Office of Management and Budget (OMB).

In our information security audits to support our FISMA requirements, we have identified security weaknesses that the Department must address to protect its systems and to maintain their security certification and accreditation. These weaknesses include certain management, operational, and technical security controls; the incident handling process and procedures; intrusion detection system deployments; and enterprise-wide technical configuration standards for all systems.

With regard to information management, the Department's anticipated information technology (IT) capital investment portfolio for FY 2008 is over \$540 million, with many resource-intensive projects pending. It is critical that the Department have a sound IT investment management control process that can ensure that technology investments are appropriately evaluated, selected, justified, and supported. This oversight and monitoring process must address IT investments as an agency-wide portfolio. It must also ensure that individual projects are appropriately managed so they meet their technical and functional goals on time and on budget. This is an area that continues to challenge the Department.

The Department's Progress: The Department continues its efforts to establish a mature computer security program as it relates to technical configuration standards for all of its systems, managing its outsourced contractors who operate its critical information systems, and ensuring the proper identification and response to its incident handling program and intrusion detection systems. In addition, the Department recently established plans to improve its controls relating to the protection of personally

identifiable information in order to meet the standards and good practice requirements established by OMB. However, management, budget, and contracting constraints have hampered the Department in moving forward with improving these controls.

With regard to IT management, while the critical issue of independent assessment remains unaddressed, the Department has recently strengthened the IT capital investment program by expanding membership on two of its review groups, the Investment Review Board and the Planning and Investment Review Working Group. The Department continues its efforts to strengthen individual business cases and to map proposed investments to an agency-wide enterprise architecture strategy.

Challenge: New Programs and Programs Nearing Reauthorization

In any given year, Congress creates new federal education programs, such as the American Competitiveness Grant program and the National Science and Mathematics Access to Retain Talent Grant program, both established by the *Higher Education Reconciliation Act of 2005*. In any year, Congress also may be scheduled to reauthorize a specific education law, as it is presently with the *Elementary and Secondary Education Act of 1965* (ESEA), as amended by the *No Child Left Behind Act of 2001*, and the *Higher Education Act of 1965* (HEA), as amended. As states, schools, students and their families, and others rely on the numerous programs and funding allotted through federal education programs, it is critical that the Department ensures they are operating effectively and efficiently. The Department should establish appropriate internal controls as it implements new programs and identify ways to improve accountability in programs that are about to be reauthorized.

The Department's Progress: In an effort to improve accountability and the operation of its programs, the Secretary mandated internal controls training for all Department managers. The Department is also making suggestions to Congress to strengthen provisions of the ESEA and the HEA during these reauthorization processes. In addition, the Department has taken action in response to our work to address weaknesses in two of its ESEA-related programs, Reading First and Migrant Education

programs. With Reading First work, the Secretary put new leaders in place to coordinate the program, and worked with the states to identify possible issues or concerns the states may have had with the implementation of the program. In response to our work in the Migrant Education Program, the Department proposed a series of action steps, including short-term steps to immediately prevent and detect over-counting of ineligible children, and long-term steps, including options for Congress to consider during reauthorization of the ESEA to help ensure that only eligible migrant children are served by the program and that migrant children are accurately counted for funding purposes.

Challenge: Grant and Contract Awards, Performance, and Monitoring

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 accountability. Our recent audits, inspections, and investigations continue to uncover problems in the area of grant and contractor activities, including: inadequate oversight and monitoring of grantee performance; failure to identify and take corrective action to detect and prevent fraudulent activities by grantees; potential conflicts of interest and other improprieties in the evaluation of certain grant applications; not ensuring that the procurement and contract management processes provide assurance that the Department receives quality goods and services for its money; and inadequate attention to improper payments.

The Department's Progress: The Department has initiated steps to improve its performance in this area. The Secretary recently established a new Risk Management Services office and a Grants Policy Team, which are considering all policies, including requirements for monitoring, with the objective of developing standards that would apply across all formula programs. The Grants Policy Team also is completing the process of revising the Education Department General Administrative Regulations to incorporate performance management requirements for funded applicants.

In addition, the Office of Elementary and Secondary Education (OESE) has enhanced its monitoring system and will conduct Title I

program reviews of all states at least once during a three-year monitoring cycle (2006–07 through 2008–09). OESE and the Office of Special Education and Rehabilitative Services have changed their monitoring protocols for the Title I and IDEA programs to ensure that states and districts are providing a proportionate share of these programs' funds to new or expanding charter schools in a timely manner.

The Department is also implementing an Enterprise Risk Management program throughout the Department. As a part of the program, the Department has contracted with the Oak Ridge National Laboratory to assist in developing a systemic, risk-based approach to monitoring grant compliance and performance. This system will incorporate a conceptually valid methodology that uses data collected from a variety of sources to assess grantees relative to established risk factors.

With regard to contracts, in FY 2005 and FY 2006, the Office of the Chief Financial Officer developed and sponsored an agency-wide training program that reinforced the Department's contracting processes, laws, and regulations. It also developed procedures for writing contract monitoring plans, and updated and distributed other pertinent contract procedural documents to improve controls and efficiencies. The Department is currently exploring available tools to facilitate electronic documentation and tracking of contract receipts and deliverables.

Challenge: Data Integrity

Data integrity is both a compliance issue and a performance issue. For example, programs within the ESEA that tie funding directly to student achievement and accountability require states to report on performance in many categories. Programs within IDEA have similar requirements. The utility of this reporting, and ultimately funding decisions, depend on the collection of valid and reliable data. Without valid and reliable data, the Department cannot make effective decisions on its programs or know if the funds it disburses are indeed reaching the intended recipients.

The Department's Progress: The Department recognized the need to improve its data quality and data reliability, and, in 2004, launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and

information management processes. The resulting Education Data Exchange Network (EDEN) provides state educational agencies and the federal government the capacity to transfer and analyze information about education programs. Through EDEN, the Department instituted data validation and verification steps and required states to address their data issues before the Department will officially accept their data.

In addition, the Department has advised us that it is working in coordination with the Data Quality Campaign and the National Forum on Education Statistics to help state educational agencies implement, by 2009, high-quality, longitudinal data systems that include a state data audit system assessing data quality, validity, and reliability. The Department has also advised us that it worked with a task force of state, local, and federal experts (organized through the National Center for Education Statistics) to develop a resource document for local educational agencies to use with their staff to ensure and improve data quality.

Challenge: Human Resources

Like most federal agencies, the Department will see a significant percentage of its workforce eligible for retirement in 2008. The Department is also continuing to experience a significant change in critical skill requirements for many of its staff. Identification and prompt implementation of needed action steps to adequately address these succession planning and workforce issues, including recruitment, hiring and retention, is critically important. In recent years, the Department has committed a significant amount of time to human resource initiatives at considerable expense, with no measurable results.

The Department's Progress: The Department stated that it is committed to improving the strategic management of human capital. In response to its 2006 Federal Human Capital Survey results, the Department took a three-pronged approach to address the performance culture concerns identified by the survey: (1) senior leadership involvement; (2) principal office action plans; and (3) the Department-wide Action Planning Team (APT). The APT comprised 13 members from different Department offices who were tasked with studying and making recommendations to

address performance culture. The Team produced 50 long-term and short-term recommendations that were presented to Department senior leaders in August. In September, senior officials announced to the APT that they had accepted 49 of the recommendations and would begin implementation immediately. In addition, the Department recently completed its Annual Employee Survey, and has stated that the Human Capital Officer will hold workshops with Department managers to discuss and take action on the 2007 survey results.