

Testimony of Lorraine Lewis
Inspector General, U.S. Department of Education
Before the
Committee on the Budget
U.S. House of Representatives

February 17, 2000

Good morning Mr. Chairman and members of the Committee. I am pleased to testify before the Committee on the Budget on matters relating to management challenges at the Department of Education.

On December 8, 1999, we provided to Congress an assessment of the Department's significant management challenges. Many of these challenges concern long-term issues that we are continuing to monitor. The December 8 letter describes the work the Department is doing, or needs to do, to meet these challenges. I have attached a copy of the December 8 letter for the record.

FINANCIAL MANAGEMENT AND INTERNAL CONTROLS

A top priority for the Department, and one of its most significant challenges, is its preparation of and access to accurate financial data. This information is critical for the Department to make informed decisions, manage for results and ensure the integrity of its operations. It is an area identified by the Department as a material weakness in its fiscal year (FY) 1999 Federal Managers' Financial Integrity Act (FMFIA) report.

Due to weaknesses in the Department's financial system, the work performed on the Department's FY 1998 financial statements resulted in reports containing disclaimers of opinion. The work on

the FY 1999 Department-wide and Student Financial Assistance (SFA) financial statements is continuing, but it appears that the audit reports will contain four qualified opinions and one disclaimer of opinion.

Although significant internal control weaknesses carried over from FY 1998, and will continue to be reported for FY 1999, the Department has developed processes and utilized contractor support to work around the underlying systemic problems. As a result, the Department was able to prepare financial statements in a more timely manner and provide sufficient support for amounts shown. This enabled the auditors to complete their audit and render a qualified opinion on four statements, but a disclaimer of opinion on the Department's and SFA's Statement of Financing.

One of the significant weaknesses in its financial reporting process relates to the Department's general ledger software package. To address this issue, the Department is in the process of procuring a new general ledger system intended to overcome many of the system weaknesses preventing the preparation of timely financial statements. However, until its new accounting system is operational, the Department will have to continue its work around procedures.

During FY 1998 and again in FY 1999, the Department's reconciliation procedures were not performed on a timely basis. In addition, the identified reconciliation differences were not always adequately explained, resolved and posted to the Department's general ledger. Weaknesses in the Department's internal controls over the reconciliation process prevented timely detection and correction of errors in its underlying accounting records. Despite

these underlying control weaknesses, the auditors were able to conduct sufficient tests of balances and transactions to enable them to express a qualified opinion on four of the financial statements. The Department is in the process of implementing new automated procedures to assist in the cash reconciliation process and the reconciliation of other internal accounting records. The Department also is performing more timely reconciliations of its fund balance with Treasury.

When I testified before the Subcommittee on Oversight and Investigations, Committee on Education and the Workforce on December 6, 1999, I stated that we would issue the audit reports for the FY 1999 financial statements of the Department and SFA by March 1, 2000. I still plan to meet my commitment. We will continue to work with the Department and Congress to improve the Department's financial management.

IRS DATA MATCH AND DISCHARGE OF STUDENT LOANS

Another management challenge that we have identified is the under-reporting of income by applicants for student aid (and their parents). Our audit and investigative work has shown this is a problem that is costing federal taxpayers over a hundred million dollars annually in overawards of Pell Grants and awards to ineligible persons.

In a 1997 audit report, we found that 3.7 million out of 9.1 million applicants for federal student aid received Pell Grants during the 1995-96 award year. For 2.3 million of these applicants, we verified the adjusted gross income they reported on their financial aid applications with income data maintained by the Internal Revenue

Service (IRS). Out of this sample, we reported that 102,000 students received Pell Grant overawards totaling approximately \$109 million. This is a conservative amount because we were unable to verify the reported income of parents of dependent students.

As recommended by our office, and supported by the Department, the Higher Education Act (HEA) Amendments of 1998 included a provision authorizing the Department, in cooperation with Treasury, to confirm with the IRS the adjusted gross income, federal income taxes paid, filing status and exemptions reported by applicants (including parents) on their federal income tax returns for the purpose of verifying the information reported on their student financial aid applications.

Currently, the Department is discussing the development of a test match study with the IRS. The Department has indicated that it will send samples of student aid applicant data to the IRS in March and June 2000. The IRS will match these data against its records and provide the Department with statistical summaries evaluating the accuracy of the applicant data.

It is our understanding that the Department will use the statistical information provided by the IRS to identify the types of students who are most likely to under-report their income. The Department intends to use the information to better focus their selection of student applicants for income verification at the school level. The Department also intends to use the IRS information to better evaluate the extent of income under-reporting and use the data in support of its continuing effort to conduct a full-scale data match with the IRS.

Although the HEA authorizes the Department to confirm student applicant income with the IRS, the IRS has indicated that it cannot disclose this information to the Department because such release is not authorized by the Internal Revenue Code. Without specific authorization in the Code, the IRS indicates that it must obtain written taxpayer consent before individual income information may be released to the Department. In an attempt to overcome these obstacles to full-scale verification, the Department, Treasury and OMB are working together to develop possible solutions, including legislative and administrative changes.

Another concern in the SFA area is the inappropriate discharge of student loans based on disability or death. The HEA provides for the discharge of a student loan when the borrower becomes either totally and permanently disabled or dies.

At the request of the Department, we conducted an audit of the Department's controls over the discharge of student loans due to disability or death. In June 1999, we reported that borrowers who received disability discharges of over \$73 million were earning wages and borrowers who received disability discharges of nearly \$11.5 million returned to school and received additional loans and grants. Additionally, our review identified over \$3.8 million in loans discharged for borrowers who inappropriately received a death discharge.

To help correct this abuse, we recommended that the Department take several steps to enhance the current discharge determination procedures, including revising the disability form to include, at a minimum, the doctor's professional license number and office

telephone number and requiring certified copies of death certificates. In response, the Department modified its disability form to incorporate our recommendations and OMB approved the form. In addition, the Department now requires that a death discharge be based only on an original or certified copy of the death certificate.

Our office continues to pursue this matter and we are engaged in a project to identify fraudulent disability and death loan discharges. In order to identify fraudulent death discharges, we conducted a data match with the Social Security Administration's Death Index to determine persons who received loan discharges based upon death but who do not appear in the Social Security records. Working with a sample of these data and with information filed by those who obtained substantial discharges from Sallie Mae and a guaranty agency, our investigators are pursuing initial leads generated by the match. We intend to continue this effort as more of the match data are analyzed. In the area of disability discharge fraud, we are working with a number of guaranty agencies to identify potential fraud cases and following up on leads developed from the data. These projects involve coordination with a number of other entities, including the Department's program office, guaranty agencies, state agencies and Sallie Mae.

The OIG also is investigating a number of individuals for disability and death discharge fraud. In one completed case, a defendant was recently prosecuted and sentenced for obtaining the discharge of five loans totaling \$37,000, based upon false claims of disability for mental illness. Two other indictments for false claims of disability also are pending in OIG cases. In addition, our investigative efforts to date have led to the reinstatement of over

\$560,000 in student loans for borrowers who falsely claimed to be totally and permanently disabled.

INFORMATION SYSTEMS AND SECURITY CONTROLS

The Department has been successful in its efforts to ensure its programs are Year 2000 (Y2K) compliant. This success was accomplished through a concentrated effort on the part of the Department, including technical assistance from our office. We contributed to the Department's success by evaluating its progress, identifying high-risk areas and providing information on the status of its major trading partners. The Department's commitment resulted in there being no interruption in its customer service and no loss of critical data from its computer systems. We would like to see the Department undertake a similar initiative in the area of security controls.

In December 1999, we issued a draft audit report on the Department's security policies and plans for its 14 mission-critical systems. The 14 systems include 11 SFA systems; the Department's Central Automated Processing System (EDCAPS); the Department-wide network (EDNET); and the Impact Aid System. Our review revealed that the Department has significant control weaknesses including a lack of security plans and reviews for six mission-critical systems, no process to ensure resolution of identified security deficiencies and a lack of technical security training for many employees responsible for overseeing the Department's computer security. The Department has informed us that it concurs with our findings.

Our draft findings indicate a weakness in the Department's compliance with the security requirements of the Computer Security Act, Paperwork Reduction Act and OMB Circular A-130. The Department also identifies this area as a material weakness in its FY 1999 FMFIA report. Currently, we are conducting a follow-up audit to determine the adequacy of security reviews performed on eight mission-critical systems to meet OMB A-130 requirements. Additionally, we are evaluating the public, internal and privileged access vulnerabilities of the Department's EDNET communication infrastructure. We plan additional reviews of security controls for other systems in the future.

We also are participating with 16 federal agencies in a President's Council on Integrity and Efficiency (PCIE) effort to evaluate compliance with Presidential Decision Directive (PDD) 63. PDD 63 calls for a national effort to ensure the security of the interconnected infrastructures of the United States. Our work focuses on the Department's efforts to comply with the requirements of PDD 63. Additionally, we have initiated an audit of the Department's disaster recovery planning for its mission-critical systems.

In another information systems area, the Department continues to explore ways to make its SFA program delivery systems electronic and paperless. The Department's goal of paperless systems creates new opportunities for efficiency, but requires effective controls to ensure accountability, security and legal enforcement. A particular challenge is the implementation of an electronic signature validation process that meets the requirements of OMB's implementation guidance for the Government Paperwork Elimination Act, which is expected to be released in April 2000. To

assist the Department, we will provide advice to SFA on its current implementation of Personal Identification Numbers (PINs) in its financial aid application process. Additionally, we are researching the major components within a well-controlled Public Key Infrastructure (PKI) environment to assist the Department in its future PKI implementation efforts.

The Department also is working to implement three key requirements of the Clinger-Cohen Act, which requires agencies to improve management of information technology. These requirements include the implementation of a capital planning and investment control process, development of a sound and integrated information technology architecture and an assessment of the information resource management knowledge and skills of agency personnel. Although the Department has not fully implemented the requirements of the Act, it is making progress in addressing recommendations made by our office. The Department recently produced a draft Capital Planning and Investment Control Program and is working with a contractor to complete an information technology architecture. The Department also is working to complete a skills inventory to assess the existing skills of its information technology employees.

RESULTS ACT

The Department's first performance report, required by the Government Performance and Results Act, is due in March 2000. The Results Act reporting requirement presents significant challenges for the Department. These challenges include the supplemental funding role of the Department, relative to state and local government entities, in many education programs; the heavy

dependence on third parties such as lenders, guaranty agencies and state and local education agencies to provide performance data; and priorities that compete with data collection such as the desire to reduce regulatory burden and increase flexibility in program implementation. These conditions will present ongoing challenges for the Department in its data collection and reporting efforts.

In a September 1998 audit report assessing the Department's implementation of the Results Act, we recommended that the Department establish controls over the analysis and reporting of data, establish standards for reporting performance information and establish a formal system for tracking indicators. Last year, the Department developed draft data quality standards and conducted training on these standards. The Department also plans to develop an electronic system for indicator tracking.

At the request of the Department, we also reviewed the processes used by State Education Agencies (SEAs) to collect and report data to the Department. Our review focused on two of the Department's major state formula grant programs -- the Elementary and Secondary Education Act Title I Program and the Perkins Vocational and Technical Education Program.

Our January 2000 draft report documented the challenges of collecting and processing required student data and provided insight into state quality control procedures. We reported that the SEA process of collecting data for the two formula grant programs is complex because of the thousands of entities providing data. Each SEA also has its own unique control structure and processes for the collection of data.

To address the complexities of the data collecting and reporting process under the Results Act, the Department is working with states to reduce paperwork and to streamline the federal education program reporting system. The Department also is developing a pilot project called the Integrated Performance and Benchmarking System, which is designed to be an Internet-based system for harvesting data from states about federal program activities at the school and district level. The Department is working with the Council of Chief State School Officers on this project.

We will continue to assist the Department in its effort to improve data quality under the Results Act. During the development of its Strategic Plan, the Department agreed with our recommendation to include in its performance report an assertion from Department program managers regarding the reliability and validity of the data used for performance measurement. The impact of this assertion requirement will be addressed in the Department's upcoming performance report. We also have been conducting a continuing assessment of the Department's selection of performance indicators and its reporting process. Based on this assessment and our review of the Department's first report, we will provide the Department with recommendations for improvement for the next reporting cycle.

COMPLIANCE MONITORING

With the increasing emphasis on accountability for results, it is important to consider the implications of this change on program oversight for the Department, State Education Agencies (SEAs), local educational agencies (LEAs) and schools. Program oversight

is essential in the enforcement of program requirements, the development of necessary program guidance and the evaluation of program modifications during the legislative reauthorization process.

In a February 1999 report, we recommended that the Department assume a greater role in ensuring elementary and secondary program integrity. Specifically, we recommended that the Department integrate on-site program reviews, audits, technical assistance, reporting and evaluative studies. We also recommended that the Department's oversight consider SEA analyses of LEA single audit findings and emphasize corrective action follow-up.

With the increasing delegation of elementary and secondary program oversight to SEAs and LEAs, our report also recommended that the Department establish minimum standards for SEAs in monitoring the LEA administration of these programs. Our recommended standards included a requirement for SEAs to systematically analyze the results of LEA audits and other oversight activities to identify trends in findings and develop monitoring and technical assistance strategies to reduce occurrences of similar problems.

The Department has taken steps to address some of these oversight concerns. The Office of Elementary and Secondary Education has established integrated review teams to perform coordinated, multi-program reviews of the implementation of federal education programs by SEAs. The Department also included in its proposal for reauthorizing the Elementary and Secondary Education Act a section under Title XI that addresses state

requirements for monitoring LEA compliance with the Act. In addition, our office is participating with the Department in a pilot program with four SEAs that will address the better use of LEA single audits for targeting monitoring and technical assistance activities.

We are conducting additional reviews of compliance monitoring in elementary and secondary programs. We are completing an audit to determine whether the Higher Education Act Title III program is being monitored in an efficient and effective manner and whether adequate enforcement action is being taken by the program office. Another audit will evaluate the Department's monitoring of elementary and secondary formula grant programs.

We also will continue our work with the Department on the K-12 Auditing, Monitoring and Technical Assistance Support Project to develop an internal data exchange system to improve the Department's program monitoring process.

At this time, I would be pleased to answer any questions you may have.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

Honorable John R. Kasich
Chairman
Committee on the Budget
United States House of Representatives
Washington, DC 20515

DEC 28 1999

Dear Mr. Chairman:

This is in response to your September 22, 1999, letter in which you, Senators Thompson and Domenici and Representatives Armev and Burton requested that we provide an assessment of the management challenges facing the Department of Education.

Many of the challenges facing the Department of Education involve long-term issues that we continue to monitor. The enclosed document presents a description of the challenges and the work the Department is doing or needs to do in order meet the challenges.

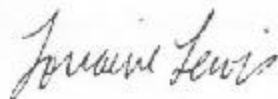
In our previous responses on management challenges, we identified several issues relating to the delivery of student financial assistance. In the Higher Education Act Amendments of 1998 (P.L. 105-244, October 7, 1998), a Performance-Based Organization (PBO) was created to address many of the management challenges that we discussed in our previous responses. Specifically, it increases the accountability of the responsible officials, requires the integration of the SFA information systems, the implementation of an integrated delivery system and the development, and maintenance of a system containing complete, accurate and timely data to ensure program integrity. The Office of Inspector General has offered advice and assistance to the PBO.

In your letter, you also requested that we identify programs that are not achieving intended results. At this time, we have made no such conclusions as part of our work. The Department must issue its first performance report under the Government Performance and Results Act in March 2000.

You also asked for a listing of significant open audit recommendations. They will be provided under separate cover.

I hope the attached information is helpful. A similar letter has been sent to Senators Thompson and Domenici and Representatives Armev and Burton. If you need additional information, please contact me or Ms. Catherine Gromek at (202) 205-5525.

Sincerely,

A handwritten signature in cursive script that reads "Lorraine Lewis".

Lorraine Lewis

Enclosures

cc: Honorable John M. Spratt, Jr.
Ranking Minority Member

OFFICE OF INSPECTOR GENERAL DEPARTMENT OF EDUCATION

1. The Department must address long-standing problems with financial management.

Department officials require accurate financial data in order to make informed decisions, manage for results and ensure integrity of operations.

The work performed on the Department's fiscal year (FY) 1998 financial statements resulted in a report containing a disclaimer of opinion on the financial statements due to weaknesses with the financial system. Weaknesses included the system's inability to perform a year-end closing process or produce automated consolidated financial statements. In addition, the Department did not adequately perform reconciliations and could not provide sufficient documentation supporting transactions.

A Report on Internal Control was also issued documenting seven weaknesses. The three most serious of these were as follows: the accounting system's inability to perform a year-end closing process or produce automated consolidated financial statements; the lack of proper or timely reconciliations of the accounting records; and, deficiencies in controls surrounding information systems.

Finally, a Report on Compliance with Laws and Regulations was issued documenting two instances of noncompliance. These were: failure to meet the March 1, 1999 statutory deadline for submission of audited financial statements to OMB, as required by the GMRA; and non-compliance with the system requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996.

The Department was unable to receive an opinion on the FY 1995 and FY 1996 financial statements due primarily to a lack of reliable and complete data supporting the estimated liability for loan guarantees related to the Federal Family Education Loan Program (FFELP). This barrier to a clean opinion was overcome for the FY 1997 financial statements through an extraordinary data gathering effort by the Department, guaranty agencies and their independent public accountants, the OIG and its contract auditors at that time. This was the culmination of 18 months of effort that began initially for the FY 96 financial statement audit. This provided reliable and complete data independent from the Department's systems that enabled an opinion to be expressed.

From 1995 through 1998, repeat internal control weaknesses were reported in the areas of:

- reconciliation of Fund Balance with Treasury,
- overall monitoring of Department programs, and
- information systems controls.

There have been a total of 115 recommendations, of which 88 remain open and 27 are closed.

For fiscal year 1997, financial reporting was identified as a new significant control weakness. It was reported again in 1998. In contrast, in FY 1998 the Department was able to correct the longstanding significant control weakness related to its FFELP loan liability estimate.

Both the FY 1997 and FY 1998 Report on Compliance with Laws and Regulations contained the finding that the Department did not meet the statutory reporting date of March 1 and did not comply with the requirements of the FFMIA.

Looking ahead, responsibilities for fiscal year 1999 have been expanded to include preparing and auditing the financial statements of Student Financial Assistance (SFA) in addition to the Department's consolidated financial statements. We are committed to meeting the March 1st deadline for both audits.

2. Year 2000 remains a management challenge for the Department.

The Department has made significant progress in its preparations for the Year 2000 (Y2K) and has completed implementation and end-to-end testing of its internal systems. The primary challenge remaining is the readiness status of postsecondary institutions and elementary and secondary school districts. The Department conducted extensive outreach to these institutions, but risks remain. No matter how extensive its outreach efforts, the Department cannot ensure that its trading partners will become Y2K compliant. The Department's most recent surveys, conducted in September and October, show that more than one-third of postsecondary institutions and school districts were not yet fully Y2K compliant. Additionally, only 16 percent of approximately 7,000 postsecondary institutions have tested their data exchanges with the Department. These entities must take the steps necessary to mitigate Y2K risks for their organizations. The Department is taking steps to understand the readiness of its trading partners and provide additional testing opportunities to encourage schools to test their data exchanges.

As Year 2000 approaches, the Department is concentrating its efforts on testing and refining its Y2K business continuity and contingency plans. These plans document the Department's alternative procedures in the event of failures in its internal systems or the systems of its trading partners.

3. The Department must improve its security posture, policy and plans for its systems.

The Department must comply with security requirements of the Computer Security Act, Paperwork Reduction Act, and OMB Circular A-130. We are completing our review of the Department's security posture, policies and plans for its 14 mission critical systems and are identifying areas that need improvement. The 14 systems include 11 SFA systems, the Department of Education Central Automated Processing System (EDCAPS), its department-wide network (EDNET) and the Impact Aid System.

Our preliminary findings show weaknesses in the Department's security controls. These weaknesses represent noncompliance with significant requirements of Circular A-130. Because the Department is not adhering to significant requirements of the Circular, it may not be in

compliance with the Paperwork Reduction Act, which requires agencies to follow OMB's security policies, principles, standards and guidelines. Additionally, two of our findings may represent noncompliance with two requirements of the Computer Security Act.

We discussed our preliminary results with the Chief Information Officers (CIO) of the Department and Student Financial Assistance. Both CIOs were recently appointed. They stated that they recognize the seriousness of these issues and they are taking steps to address them.

4. The implementation of the Student Financial Assistance's Modernization Blueprint and Performance Plan present unique challenges.

Student Financial Assistance (SFA) recently released the third draft of its "Modernization Blueprint" (Blueprint), which represents the current plan to update and reengineer core business processes through applied technology. We have been reviewing SFA's draft modernization plans, including its roots in the Department's Easy Access for Students and Institutions (EASI) vision, first set forth as a directive from the Secretary of Education in 1995. Based on our observations, the key management challenges are as follows:

- Current and forecast business problems for SFA may not be adequately defined. Lack of definition could lead to the potential for increased cost and complexity due to scope and technology changes in later phases of the project to resolve unanticipated issues.
- Viable alternatives must be continually assessed during all phases of implementation to insure that they are the most cost effective.
- The impact of external factors on SFA planning may be understated.
- Technical challenges, such as platform scaling, may not be sufficiently appreciated.
- The project timetable may be unrealistic.
- Resources sufficient to complete the planned effort may not be available.
- The Blueprint's vision of "buy a little, test a little, fix a little" may prove unworkable.

The Blueprint is an ambitious proposal that depends on radical change at SFA, and by extension, the Department of Education as a whole. While the vision underlying this proposal reflects years of conscientious development and the application of countless hours of effort by Department staff and contractors, it appears that the resulting system plans still exist at a highly conceptual, idealized level.

In September 1999 we recommended that SFA conduct an in-process review of its modernization effort to determine if controls are in place for managing risks during the implementation phase. We also pointed out the importance of establishing controls in the early stages of a project to provide reasonable assurance that the project will be:

- Successful in meeting the defined objectives;
- Achieved at the lowest possible costs commensurate with the risks assumed; and
- Accomplished in the shortest possible timeframe commensurate with the risks assumed.

The Higher Education Act (HEA) requires the Chief Operating Officer for the Performance-Based Organization (PBO) and the Secretary to agree on, and make available to the public, a performance plan for the PBO for the succeeding five years that establishes measurable goals and objectives for the organization. Our comments, to date, on drafts of the plan have focused on the following areas: statutory reporting requirements under the HEA and the Government Performance and Results Act (GPRA), the unit cost calculation, the measures for both customer and employee satisfaction and balance between customer service and program integrity.

The challenge for SFA is to ensure that the implementation of this plan meets the responsibilities required of SFA by HEA in four key areas: improving service including making those programs more understandable to students and their parents, reducing costs, improvement and integration of support systems and delivery of information systems.

5. The Department's goal of "paperless" systems for SFA fund delivery creates new opportunities for efficiency and requires effective controls to ensure accountability, security and legal enforcement.

The Department is still considering ways to make its SFA program delivery systems electronic and paperless. We believe that the steps the Department is taking on a pilot project to conduct the student aid application and delivery process electronically over the World Wide Web, which is a part of a government-wide effort called "Access America," is a step in the right direction. Successful transition from the pilot project to full implementation of an electronic signature validation process that meets the requirements of the General Accounting Office (GAO) remains a challenge.

6. The Department needs to fully implement the Clinger-Cohen Act.

The Clinger-Cohen Act requires agencies to take steps to improve management of information technology. In March 1998, OIG reported that the Department had not achieved full compliance with important requirements of the Act. Since that time, the Department has made progress, however it has not fully implemented three key requirements:

- Implementation of a capital planning and investment control process;
- Development of a sound and integrated information technology architecture; and
- Assessment of the information resource management knowledge and skills of agency personnel and development of a plan to correct identified deficiencies.

In September 1999, OIG and the Office of Chief Information Officer agreed on a corrective action plan to address our audit recommendations. Completing these corrective actions will be a challenge for the Department's newly appointed CIO. The Department recently awarded a contract for assistance with development of an integrated information architecture over the next year, plans for full implementation of its capital planning and investment management process

for budget year 2002, and plans to complete skills assessments and training for information technology professionals by March 2000.

7. Obtaining quality data to measure the performance of its programs and to meet the reporting requirements of the Results Act presents significant challenges.

The Department's first performance report on fiscal year 1999, required by the Government Performance and Results Act of 1993 (Results Act), is due in March 2000. The Department's strategic plan and annual performance plans for 1999 and 2000 were rated among the highest by the GAO. However, the Department faces a significant challenge in obtaining quality data to measure the performance of its programs and to meet the reporting requirements of the Results Act because of its heavy dependence on third parties to provide the data.

The availability of quality data has been identified by both the Department and the GAO as a concern. The Department's annual plans have noted that the lack of integration of its SFA systems and its heavy dependence on external systems hampers its ability to provide timely and accurate information. GAO included the lack of quality data in its January 1999 report on Education Challenges. In that report, GAO noted that the absence of information often results from the nature of the programs themselves.

8. Balancing Compliance Monitoring and Technical Assistance Presents a Management Challenge for Elementary and Secondary Education Programs

In February 1999, we issued "An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act" that highlighted the need to improve compliance monitoring. We reported that with the increasing emphasis on accountability for results, it is important to consider the implications of this change on the oversight for the Department, State Education Agencies (SEAs), local educational agencies (LEAs), and schools.

We analyzed 39 state-level single audit reports and found that the most common type of finding related to weaknesses in the oversight of elementary and secondary programs. Of the state-level single audits, over half reported that SEA oversight of the LEAs was unsatisfactory. We recommended that the Department establish minimum standards for SEAs in monitoring LEA administration of Elementary and Secondary Education Act (ESEA) programs. We also recommended that the Department consider ways it can play a stronger role in ensuring ESEA program integrity. Many of our suggestions were adopted in the monitoring and reporting section of the 1999 Education Flexibility Partnership Act.

The Department has taken several steps to address monitoring concerns. The Department included in its proposal for reauthorizing the ESEA a section under Title XI that addresses State requirements for monitoring LEA compliance with ESEA. The section addresses the need for documenting monitoring activities, providing technical assistance, and analyzing the results of

audits and other monitoring activities to identify trends and develop strategies for correcting problems. The Office of Elementary and Secondary Education (OESE) also developed a monitoring instrument that will be used during integrated reviews at States that merges compliance monitoring and technical assistance.

OESE also invited the OIG to participate in a pilot program with three SEAs that will address making better use of LEA Single Audits for targeting monitoring and technical assistance activities. The pilot project will also develop training modules for auditors so they have a better understanding of ESEA programs and can provide the most useful audit reports.

The OIG and the Department are working with an interagency work group on issues relating to the Trust Territories. The group is currently working on delinquent Single Audits, oversight issues, Year 2000 readiness and other matters related to the Virgin Islands.

9. The Department must continue to work with the Internal Revenue Service to implement a data match to ensure that SFA recipients accurately report income to qualify for financial aid.

As previously reported, an OIG audit and numerous OIG investigations provided evidence that under-reporting of income by applicants for student aid and their parents is a serious and growing problem that is costing federal taxpayers hundreds of millions of dollars in overawards of Pell Grants and awards to ineligible persons. We performed a match of income data reported by 2.3 million student aid applicants with that reported to the Internal Revenue Service (IRS) in the 1995-96 award year.

We recommended that the Department be permitted to verify with the IRS the income information reported by students and their parents on the Free Application for Student Aid (FAFSA). Income and dependency elements are critical in calculating the expected family contribution needed to compute eligibility for student aid.

The Higher Education Act Amendments of 1998 (P.L. 105-244, October 7, 1998) provided the Department of Education with the authority to confirm with the Internal Revenue Service the adjusted gross income, Federal income taxes paid, filing status and exemptions reported by applicants (including parents) on their Federal income tax returns for the purpose of verifying the information reported by applicants on student financial aid applications.

The Department is discussing this matter with the IRS.