



SEMIANNUAL
REPORT TO
CONGRESS
No. 50

2005

OCTOBER 1, 2004-MARCH 31, 2005

U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

**U.S. Department of Education
Office of Inspector General**



Semiannual Report to Congress: No. 50

October 1, 2004 - March 31, 2005



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

April 29, 2005

Dear Madam Secretary:

I am pleased to submit to you, in accordance with the Inspector General Act of 1978 (Public Law 95-452, as amended, section 5(b)), this semiannual report on the activities of the Department's Office of Inspector General for the six-month period ending March 31, 2005.

This report highlights our most significant work from the last six months, reflecting our strong commitment and valuable role in assisting the Department in improving its programs and ensuring their integrity. We look forward to continuing to work with you towards these goals.

The Inspector General Act requires you to transmit this report within 30 days to the appropriate Congressional committees and subcommittees, together with a report containing any comments you wish to make. Your report should also include the statistical tables specific in section 5(b)(2) and (3), and a statement with respect to audit reports on which management decisions have been made, but final action has not been taken, as specified in section 5(b)(4).

Sincerely,

John P. Higgins, Jr.

Enclosure

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

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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, 2004 to March 31, 2005. This is the 50th semiannual report OIG has submitted to the U.S. Congress, and the feedback we have received from both chambers over the last 25 years has helped enable OIG to function as the Congress intended.

During this reporting period, OIG issued 123 audits, inspection reports and memoranda, and closed 95 investigations. As detailed in this report, we continue to leverage our very limited resources on the programs and operations that we judge to present the greatest risk to the efficient and effective accomplishments of the Department's mission. We also began initial audits into the diverse programs associated with the No Child Left Behind Act (NCLB), identifying whether the programs are accomplishing their purpose, and providing recommendations to the Department to help ensure that they do.

While we continue to devote a significant portion of our resources to the very large and complex federal student aid programs, we are identifying emerging areas of risk in other programs. This report covers those areas where we have identified increased risks, and highlights the need for closer monitoring and greater accountability by the Department and its program participants. Other areas of emerging risk discussed in this report largely correspond to the management challenges that we have identified for the Department, including procurement, federal student aid programs, program performance and accountability, information technology, financial management, and human capital.

Thanks to the hard work and effort by employees past and present, OIG has capably fulfilled its mission for the last 25 years. We have made a positive difference in assisting the Department in ensuring the integrity of its operations and improving its programs in order to provide the best service to the American public. And, while we take a moment to celebrate our 25th anniversary, we remain ever vigilant. We look forward to working with the 109th Congress and the Secretary in furthering our goals and achieving our mission.

John P. Higgins, Jr.
Inspector General

Activities and Accomplishments

The Office of Inspector General (OIG) for the period October 1, 2004 through March 31, 2005 continued its work to improve and protect the integrity of the programs and operations of the Department. To leverage our limited resources, OIG focuses on the programs and operations that we judge to present the greatest risk to the efficient and effective accomplishment of the Department's mission. Traditionally, this risk-based approach has resulted in the commitment of most of our resources to the very large and complex federal student aid programs.



In recent years, however, we have noticed that problems in other Department programs are demanding more of our attention. Specifically, based upon the work reported below, we have identified certain grantees, and elementary, secondary, special education and vocational education programs as exhibiting emerging risk. Our work in this area is covered in the first section of this report.

Not surprisingly, these areas of risk largely correspond to the management challenges that we have identified for the Department pursuant to the Reports Consolidation Act of 2000, P. L. 106-531. These management challenges are procurement, federal student aid programs, program performance and accountability, information technology, financial management and human capital. In the second section of this report, we highlight our most significant work this reporting period relating to the remaining management challenges. We also include in Appendix 1, our entire Management Challenges document that appeared in the Department's FY 2004 Performance and Accountability Report, dated November 12, 2004. We close the report with other activities and accomplishments, particularly our increased involvement and leadership on the President's Council on Integrity and Efficiency (PCIE.)

Detailed information on the issues and actions discussed in this report is available on our website at <http://www.ed.gov/about/offices/list/oig>.

I. EMERGING RISK: ELEMENTARY, SECONDARY AND SPECIAL EDUCATION, VOCATIONAL EDUCATION AND TRIO PROGRAMS

CERTAIN GRANTEES

We have directed and increased OIG resources in reviewing alleged waste, fraud and abuse in a number of the Department's elementary, secondary, special education, vocational education and TRIO programs. These programs are aimed at improving education and promoting educational excellence for America's children across the country and throughout our nation's territories. Below you will find a number of examples of our work in this arena, grouped by geographic location.

PUERTO RICO

We continue to identify and provide recommendations for improving fiscal and integrity issues at the Puerto Rico Department of Education (PRDE), which the Department placed under a Compliance Agreement in October 2004. During this reporting period, we

concluded three audits involving accountability and expenditures of program funding dollars.

Special Conditions For Grant Awards

As a result of the fiscal and integrity issues at PRDE, grants to PRDE are awarded with special conditions that help ensure that the grants are expended in accordance with applicable legal requirements and with appropriate fiscal accountability measures, management practices and controls. An OIG audit on repeated single audit findings for PRDE disclosed that a number of conditions were not incorporated, and we recommended that they be so for future grants. These include controls on property and equipment and cash management, and improved accounting records. The Department agreed with our recommendations and added special conditions on future PRDE grants to address the issues identified in our audit. *(ED-OIG/A02-E0016; December 15, 2004)*

Migrant Education Program

A review of PRDE's Migrant Education Program (MEP) grant determined that a significant number of students enrolled did not meet the eligibility criteria for the program, resulting in grant funds not being used for the intended purpose. Of the 171 students whose files we reviewed in our sample, not one met MEP eligibility criteria. We recommended that the Department require PRDE to return a portion of its MEP funding, and establish controls to ensure officials follow federal requirements when enrolling students in the program. We also recommended PRDE verify the eligibility of all students currently enrolled in the MEP that were not included in our sample, and return to the Department any funds received on the basis of ineligible students. In general, PRDE agreed with our findings and recommendations, and is working with the Department to prepare a corrective action plan so that MEP funds are spent in accordance with federal requirements. *(ED-OIG/A02-E0019; March 30, 2005)*

Special Education Services

We conducted an audit to determine if special education students in Puerto Rico received evaluation, therapy and transportation services that PRDE contracted and paid for with federal funds, and if PRDE followed federal and state laws and regulations in procuring special education program services. We found PRDE to be in compliance in most areas, with the exception of the Bayamón region, where PRDE approved payments for transportation services without verifying whether these services were provided to special education students. The transportation contracts awarded to that region totaled over \$5 million for July 1, 2002-June 30, 2003. Based on our findings, we made a number of recommendations regarding improving controls. While PRDE officials disagreed with the conclusion of the report, they have agreed to monitor the Bayamón region over the next several cycles and will provide additional training to the Island-wide and regional monitors. *(ED-OIG/A02-E0009; December 14, 2004)*

VIRGIN ISLANDS

In 2002, the government of the Virgin Islands (VI) and the Department entered into a comprehensive, three-year Compliance Agreement (Agreement) to develop integrated and systematic solutions to problems in managing federal education funds and programs. As the Virgin Islands Department of Education (VIDE) is designated a high-risk grantee, the

Agreement was a means of ensuring continued funding for programs to improve education for the students of VI, while establishing clear goals in four critical areas: (1) program planning, design and evaluation; (2) financial management; (3) human capital; and (4) property management and procurement. During this reporting period, we conducted an audit to evaluate VI's progress in meeting the Agreement's Year One goals, and to assess the likelihood of the VI being on target to meet the goals for Years Two and Three. We found that although the VIDE and the VI government have made progress, less than one-third of the major actions steps identified for Year One have been completed. As a result, they are not on target to meet the goals for Years Two and Three for three of the four areas listed above. VI and VIDE agreed with a number of our findings and recommendations, several of which they are currently implementing. (*ED-OIG/A02-D0028; February 15, 2005*)

PACIFIC RIM

Based on information from an OIG investigation, in January 2005, the former director of the American Samoa Department of Education pled guilty to a criminal information, charging him with one count of conspiracy to commit bribery and fraud concerning federal programs. The former director was responsible for the management and distribution of food and goods used for feeding children in the American Samoa Public School System. Evidence from our investigation showed that he and his co-conspirators devised a scheme to defraud the U.S. Territory of American Samoa, the Department, and other federal agencies of at least \$61,000 by agreeing to fraudulently award education contracts to companies in exchange for over \$9,000 in cash and goods.

NEW ORLEANS, LOUISIANA

Orleans Parish Cannot Account for Title I Funds

An audit to determine whether the Orleans Parish School Board (Orleans Parish), through the New Orleans Public Schools, properly accounted for and used Elementary and Secondary Education Act of 1965, as amended (ESEA), Title I, Part A (Title I) funds, revealed that Orleans Parish did not do so for nearly \$69.3 million of Title I funds. We recommended that the Department instruct the Louisiana Department of Education (LDE) to provide sufficient documentation to support expenditures or refund the unsupported amount to the Department. We also recommended that LDE require Orleans Parish to establish a formal management control system to ensure costs charged to Title I and other federal education grants are properly accounted for and used in accordance with applicable laws and regulations. In a memorandum, we advised the Department of the need to designate Orleans Parish a high-risk grantee and impose special conditions on current and future federal awards. LDE notified the Department that beginning July 1, 2004, it would designate Orleans Parish as high-risk. In response, the Orleans Parish Superintendent stated that he understood the seriousness of the high-risk status and intended to adhere totally and completely to all conditions, procedures and performances. (*ED-OIG/A06-E0008; February 16, 2005*)

Orleans Parish Kickback Scheme

OIG, the Federal Bureau of Investigation (FBI) and the New Orleans Police Department developed evidence that an Orleans Parish payroll clerk conspired with Orleans Parish teachers, secretaries and para-educators to submit fraudulent travel reimbursements, stipend payments and payroll checks in exchange for a kickback of 50 percent of the

illegal payments. Seven former employees of Orleans Parish have pled guilty for their involvement in the \$70,000 kickback scheme.

New Orleans Talent Search Program, Inc.

Our review of the New Orleans Talent Search Program, Inc. (NOETSP) revealed that NOETSP materially failed to comply with the Higher Education Act of 1965, as amended, specifically regulations governing the Talent Search Program, and that during the period of September 1, 1998 through December 31, 2002, did not properly account for over \$1.9 million in program funds. We made several recommendations to the Department, including a requirement that NOETSP return questioned costs of over \$1.9 million, and that the Department take appropriate action to protect future Talent Search funds. NOETSP disagreed with our findings, and submitted an explanation and various exhibits to support its position. After carefully assessing NOETSP's response, we did not change our findings or recommendations. (*ED-OIG/A06-D0015; October 21, 2004*)

OTHER FRAUD CASES IN THESE PROGRAMS

ADULT EDUCATION PROGRAM FRAUD

An OIG, FBI and Internal Revenue Service (IRS) investigation developed evidence that the former director at the Sister Clara Muhammad School in Philadelphia, Pennsylvania and her co-conspirators, including the former director of adult basic education at the Community College of Philadelphia and her son, organized a scheme to receive public funds for adult basic education courses that were not held, and for which teachers were paid without teaching. Most of the individuals involved in the conspiracy have been convicted. The former Community College director is still under indictment. Her trial was severed and has not been held. Another indictment of one of the co-conspirators was dismissed by the judge, and the U.S. Attorneys Office has not decided whether to re-indict. To date, a total of four individuals have been convicted.

VOCATIONAL/ JOB TRAINING PROGRAM FRAUD

Four former officials of the Massachusetts Career Development Institute (MCDI) were found guilty of various felony charges, including conspiracy, wire fraud, program fraud, and making false statements. Two of the officials were also found guilty of obstruction of justice charges. MCDI is a quasi private/public department of the City of Springfield, Massachusetts that receives federal grants for educational and job training programs. Our investigation revealed that the former officials engaged in a conspiracy involving "no-show" and "partial show" employees, altered timesheets and made false statements to federal agents during interviews.

FUNDS DIVERTED TO GUBERNATORIAL CAMPAIGN

A former Deputy State School Superintendent of the Georgia Department of Education (GDOE), a former Federal Programs Manager for GDOE, a former CFO of an Atlanta company that received federal education grant awards, and the former manager of a gubernatorial candidate's campaign have pled guilty and are awaiting sentencing in connection with a scheme to funnel federal grant monies through a computer consulting company into the gubernatorial candidate's 2002 campaign. One of the indicted individuals acknowledged that he and the others conspired to award contracts to a private company for the purpose of diverting those monies to the political campaign of a gubernatorial candidate, who was a former Superintendent of Georgia State Schools. At the time of the financial transactions, the contracting company and several subsidiaries

were awarded over \$500,000 in state contracts derived from federal grants for the purchase of computer licenses and services. The software and services were to be delivered to several GDOE programs, including the Atlanta Area School for the Deaf, and the Governor's Honors Program. The four individuals have pled guilty to one or more of the following charges: conspiracy, theft of funds, wire fraud, making false statements to federal officials, attempting to harass or influence a witness, or structuring of financial transactions to funnel cash contributions to political campaigns. Three others have been indicted and are awaiting trial.

II. MANAGEMENT CHALLENGES FOR THE DEPARTMENT

Pursuant to the Reports Consolidation Act of 2000, OIG identifies management challenges the Department faces. These challenges are long-term management issues that require the continued focus and commitment of the Department. By aggressively addressing these challenges, the Department can enhance program efficiency and effectiveness, eliminate serious operational problems, decrease fraud, waste and abuse, and achieve substantial savings. For this reporting period, OIG identified the Department's top management challenges as: (1) procurement; (2) federal student aid programs; (3) program performance and accountability; (4) information technology (IT); (5) financial management; and (6) human capital.

CHALLENGE: PROCUREMENT

A large portion of the Department's contract dollars are directed towards IT systems to support its diverse programs. With growing improvements in technology, the Department requires more sophisticated goods and services from outside sources in order to successfully carry out its programs. This amplifies its exposure to risk if those contracts are not properly managed. Identifying and implementing measures to contain and reduce costs through more careful spending and assessing, and making changes to contract processes are vital to the Department's ability to effectively and efficiently operate and deliver its programs and services. OIG completed a number of audits in the area of procurement to help the Department identify and eliminate risk in this area.

NEED FOR IMPROVED RECORD KEEPING

In an audit involving payments by the Department's Federal Student Aid (FSA) office to private collection agency contractors, we were unable to achieve our original objective of assessing the accuracy of payment calculations or the appropriateness of payments made due to inadequately maintained computer files. We did learn, however, that the Department made incentive payments to contractors totaling over \$900,000 that were not consistent with the terms of the task orders. Based on our findings, we recommended that the Department significantly improve internal controls over its invoice preparation process, and assure that the payments made to the contractors are in accordance with the terms of the task orders. The Department concurred with our findings. (*ED-OIG/A19-D0005; February 18, 2005*)

NEED FOR IMPROVED MONITORING

An audit reviewing an approximately \$5.9 million, cost-reimbursement contract for services provided to the Department's Institute of Education Sciences pertaining to its Educational Resources Information Center (ERIC), determined that Department staff did not effectively monitor the funds collected by the contractor for public sales of ERIC

products. As a result, the Department did not have assurance that funds received were safeguarded to the level intended. Additionally, the Department could have reduced amounts it will have to reimburse the contractor caused by losses associated with the sales of ERIC products. ERIC is a national information system providing public access to education literature and resources. *(ED-OIG/A19-E0016; January 14, 2005)*

NEED FOR IMPROVED MANAGEMENT IN IT CONTRACTS

IT is a critical component of the Department's operations, as it must be capable of ensuring the availability, confidentiality and integrity of the data each system contains. Two audits concluded this reporting period identified a need for improvement in the Department's management of critical aspects of IT contracts.

Certification and Accreditation Processes

An audit determined that Department staff did not effectively manage the certification and accreditation (C&A) contract, leading to inadequate tracking and inspection of deliverables, unauthorized instructions to the contractor, and undocumented evaluations of contractor-submitted reports. As a result, the Department paid for deliverables that were not provided, or did not meet acceptance criteria. We also found that the Performance Work Statement for the contract did not require sufficient documentation to support C&A recommendations and decisions. Based on our findings, we made several recommendations to the Department to improve its contract management process and correct the weaknesses we identified. The Department did not agree in whole with our findings, but did concur with six of our seven recommendations. *(ED-OIG/S19-E0015; December 17, 2004)*

System Development Processes

The FSA Common Origination and Disbursement (COD) system provides a platform and record for postsecondary schools to originate and distribute federal student aid funds for the William D. Ford Federal Direct Loan and Federal Pell Grant programs, and simplifies the process for schools to obtain federal student aid for students. An OIG audit revealed significant system interface issues, processing problems that impacted end users, and lengthy resolution timeframes, indicating ineffective system development processes. We also determined that the COD C&A process did not adequately identify residual system risks. Based on our findings, we made a series of recommendations to address the weaknesses identified during our evaluation, a number of which the Department concurred in, and have already taken specific actions to improve the system. *(ED-OIG/A07-E0003; January 28, 2005)*

CONTRACT PROPOSALS

In addition to the work we do to assess the Department's identification and monitoring of its high-risk contracts, OIG conducts "pre-award reviews" of proposals for a number of the Department's contracts. Over the last six months, OIG reviewed nine proposals from contractors covering five pending awards, resulting in excess of \$1.7 million in recommended reductions to proposed contract costs.



CHALLENGE: FEDERAL STUDENT AID PROGRAMS

As FSA awards approximately \$69 billion annually and oversees a loan portfolio approaching \$400 billion, we continue to direct a significant portion of our investigative and audit work to FSA programs. In 2004, the Government Accountability Office (GAO) removed the program from its high-risk category, however, due to the inherent risks of these programs, we continue to investigate and identify fraud and abuse by program participants, as well as weaknesses in program administration.

FEDERAL STUDENT AID FRAUD INITIATIVE

In December, OIG and FSA leaders and staff launched an in-house Fraud Initiative. Team members identified areas that appeared to have an elevated risk of exposure to fraud and abuse. They selected three key issues to focus on during the first phase of the project: (1) Free Application for Federal Student Aid (FAFSA) Falsification; (2) Identity Theft, and (3) School-Risk Factors. Three teams comprised of OIG and FSA experts were created to work on each individual issue. The teams will meet throughout the year to discuss each issue, assess the risks, review legal and regulatory matters, and produce work plans with timelines and milestones for addressing these issues. Additional areas of risk specific to the loan program will be evaluated later this year.

DIRECT CONSOLIDATION LOANS

The Department's Direct Consolidation Loan (DCL) program allows students to refinance any or all of their eligible outstanding federal student loans and create a single new loan. Through an audit, we learned that the Department's DCL procedures did not ensure that all of an applicant's loans would be consolidated if a loan holder failed to return a Loan Verification Certificate (LVC) timely or failed to provide all the information requested on the LVC. A loan holder has 10 business days after receiving a written request for an LVC to provide the requesting lender with a completed LVC or, if it is unable to certify, a written explanation as to the reason why the holder is unable to provide the information. We found that the Department was not enforcing this requirement and provided inappropriate guidance when loan holders failed to return timely or complete LVCs. Our findings and recommendations included a call for clearer guidance on requirements for a Federal Family Education Loan (FFEL) Program loan holder's return of a Direct Loan LVC, coordination of administrative actions to address a loan holder's non-compliance with LVC requirements, and establishment of an alternative method for consolidating loans for which an LVC has not been received. The Department concurred with our findings and recommendations. (*ED-OIG/A07-D0027; February 10, 2005*)

PROFESSIONAL JUDGMENT AUDITS

The Higher Education Act of 1965 governing disbursement of federal student aid funds includes a "professional judgment" provision that allows federal student aid administrators to make individual adjustments to override a student's dependency status (from dependent to independent), to adjust the components of a student's cost of attendance (COA), and to adjust the data elements used to calculate the student's Expected Family Contribution (EFC) in order to provide the student with additional student aid. Professional judgment can be used only on a case-by-case basis and must be documented in the student's file. During this reporting period, OIG conducted two professional judgment audits, both revealing a lack of substantive documentation that potentially resulted in the over-awarding of Pell Grant funds. An audit at Saint Louis University in Missouri determined that school under-reported the number of professional judgment actions taken in 2000-2002. And in our review of 50 student files for those years, not one contained the adequate

evidence or documentation required to substantiate the professional judgment award. (*ED-OIG/A06-D0018; February 10, 2005*) Our audit at Salem College in North Carolina revealed the school did not maintain adequate documentation to support professional judgment decisions for 12 of the 64 student files we reviewed. (*ED-OIG/A04-E0003; November 8, 2004*)

As a result of our findings in both audits, we recommended that the Department require the schools to maintain more accurate and complete records, and refund the Pell Grant funds that were over-awarded: over \$1.4 million for Saint Louis University, and \$26,000 for Salem College. We also recommended that Salem College perform a 100 percent review of professional judgment actions not included in our audit. Officials from both schools disagreed with our findings and recommendations; however we did not change them.

ELIGIBILITY ISSUE AUDITS

Our audits at American River College (ARC) in Sacramento, California, and Ivy Tech State College (Ivy Tech) campus in Gary, Indiana disclosed student and program eligibility issues with each school's disbursement of federal student aid funds for career and technical education courses, referred to as vocational education. Both of our audits revealed that the schools awarded grants to students that did not meet eligibility requirements or were enrolled in ineligible programs. Based on our findings, we recommended that the Department require ARC (*ED-OIG/A09-D0024; December 1, 2004*) to return more than \$3 million, and Ivy Tech (*ED-OIG/A05-E0013; February 25, 2005*) to return over \$1.4 million in federal student aid disbursements made to ineligible students. We also recommended that the Department direct ARC to implement internal controls to ensure the funds are allotted only to students that meet the appropriate criteria.

IDENTITY THEFT



Together with FSA, we continue our efforts to alert students to the threat of identify theft via our special campaign website, www.ed.gov/misused, that provides information on scams, suggestions for preventing identity theft, and resources on how to report identity theft involving federal education dollars. At the same time, OIG special agents continue to aggressively pursue individuals who steal FSA funds by misusing the identity of others: name, date of birth, and social security numbers.

Sentences

During this reporting period, an individual was convicted and received a 37-month prison sentence for submitting and attempting to submit thousands of fraudulent federal student loan applications to Citibank Student Loan Corporation. In pleading guilty to his offenses, the defendant admitted to submitting FFEL program applications falsely claiming that he, his brother and his mother were enrolled at a United Kingdom (U.K.) university. Our investigation further revealed that the defendant submitted and/or prepared some 2,370 FFEL loan applications requesting disbursement of approximately \$43.8 million. Each of these applications was completed using a fictitious identity.

A former financial aid director of the University of Puerto Rico (UPR), Cayey Campus was sentenced to home confinement and a year of probation for his role in a federal student aid identify theft scam. Our investigation disclosed that between 1999 and 2003, the former director prepared, certified and forged nine fraudulent FFEL loan applications using the identities of family members and UPR students. He intercepted the FFEL

disbursement checks as they were received at the UPR financial aid office, and deposited the proceeds of the checks into his personal bank account.

Guilty Pleas

A national of India pled guilty to three felony counts of student financial aid fraud, mail fraud, and making a false statement to a U.S. government agency. An investigation by OIG, FBI, and the Department of Health and Human Services OIG found that the individual, who was in the U.S. on a student visa, assumed the identity of a U.S. citizen and used it to attend undergraduate schools in Ohio and Tufts University School of Medicine in Boston. He received a medical degree from Tufts in May 2000. His scheme, which spanned eight years, resulted in federal and institutional student financial aid disbursements of approximately \$330,000.

As a result of an OIG investigation, a ring consisting of seven family members entered guilty pleas related to their use of identity theft to obtain approximately \$400,000 in federal student aid funds. Our investigation revealed their effort to use 41 identities to fraudulently obtain the funds. The conspirators completed a number of FAFSAs using their own addresses with the identities they obtained, and enrolled these individuals in on-line courses at Kirkwood Community College in Cedar Rapids, Iowa.

FRAUD BY SCHOOL OFFICIALS

LeMoyne Owen College, Tennessee

Two former employees of LeMoyne Owen College (LOC) in Tennessee and their associates have been sentenced, or have pled guilty to embezzlement or conspiracy charges, resulting from their participation in student loan kickback schemes. The former LOC employees, one an accountant and the other a part-time employee, issued \$230,000 and \$80,000 in student loan refund checks to their associates, who then paid kickbacks to the employees.

Instituto de Estetica y Belleza Marugie Inc., Puerto Rico

The owner and four corporate principals of the Instituto de Estetica y Belleza Marugie, Inc. and Marugie Beauty and Technical College, both in Puerto Rico, agreed to pay \$400,000 to settle claims that they filed false statements and claims for federal student aid Pell Grant funds. As a further stipulation, all defendants voluntarily agreed to a lifetime exclusion from holding positions with any company or entity participating in Department programs.

William Tyndale College, Michigan

An officer of William Tyndale College (WTC), pled guilty for his role in conspiring to defraud the government out of more than a half-million dollars of federal student aid funds. The officer, along with two of his colleagues, purchased a closed Computer Learning Center school in 2001 and named the school Tyndale Technical Institute (TTI). Our investigation developed evidence that the individuals conspired to use WTC's federal student aid eligibility to obtain federal student aid for TTI students, making them appear as though they were enrolled at WTC for the purpose of applying for and receiving federal

student aid through WTC. The individuals received approximately \$535,000 in federal student aid funds for TTI students through this scheme.

**FRAUD BY
PROGRAM
PARTICIPANTS**

An individual pled guilty to one count of federal student aid fraud. Our investigation, based on an FBI referral, disclosed that the individual failed to disclose significant assets on his FAFSA and received over \$32,000 in state and federal student aid at a university in California. The FBI's investigation of the student's father had disclosed a business valued at \$3,000,000, a home valued at over \$400,000 and several bank and investment accounts with a total balance of more than \$3,000,000, all in the student's name. In January, the individual was sentenced to five years probation, including six months home confinement, ordered to pay over \$31,000 in restitution and fined \$100.

Leaders of a student loan scheme pled guilty to two counts of federal student aid fraud for their role in an effort to defraud the Department of \$265,000. The leaders created a fictitious organization that purported to enroll students from the U.S. at a university in the U.K., hired an individual to recruit participants in the scheme, then directed or assisted the participants in filing federal student aid applications and promissory notes for purported enrollment in the U.K. school. The individuals were to receive over \$18,000 each, and kick back \$10,000 to the leaders. None of the recruited individuals were ever enrolled in the school. All the participants in this scheme have pled guilty.

**FRAUD BY
INDIVIDUALS
EMPLOYED BY
COMPANIES
INVOLVED IN
FEDERAL
STUDENT AID
PROGRAMS**

A former employee of a collection agency pled guilty to a one-count criminal information charging her with mail fraud. A joint OIG and FBI investigation disclosed that the former collector devised a scheme to fraudulently consolidate over \$564,000 in defaulted FFEL loans and in doing so, earned bonus compensation from her employer. She created numerous loan consolidation applications in the names of various defaulted FFEL borrowers and forged their signatures on the applications, and made fictitious entries into the company's collection history system falsely claiming contact had been made with the borrowers. The loan consolidation applications made it appear that the defaulted borrowers had entered into formal repayment agreements. The defaulted borrowers had not agreed to nor authorized the company to make any such loan consolidation arrangements.

A former debt collector was sentenced to 14 months incarceration and three years supervised probation, and was ordered to pay over \$182,000 in restitution after pleading guilty to one count of conspiracy to commit bank fraud. Our investigation developed evidence that from April 1999 to June 2000, employees of a debt collection agency specializing in collection of defaulted loans allegedly conspired to submit to a bank in another state, fraudulent applications for consolidated student loans, to fraudulently generate for themselves more than \$1 million in commissions. The alleged scheme was to misrepresent that the applicants were in repayment status on their prior loans so that they would be qualified for new bank loans backed by the Department.

A former bank employee, after pleading guilty to one count of stealing a postal money order, was sentenced to three months incarceration, three months community confinement, two months of home detention, 120 hours of community service, three years supervised release and was ordered to pay over \$67,000 in restitution and \$100 special assessment. The individual was previously indicted on intent to defraud the U.S. with altered money

orders issued by the U.S. Postal Service. The money orders were student borrower loan payments mailed to the Department's collections lockbox at a bank in Atlanta.

CONGRESSIONAL HEARINGS ON FRAUD AND ABUSE IN FSA PROGRAMS



Testifying before the committee

On March 1st, Deputy Inspector General Thomas Carter testified before the U.S. House Committee on Education and the Workforce on the issue of fraud and abuse in all sectors of schools participating in the federal student aid programs. Mr. Carter informed the Committee that based on our audits, inspections and investigations, there remains a need for diligent and effective oversight by all three of the entities responsible for the integrity of these programs: (1) state licensing agencies, (2) the accrediting agencies, and (3) the Department. We found that these entities are not operating as effectively as they could be. For example, we have found that the state policies for licensing and evaluating schools vary significantly. We have found that accrediting agencies do not apply consistent and clear standards for measuring program length or student achievement. And we have found inconsistent monitoring and oversight by the Department. A copy of Mr. Carter's full testimony is available on our website at: <http://www.ed.gov/about/offices/list/oig/audit/rpts/stmt032005.pdf>

CHALLENGE: PROGRAM PERFORMANCE AND ACCOUNTABILITY

Program measures and reliable data are necessary to determine whether programs are accomplishing their purpose. Without this accountability, the Department cannot reliably assess how, and how well, the funds it dispenses are used. The results of our initial audits into the diverse programs associated with the NCLB confirm the need for the Department to ensure accurate and reliable accounting by program participants.

NO CHILD LEFT BEHIND



Public School Choice & Supplemental Education Services

Our first audit to assess a state's compliance with the Public School Choice and Supplemental Education Services (SES) provision of the NCLB (ESEA, Title I, Part A) was launched with the Indiana Department of Education (IDE). Our audit revealed that while IDE did not have an adequate process in place to monitor local educational agency (LEA) compliance with the Public School Choice and SES provisions of ESEA, it has developed policies and procedures that could improve its process for reviewing LEAs beyond the 2003-2004 school year. In part, as a result of IDE's inadequate monitoring process, five of six LEAs reviewed did not comply fully with the Public School Choice and SES provisions of the ESEA and the implementing regulations. We recommended that the Department require IDE to provide better instructions to LEAs, and monitor IDE's implementation of the planned corrective action during the 2005 school year. IDE concurred with our finding and recommendations. (*ED-OIG/A05-E0014; February 18, 2005*)

Unsafe School Choice Option

In what we anticipate to be the first of a number of similar audits across the country, we issued a report on California's compliance with the Unsafe School Choice Option (USCO) provision of the NCLB (ESEA, Title IX.) Our audit found that while the California

Department of Education (CDE) adequately implemented the provision at the state level, it was not adequately implemented at the four LEAs reviewed in our audit. The four LEAs reviewed did not report all USCO incidents to the CDE and the LEAs interpreted certain aspects of the policy differently than CDE. Our recommendations to the Department included that it require CDE to ensure that the four LEAs reviewed have taken appropriate corrective actions. We also recommended that CDE take steps to ensure USCO incidents are accurately reported to CDE, and that CDE confirm definitions and make that information available to LEAs. CDE concurred with our findings and recommendations. *(ED-OIG/A09-E0025; March 24, 2005)*

Accurate Allocation of Funds

An audit of the Georgia Department of Education (GDOE) allocation of ESEA Title I, Part A funds revealed that the agency did not maintain adequate supporting documentation of how it determined the amount of set-aside funds and funds allocated to LEAs. We also learned that GDOE's Title I allocation guidelines need to be updated to comply with regulations, and that its procedures are not adequate for reviewing Title I-related findings identified during monitoring visits and audits of LEAs. We also found the source documentation for one LEA reviewed did not support the poverty count data that is used to allocate Title I funds to schools. We recommended that the Department require the GDOE to implement controls to maintain and safeguard documentation for setting aside Title I funds and making final Title I grant allocations to LEAs. We also recommended that GDOE develop up-to-date written procedures and guidelines. In addition, we recommended that GDOE require the Atlanta Public Schools to recalculate its Title I allocations for the 2002-2003 school year, and make reparations to the appropriate schools that did not receive the correct amount of Title I funds. GDOE concurred with the findings and stated that corrective action would be implemented. *(ED-OIG/A04-E0002; November 8, 2004)*

Supplementing Program Funds

An audit at the Ohio Department of Education (ODE) revealed that the agency and LEAs reviewed complied with the maintenance of effort and supplement not supplant requirements of the ESEA, thus ensuring the schools are using these funds to enhance operational programs already funded by the state, rather than being used as the sole basis of funding so that the state funds can be used elsewhere. Our audit, covering the period July 1, 2003 through June 30, 2004, disclosed that ODE and the six selected LEAs we audited generally complied with the law and applicable regulations governing maintenance of effort and supplement not supplant. *(ED-OIG/A05-E0027; January 11, 2005)*

Accounting Practices

Audits conducted at the Caddo Parish School District (Caddo Parish) and the Beauregard Parish School District (Beauregard Parish) in Louisiana found that both districts did not properly account for a combined \$1 million-plus in ESEA, Title I, Part A funds. Caddo Parish, in general, had accounted for and used funds properly; however, it did not properly account for over \$450,000 of Title I salary and fringe benefits costs for the fall term of the 2001-2002 school year expended by all of its six targeted assistance schools. Beauregard

Parish did not have the required semi-annual certifications to support over \$500,000 in expenditures for targeted assistance Title I employees for the 2001-2002 school year. We recommended that the Department instruct LDE to require Caddo Parish and Beauregard Parish to provide documentation to support the expenditures, or refund those amounts to the Department. For Caddo Parish, LDE disagreed with our findings. (*ED-OIG/A06-E0012; December 7, 2004*) For Beauregard Parish, LDE concurred with two of our findings and disagreed with two. After reviewing their comments, we did not change our findings or recommendations. (*ED-OIG/A06-E0017; November 22, 2004*)

Consolidating Funds for School-Wide Programs

Our initial audit into state compliance with the ESEA provision requiring states to encourage schools to consolidate federal, state, and local funding for school-wide programs so that schools have more flexibility in how they use those funds, revealed that the Missouri Department of Elementary and Secondary Education (DESE) has not encouraged schools to consolidate funds. ESEA also stipulates that the state must eliminate any fiscal or accounting barriers for schools to consolidate funds for school-wide programs. Our review determined that there were no barriers present in the DESE system preventing them from complying with this provision. Based on our findings, we recommended that the Department require DESE to encourage local educational agencies and schools to consolidate funds by providing information on the potential benefits of doing so, and provide guidance on how to consolidate funds, and other measures DESE deems appropriate. DESE agreed that it had not encouraged consolidating funds in school-wide programs. (*ED-OIG/A07-E0018; December 20, 2004*)

TRIO PROGRAMS

The TRIO programs award grants for services are geared to help needy students prepare for advanced education, particularly low income and first-generation college students. Established in 1964 as the "Upward Bound" program, TRIO now provides awards for multiple programs, including four that were the subject of OIG audits this reporting period: Talent Search, Upward Bound, Upward Bound Math and Science, and Student Support Services.

Talent Search Participant Numbers

An audit determined that many grantees over-stated their funded target populations of Talent Search participants. Our review of the Department's TRIO office and issues identified by six Talent Search audits revealed that the TRIO office did not maintain sufficient internal controls over Talent Search participant numbers because it did not properly maintain the records and procedures needed to readily determine the correct number of participants planned or provide the monitoring and policy guidance needed to ensure accurate reporting of participants served. We recommended to the Department that changes be made to the grant award process, including improvements in record-keeping as well as enhanced monitoring and policy guidance to improve the accuracy of Talent Search participant numbers. The Department indicated that action has been taken to address each of the recommendations. (*ED-OIG/A07-E0009; February 16, 2005*)

TRIO Programs at University of Illinois-Chicago

Following a 2003 audit of a TRIO program at the University of Illinois at Chicago (UIC), we conducted audits of three additional TRIO programs at UIC during this reporting period: the Upward Bound (UB) project (*ED-OIG/A05-D0041; December 20, 2004*), the Upward Bound Math and Science (UBMS) project (*ED-OIG/A05-E0018; December 17, 2004*), and the Student Support Services (SSS) project (*ED-OIG/A05-E0002; December 15, 2004*.) In each case, we determined that UIC did not have documentation supporting the achievements in each program, did not appropriately account for grant funds, could not support all of its expenditures, and charged unallowable costs to each grant. Based on the significance of the findings, we recommended that the Department require UIC to return over \$750,000 of these TRIO funds, and take appropriate action to protect disbursement of future TRIO funds. UIC did not agree with all of our findings and recommendations, but did agree to return over \$34,000 in UB/UBMS funding.

**INDIVIDUALS
WITH
DISABILITIES
EDUCATION ACT**

OIG reviewed a number of Individuals with Disabilities Education Act (IDEA) programs and services in schools operated by the Bureau of Indian Affairs (BIA) to determine if IDEA funds were being administered in accordance with applicable laws and regulations. The schools involved were: Circle of Nations in North Dakota; two schools in the Eastern Navajo Nation, New Mexico; the Turtle Mountain Elementary and Middle School, and Turtle Mountain High School in North Dakota. We identified a recurring theme with each of these audits: the schools could not demonstrate they provided services and programs in accordance with students' individualized education programs to a majority of the students in our samples (ranging from 53 percent to 97 percent.) Based on our findings, we recommended that the Department instruct BIA to obtain assurance from the schools that the IDEA, Part B funds each received (ranging from \$1 million to \$1.8 million) were used in accordance with applicable laws and regulations, that all of the schools involved document all special education and related services provided to each current student with disabilities, and develop a progress report to inform parents of their child's progress. We also recommended that the schools submit corrective action plans to ensure that the noncompliance areas we identified are corrected. BIA officials agreed with our findings and recommendations for Eastern Navajo (*ED-OIG/A06-E0005; December 9, 2004*), Turtle Mountain High School (*ED-OIG/A06-E0010; December 13, 2004*), and Turtle Mountain Elementary and Middle School (*ED-OIG/A06-E0011; December 13, 2004*.) They did not agree with our Circle of Nations assessment that the school did not have procedures in place to demonstrate that services were being provided to children with disabilities. (*ED-OIG/A06-E0002; December 9, 2004*)

**DEPARTMENT'S
AUDIT FOLLOW-
UP PROCESS
WITH EXTERNAL
AUDITEES**

We examined the effectiveness of the Department's audit follow-up process to ensure that external auditees implemented corrective actions as a result of OIG audits. We found that the Department's audit follow-up system was not always effective. We determined that the Office of the Chief Financial Officer (OCFO) Post Audit Group (PAG), did not fulfill its responsibility to ensure that Principal Office (PO) Action Officials had systems in place to follow-up on corrective actions, or monitor the Department's compliance with Office of Management and Budget (OMB) Circular A-50, and could not ensure the overall effectiveness of the Department's audit resolution and follow-up system. In total, we found that audit follow-up activities were not effective for 17 of the 46 audits reviewed. As a result, the Department did not have assurance that requested corrective actions were completed for 40 of the 239 recommendations reviewed. We also found that PO staff

closed some audits prior to completion of corrective actions. As a result, PAG was no longer tracking audits for which all corrective actions had not been completed, and these audits were underreported to Congress. The Department generally concurred with our findings and most of the recommendations. *(ED-OIG/A19-D0007; March 31, 2005)*

CHALLENGE: INFORMATION TECHNOLOGY

Work concluded this reporting period identified improvements that are necessary for the Department to ensure its systems' security and to meet federal government as well as Department goals.

FISMA

The Federal Information Security Management Act of 2002 (FISMA) requires the Department to conduct an annual program review to assess the effectiveness of its overall information IT security. Our independent evaluations of agency-wide as well as PO-specific information security plans, programs and practices determined that the Department has not fully implemented an agency-wide information security plan and program in accordance with FISMA. We made a number of recommendations to the Department on improving its IT security plans, programs, and practices, and for addressing the security weaknesses identified during our review. Our recommendations were aimed at ensuring that the Department's information resources are consistently and adequately protected from unauthorized disclosure, disruption, modification, or destruction. The Department generally concurred with the findings, but did not concur with our conclusion regarding whether certain weaknesses identified constitute a significant deficiency in the Department's information security program.

COD SYSTEM

In 2002, FSA launched the COD system -- integrating Pell and Direct Loan processes, offering schools easy access to accurate and integrated student and program records. Our 2004 audit determined that the contractor has not implemented an effective software development process to ensure that the COD solution is fully meeting its system integration and customer service improvement goals. We also determined that the COD C&A process did not adequately identify residual system risks, and that Department officials lacked access to information essential for developing and supporting their risk assertions at the time of formal system certification and accreditation. We made a number of recommendations to the Department on improving COD life cycle methodology, periodically performing network vulnerability scans on the COD as well as other Department systems, and identifying system security risks that may impact the safe operation of the system. The Department concurred with all findings and recommendations. *(ED-OIG/A11-D0004; November 5, 2004)*

CHALLENGE: FINANCIAL MANAGEMENT

Financial accountability is inextricably linked to program integrity and effectiveness. Without accurate and timely financial information, the Department cannot reliably assess how, and how well, the billions of dollars in education program and operational funds it disburses and spends are used.

FINANCIAL STATEMENT AUDITS

We transmitted final audit reports covering the Department's and FSA's FY 2004 comparative financial statements ahead of the November 15 due date. Ernst & Young, LLP, Certified Public Accountants (E&Y), conducted the audits that we monitored to ensure compliance with Government Auditing Standards and their timely completion. Both the Department and FSA earned an unqualified opinion on their comparative financial statements. The Report on Internal Control for both noted reportable conditions covering credit reform estimation and financial reporting processes, and controls surrounding information systems. The Report on Compliance with Laws and Regulations for both entities noted that E&Y's testing disclosed no instances of noncompliance, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA), that are required to be reported, but did note that both 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 information systems.

CONGRESSIONAL REQUEST

During this reporting period, OIG provided requested information to the Education and the Workforce Committee of the U.S. House of Representatives. Chairman John Boehner asked OIG for an official accounting of Department funding that is returned to Treasury after having lapsed. OIG staff provided Chairman Boehner with information regarding Department budget authority that was canceled in FY 2002 and FY 2003 and is no longer available for obligation or expenditure for any purpose. Similar information about FY 2004 cancellations was also provided to Chairman Boehner after final executed budget information became available for FY 2004.

CHALLENGE: HUMAN CAPITAL

Mirroring a government-wide trend, approximately 33 percent of the Department's employees will be eligible for retirement in 2006, signaling the potential for significant loss of information and knowledge about Department programs and operations. The President's Management Agenda (PMA) recognized the importance of capturing the knowledge and skills of retiring employees, and it also acknowledged the importance of knowledge management (KM) generally as a part of an effective strategy geared towards generating, capturing and disseminating knowledge and information within an organization. GAO has identified specific ways in which KM can assist human capital management, including supporting matrix management and coordination across an organization, supporting knowledge sharing and enhanced professional development, and improving recruitment and retention.

In September 2004, the Department released its Human Capital Plan. While the plan references the Office of Personnel Management's (OPM) Human Capital Standards for Success, our review determined that the Department has yet to articulate how KM will be used as a tool by the Department to support the plan, particularly in the areas of workforce and succession planning. Based on our review of the Department's KM initiatives and best practices from other federal agencies, we recommended that the Department articulate a KM strategy, and implement action steps identified by the Department, specifically sharing and promoting successful KM initiatives already underway. (*ED-OIG/113-E0022; January 12, 2005*)

III. OTHER ACTIVITIES AND ACCOMPLISHMENTS

NONFEDERAL 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 30 QCRs of audits conducted by 30 different IPAs, or offices of firms with multiple offices. We concluded that 11 (37 %) were acceptable, 14 (47%) were technically deficient, and 5 (16%) were substandard. We also made referrals of four IPAs to appropriate State Boards of Accountancy and the American Institute of Certified Public Accountants for possible disciplinary action. The four referrals were made for substandard work based on QCRs reported in a prior semiannual report.

NATIONAL SINGLE AUDIT SAMPLING PROJECT

OIG is leading an intergovernmental project to accurately assess the quality of audits conducted under the Single Audit Act (Public Law 104-106), using statistical sampling. During this period, the core work of the project began with a three-day training session conducted in October 2004 for staff who are conducting QCRs of 208 audits selected for review in the project. The staff then began conducting the Project QCRs, which will continue through October 2005.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

Audit Committee

The IG was appointed Chairman of the President's Council on Integrity and Efficiency (PCIE) Audit Committee in the summer of 2004. There were a number of activities successfully coordinated during this reporting period, and we report on those items below.

Management's Responsibility for Internal Control

The Audit Committee assisted OMB in its effort to revise OMB Circular A-123 to strengthen the requirements for management's responsibility to maintain effective internal control over financial reporting and to annually assess its effectiveness. The circular was issued in December 2004 and will be in effect for FY 2006. In his capacity as Chair, IG John P. Higgins, Jr., testified before the House Subcommittee on Government Management, Finance, and Accountability on the revised circular and the importance of effective internal control over financial reporting. Mr. Higgins' full testimony is available on our website at: <http://www.ed.gov/about/offices/list/oig/audit/rpts/stmt022005.pdf>

Inspector General Auditor Training Institute

The Audit Committee oversees the Inspector General Auditor Training Institute (IGATI.) During this period, the Committee approved IGATI's move to new space, where it will be co-located with other PCIE training academies. The move will save an estimated \$140,000 over the prior lease. Under the direction of the Committee, the Federal Audit Executive Council established a board to review the curriculum of IGATI to assure that it is meeting the needs of the Inspector General (IG) community.

PCIE/GAO Financial Audit Roundtable

The Audit Committee organized and hosted the second PCIE/GAO Roundtable in March, to discuss issues and share experiences associated with the FY 2004 financial statement audit process. FY 2004 was the first year that both the due date for agency audited

financial statements was accelerated to 45 days after year-end, and for auditing the new closing package financial statements that are prepared to facilitate the preparation of the financial statements of the U.S. Government. Participants included representatives from the IG community, the certified public accounting community, GAO, OMB, and Department of Treasury.

PCIE IT ROUNDTABLE

OIG became the sponsor of the PCIE IT Roundtable in June 2004. The PCIE IT Roundtable is an inter-agency forum to share knowledge, procedures, and techniques to aid in facilitating effective IT audits, evaluations, and investigations by IGs, and providing a vehicle for the expression of the IG community's perspective on government-wide IT operations. The Roundtable met in November 2004 to discuss the fast moving OMB-sponsored Lines-of-Business (LoB) electronic government initiatives and FY 2004 FISMA results. The Roundtable met a second time in February 2005 to discuss recent trends in the cyber world. These topics included federal prosecution of phishing cases, peer-to-peer (P2P) Networks, and issues relating to authentication of electronic evidence.

During this report period, PCIE IT Roundtable members also developed, circulated, and completed a ten question FISMA Survey. While the specific results from an agency or department were not published, a list of all participating agencies or departments is a part of the results. The survey identified areas of concern and should serve as feedback to OMB with regards to this year's upcoming FISMA reporting directions.

INVESTIGATIONS PEER REVIEWS

In November 2002, the U.S. Congress granted special agents assigned to the various OIGs across the government statutory law enforcement authority. OIG special agents previously exercised law enforcement through a deputization program with the U.S. Marshal's Service. As part of the grant of statutory law enforcement authority, Congress required the IG community to develop and implement an external review process to monitor and evaluate the exercise of this authority. Peer reviews would ensure the OIGs have adequate internal controls for individuals who exercise statutory law enforcement.

Agents from the Small Business Administration OIG evaluated our Investigations Services. We did very well in our first-ever peer review. The written report, which goes to the U.S. Attorney General, stated that the Department's OIG Investigative Services is in full compliance with no findings. OIG, in-turn, conducted its first-ever peer review of the Department of Energy OIG.

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		1
5(a)(3)	Uncompleted Corrective Actions		
	Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	1	20
5(a)(4)	Matters Referred to Prosecutive Authorities		
	Investigation Services Cumulative Actions (October 1, 2004 to March 31, 2005)	7	33
	Statistical Profile	8	38
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	21
	Other OIG Reports on Department Programs and Activities	3	25
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	26
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	27
5(a)(10)	Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period		
	Unresolved Reports Issued Prior to October 1, 2004	6	27
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 Semiannual Reports 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
					Open	Closed	
Section 5(a)(3) of the Inspector General 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.							
NEW AUDITS SINCE LAST REPORTING PERIOD							
Federal Student Aid (FSA)							
A05-D0001	Audit of Educational Credit Management Corporation's Administration of the Federal Family Education Loan Program Federal and Operating Fund (SAR 46, pgs. 7 & 8)	3/20/03	2/27/04	\$103,000,000 (See note 1)	5	2	8/30/05
A05-D0010	Oversight Issues Related to Guaranty Agencies' Administration of the Federal Family Education Loan Program Federal and Operating Funds (SAR 47, pg. 2)	7/31/03	2/25/04		3	2	9/30/06
A11-C0010	Review of Contingency Planning for Select U.S. Department of Education Information Systems - Federal Student Aid (SAR 47, pg. 9)	9/30/03	2/19/04		0	4	*
Office of the Chief Financial Officer (OCFO)							
A17-D0007	Annual Audits of the U.S. Department of Education's Financial Statements for Fiscal Years 2003 and 2002 (SAR 48, pg. 17)	11/14/03	2/2/04		0	8	*
A19-C0004	Audit of Funds Not Recovered Due to the Statute of Limitations (See note 2) (SAR 48, pg. 17)	1/6/04	2/26/04		1	13	5/31/05
Office of the Chief Information Officer (OCIO)							
A11-D0003	Department of Education's Implementation of FISMA (SAR 47, pg. 9)	9/22/03	1/20/04		0	10	*
A11-C0008	Department of Education's Implementation of GISRA Year 2 (SAR 45, pg. 3)	9/16/02	5/28/03		0	26	*
Office of Management (OM)							
A19-C0005	Audit of the Accuracy and Completeness of Personnel Data (SAR 48, pg. 18)	11/12/03	3/1/04		0	9	*
Office of Postsecondary Education (OPE)							
A09-C0014	Office of Postsecondary Education, Accrediting Agency Evaluation Unit's Review of Selected Accrediting Agency Standards and Procedures (SAR 47, pg. 2)	7/23/03	10/31/03		6	7	7/31/05
AUDITS REPORTED IN PREVIOUS SEMIANNUAL REPORTS							
Federal Student Aid (FSA)							
A05-A0025	Great Lakes Higher Education Guaranty Corporation's Administration of the Federal Family Education Loan Program Federal and Operating Funds (SAR 42, pg. 22)	3/30/01	1/31/02		3	4	12/30/05

Table 1: Recommendations Described in Previous Semiannual Reports 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
					Open	Closed	
Office of the Chief Financial Officer (OCFO)							
A03-B0018	Audit of the U.S. Department of Education's Discretionary Grant Monitoring Process (SAR 44, pg. 3)	10/24/01	3/26/02		1	1	9/30/05
* Closure of audit was not completed by the Department by the end of reporting period (3/31/2005). Note 1 - Department has recovered the excess reserve funds on 2/10/2004 in the amount of \$103,000,000. Note 2 - We identified \$7,383,859 in one-time Better Use of Funds for audit control number A19-C0004.							

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2004 to March 31, 2005)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
Section 5(a)(6) of the Inspector General Act of 1978 as amended requires a listing of each report completed by OIG during the reporting period.					
AUDIT REPORTS					
Federal Student Aid (FSA)					
A04-E0003	Review of Student Enrollment, Professional Judgment Actions, and Dependency Overrides at Salem College	11/8/04	\$26,400		3
A04-E0008	Review of Master Promissory Note Process for Federal Family Education Loan and Direct Loan	3/28/05			None
A05-E0013	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	2/25/05	\$1,645,160		3
A06-D0018	Audit of Saint Louis University's Use of Professional Judgment for the Two-Year Period from July 2000 through June 2002	2/10/05	\$1,458,584		6
A07-D0027	Audit of Direct Consolidation Loans (<i>OPE also designated as action official</i>)	2/10/05			4
A07-E0003	Audit of the Department's Contract for the COD System	1/28/05			8
A09-D0024	American River College's Compliance with Student Eligibility Requirements for Title IV Student Aid Programs	12/1/04	\$3,024,665		3
A11-D0004	Audit of Federal Student Aid's Common Origination and Disbursement System (<i>OCFO and OCIO also designated action officials</i>)	11/5/04			6
A17-E0007	AUDITED FINANCIAL STATEMENTS U.S. Department of Education Federal Student Aid Years Ended September 30, 2004 and 2003	11/12/04			6
A19-D0005	Audit of the Department of Education's payments to private collection agency contractors (<i>OCFO also designated as action official</i>)	2/18/05			8

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2004 to March 31, 2005) (Cont.)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
Office of the Chief Financial Officer (OCFO)					
A02-D0028	The Virgin Islands Is at Risk of Not Meeting the Goals of the September 2002 Compliance Agreement	2/15/05			20**
A02-E0016	Puerto Rico Department of Education's Repeated Single Audit Findings	12/15/04			2
A05-D0041	University of Illinois at Chicago's Upward Bound project (<i>OPE also designated as action official</i>)	12/20/04	\$182,866	\$40,191	8
A05-E0002	Audit of the University of Illinois at Chicago's Student Support Services program (<i>OPE also designated as action official</i>)	12/15/04	\$5,108	\$254,942	6
A05-E0018	University of Illinois at Chicago's Upward Bound Math and Science project (<i>OPE also designated as action official</i>)	12/17/04	\$4,102	\$270,391	7
A06-D0015	New Orleans Educational Talent Search Program, Inc. (<i>OPE also designated as action official</i>)	10/21/04	\$1,937,980		10
A17-E0006	AUDITED FINANCIAL STATEMENTS U.S. Department of Education Years Ended September 30, 2004 and 2003	11/12/04			6
A17-E0010	Financial Statement Audit of the Fiscal Year 2004 U.S. Department of Education Special Purpose Financial Statements	11/18/04			None
A19-D0007	Audit of the Department of Education's Followup Process for External Audits	3/31/05			10
A19-E0016	Audit of the Department of Education's Monitoring of the Educational Resources Information Center Contract (<i>IES also designated as action official</i>)	2/9/05			4
Office of the Chief Information Officer (OCIO)					
A11-E0002	Department of Education's Implementation of FISMA - Fiscal Year 2004 (<i>OCFO also designated as action official</i>)	10/6/04			12
Office of the Deputy Secretary (ODS)					
A09-E0014	Departmental Actions to Ensure Charter Schools' Access to Title I and IDEA Part B Funds (<i>OESE and OSERS also designated as action official</i>)	10/26/04			6
Office of Elementary and Secondary Education (OESE)					
A02-E0019	Puerto Rico Department of Education's Migrant Education Program	3/30/05	\$43,824		5
A04-E0002	Georgia Department of Education's Administration of Title I, Part A of the Elementary and Secondary Education Act of 1965	11/8/04			8
A05-E0014	Audit of the Indiana Department of Education's Compliance with Title I, Part A, of the Elementary and Secondary Education Act of 1965, as Amended by the No Child Left Behind Act of 2001, Public School Choice and Supplemental Educational Services Provisions for the 2003-2004 school year that began July 1, 2003 (<i>OII also designated as action official</i>)	2/18/05			2

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2004 to March 31, 2005) (Cont.)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
A05-E0027	Audit of the Ohio Department of Education and Selected Local Educational Agencies	1/11/05			None
A06-E0008	Audit of the Title I Funds Administered by the Orleans Parish School Board for the Period July 1, 2001, through December 31, 2003	2/16/05		\$73,936,273	7
A06-E0012	Audit of the Title I Funds Administered by the Caddo Parish School District, for the Period July 1, 2001, through December 31, 2003	12/7/04		\$488,314	1
A06-E0017	Title I Funds Administered by the Beauregard Parish School District, for the Period July 1, 2001, through December 31, 2003	12/16/04		\$540,443	5
A07-E0018	Audit of the Missouri Department of Elementary and Secondary Education's Administration of Provisions Under Title I of the Elementary and Secondary Education Act of 1965 Relating to Consolidating Funds in Schoolwide Programs	12/20/04			2
Office of Innovation and Improvement (OII)					
A03-E0009	Audit of the U.S. Department of Education's Pre-Award Activities for the Unsolicited Grant to the Broad Foundation for the School Information Partnership	12/20/04			3
Office of Management (OM)					
A19-D0008	Audit of the Department's Management of the Federal Employees' Compensation Act Program	3/30/05	\$14,366		14
Office of Postsecondary Education (OPE)					
A07-E0009	Audit of the Talent Search Program at the U.S. Department of Education	2/16/05			4
Office of Safe and Drug-Free Schools (OSDFS)					
A09-E0025	California Department of Education's Compliance with the Unsafe School Choice Option Provision	3/24/05			7
Office of Special Education and Rehabilitative Services (OSERS)					
A02-E0009	Puerto Rico Department of Education's Special Education Program Services	12/14/04		\$5,935,988	3
A06-E0002	Audit of the Individuals with Disabilities Education Act, Part B Requirements at Circle of Nations School for the Period July 1, 2001, through September 30, 2003	12/9/04		\$1,554,466	5
A06-E0005	Audit of the Individuals with Disabilities Education Act, Part B Requirements at Eastern Navajo Agency for the Period July 1, 2001, through September 30, 2003	12/9/04		\$1,826,655	5
A06-E0010	Audit of the Individuals with Disabilities Education Act, Part B Requirements at Turtle Mountain Community High School for the Period July 1, 2001, through September 30, 2003	12/13/04		\$1,064,770	5
A06-E0011	Audit of the Individuals with Disabilities Education Act, Part B Requirements at Turtle Mountain Elementary and Middle Schools for the Period July 1, 2001, through September 30, 2003	12/13/04		\$1,286,403	5

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2004 to March 31, 2005) (Cont.)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
Office of the Under Secretary (OUS)					
S19-E0015	Management of the Department's Certification and Accreditation Contract (<i>OCFO, OCIO, and OM also designated as action officials</i>)	12/17/04			7
Other Federal Entity					
A17-E0009	Audit of the Selective Service System's Compliance with Certain Federal Acquisition Regulations Provisions	11/5/04			5
ALTERNATIVE PRODUCTS					
Office of the Chief Financial Officer (OCFO)					
F02-E0028	Memorandum of Results of Preaward Audit Services Performed Relating to the "Evaluation of Reading Comprehension Interventions," Contract Proposal, Contract Number ED04C00112 (<i>Pre-Award Audit Service</i>)	12/13/04			**
F03-E0024	Memorandum of Results of Pre-Award Audit Services Performed Relating to the Evaluation of the Impact of Explicit Literacy Instruction on Adult ESL contract proposal (<i>Pre-Award Audit Service</i>)	10/8/04			**
F03-E0025	Memorandum of Results of Pre-Award Review Audit Services Performed Relating to Evaluation of the Impact of Teacher Induction Programs contract proposal (<i>Pre-Award Audit Service</i>)	11/12/04			**
F03-E0027	Memorandum of Results of Pre-Award Audit Services Performed Relating to the Pre-Elementary Education Longitudinal Study, Phase Two Proposal dated September 10, 2004 (<i>Pre-Award Audit Service</i>)	10/26/04			**
F03-F0005	Memorandum of Results of Pre-Award Audit Services Performed Relating to the EDNet Support Services Contract, RFQ No. ED-04-Q-0013 (<i>Pre-Award Audit Service</i>)	3/31/05			**
F03-F0006	Memorandum of Results of Pre-Award Audit Services Performed Relating to the EDNet Support Services Contract, RFQ No. ED-04-Q-0013 (<i>Pre-Award Audit Service</i>)	3/31/05			**
F04-F0001	Memorandum of Results of the Pre-Award Pricing Analysis and Application of Agreed-Upon-Procedures Relating to Contract Proposal Submitted under Solicitation #ED-04-Q-0013 (RFQ for EDNet Management Support Services (<i>Pre-Award Audit Service</i>))	3/22/05			**
F04-F0002	Memorandum of Results of the Pre-Award Pricing Analysis and Application of Agreed-Upon-Procedures Relating to Contract Proposal Submitted under Solicitation #ED-04-Q-0013 (RFQ for EDNet Management Support Services (<i>Pre-Award Audit Service</i>))	3/22/05			**

Table 2: OIG Audit Services Reports on Department Programs and Activities (October 1, 2004 to March 31, 2005) (Cont.)

Report Number	Report Title	Date Issued	Questioned Costs*	Unsupported Costs	No. of Recommendations
F07-E0028	Preaward Review of Contract Proposal Submitted under Solicitation No. ED-04-R-0014, "Front End Business Integration (<i>Pre-Award Audit Service</i>)	10/13/04			**
F09-F0006	Memorandum of Results of Pre-Award Audit Services Performed Relating to the EDNet Management Support Services under Request for Quotation #ED-04-Q-0013 (<i>Pre-Award Audit Service</i>)	3/28/05			**
A17-E0012	Federal Intragovernmental Activity and Balances Agreed-Upon Procedures Report (<i>Attestation Report</i>)	12/2/04			
Office of Elementary and Secondary Education (OESE)					
X05-E0019	Risk Areas Associated with Grantees' Administration of 21 st Century Community Learning Centers (<i>Management Information Report State and Local No. 05-01</i>)	10/22/04			***
Office of the Under Secretary (OUS)					
S17-F0002	Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2004 Drug Control Funds, dated January 26, 2005 (<i>Attestation Report</i>)	1/28/05			
<p>* For purposes of this schedule, questioned costs include other recommended recoveries.</p> <p>** Audit A02-D0028 identified \$95,883 in one-time better use of funds (BUF). In addition, Table 2 excludes the monetary adjustments recommended in pre-award audit reports issued during this six-month reporting period. Since the results of pre-award audits are used in the contract negotiation process, the contents of these audit reports are considered to be confidential.</p> <p>*** Management Information Report X05-E0019 contained seven "suggestions" that are not tracked in ED/OIG's Audit Tracking System (ATS).</p> <p>DESCRIPTION OF ALTERNATIVE PRODUCTS</p> <p>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.</p> <p>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.</p> <p>Interim audit memoranda/letters are used to notify the Department management or the audited entity of a serious and urgent condition or issue identified during an on-going audit assignment when there is a strong likelihood that waiting until the audit report's issuance would result in the loss of an opportunity to prevent or curtail significant harm to the the Department interest.</p> <p>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.</p> <p>Pre-award audit services are provided by OIG in response to requests by the Department contracting or program office staffs. These normally include making as assessment of an offeror's accounting system and performing field pricing support.</p> <p>Five interim audit memoranda were issued but are not on the OIG website and are not publicly distributed.</p>					

Table 3: Other OIG Reports on Department Programs and Activities (October 1, 2004 to March 31, 2005)

Report Number	Title of Report	Date Issued
Section 5(a)(6) of the Inspector General Act of 1978 as amended requires a listing of each report completed by OIG during the reporting period.		

Table 3: Other OIG Reports on Department Programs and Activities (October 1, 2004 to March 31, 2005) (Cont.)

Report Number	Title of Report	Date Issued
Federal Student Aid (FSA)		
L05-E0020	Guaranty Agencies' Review of Lender Due Diligence (<i>SFA Alert Memorandum 05-01 - OPE also designated as action official</i>)	12/22/04
Office of the Chief Financial Officer (OCFO)		
L06-D0023	Classifying Dallas Independent School District and National Children's Educational Reform Foundation as "High-Risk" (<i>Alert Memorandum State and Local No.05-01</i>)	11/17/04
Office of the Chief Information Officer (OCIO)		
I13-E0023	Review of the Department's Information Technology Shadow Investments (<i>Inspection Alert Memo</i>)	10/27/04
Office of the Deputy Secretary (ODS)		
L02-F0001	The Department Should Designate New York City Department of Education "High Risk" and Consider Placing Special Conditions on Grants (<i>Alert Memorandum State and Local No. 05-02</i>)	12/13/04
Office of Management (OM)		
I13-E0022	Review of the Department's Knowledge Management Initiatives and Best Practices from Other Federal Agencies (<i>Inspection Memorandum</i>)	1/12/05
Office of Postsecondary Education (OPE)		
L07-E0013	North Central Association Commission on Accreditation and School Improvement (<i>SFA Alert Memorandum 05-02</i>)	12/16/04
Office of the Under Secretary (OUS)		
L03-E0026	Improvements to Department Policy on Unsolicited Applications (<i>Alert Memorandum State and Local No. 05-03</i>)	3/8/05
S17-F0001	Response to request of the Honorable John A. Boehner, Committee Chair, regarding ED's canceled budget authority for fiscal year 2004 (<i>Letter relaying results of Special Project</i>)	11/22/04
<p><u>DESCRIPTION OF INSPECTIONS AND OTHER PRODUCTS OIG products not conducted in accordance with generally accepted government auditing standards)</u></p> <p>Alert memoranda are prepared when auditors identify a serious condition requiring immediate Department management action that is either outside the agreed-upon objectives of an on-going audit assignment or is identified while engaged in work not related to an on-going assignment when an audit report will not be issued.</p> <p>Inspections are processes aimed at evaluating, reviewing, studying, and analyzing the programs and activities of the Department for the purposes of providing information to managers for decision making, for making recommendations for improvements to programs, policies or procedures, and for administrative action.</p> <p>Special projects are works that result in the issuance of a product or report that is not conducted in full compliance with the audit, inspection, or investigation standards.</p> <p>Alert memoranda and special projects are not on the OIG website and are not publicly distributed.</p>		

Table 4: Inspector General Issued Audit Reports with Questioned Costs

		Number	Questioned ¹ Costs	Unsupported ² Costs
A.	For which no management decision has been made before the commencement of the reporting period (as adjusted)	76 ⁴	\$180,301,011 ³	\$42,955,336
B.	Which were issued during the reporting period	18	\$95,541,891	\$87,198,836
	Subtotals (A + B)	94	\$275,842,902	\$130,154,172
C.	For which a management decision was made during the reporting period	33	\$106,818,334	\$6,092,860

Table 4: Inspector General Issued Audit Reports with Questioned Costs (Cont.)

		Number	Questioned ¹ Costs	Unsupported ² Costs
	(i) Dollar value of disallowed costs		\$106,790,251	\$6,092,860
	(ii) Dollar value of costs not disallowed		\$28,083	\$0
D.	For which no management decision has been made by the end of the reporting period	61	\$169,024,568	\$124,061,312
E.	For which no management decision was made within six months of issuance	43	\$73,482,677	\$36,862,476
<p>¹ 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 the expenditure of funds for the intended purpose is unnecessary or unreasonable. Other recommended recoveries are funds recommended for reasons other than questioned costs. 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 auditee's use of funds. Other recommended recoveries are included in questioned costs category. In addition, amounts reported for this category are combined with unsupported costs for reporting in the IG's Semiannual Report to Congress.</p> <p>² Unsupported costs are costs that are questioned because, at the time of the audit, such costs were not supported by adequate documentation.</p> <p>³ Beginning balance for Questioned Costs was increased by \$1,389,445 (A07C0032 - \$14,573, A09E0010 - \$874,360 and A06C0034 - \$500,512) to coincide with database.</p> <p>⁴ Added A06C0034 to number totals bringing totals to 76. Dollars corresponding to A06C0034 appear in footnote 3.</p>				

Table 5: Inspector General Issued Audit Reports with Recommendations For Better Use of Funds¹

		Number	Dollar Value
A.	For which no management decision has been made before the commencement of the reporting period (as adjusted)	5	\$238,640,266
B.	Which were issued during the reporting period	1	\$95,883
	Subtotals (A + B)	6	\$238,736,149
C.	For which a management decision was made during the reporting period	0	\$0
	(i) Dollar value of recommendations that were agreed to by management		
	(ii) Dollar value of recommendations that were not agreed to by management		
D.	For which no management decision has been made by the end of the reporting period	6	\$238,736,149
E.	For which no management decision was made within six months of issuance	5	\$238,640,266
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, 2004

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 Inspector General Act as amended 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.				
New Since Last Reporting Period				
Federal Student Aid (FSA)				
A04-E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown, TN (SAR 49, pg. 14) <i>Status: FSA informed us that the audit was placed on administrative stay on February 28, 2005. However, OCFO informed us that they have no record of the audit being on administrative stay.</i>	9/23/04	\$2,458,347	7

Table 6: Unresolved Reports Issued Prior to October 1, 2004 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A07-D0026	Audit of Kaw Area Technical School (SAR 49, pg. 14) <i>Status:</i> FSA informed us that the audit was placed on administrative stay on November 12, 2004 and extended on February 17, 2005. However, OCFO informed us that they have no record of the audit being on administrative stay.	5/20/04	\$882,445	3
Office of the Chief Financial Officer (OCFO)				
A02-D0023	Puerto Rico Department of Education's Salaries for the Period July 1, 1999 to June 30, 2003 (OESE also designated as action official) (SAR 49, pg. 14) <i>Status:</i> OCFO/Post Audit Group informed us that the audit was reassigned to OESE on April 13, 2005.	6/2/04		6
A06-D0023	Audit of the Dallas Independent School District's Administration of the Bilingual Education-Systemwide Improvement Grant for the period September 1, 1999 through August 31, 2003 (OELA also designated as action official) (SAR 49, pg. 14) <i>Status:</i> OCFO/PAG informed us that the audit work papers are currently being reviewed. OCFO expects to resolve the audit by September 30, 2005.	8/4/04	1,788,853	2
A06-E0015	Audit of the Dallas Independent School District's Administration of the Teaching American History Grant for the period October 1, 2002, through September 30, 2005 (SAR 49, pg. 14) <i>Status:</i> OCFO/PAG informed us that a program determination letter was issued on March 25, 2005. The OIG, Dallas Region, moved to a new location and concurred in Department's Audit Accountability and Resolution Tracking System (AARTS) on April 11, 2005.	9/16/04	\$205,000	4
Office of Elementary and Secondary Education (OESE)				
A02-E0007	Puerto Rico Department of Education's Administration of Contracts Awarded to Rock Solid Technologies (SAR 49, pg. 15) <i>Status:</i> OESE informed us that the audit is in CAROI.	9/8/04	\$3,354,545	2
A05-D0038	Audit of Michigan's local educational agencies' allocations of Elementary and Secondary Act of 1965, as amended, Title I, Part A, funds to schools for the period July 1, 2001, through June 30, 2002 (2001-2002 school year) (See note 1 at end of table) (SAR 49, pg. 15) <i>Status:</i> OESE informed us that on March 31, 2005 they requested a renewal or reinstatement of the administrative stay. OCFO approved this request on March 31, 2005. However, the six month resolution period had expired before the administrative stay was requested and approved.	6/25/04		4
Office of Special Education and Rehabilitative Services (OSERS)				
A09-D0033	Charter Schools' Access to Title I and IDEA, Part B Funds in the State of Arizona (OII and OESE also designated as action officials) (SAR 49, pg. 16) <i>Status:</i> OSERS informed us that a program determination letter is currently under review by the Office of the General Counsel (OGC).	8/24/04		4
Reported in Previous Semiannual Report				
Federal Student Aid (FSA)				
A02-B0026	Audit of Taylor Business Institute's Administration of Title IV Student Financial Assistance Programs (SAR 47, pg. 13) <i>Status:</i> FSA informed us that the audit was resolved March 17, 2005, and waiting on OIG's concurrence through AARTS. However as of March 31, 2005, an audit clearance document was not created in the AARTS for OIG's concurrence.	7/8/03	\$2,089	5

Table 6: Unresolved Reports Issued Prior to October 1, 2004 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A04-B0015	Review of Cash Management and Student Financial Assistance Refund Procedures at Bennett College (<i>OPE designated as collateral action office for this report</i>) (SAR 45, pg. 16) Status: FSA informed us that the audit was resolved on October 9, 2001 through the Common Audit Resolution System. FSA informed us that they now have to put in closure documents into AARTS in order to close out this audit.	9/26/02	\$997,313	7
A04-B0019	Advanced Career Training Institute's Administration of the Title IV Higher Education Act Programs (SAR 47, pg. 13) Status: FSA informed us that the audit is still being reviewed by FSA Atlanta Case Team.	9/25/03	\$7,469,328	14
A05-C0015	Audit of American School of Technology's Administration of the Title IV, HEA Programs, Columbus, Ohio (SAR 46, pg. 12) Status: FSA informed us that the audit is still being reviewed by FSA Chicago Case Team.	3/21/03	\$1,311,249	13
A05-D0020	Audit of the Administration of the Federal Pell Grant program by The Alexander Institute during the period September 28, 2000, through June 30, 2003 (SAR 48, pg. 17) Status: FSA informed us that the audit is still being reviewed by the FSA Chicago Case Team.	12/11/03	\$1,718,869	1
A06-70005	Professional Judgment at Yale University (SAR 36, pg.18) Status: FSA informed us that they are awaiting a policy decision to address and resolve this finding in the final audit determination letter.	3/13/98	\$5,469	3
A06-70009	Professional Judgment at University of Colorado (SAR 37, pg. 17) Status: FSA informed us that they are awaiting a policy decision to address and resolve this finding in the final audit determination letter.	7/17/98	\$15,082	4
A06-A0003	International Business College's Administration of Title IV Student Financial Assistance Programs (SAR 42, pg. 22) Status: FSA informed us that the audit is still being reviewed by the FSA Dallas Case Team.	3/28/01	\$461,035	4
A06-B0014	Audit of United Education Institute's Compliance with the Title IV, Student Financial Assistance, Verification Requirements (SAR 43, pg. 12) Status: FSA informed us that the audit was resolved on February 20, 2003 through the CARS. FSA informed us that they now have to put in closure documents into AARTS in order to close out this audit.	9/6/01	\$7,285	1
A07-23545	State of Missouri, Single Audit Two Years Ended June 30, 1991 Status: FSA/ Financial Partners Service is working with OGC and OIG on the resolution of the Missouri audits. FSA stated that draft responses were forwarded to OGC for review and comment, and are awaiting OGC comments.	4/1/93	\$1,048,768	18
A07-33123	State of Missouri, Single Audit Year Ended June 30, 1992 Status: FSA/FPS is working with OGC and OIG on the resolution of the Missouri audits. FSA stated that draft responses were forwarded to OGC for review and comment, and are awaiting OGC comments.	3/7/94	\$187,530	18
A09-70015	Associated Technical College Eligibility of Institutions to Participate in Title IV Programs & Other Issues (SAR 37, pg. 16) Status: FSA/SEC/CMO senior managers are thoroughly reviewing the 90/10 calculations before approving the final audit determination letter.	9/9/98	\$8,600,000	7

Table 6: Unresolved Reports Issued Prior to October 1, 2004 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
N06-90010	Inspection of Parks College's Compliance with Student Financial Assistance Requirements (SAR 40, pg. 18) <i>Status: No response received as to the status of the inspection. Prior status was that the FSA Dallas Case Team denied school's recertification on December 31, 1999. School closed February 5, 2000.</i>	2/9/00	\$169,390	1
Office of the Chief Financial Officer (OCFO)				
A04-D0001	North Alabama Center for Educational Excellence's Administration of the TRIO Programs Needs Improvement (<i>Office of Postsecondary Education (OPE) also designated as action official</i>) (SAR 48, pg. 15) <i>Status: OCFO/PAG informed us that they have requested additional information from the auditee. OCFO expects to resolve the audit by September 30, 2005.</i>	11/24/03	\$877,384	14
A05-D0017	Audit of the University of Illinois at Chicago's Gaining Early Awareness and Readiness for Undergraduate Programs Project (<i>OPE also designated as action official</i>) (SAR 48, pg. 15) <i>Status: OCFO/PAG informed us that they are currently coordinating resolution with the program office, the OGC, and the OIG. OCFO expects to resolve the audit by September 30, 2005.</i>	1/14/04	\$1,018,212	4
A05-D0018	Audit of the Cesar Chavez Middle School's use of U.S. Department of Education Funds for the Period July 1, 2001, through June 30, 2002 (2001-2002 fiscal year) (<i>Office of Innovation and Improvement (OII) also designated as action official</i>) (SAR 48, pg. 15) <i>Status: OCFO/PAG informed us that a draft program determination letter is with OGC.</i>	10/30/03	\$196,805	3
A05-D0023	Audit of the Aztlan Academy's use of U.S. Department of Education Funds for the Period July 1, 2001, through June 30, 2002 (2002 fiscal year) (<i>OII also designated as action official</i>) (SAR 48, pg. 15) <i>Status: OCFO/PAG informed us that a draft program determination letter is with OGC.</i>	10/14/03	\$148,440	2
A05-D0029	Audit of the Sonoran Desert School's use of U.S. Department of Education Funds for the Period September 1, 2001, through August 31, 2002 (project period) (<i>OII also designated as action official</i>) (SAR 48, pg. 16) <i>Status: OCFO/PAG informed us that the audit report is on administrative stay due to the matter being in litigation.</i>	10/31/03	\$37,452	4
A06-C0034	Audit of the Texas Education Agency's Treatment of the Costs of Unused Accrued Vacation Leave of Retiring or Separating Employees for the Period September 1, 1999, through August 31, 2002 (SAR 47, pg. 14) <i>Status: OCFO informed us that the Indirect Cost Group and TEA signed a settlement agreement dated June 23, 2004. However as of March 31, 2005, an ACD and settlement agreement are not in AARTS.</i>	7/8/03	\$500,512	2
A07-C0031	Audit of the Talent Search Program at Luther College (SAR 46, pg. 14) <i>Status: OCFO/PAG informed us that they are working to resolve disagreements between OPE and OIG regarding the resolution of the audit report.</i>	3/28/03	\$219,567	4
A07-D0002	Audit of the Talent Search Program at Case Western Reserve University (SAR 47, pg. 14) <i>Status: OCFO/PAG informed us that they are currently reviewing additional documentation from the auditee. OCFO expects to resolve the audit by June 30, 2005.</i>	7/11/03	\$212,428	5

Table 6: Unresolved Reports Issued Prior to October 1, 2004 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A09-D0015	Gonzales Unified School District's Administration of the 21st Century Community Learning Centers Grant No. S287A000704 (OESE also designated as action official) (SAR 48, pg. 16) Status: OCFO informed us that the Indirect Cost Group signed a settlement agreement with the auditee on February 7, 2005. However as of March 31, 2005, an ACD and settlement agreement are not in AARTS.	12/19/03	\$474,005	4
Office of Elementary and Secondary Education (OESE)				
A01-90006	Puerto Rico Department of Education Needs Major Improvements in Its Administration of the Even Start Program (SAR 41, pg. 22) Status: OESE informed us that a CAROI team is resolving the audit.	9/27/00	\$181,305	18
A01-A0004	Puerto Rico Department of Education Did Not Administer Properly a \$9,700,000 Contract with National School Services of Puerto Rico (SAR 42, pg. 21) Status: OESE informed us that a CAROI team is resolving the audit.	3/28/01	\$7,841,493	14
A02-50200	The Puerto Rico Department of Education Must Institute a Time Distribution System (SAR 36, pg. 13) Status: OESE informed us that a CAROI team is resolving the audit.	11/14/97		1
A02-B0012	Puerto Rico Department of Education Did Not Administer Properly Title I Contracts with National School Services of Puerto Rico for the 1999/2000 and 2000/2001 School Years (SAR 43, pg. 11) Status: OESE informed us that a CAROI team is resolving the audit.	9/28/01	\$8,412,280	10
A02-B0025	Puerto Rico Department of Education Did Not Administer Properly Three Contracts with R.V. Research and Management Group, Inc. (SAR 45, pg. 18) Status: OESE informed us that a CAROI team is resolving the audit.	9/12/02	\$2,146,023	10
A02-C0017	Puerto Rico Department of Education's Administration of Contracts with the League of United Latin American Citizens National Educational Service Center (OVAE also designated as action official for this report) (SAR 47, pg. 15) Status: OESE informed us that a CAROI team is resolving the audit.	6/10/03	\$115,390	5
A02-D0014	Puerto Rico Department of Education's Title I Expenditures for the Period, July 1, 2002 to December 31, 2002 (See note 1 at end of table) (SAR 48, pg. 17) Status: OESE informed us that a CAROI team is resolving the audit.	3/30/04	\$49,536	9
A05-C0012	Audit of East Cleveland City Schools' Administration of the 21 st Century Community Learning Centers Grant at Kirk Middle School for the Period June 1, 1998, through December 31, 2001 (SAR 45, pg. 18) Status: OESE informed us that on March 31, 2005 they requested a renewal or reinstatement of the administrative stay. OCFO approved this request on March 31, 2005. OESE stated that OESE and Office of the General Counsel (OGC) are requesting technical assistance from OIG regarding the use of incompatible software. However, the six month resolution period had expired before the administrative stay was requested and approved.	9/18/02	\$349,637	9
A05-C0022	Audit of Community Consolidated School District 62's Administration of the 21 st Century Community Learning Centers Grant for the Period June 1, 2000, through May 31, 2002 (Office of the Under Secretary (OUS) also designated as action official for this report) (SAR 46, pg. 13) Status: OESE informed us that on March 31, 2005 they requested a renewal or reinstatement of the administrative stay. OCFO approved this request on March 31, 2005. OESE stated that OESE and OGC are requesting technical assistance from OIG. However, the six month resolution period had expired before the administrative stay was requested and approved.	2/24/03	\$126,709	3

Table 6: Unresolved Reports Issued Prior to October 1, 2004 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A05-C0029	Audit of Minnesota's Local Educational Agencies' Allocations of Elementary and Secondary Education Act, as amended, Title I, Part A, Funds to Schools for the Period July 1, 2001, through June 30, 2002 (SAR 47, pg. 15) <i>Status: OESE informed us that on March 31, 2005 they requested a renewal or reinstatement of the administrative stay. OCFO approved this request on March 31, 2005. OESE informed us that they requested the administrative stay based on further review and study of the findings. However, the six month resolution period had expired before the administrative stay was requested and approved.</i>	9/30/03		2
A05-D0008	Audit of 20 Arizona Charter Schools' Uses of U.S. Department of Education Funds for the Period October 1, 2000, through September 30, 2001 (Office of Special Education and Rehabilitative Services (OSERS) also designated as action official) (SAR 48, pg. 17) <i>Status: OESE informed us that resolution of Finding 1 was issued to auditee on March 18, 2005, and OESE requested an administrative stay for findings 2 and 3 due to resolution of complex supplanting issues.</i>	11/6/03	\$1,264,943	10
A05-D0009	Audit of Cleveland Municipal School District's Set-Aside Funds for District-Wide Activities (SAR 47, pg. 15) <i>Status: OESE informed us that on March 31, 2005 they requested a renewal or reinstatement of the administrative stay. OCFO approved this request on March 31, 2005. OESE requested the administrative stay due to complex issues. However, the six month resolution period had expired before the administrative stay was requested and approved.</i>	8/6/03	\$43,067	7
A05-D0021	Audit of the Detroit City School District's Administration of Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended, Set-Aside programs for the period July 1, 2002, through May 31, 2003 (SAR 48, pg. 17) <i>Status: OESE informed us that a program determination letter was issued on September 30, 2004 for Findings 1, 2, and 4. OESE informed us that on March 31, 2005 they requested an administrative stay for Finding 3, and OCFO approved the request on March 31, 2005. However, the six month resolution period had expired before the administrative stay was requested and approved.</i>	11/21/03	\$278,414	10
A09-D0014	Charter Schools Access to Title I Funds in the State of New York (OII is also designated as action official for this report) (SAR 47, pg. 15) <i>Status: OESE informed us that on March 31, 2005 they requested a renewal or reinstatement of the administrative stay. OCFO approved this request on March 31, 2005. OESE stated that they requested a renewal or reinstatement of the administrative stay due to resolution of complex issues that will require further review and study. However, the six month resolution period had expired before the administrative stay was requested and approved.</i>	7/28/03		6
A09-D0018	Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California (OESE also designated as action official) (See note 1 at end of table) (SAR 48, pg. 18) <i>Status: OESE informed us that the audit is on administrative stay.</i>	3/29/04		12
Office of Postsecondary Education (OPE)				
A03-C0017	Audit to Determine if Cohort Default Rates Provide Sufficient Information on Defaults in the Title IV Loan Programs (FSA also designated as action official) (SAR 48, pg. 18) <i>Status: OCFO has informed us that they have resolved the audit and approved the corrective action plan. OPE also stated that all action items have been completed or are on schedule to meet their completion date.</i>	12/22/03		4

Table 6: Unresolved Reports Issued Prior to October 1, 2004 (Cont.)

Report Number	Report Title (Prior Semiannual Report [SAR] Number and Page)	Date Issued	Total Monetary Findings	No. of Recommendations
A05-C0026	Audit of Northeastern Illinois University's Administration of the Developing Institutions - Hispanic-Serving Institutions Grant for the Period October 1, 2000, through October 31, 2002 (SAR 46, pg. 14) <i>Status: OPE informed us that they provided a draft program determination letter in October 2004. OPE stated that in March 2005, OIG provided written nonconurrence. OPE continues to work with the OIG to resolve the audit.</i>	2/25/03	\$478,261	2
A07-B0011	Audit of Valencia Community College's Gaining Early Awareness and Readiness for Undergraduate Programs Matching Requirement (SAR 47, pg. 15) <i>Status: OPE informed us that they provided a response to OGC's proposed resolution of the audit in September 2004. OPE stated that OGC responded with provisions to the draft program determination letter in March 2005. OPE continues to work with OGC to resolve the audit.</i>	5/8/03	\$1,822,864	5
Office of Safe and Drug-Free Schools (OSDFS)				
A01-90007	Puerto Rico Department of Education Needs Major Improvements in its Administration of the Governor's Safe and Drug-Free Schools Program (SAR 41, pg. 22) <i>Status: No response received as to the status of this audit. The prior status was OSDFS informed us that the audit is being resolved as part of the CAROI settlement being negotiated with PRDE.</i>	9/27/00	\$82,452	17
Office of Special Education and Rehabilitative Services (OSERS)				
A02-B0014	Audit of the Puerto Rico Vocational Rehabilitation Administration (SAR 45, pg. 18) <i>Status: OSERS informed us that they are working with the OIG regarding the resolution of the audit.</i>	6/26/02	\$15,800,000	5
A02-D0020	Puerto Rico Department of Education's Special Education Expenditures for the Period, July 1, 2002 to December 31, 2002 (See note 1 at end of table) (SAR 48, pg. 18) <i>Status: OSERS informed us that the audit is being resolved through CAROI team effort.</i>	3/30/04	\$122,901	9
<p>Note 1 - We identified \$48,835 in one-time better use of funds and \$1,580,000 in annual better use of funds in audit A05-D0038, \$151,205,677 in better use of funds in audit A02-D0014, \$5,600,000 in better use of funds in audit A09-D0018, and \$79,515,522 in better use of funds in audit A02-D0020.</p> <p>Note 2 - Status Comments reflect comments provided by the Department, comments agreed to, or documents obtained from AARTS.</p>				

**Table 7: Investigation Services Cumulative Actions
(October 1, 2004 to March 31, 2005)**

Summary of Investigation	Subject Name	Action This Period*	Fines/ Restitutions	Civil Recoveries
INSTITUTIONAL FRAUD				
Use of Ineligible Branch Locations				
Owner pleads guilty to conspiracy to defraud Title IV student aid funds.	Howard Burkeen	Convicted: 11/30/04		
Enrollment of Ineligible Students				
Individual sentenced for making false statements on documents in order to receive federal student aid funds in conjunction with TTC.	Mariam Chbib Chbib	Sentenced: 3/3/05	\$5,806	

**Table 7: Investigation Services Cumulative Actions
(October 1, 2004 to March 31, 2005) (Cont.)**

Summary of Investigation	Subject Name	Action This Period*	Fines/ Restitutions	Civil Recoveries
Individual sentenced for falsifying documents enabling ineligible students and the school to receive federal student aid funds.	Sahar Younes	Sentenced: 2/17/05	\$63,193	
School Employee Theft				
Individuals involved in illegal student refunds and kickback scheme at LeMoyne-Owen College.	April Hemphill	Sentenced: 1/19/05	\$8,985	
	Michael Tate	Convicted: 10/21/04		
	Verdell Pollard	Sentenced: 11/16/04	\$7,600	
	Lawrence Haynes	Sentenced: 2/7/05	\$13,624	
	Orlando Thomas	Sentenced: 12/21/04	\$8,156	
	Marlon Thomas	Sentenced: 2/2/05	\$10,850	
	Ron Johnson	Sentenced: 3/9/05	\$16,446	
	Kelli Pollard	Convicted: 3/17/05		
	Aaron Boone	Convicted: 2/17/05		
	Marlon Briggs	Convicted: 12/1/04		
	Shelley Barnes	Sentenced: 3/30/05	\$13,672	
Sentences for teachers, secretaries and para-educators receiving monies from kickback scheme at Orleans Parish School District	Latasha Williams	Sentenced: 12/14/04	\$2,400	
	Louis Serrano	Sentenced: 12/14/04	\$72,444	
	Tamika Winesberry	Sentenced: 12/14/04	\$3,000	
	Monique Landry	Sentenced: 12/14/04	\$4,800	
Former Orleans Parish School District employees pled guilty to kickback scheme.	Monica Hunter	Convicted: 10/14/04		
	Terri Morant	Convicted: 12/8/04		
	Tremica Knight	Convicted: 1/6/05		
Former director of financial aid at Ancilla College sentenced for misapplying Supplemental Educational Opportunity Grant funds.	Richard Miller	Sentenced: 3/15/05	\$7,228	
Former accounts receivable clerk at Texas College sentenced for federal student aid fraud.	Tiffany Jenkins	Sentenced: 11/1/04	\$77,005	
Former employee at Lodge Grass School District pled guilty to theft of government money and larceny.	Marion Calvin	Convicted: 1/31/05		
Former financial aid director at University of Puerto Rico - Cayey sentenced for preparing, certifying and forging fraudulent student loan applications.	Hector Maldonado	Sentenced: 12/1/04	\$38,375	
Submission of False Documents				
Investigation in Puerto Rico leads to \$400,000 civil recovery.	Lourdes Martinez			\$400,000
	Maria De Lourdes Santana			
	Juan Carlos Santana			
	Juan Antonio Santana			
	Maria De Los Angeles Santana			
Loan Consolidation Schemes				
Collection agent pled guilty in \$564,974 student loan consolidation scheme.	Martina Brown	Convicted: 3/23/05		

**Table 7: Investigation Services Cumulative Actions
(October 1, 2004 to March 31, 2005) (Cont.)**

Summary of Investigation	Subject Name	Action This Period*	Fines/ Restitutions	Civil Recoveries
Former collection agency employee sentenced for conspiracy to commit bank fraud.	James Stevens	Sentenced: 11/29/04	\$182,344	
RECIPIENT FRAUD				
<u>Falsification of Income</u>				
Individual sentenced for committing federal student aid fraud by failing to disclose significant assets on his FAFSA.	Tony Khan	Sentenced: 1/24/05	\$31,976	
<u>Identity Fraud/Misuse of an SSN</u>				
Trial jury finds woman guilty of federal student aid fraud and bank fraud.	Vernita Nuey	Convicted: 2/24/05		
Woman sentenced for misuse of a social security number.	Kimala Kimble	Sentenced: 2/11/05	\$6,725	
Man pled guilty to misdemeanor student loan fraud.	Amir Ashkan Banishahi	Sentenced: 2/28/05	\$3,040	
Woman pled guilty to using another person's identity to obtain approximately \$9,750 in federal student aid.	Raymonda Shallowhorn	Convicted: 3/18/05		
Individual sentenced for providing a false statement to a federally insured financial institution and for falsely representing a social security number in an identity fraud investigation.	Louis R. Jones	Sentenced: 3/18/05	\$51,884	
A mother who used the social security number of her seven-year-old daughter, and the name and social security number of her 14-year old daughter to obtain PLUS loans for her son, entered into a Pre-Trial Diversion Program.	Dana Byrd	Sentenced: 12/16/04	\$30,941	
<u>Falsification of Identity/Identity Theft</u>				
Identity thief sentenced for using the identity of another individual to receive FSA funds.	Kenneth Wayne Jordan	Sentenced: 10/14/04	\$3,208	
An illegal alien sentenced for using the social security number of a deceased individual for approximately \$11,821 in federal student aid.	Luis Aguirre	Sentenced: 12/3/04	\$12,821	
New York Federal Judge orders prison term in student loan fraud case.	Shane Bybee	Sentenced: 11/1/04	\$161,505	
Ringleader and six associates pled guilty to charges in federal student aid fraud scheme.	Sharon Walker	Convicted: 1/3/05		
	Bessie Johnson	Convicted: 12/23/04		
	Bobby Poke, Sr.	Convicted: 12/29/04		
	Evelyn Walker	Convicted: 1/3/05		
	Betty Walker	Convicted: 1/3/05		
	Pamela Walker	Convicted: 12/30/04		
	Dianna Colon	Convicted: 12/30/04		
Identity thief sentenced for using the name and social security number of a former roommate in order to obtain federal student aid funds.	Einna Foules	Sentenced: 3/16/05	\$100	
Alien who was in the U.S. on a student visa assumed the identity of a U.S. citizen to obtain federal student aid funds.	Arijit Chowdhury	Convicted: 12/7/04		
Woman entered into Pre-Trial Diversion Program for receiving federal student aid by misrepresenting her citizenship status and using another person's social security number.	Georgette Hoth	Sentenced: 11/2/04		

**Table 7: Investigation Services Cumulative Actions
(October 1, 2004 to March 31, 2005) (Cont.)**

Summary of Investigation	Subject Name	Action This Period*	Fines/ Restitutions	Civil Recoveries
Identity thief pled guilty to obtaining federal student aid by using another person's identity.	Linda M. Griffin	Convicted: 1/6/05		
Individual sentenced for perjury in identity theft investigation.	Donnial Beachump	Sentenced: 2/17/05	\$18,700	
<u>Falsification of Citizenship</u>				
Illegal alien sentenced for fraudulently claiming she was an eligible non-citizen to obtain federal student aid funds.	Karen Fuller	Sentenced: 10/14/04	\$4,100	
Man pled guilty to theft of government property.	Jesus Jose Serrano-Gil	Convicted: 2/16/05		
<u>Falsification of Eligibility</u>				
A father entered into a Pre-Trial Diversion Program after admitting his guilt to submitting a falsified federal financial aid application on which he falsely claimed that he supported his son, who was deceased, in order to become eligible to receive federal student aid funds.	Jerald C. Phelps	Sentenced: 2/2/05	\$3,469	
Two individuals sentenced for filing fraudulent federal FAFSAs. Both claimed to be single mothers when both were married, and used improperly filed tax documents in support of their applications for aid.	Susan Brown	Sentenced: 1/4/05	\$3,565	
	Bobbie Jo Jones	Sentenced: 1/11/05	\$5,897	
Former student pled guilty to federal student aid fraud.	Scott Phebus	Convicted: 3/31/05		
<u>Fraudulent Loan Discharges/Deferments</u>				
Individual pled guilty to submitting fraudulent disability forms containing a forged doctor's signature and false death certificate in order to have his loan debt forgiven.	Jeffory Brown	Convicted: 3/17/05		
<u>Fraudulent Work Study</u>				
Students agree to civil settlements after falsifying timesheets to procure federal work study funds.	Deirdre Davis			\$1,988
	Tenesha Griffin			\$388
	Wilbur White			\$640
<u>Foreign School Recipient Fund</u>				
Man sentenced for falsely claiming enrollment at schools in Great Britain to receive federal student aid funds.	Robert Lawrence, Jr.	Sentenced: 3/9/05	\$37,000	
Leaders pled guilty to student loan fraud in scheme to defraud the Department out of \$265,000. Leaders created a fictitious organization which purported to enroll students from the U. S. for attendance at a U.K. school. The couple then recruited individuals, and directed and assisted in the falsification of financial aid applications and promissory notes for the individuals' purported enrollment in the U.K. school.	Anthony Hervey	Convicted: 1/14/05		
	Gloria Hervey	Convicted: 1/14/05		
Individuals recruited to participate in student loan fraud scheme (listed above) pled guilty or sentenced.	Ronald Jackson	Convicted: 1/18/05		
	Stacey Adams	Convicted: 1/6/05		
	Sean Loggin	Convicted: 12/23/04		
	Jackie Lawless	Sentenced: 3/11/05	\$765	
	Isiah Miller	Sentenced: 2/24/05	\$740	
	Donald Braboy	Sentenced: 3/11/05	\$740	

**Table 7: Investigation Services Cumulative Actions
(October 1, 2004 to March 31, 2005) (Cont.)**

Summary of Investigation	Subject Name	Action This Period*	Fines/ Restitutions	Civil Recoveries
Fraudulent certifications/statements				
Man pled guilty to cashing federal student aid checks, then reporting them as stolen in order to receive additional checks.	Terrence Kenner	Convicted: 3/7/05		
Sentence for individual who made false statements on FAFSAs for three consecutive years relating to his prior drug convictions.	Troy Marvin Purnell	Sentenced: 12/14/04	\$12,027	
Individual entered into Pre-Trial Diversion Program for making false statements in an attempt to discharge the loans to help clear his credit rating.	Ivory Puckett	Sentenced: 1/12/05	\$10,054	
INTERNAL INTEGRITY				
Individuals involved in scheme to fraudulently receive public funds for adult basic education courses at the Community College of Philadelphia, PA.	Faridah Ali	Convicted: 10/27/04		
	Lakiha Spicer	Convicted: 10/27/04		
	Azheem Spicer	Convicted: 10/27/04		
	Eugene Weaver III	Convicted: 10/27/04		
Former Deputy Superintendent of the Georgia Department of Education (GDOE) pled guilty to conspiracy, theft of funds and wire fraud in connection with a scheme to funnel federal grant funds to the campaign for Governor of a former state school superintendent.	Merle Temple	Convicted: 1/10/05		
Former CFO of an Atlanta company pled guilty to the structuring of financial transactions to funnel cash contributions to the gubernatorial campaign of a former state school superintendent.	Johnathan C. Turner	Convicted: 12/15/04		
Manager of a former state school superintendent's campaign for Governor pled guilty to attempted witness tampering.	Richard M. Leonard	Convicted: 12/21/04		
Former GDOE Federal Programs Manager pled guilty to making false statements to federal law enforcement agents during an interview concerning the issuance of over \$500,000 in GDOE checks.	Miller Finley	Convicted: 1/20/05		
New York City man sentenced for impersonating a U.S. Department of Education agent.	Anthony Straker	Sentenced: 1/27/05		
Individual sentenced for using stolen bank account information of innocent parties to post on-line and telephonic student loan payments to his federal student aid accounts.	Gregory E. Smith	Sentenced: 12/15/04	\$15,132	
Former State of Florida vocational rehabilitation consultant signed Pre-Trial Diversion.	Dolores Rodriguez	Sentenced: 2/3/05		
Man pled guilty to stealing, forging and misapplying 15 FFEL checks.	Greg Sims	Convicted: 2/18/05		
Federal Jury convicts four former officials of the Massachusetts Career Development Institute. The convictions related to a scheme wherein the officials engaged in a conspiracy involving "no-show" and "partial show" employees.	Gerald Phillips	Convicted: 2/28/05		
	Giuseppe Polimeni	Convicted: 2/28/05		
	Jamie C. Dwyer	Convicted: 2/28/05		
	Luisa Cardaropoli	Convicted: 2/28/05		
Former Bank of America mailroom employee sentenced for theft of incoming federal student loan payments.	Michael J. Warner	Sentenced: 3/9/05	\$67,607	

**Table 7: Investigation Services Cumulative Actions
(October 1, 2004 to March 31, 2005) (Cont.)**

Summary of Investigation	Subject Name	Action This Period*	Fines/ Restitutions	Civil Recoveries
Individuals sentenced for role in scheme to divert Impact Aid funds.	Dominique Germain	Sentenced: 11/16/04	\$63,415	
	Diallo Cobham	Sentenced: 2/3/05	\$9,000	
Former Director for the American Samoa Department of Education pled guilty to conspiracy.	Sili Sataua	Convicted: 1/26/05		

Table 8: Statistical Profile : October 1, 2004 to March 31, 2005

	Six-month Period Ending 3/31/05
OIG AUDIT REPORTS ISSUED	41
Questioned Costs	\$8,343,055
Unsupported Costs	\$87,198,836
Recommendations for Better Use of Funds	\$95,883
OTHER OIG PRODUCTS	26
(Inspections, Attestations, Interim Audit Memoranda, Alert Memoranda, Closeout Memoranda/Letters, Management Information Reports, and Preaward Audit Services)	
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	58
Questioned Costs Sustained	\$100,725,474
Unsupported Costs Sustained	\$6,092,860
Additional Disallowances Identified by Program Managers	\$1,648,911
Management Commitment to the Better Use of Funds	\$869,851
INVESTIGATIVE CASE ACTIVITY	
Cases Opened	138
Cases Closed	95
Cases Active at End of Period	458
Prosecutorial Decisions	81
-Accepted	56
-Declined	25
INVESTIGATION RESULTS	
Indictments/Informations	71
Convictions/Pleas	76
Fines Ordered	\$14,750
Restitution Payments Ordered	\$1,105,316
Civil Settlements/Judgments (#)	9
Civil Settlements/Judgments (\$)	\$2,007,716
Recoveries	\$25,995 ¹
Forfeitures/Seizures	0
¹ The recoveries listed are from three pre-trial diversions.	

APPENDIX 1:

Pursuant to the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) of the Department of Education identifies the following management challenges of the Department. These challenges are long-term management issues that require the continued focus and commitment of the Department. They are not a compilation of our recent audit findings, but rather issues that arise from our audit, inspection, and investigation work, our knowledge of the Department's and the Administration's initiatives, and our understanding of the statutory requirements imposed by Congress. As required by the statute, we also discuss the Department's progress in meeting these challenges.

CHALLENGE 1: HUMAN CAPITAL MANAGEMENT

Comprehensive human capital planning that includes effective planning for future needs, recruitment, hiring, and development of its current workforce is a management challenge for the Department. When the Government Accountability Office (GAO) placed this issue on its high-risk list in 2001, it identified the fundamental problem facing federal agencies as the long-standing lack of a consistent strategic approach to managing and maintaining the workforce necessary for a more effective and efficient government.

Department's Progress

In May 2004, the Under Secretary articulated five human capital expectations for the Department: effective and efficient hiring processes; performance standards that clearly articulate expected results; performance evaluations that differentiate among performance; pay for performance; and customized development and succession plans. Subsequently, the Department initiated steps to develop a comprehensive human capital plan, intending to complete the task by September 2004. Federal Student Aid (FSA) released its final human capital plan in July 2004. Also in July 2004, the Chief Human Capital Officer initiated an effort to see that each employee's performance plan includes standards that reflect clarity of results, focus on the Department's strategic goals, and communicate the five priorities expected from the employee during the performance period.

CHALLENGE 2: FINANCIAL MANAGEMENT

The Department faces financial management challenges in implementing erroneous payments requirements and a new financial management system. The Improper Payments Information Act of 2002 greatly expanded the requirements for agencies to identify and reduce erroneous payments in the government's programs and activities. In addition, the Office of the Chief Financial Officer (OCFO) and FSA plan to re-implement the Oracle Federal Financials system as version 11i to take advantage of available enhancements and to stay current with Oracle-supported products. This implementation will consolidate the Department's and FSA's general and subsidiary ledgers and eliminate the need for complex system interfaces. A systems implementation of this

magnitude is a significant and complex undertaking that must be carefully planned and diligently executed.

Department's Progress

The Department's and FSA's fiscal year (FY) 2003 financial statements received an unqualified audit opinion, and the FY 2003 Performance and Accountability Report (PAR) was submitted to the Office of Management and Budget (OMB) by the accelerated due date of November 15, one year ahead of the statutory implementation deadline for accelerated reporting. The Department also became the first cabinet level agency to receive a green score for financial management on its President's Management Agenda scorecard. The Department has issued the FY 2004 quarterly financial statements required by OMB. In addition, the Department plans to submit its FY 2004 PAR on or before November 15, 2004. These are major accomplishments toward strengthening financial management.

The Department has stated that it has completed its risks assessments of FSA and the Title I programs, has moved forward with assessing the risk of its remaining grant programs, and is expanding on its initial assessment of its grant programs. The Department also entered into a memorandum of understanding with the Oak Ridge National Laboratory to perform data mining on information from various sources.

The Department's target date to go live with the Oracle 11i system is October 2006. The Department has developed a four-tier approach for implementing the system: conduct impact assessments, develop an upgrade strategy and approach, develop a detailed implementation plan, and implement version 11i.

CHALLENGE 3: FEDERAL STUDENT AID PROGRAMS

The Department's challenges related to its annual \$65 billion student financial assistance programs, and its outstanding loan portfolio of over \$300 billion, are oversight and program review, reducing improper payments in the Pell grant program, and encouraging innovative educational program delivery without jeopardizing program integrity.

FSA is responsible for oversight of about 6,000 schools, three dozen guaranty agencies, more than 3000 lenders, and many third-party servicers retained by these entities. A challenge is for FSA to provide adequate oversight and program review of these institutions to reduce abuse in these programs.

The Department estimated that \$365 million in Pell grants was improperly disbursed in FY 2003 because applicants understated their income. The 1998 amendments to the Higher Education Act (HEA) appeared to provide FSA the authority to verify applicant income with the IRS, but did not make corresponding changes to the Internal Revenue Code to authorize disclosure of confidential tax information to FSA. Until the Internal Revenue Code is amended to allow for an income match with income reported on the

FAFSA, the challenge remains for the Department to use alternative methods to reduce improper payments in the Pell Grant program.

Advances in technology and the growth of the Internet have led to an increasing number of students pursuing distance education. The Department's challenge is to encourage innovative educational program delivery while ensuring accountability of taxpayer dollars and preserving the integrity of the student aid programs.

Department's Progress

FSA is in the initial stages of developing an improved electronic management system to provide case teams electronic access to all information on a school, which should improve its process for reviews of statutorily required audits and school recertifications. FSA also is in the process of implementing a corrective action plan to address the weaknesses identified by OIG related to guaranty agency oversight.

The Department has made a commitment to address factors that resulted in the student aid programs' placement on GAO's high-risk list and has made progress in reducing risk in these areas. On August 9, 2002, in a joint letter to Congress, Secretary Paige, Treasury Secretary O'Neill, and OMB Director Daniels submitted a legislative proposal to amend the Internal Revenue Code to allow for a very limited disclosure of certain taxpayer information, but only after a series of safeguards designed to protect taxpayer confidentiality were implemented. Legislation that would permit this income match is pending before Congress.

The 1998 reauthorization of the HEA created the Distance Education Demonstration Program. The Department is charged with administering the program and monitoring the participants.

CHALLENGE 4: INFORMATION TECHNOLOGY

The Department faces information technology (IT) challenges, including the need to adequately manage and safeguard IT assets and meeting electronic-government requirements. The Department's more than 70 IT systems comprise a number of complex and costly investments that are essential to conducting ongoing business and meeting the agency's core mission. The Department needs to develop a mature IT investment management capability, a well-defined enterprise architecture, and a robust system acquisition/development life cycle methodology. It also needs to ensure that these systems are secure, in accordance with the Federal Information Security Management Act of 2002, to protect the data they contain and the operations they support.

The Department faces a challenge in managing a transition to government-wide system solutions because of their potential to dramatically change the "back-office" operating environment. For example, OMB's Lines of Business initiatives are directed at financial management, grant management and human resources, and encompass other Executive

Branch electronic-government initiatives. In addition, to reduce the risk of program fraud, waste, and abuse that could arise from possible misuse, the Department needs to employ appropriate Personal Identification Number (PIN)-based electronic authentication.

Department's Progress

The Department has continued its efforts to strengthen and detail enterprise architecture artifacts, so that they can consistently be used as an effective IT governance tool. The Department also has devoted considerable time and resources to enhance security for its systems, including formally certifying most of its general support systems and major applications. We noted that the process did not adequately identify the residual risks that Department officials were accepting at the time of system certification, and the Department developed a corrective action plan, which it anticipates completing by December 2004. During FY2004, the Department also completed its *Critical Infrastructure Protection Mission Essential Infrastructure Interdependency Study*, and plans to use the results of this study to test critical interdependencies during its annual Disaster Recovery testing.

The Department has embarked on several modernization efforts that have the potential to increase business efficiency and significantly improve customer service. These are in various stages of conceptualization and development. The Department is also implementing PINs in FSA.

CHALLENGE 5: PROGRAM PERFORMANCE AND ACCOUNTABILITY

The Department's management challenges in program performance and accountability are to ensure data reliability and to conduct adequate monitoring. A major focus of the No Child Left Behind Act of 2001 is the need for states to report on performance in areas such as teacher quality and student achievement. The utility of this reporting will depend on the collection of reliable data. The same is true for other Department programs, such as Migrant Education, that also rely upon data from the states to make important program decisions.

We continue to identify significant accountability and compliance issues in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas. In addition, we continue to identify other entities, including school districts, to the Department for consideration of high-risk status and appropriate special conditions. An increased awareness by program managers about their responsibility to oversee programs carefully, rather than focus exclusively on technical assistance, would help protect program integrity.

Department's Progress

The Department is responding to data reliability problems. The Office of Elementary and Secondary Education (OESE) stated that it is using its Title I monitors and state contacts

to monitor progress on report submissions and working with states on data quality issues as part of its monitoring process. OESE is also updating its monitoring guide to include questions about controls over scoring of state assessments, and it plans to publish a summary from its monitoring visits for the past year. The Office of Special Education and Rehabilitative Services stated that it is developing corrective actions in conjunction with an outside consultant hired by the Rehabilitation Services Administration. The Office of Vocational and Adult Education stated that it is implementing enhancement efforts for technical assistance and revising its reporting instrument to require states to provide additional information to support their attestation that data are accurate, complete, and reliable.

The Department's inter-office Insular Affairs Committee is undertaking projects to address accountability and compliance issues identified by our work. The Department has placed several grantees on high-risk status with special conditions placed on future funding. In the past year, the Department also has increased its site visits to these entities. The Department's recent initiative to reengineer its grants monitoring process reflects the importance it is placing on improving its monitoring process.

CHALLENGE 6: PROCUREMENT

Improving contractor oversight to ensure that contract terms and conditions are met and that high-quality goods and services are received is a management challenge for the Department. GAO lists acquisition as a major management function that is key to high-performing organizations. The Department contracts for many services that are critical to its operations, at a value of over \$800 million in FY 2003. Implementation of the Federal Activities Inventory Reform Act of 1998 and the Administration's emphasis on competitive sourcing are likely to lead to additional contracts for services now performed by Department staff. The Department needs to improve its monitoring of these contracts.

Department's Progress

The Department recently reissued its directive, Contract Monitoring for Program Officials (the previous version was from 1987), without substantial change from the prior policy. FSA recently issued an Audit Review Guide to assist with monitoring of its private collection agency contractors.

U.S. Department of Education

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