U.S. DEPARTMENT OF EDUCATION

Inspector General's Semiannual Report to Congress, No. 57

April 1, 2008 - September 30, 2008

CONTENTS

MESSAGE TO CONGRESS

As the Acting Inspector General of the U.S. Department of Education (Department) Office of Inspector General (OIG), I am pleased to provide this semiannual report on the activities and accomplishments of this office from April 1, 2008, through September 30, 2008. The audits, inspections, and investigations highlighted in this report illustrate our ongoing commitment to promoting accountability, efficiency, and effectiveness in federal education operations and programs.

Over the last six months, OIG issued 22 audit, inspection, and related reports. We identified over $13.3 million in questioned costs and over $88.1 million in unsupported costs. We closed 45 investigations, with over $10.9 million in recoveries, restitutions, fines, and settlements.

As you will read in the pages of this report, our work continues to identify a need for the Department and its grantees to improve monitoring and oversight of the programs we reviewed. At the Department level, perhaps nowhere was this need more evident than in the work we conducted in support of the *Federal Information Security Management Act* requirements, where our audits revealed weaknesses in contractor oversight, as well as management, operations, and technical security controls in the data system review. Similarly, work conducted over the last six months found that ineffective monitoring and oversight by grantees put millions of federal education dollars at risk. We also identified a need for the Department to improve its guidance in key areas to help ensure that its grantees adhere to statutory and regulatory requirements, and to ensure that the Department offices responsible for administering these programs are doing so appropriately and consistently.

In this Semiannual Report, we highlight some of the more significant investigative cases we conducted during this reporting period. These include several civil settlement agreements totaling over $3 million, as well as a number of sentences and indictments of high-ranking school officials who sought to enrich themselves at the expense of America's students and taxpayers.

With the FY 2008-2009 school year under way, the Department faces a number of new challenges, particularly in the area of student financial assistance. With the turmoil in the credit market, new challenges have emerged in providing effective oversight of the federal student aid programs and in implementing the student loan purchase authorities granted by Congress in the *Ensuring Continued Access to Student Loans Act of 2008*. These challenges will impact almost every operational aspect of the agency, including information technology, systems operations, financial reporting, staffing, customer service, and monitoring and oversight. The challenge in managing existing programs will likely grow as the lenders and guaranty agencies involved in these programs turn to the Department for guidance and increased financial assistance. OIG will continue to work to ensure that the Department effectively carries out its responsibilities so that America's students can make their dreams of a higher education a reality.

In closing, I am honored to have been asked to take the helm of this organization with its proven record of accomplishment and exemplary work in improving federal education programs and operations. I have every intention of maintaining the high level of integrity and service you have come to expect from this office and that America's taxpayers and students deserve.

I look forward to working with you and meeting the challenges and opportunities that lay ahead.

Jerry G. Bridges

OVERVIEW

We are pleased to provide this Semiannual Report on the activities and accomplishments of the U.S. Department of Education (Department) Office of Inspector General (OIG) from April 1, 2008, through September 30, 2008. The audits, inspections, investigations, and other activities highlighted in this report illustrate our ongoing commitment to promoting accountability, efficiency, and effectiveness in federal education programs and operations.

In our last Semiannual Report to Congress, we noted that the Department needs to improve the monitoring and oversight of its programs and operations. Work concluded over the last six months shows this to be an ongoing challenge for the Department in the programs we reviewed, as well as with Department grantees and program participants that we examined over the last six months. Without effective monitoring and oversight, the Department cannot ensure that its data and data systems are safe from intrusion, or that grantees and participants are adhering to statutory and regulatory requirements and provisions specific to the grants they were awarded. You will find examples of this throughout the pages of this report.

In the first section of our report you will find information on work we conducted in the area of student financial assistance. With $82 billion awarded in fiscal year (FY) 2007 through the student financial assistance programs and an outstanding loan portfolio of close to $500 billion, the Department's Federal Student Aid office (FSA) must provide adequate monitoring and oversight of its programs, operations, and participants to help protect these taxpayer dollars from waste, fraud, and abuse. Work concluded over the last six months shows this to be an area that still challenges the Department. For example, our inspection of the Department's process for granting outside entities access to the National Student Loan Data System--a system that holds critical information on borrowers, loans, and grants--found weaknesses in the system that increase the risk of inappropriate disclosure or unauthorized use of or access to valuable data. Further, our review of the Department's process for disbursing new grants to college students showed a need for improved monitoring to ensure that funds are made available to students who are eligible to receive these grants. Again, you will find more specifics on these and other reports in this section, including the assistance OIG provided to FSA in response to the student loan purchase authorities granted by Congress in the *Ensuring Continued Access to Student Loans Act of 2008*. You will also find in this section summaries of our more significant investigations involving theft or misuse of student financial assistance funds by officials of higher educational institutions and by other individuals.

In the second section of this report we provide a summary of our recent work in the area of elementary, secondary, and postsecondary education programs. In recent years we have focused more of our resources on these programs and program participants. Over the last six months, we released reports with significant findings of potentially misused federal education dollars--including our audit of the School District of the City of Detroit that identified more than $52.2 million in unallowable or unsupported expenditures. Findings from our work in the postsecondary education area included a lack of effective internal controls in documenting expenditures, such as our audit of Project GRAD USA where we found more than $16 million in unsupported costs. Federal grantees are required to document that the federal funds they received were expended appropriately. Failure to keep such records places federal educational dollars at risk of waste, fraud, and abuse. You will find more information on these and other audit and inspection work we conducted in the postsecondary arena in this section of our report, as well as summaries of our more significant investigations involving a number of individuals placed in a position of trust to educate America's children.

In the third section of this report, we highlight reviews we completed on the Department's information security and management efforts and internal operations, specifically the results of our annual *Federal Information Security Management Act* review--areas where accountability is vital to protecting the Department's valuable assets and confidential information. Our work concluded that there are weaknesses in the Department's information security systems we examined, which leave the systems and the data they contain vulnerable to intrusion and, ultimately, theft. We also examined the Department's controls over travel expenditures and found room for improvement, which you will find discussed in more detail in this section of the report. With regard to Section 845 of the *National Defense Authorization Act for Fiscal Year 2008*, which requires each OIG to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings, OIG did not issue any such report over the last six months.

OIG constantly strives to improve its operations through our work with the Inspector General community. In the fourth section of this report, we highlight those efforts conducted during this reporting period. We also share information on former Inspector General John Higgins, Jr.'s much-deserved career achievement award presented to him by the President's Council on Integrity and Efficiency.

In the fifth and final section of this report, we provide a compilation of tables of the audits, inspections, and investigations we concluded during this reporting period, as required by the *Inspector General Act of 1978*, as amended. Copies of the reports discussed in this Semiannual Report may be found on the OIG Website at *http://www.ed.gov/about/offices/list/oig/index.html*. Interested individuals may sign up to receive email notification when a new report is issued by providing the information requested at: *http://www.ed.gov/about/offices/list/oig/areports.html*.

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

STUDENT FINANCIAL ASSISTANCE PROGRAMS

With over 6,000 postsecondary institutions, more than 3,000 lenders, 35 guaranty agencies, $82 billion in awards, and an outstanding loan portfolio of close to $500 billion in FY 2007, the Department must ensure that all entities involved in the programs are adhering to statutory and regulatory requirements. As the office responsible for administering the student aid programs, FSA must provide adequate oversight and demand accountability from its staff, program participants, and contractors to help protect these dollars from waste, fraud, and abuse. Compounding the challenges of administering these already complex and resource-intensive operations is the turmoil in the credit market, which spurred Congress to pass the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA)--a statute that provides the Department with authority to purchase loans from lenders and strengthening the Lender-of-Last Resort program. Errors, failure to plan effectively, or other problems with the design or implementation of these programs and initiatives would not only put a substantial amount of federal funds--potentially billions of dollars--at risk, but also may hinder a student's ability to acquire a federal loan, which is the goal of the law.

During this reporting period, OIG worked closely with FSA, providing audit guidance, assistance, and advice in matters to ensure that mechanisms are in place to ensure that ECASLA programs run as effectively as possible at all levels. This includes mechanisms for improved oversight activities, as other work concluded over the last six months shows a continued need for improved monitoring and oversight by FSA and participants in the student loan programs to ensure funds are provided only to eligible recipients.

In addition, OIG investigative staff continues to identify and pursue cases of fraud in student financial assistance programs. Summaries of these reports and examples of our work in this area are highlighted below.

Federal Student Aid Operations

OIG Efforts on Ensuring Continued Access to Student Loans Act of 2008 Programs and Operations

Utilizing the ECASLA authority, the Department designed two programs to provide liquidity to lenders to ensure that borrowers have access to student loans for the 2008-2009 academic year: the Loan Participation Purchase Program; and the Loan Purchase Commitment Program. Under these programs, the Department purchases participation interests in eligible loans held by lenders and purchases eligible loans from lenders. OIG participated in a non-audit advisory capacity on an inter-Departmental working group established to identify compliance activities for programmatic oversight.

A critical up-front compliance requirement for the programs is for the lender to have an Agreed-Upon Procedures Attestation Engagement performed and submitted to the Department within 60 days after the Department purchases participation interests in loans, or purchases the loans. The OIG is responsible for providing audit guidance to the independent accountants conducting these engagements. Thus far, we have completed the procedures for the Loan Participation Purchase Program that began in August, and the procedures for the Loan Purchase Commitment program that began in September will be completed in November 2008.

Department's Process for Granting Access to the National Student Loan Data System

During this reporting period, we concluded an inspection to evaluate FSA's process for granting identification numbers and passwords to external users (except for schools and borrowers) of the National Student Loan Data System (NSLDS) and to determine whether the level of access that FSA provides these external users was appropriate. Authorized under the *Higher Education Act of 1965*, as amended (HEA), NSLDS contains information about the federal financial aid history of HEA, Title IV loans and Pell Grants. NSLDS stores information about loans, grants, students, borrowers, lenders, guaranty agencies, schools, and servicers. This data is accessed and used by Department staff and contractors, as well as students, guaranty agencies, schools, student loan servicers and lenders, and entities in an eligible lender trustee arrangement.

Before applying for access to NSLDS, an external entity must first obtain an entity ID number assigned by FSA, such as a lender identification number. OIG investigations identified what appear to be unauthorized activities by external NSLDS users. In 2007, FSA temporarily suspended access to NSLDS by all external entities except schools and borrowers. After review of the access rules, FSA restored access to some users.

While our inspection found that the access given to guaranty agencies and state grant agencies is appropriate, this was not the case with other external entities. Specifically, FSA had not developed adequate procedures to oversee guaranty agencies' role in the lender identification number assignment process, had not developed effective controls for assigning lender identification numbers, and did not verify the required agreements between guaranty agencies and lenders. We also found that FSA did not provide adequate oversight of external users and did not establish equivalent security requirements for external users such as those that apply to internal users. In addition, we found that FSA does not ensure that external users accessing NSLDS have a business relationship with the borrower. FSA's weaknesses in granting access to external users increase the risk for inappropriate disclosure or unauthorized use of sensitive and personally identifiable information.

Based on our findings, we made a number of specific recommendations, including that FSA develop written procedures for assigning lender identification numbers and that it require lenders, lender servicers, and eligible lender trustees to confirm and identify the nature of the business relationship with the borrower before the borrower's record is accessed. FSA did not disagree with our inspection results and concurred with some of our recommendations. *Click here* for a copy of our report.

Estimation of Improper Payments in the Federal Family Education Loan Program

The Improper Payments Information Act of 2002 requires agencies to review annually and report on improper payments made in the programs and activities they administer. This is a three-step process: first, agencies must identify programs most susceptible to risk; second, they must estimate the annual amount of improper payments for those programs; and third, they must report on actions the agency is taking to reduce those improper payments in the agency's annual Performance and Accountability Report (PAR). The Office of Management and Budget (OMB) provides agencies with guidance on implementing the law's requirements, including directions on identifying at-risk programs and what would constitute a significant improper payment.

The Department identified the Federal Family Education Loan (FFEL) program as one of its programs most susceptible to risk. In September, we concluded an audit to assess FSA's methodology for estimating improper payments in the FFEL program in FY 2006 and FY 2007. We found that while FSA put forth a good effort and expended significant staff resources to identify the required estimates, the methodologies used for FY 2006 and FY 2007 were not reliable.

FSA used different methodologies for estimating the improper payment rates for the FFEL program that were reported for FY 2006 and FY 2007, and plans to use another methodology for FY 2008. FSA consulted with OMB during the design and execution of the methodologies used for its FY 2006 and FY 2007 estimates and generally followed the appropriate definitions and OMB guidance. In FY 2006, it relied on monetary findings in single audits, program audits, OIG audits, and FSA program reviews of guaranty agencies, lenders, and lender servicers to compile its estimate. This methodology was incomplete because it did not include monetary findings from audits and reviews of institutions of higher education, guaranty agency reviews of lenders, or OIG investigations, nor did it include improper payments self-identified by lenders or lender servicers. In FY 2007, FSA reviewed statistically selected samples of two types of payments--payments to lenders and payments to guaranty agencies--but its review process was incomplete: it did not verify all components of payments; and the estimated improper payments reported in the PAR were based on an interim calculation that did not include all improper payments. We understand that for FY 2008, FSA will be using a different methodology and has enlisted the support of the U.S. Department of Energy's Oak Ridge Laboratory to develop a more accurate estimate.

Based on our review and to improve the reliability of the improper payment rates for the FFEL program, we made a number of recommendations, including that FSA ensure that factors related to the use of previously conducted audits and reviews are taken into account or their effects mitigated in future estimations beginning with FY 2008, as well as ensuring that all methods of payment are taken into account when producing the estimate. FSA did not explicitly express concurrence with our findings and recommendations, but did state it would implement a methodology for estimating FFEL improper payments that meets OMB requirements. FSA also stated that it would finalize and report the estimated improper payment rate for FY 2007, disclose in future PARs when an interim calculation is used or there are other limitations in reported information, and update its policy and procedures to ensure consistency in information reported in future PARs. *Click here* for a copy of the report.

DEPARTMENT'S PROCESS FOR DISBURSING ACADEMIC COMPETITIVENESS GRANTS AND NATIONAL SCIENCE AND MATHEMATICS ACCESS TO RETAIN TALENT GRANTS

During this reporting period we concluded an audit that sought to identify and assess the adequacy of processes and controls established by FSA to ensure that students potentially eligible for an Academic Competitiveness Grant (ACG) or National Science and Mathematics Access to Retain Talent (SMART) Grant were appropriately identified and notified, that only eligible students have received grants under these programs, and that schools required to participate in the ACG and/or National SMART Grant program are doing so.

Passed as a part of the *Deficit Reduction Act of 2005*, the ACG and SMART Grant programs encourage students to take more challenging courses in high school and to pursue college majors in high demand in the global economy, such as science, mathematics, technology, engineering, and critical foreign languages. During the first completed year of the program, approximately $242 million in ACG funds were disbursed to 310,000 students, and approximately $206 million in SMART Grant funds were disbursed to 64,000 students.

While FSA had relatively little time to implement the programs on both the regulatory and operational levels, we found that it generally established adequate processes and controls over the ACG and SMART Grant programs. Certain processes related to compliance monitoring, however, were not formalized. FSA did not conduct sufficient follow-up to its outreach efforts with schools that did not participate in the programs, including verifying statements from schools regarding their eligibility; thus, funds may not have been made available to students who were eligible for an ACG or SMART Grant. As an example, we found that more than half of the non-participating, potentially ACG-eligible schools never responded to FSA's outreach efforts, and of the 23 percent of schools that responded to FSA's efforts by stating they were not eligible to participate in the program, over 70 percent of these schools appeared to be eligible to participate. We found similar results with the SMART Grant program, where more than half of the potentially eligible schools did not respond to FSA's outreach efforts, and of the schools that claimed they were ineligible to participate in the program, over 20 percent appeared to be eligible.

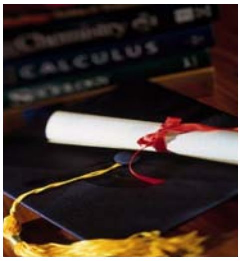
Based on our findings, we recommended that FSA establish and implement procedures for a formal, rigorous outreach and assessment process, and establish a program of administrative action to include fines and suspensions or termination from the Pell Grant program for schools that are required to but do not participate in the ACG and/or National SMART Grant programs. FSA concurred with our findings and recommendations. *Click here* for a copy of the report.

Title IV Program Participants

NEW YORK: TECHNICAL CAREER INSTITUTES, INC.

In May, we completed an audit of Technical Career Institutes, Inc.'s (TCI) administration of the federal Pell Grant and FFEL programs. The audit sought to determine whether TCI administered the programs in accordance with the HEA and applicable regulations, including institutional and program eligibility (excluding the 90 Percent Rule), student eligibility, award calculations and disbursements, and return of Title IV funds. During the time period reviewed, TCI received over $20.5 million in Title IV funding, which included over $10.5 million in Pell Grants and over $8.8 million in FFEL funds.

The audit found that while TCI met requirements for institutional, program, and student eligibility and for award calculations, it improperly paid over $440,400 to FFEL lenders to pay off its students' loans and prevent default, and it had internal control deficiencies in its administration of the Title IV programs. According to its officials, after it had problems with excessive cohort default rates, TCI implemented a default prevention policy intended to reduce those rates and maintain its eligibility to participate in the Title IV programs. Under its policy, TCI paid off some students' FFEL program loans, to prevent their default, and then attempted to collect the amounts of the loans, separately, from the students. Sec-



tion 435(m)(2)(B) of the HEA specifically addresses this practice: "A loan on which a payment is made by the school . . . in order to avoid default by the borrower, is considered as in default for purposes of [calculating a cohort default rate]." In addition, TCI lacked adequate written policies and procedures in several key areas, including the calculation and timely return of Title IV funds, the proper disbursement of Pell Grant funds, and the accurate and timely updating of the Common Origination and Disbursement System. TCI officials stated that its personnel had sufficient institutional knowledge and did not need formal written policies and procedures. As a result of its lack of internal controls, TCI placed over $20.5 million in Title IV funds at risk of being misused.

Our report included recommendations that FSA consider limiting, suspending, or terminating TCI's participation in the Title IV programs, based on its practice of making payments on its students' loans; calculate or recalculate TCI's affected cohort default rates; and require TCI to develop, implement, and ensure that its personnel adhere to written policies and procedures for the administration of Title IV programs. TCI did not concur with most of our findings or recommendations. *Click here* for a copy of the report.

Pennsylvania: Star Technical Institute's Upper Darby School

In August, we issued a report of our audit in which we sought to determine whether Star Technical Institute's Upper Darby (STI Upper Darby) school complied with the 90 Percent Rule of the HEA, and if it had sufficient, reliable accounting records to support its 90 Percent Rule calculations for FY 2003, 2004, and 2005. The 90 Percent Rule requires that proprietary institutions derive at least 10 percent of their revenues from non-Title IV sources and may include only revenue from sources independent of the institution. Institutions that fail to satisfy the 90 Percent Rule lose their eligibility to participate in Title IV programs. STI's Upper Darby school is one of seven STI locations in Delaware, New Jersey, and Pennsylvania. During the time period reviewed, STI's Upper Darby school received over $9.6 million in Title IV funds.

While its financial statements noted that STI's Upper Darby school met the 90 Percent Rule for the three years we examined, our review found that for the time period reviewed, the school did not comply with the 90 Percent Rule and did not have sufficient, reliable accounting records to support its 90 Percent Rule calculation, thus was ineligible to participate in Title IV programs. Specifically, we found that the school received more than 90 percent of its revenue from Title IV programs in the years reviewed (96.16 percent for FY 2003; 94.67 for FY 2004; and 92.67 for FY 2005), and that it improperly calculated and reported non-Title IV revenue in its financial statement reports. This included revenue from selling its accounts receivable to a collection agency used by STI, as a way to generate needed cash receipts and manage the 90-10 ratio. The President of STI also owned 100 percent of the collection agency, and the one and only employee was paid from STI's payroll account resulting in the collection agency and STI being related parties, thus making the revenue from the sale ineligible for inclusion in the school's 90-10 calculation.

Based on our findings, we made a number of recommendations including that FSA terminate STI's Upper Darby school from participation in the Title IV programs, and that it require STI's Upper Darby school to return over $9.8 million in Title IV monies it received after its FY 2003 failure to comply with the 90-10 Rule. STI did not concur with most of our findings and did not concur with our recommendations. *Click here* for a copy of the report.

Investigations

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

School Officials

Alabama - Gaither and Company Beauty College. The owner of the Gaither and Company Beauty College was sentenced in U.S. District Court, Birmingham, Alabama, to 30 months in prison, three years of supervised release, and was ordered to pay over $107,500 in restitution for fraud. Our investigation found that between 2004 and 2006, the owner operated a scheme to fraudulently obtain Pell Grant funds to pay tuition for students who would not otherwise have been eligible. The owner encouraged and directed her employees to encourage current and prospective students to apply for financial aid for which they were not qualified and falsified Free Application for Federal Student Aid (FAFSA) forms and submitted them to the Department for payment. The owner received these funds in the form of tuition payments which she used for her own use and benefit.

California - University of West Los Angeles Law School. The former financial aid director at the University of West Los Angeles law school was sentenced in U.S. District Court, Central District of California, to 21 months of incarceration, three years of probation, and was ordered to pay over $1.3 million in restitution for orchestrating a student financial aid fraud scam at the school. Our investigation disclosed that the former financial aid director entered into an agreement with middlemen to recruit individuals to participate in the scheme. The participants, who were not enrolled in the school and did not plan to enroll in the school, were given applications to apply for student aid, which they completed and returned to a middleman, which were then returned to the former financial aid director. The former financial aid director required most of the loan recipients to kickback approximately 50 percent of the loan amount. Also during this reporting period, one of the middlemen was sentenced to four months in prison, followed by three years of supervised release, and was ordered to pay over $157,000 in restitution. In addition to these sentences, 17 others have been charged for their roles in the scheme.

Puerto Rico - John Dewey College. The U.S. Department of Justice signed an agreement with John Dewey College wherein the school agreed to pay $300,000 to settle civil claims under the *False Claims Act*. The settlement is a result of our investigation that found that the school misled students into enrolling in a program that was not authorized by the Commonwealth of Puerto Rico Council on Higher Education; therefore the program was ineligible for federal funding. The school's staff falsely represented to students that the courses would lead to a Bachelor and/or Associate Degree knowing that the program was not authorized. School officials also submitted false claims to the Department in order to receive Pell Grant funds for the students enrolled in the ineligible program.

Puerto Rico - Instituto Irma Valentin. The former director of the Instituto Irma Valentin Arecibo Campus, a cosmetology school, pled guilty to charges of conspiracy to commit student financial aid fraud. Our investigation, conducted jointly with the Federal Bureau of Investigation (FBI), revealed that from January 2005 to August 2006, the school official, along with other school employees, falsified student records to avoid making Pell Grant refunds to the Department, as well as to allow the school to request, receive, and retain federal funds on behalf of ineligible students. As a result of these efforts, the school received over $102,000, which these individuals converted to their own use.

Individuals

Connecticut - Yale Student Sentenced. A former student at Yale University was sentenced in Superior Court of the Judicial District of New Haven, Connecticut, to five years of probation and ordered to pay over $41,000 in restitution for student financial aid fraud. Our investigation revealed that the former student provided false information about his prior college attendance, forged a recommendation letter from a former Columbia University professor, and lied about his age on his application to Yale.

New York - Escaped Murderer Sentenced. An escaped murderer was sentenced in U.S. District Court, Southern District of New York, to 46 months in prison, and was ordered to pay $4,000 in restitution for identity theft and student financial aid fraud. Our investigation revealed that the man utilized the identity of another individual to obtain federal and state financial aid for attendance at the State University of New York. Our fingerprint analysis determined that from 1995-2005 the man had been arrested in New York 12 times. Further analysis proved the man to be an escaped convict who was serving a 27 year prison sentence for murder in Puerto Rico.

Ohio - Father Sentenced. A father was sentenced in U.S. District Court, Southern District of Ohio, to 12 months in prison, three years of supervised release, 200 hours of community service, and was ordered to pay over $123,000 in restitution for social security and student financial aid fraud. Our investigation revealed that the man applied for and received federal financial aid for his daughter without her knowledge and fraudulently received disability insurance benefit payments.

Ohio - Former Corrections Officer Sentenced. A former corrections officer was sentenced in Warren County, Ohio court, to serve 12 months in prison, and was ordered to pay over $67,000 in restitution for her role in a student financial aid fraud scheme. Our joint investigation with the Warren County Sheriff's Office and the Pennsylvania Higher Education Assistance Agency determined that the former official and two co-conspirators falsified documents in order to obtain student loans for purported attendance at Sinclair Community College. They then used the funds for their personal benefit. As a result of their fraudulent efforts, they received over $100,000 in student financial aid to which they were not entitled.

South Carolina - Woman Featured on *America's Most Wanted* Pled Guilty. A woman pled guilty in U.S. District Court, Greenville, South Carolina, to charges related to student financial aid fraud. The woman received notoriety after she assumed the identity of a South Carolina girl who has been missing since 1999. This matter was featured in numerous national news programs including *America's Most Wanted*. Our investigation revealed that from 2004 to 2006, the woman applied for and received over $100,000 in student loans in the name of the missing girl. Authorities do not believe that the woman had anything to do with the missing girl's disappearance, but they are interested in talking to her for possible information.

ELEMENTARY, SECONDARY, AND POSTSECONDARY EDUCATION PROGRAMS

No Child LEFT BEHIND

In recent years we have increased the resources allocated to reviewing state educational agencies' (SEAs) and local educational agencies' (LEAs) compliance with specific provisions of the *Elementary and Secondary Education Act of 1965*, as amended by the *No Child Left Behind Act of 2001* (ESEA/NCLB) to help ensure that vital education funds are used as intended so they reach the needed recipients--America's school children. We have also increased our efforts in the area of postsecondary education to ensure that federally funded programs aimed at increasing high school graduates' access to and success in college are operating as intended. Work concluded during this reporting period shows that oversight and monitoring of the programs reviewed in the elementary, secondary, and postsecondary education areas continue to challenge the Department as well as the SEAs, LEAs, and other grantee organizations we reviewed--placing millions of taxpayer dollars at risk of waste, fraud, and mismanagement. You will find more on our reports and findings below, as well as summaries of our more significant investigations involving individuals in a position of trust to educate our children.

Elementary and Secondary Education

DEPARTMENT OVERSIGHT OF CONSOLIDATED STATE PERFORMANCE REPORTS

We issued an audit that sought to determine whether the Department provided sufficient oversight of graduation and dropout rates submitted by states in their Consolidated State Performance Reports to ensure that the rates were supported by reliable data. The audit came about as a result of four previously issued audits that assessed the reliability of graduation and dropout rates included in the Consolidated State Performance Reports from Oklahoma, South Dakota, Texas, and Washington. In each of these reports, we found that the data used to compute graduation and dropout rates were not always sufficiently reliable. We followed those audits with a review of pertinent accountability materials from all 50 states, the District of Columbia, and Puerto Rico, policy letters issued by the Department and 52 Title I monitoring reports prepared by the Department. As a result of our analysis, we determined that the Department could have provided better oversight to ensure that graduation and dropout rates submitted by states were supported by reliable data. Specifically, the Department did not put enough emphasis on data reliability and comparability across states. In addition, we could not find any steps designed to check the accuracy of graduation rate formulas or the accuracy of the underlying supporting data in the Department's guide for SEAs entitled, *Student Achievement and School Accountability Programs Monitoring Plan for Formula Grant Programs*. As a result, states used different formulas that did not provide a graduation rate that was consistent with requirements in the ESEA/NCLB.

Allowing states to use varying formulas not only results in graduation rates that are inaccurate, but also results in graduation rates that are not comparable among states. Data must be reliable as states and the public use graduation and dropout rates to evaluate school performance. The information can also be used to assess school, district, and state accountability. Finally, as one of the indicators in the ESEA/NCLB's requirement for adequate yearly progress, inaccurate graduation rates could result in schools being misidentified as not making adequate yearly progress.

Based on our findings we made several recommendations, including that the Department stress to the SEAs the importance of data quality and the need to provide regular guidance, training, and monitoring of their LEAs. The Department generally agreed with our finding and most of our recommendations. *Click here* for a copy of the report.

GRANTEE ACCOUNTABILITY

Michigan - School District of the City of Detroit

Title I, Part A of the ESEA/NCLB provides program funding aimed at helping LEAs and schools improve the teaching and learning of children who are failing, or most at-risk of failing, to meet challenging state academic standards. The Department provides funds to the SEAs for disbursement to LEAs and schools. During this reporting period, we concluded our examination of selected Title I, Part A expenditures by the School District of the City of Detroit (Detroit), the largest public school system in Michigan. During the 2004-2005 and 2005-2006 school years, Detroit spent over $257 million in Title I, Part A funds. The Michigan Department of Education was required to monitor Detroit's compliance with related rules and regulations. An audit submitted by Detroit for the year ending in June 30, 2006 noted a problem with Detroit's compliance with Title I, Part A program requirements. Also, a Detroit internal investigative report identified unallowable contracts that were paid with Title I funds. It also identified other contracts that should be reviewed for the same purpose. The internal report did not include expenditure amounts for the unallowable contracts.

Our audit sought to determine whether Detroit returned the Title I, Part A funds it received related to contracts for the 2004-2005 school year that a Detroit internal investigative report identified as unallowable; if expenditures related to selected Title I, Part A contracts for the 2004-2005 school year were adequately documented, reasonable, and allowable;

and if Title I, Part A personnel and non-personnel expenditures for the 2005-2006 school year were adequately documented, reasonable, and allowable.

We determined that the funds associated with the unallowable contracts identified by Detroit's internal investigation amounted to more than $1.7 million and that Detroit did not return these funds. We also found that Detroit used Title I, Part A funds for expenditures related to contracts for the 2004-2005 school year that were not adequately documented, reasonable, and allowable, and used Title I, Part A funds for personnel and non-personnel expenditures for the 2005-2006 school year that were not adequately documented, reasonable, and allowable. Specifically, we found that Detroit: charged over $1 million in unallowable personnel expenditures to the Title 1, Part A program; did not always support compensation charges with adequate and timely certifications, personnel activity reports, or employee insurance costs for a projected $49.5 million; and expended more than $3.2 million in Title I, Part A funds for non-personnel costs that were unallowable or inadequately documented.

Detroit's noncompliance occurred in part because the Michigan Department of Education did not provide adequate oversight of federal grant funds it distributed to Detroit. Also, Detroit did not have adequate policies and procedures in place to review Title I, Part A contracts, invoices, or employee insurance benefit costs to ensure they were adequately documented, reasonable, and allowable.

Based on our findings, we made 21 recommendations, including that the Department instruct the Michigan Department of Education to require Detroit to either provide adequate documentation to support over $52.2 million in expenditures or return that amount to the Department. Shortly after our report was issued, the Michigan Department of Education designated Detroit as a "high risk" grantee and placed it on a reimbursement method of payment for Department funds. *Click here* for a copy of our report.

Minnesota - Saint Paul Public Schools

During this reporting period, we concluded an audit to determine whether the Saint Paul Public Schools (Saint Paul), Minnesota's second largest school district, provided the required share of matching funds for its Teacher Quality Enhancement (TQE) grant and if it used TQE grant funds only for expenses that were allowable and in compliance with the plan set forth in the grant application. Our audit covered the period October 1, 2005, through May 31, 2007. In January 2007, the Department froze Saint Paul's TQE grant funds due to concerns over its program administration, resulting in Saint Paul using its own funds to continue the program over the last four months of our review period.

Our audit found that for the 2005-2006 grant year Saint Paul did not provide its required share of matching funds. As an example, Saint Paul had a matching requirement of approximately $323,000 for the grant year; however, it provided just over $163,000--more than $159,800 less than required. Because it did not meet the matching requirement, Saint Paul provided a diminished program which might not fully accomplish the goals intended for the program. In addition, we found that Saint Paul did not always use TQE grant funds for expenses that were allowable and in compliance with the plan set forth in its grant application.

Based on our findings, we made a number of recommendations, including that the Department require Saint Paul to provide adequate documentation for its matching funds or return over $100,600 to the Department and provide adequate documentation of its matching data to ensure any future match requirements are met. We also recommended that the Department require Saint Paul to provide evidence to the Department that it has enhanced its fiscal control and accounting procedures. Saint Paul concurred with our findings and recommendations and stated it has already implemented some of our recommendations. *Click here* for a copy of the report.

Missouri - St. Louis Public School District

In September, we concluded an audit to determine whether the St. Louis Public School District (St. Louis), the largest public school district in Missouri, used certain federal education program funds for costs that were allowable and in accordance with applicable laws, regulations, and grant provisions. The programs we examined were the ESEA/NCLB Title I, Part A Improving Basic Programs Operated by Local Educational Agencies funds, Reading First program funds, Improving Teacher Quality program funds, and funds associated with Part B of the *Individuals with Disabilities Education Act* (IDEA). Our audit covered the period July 1, 2005, through June 30, 2006, during which time St. Louis expended over $47 million for the four programs.

We found that while St. Louis generally used the Reading First funds appropriately, it did not always do so with funds for the other three programs. Contrary to the ESEA/NCLB and selected guidance and regulations governing the allowability of costs, St. Louis did not maintain effective control and accountability for all personal property purchased with grant funds and charged unallowable costs to the grants. Specifically, due to ineffective controls and a lack of accountability for its property, St. Louis could not account for 125 laptop computers at a cost of over $178,000. It also charged over $34,600 in Title I, Part A funds to two ineligible schools to cover personnel costs; did not provide adequate documentation to support over $57,600 in transportation costs for students participating in supplemental education services during the months of March and April of 2006; did not maintain time and effort certifications for employees whose salaries and benefits were charged to the programs totaling more than $491,000; and used over $2,000 in federal funds to purchase a laptop computer that was not necessary for the operation of its IDEA, Part B program.

As a result of our findings, we made several recommendations, including that the Department require the Missouri State Board of Education to require St. Louis to provide evidence that it has located or recovered the 125 laptop computers or return over $178,000, and provide adequate support or return to the Department more than $586,000 for the unallowable personnel costs, transportation costs, and extra laptop paid with Title I, Part A; Title II, Part A; and IDEA, Part B, funds. The Missouri Department of Elementary and Secondary Education concurred with our findings and generally concurred with our recommendations. *Click here* for a copy of the report.

Puerto Rico - University of Puerto Rico Cayey Campus

In May, we released an audit that sought to determine whether the Puerto Rico Department of Education (PRDE) followed federal and state laws in procuring services and awarding contracts to Excellence in Education, Inc. (EIE) and the University of Puerto Rico's Cayey campus (UPR-Cayey), and if it ensured that contract requirements were met prior to paying the contractors' invoices. EIE is a private corporation whose owner was a UPR-Cayey faculty member and the mother of a former PRDE official.

For the time period reviewed, PRDE awarded six contracts to EIE and UPR-Cayey totaling nearly $1.5 million. We examined two of these contracts: an award received by EIE for $542,800 in ESEA/NCLB Title V Innovative Program funds; and an award to UPR-Cayey for $154,000 in Title I Teacher and Principal Training and Recruiting funds. We found that PRDE did not comply with federal and state laws in awarding these contracts due to the existence of a conflict of interest. This occurred because PRDE did not have an effective recusal process in place for employee and contractor participation in the procurement and administration of contracts. We also found that PRDE did not ensure that contract requirements were met prior to paying EIE and UPR-Cayey's invoices, thus PRDE paid over $189,000 in excessive and unsupported charges: approximately $166,600 to EIE; and over $22,400 to UPR-Cayey.

Based on our findings, we made a number of recommendations, including that the Department require PRDE to establish an effective method for employees and contractors to ensure their independence prior to participating in the procurement and administration of contracts and determine whether a conflict of interest existed in the procurement and administration of the remaining contracts with EIE and UPR-Cayey. We also recommended that PRDE return to the Department more than $175,500 in excessive charges paid, and return or provide supporting documentation for more than $13,400 in unsupported charges. PRDE did not agree with our findings. *Click here* for a copy of the report.

Postsecondary Education

Department's Process for Awarding Prior Experience Points in the 2006 Educational Opportunity Centers and Talent Search Grant Competitions

During this reporting period, OIG released a report that sought to evaluate the appropriateness of the Department's awarding of points for prior experience in the 2006 Educational Opportunity Centers (EOC) and Talent Search grant competitions. The assignment was conducted at the request of 15 Members of Congress. Part of the federal TRIO programs authorized by the HEA, EOC and Talent Search are outreach programs designed to support students from disadvantaged backgrounds. The EOC program provides counseling and information on college admissions to qualified adults who want to enter or continue a program of postsecondary education. The Talent Search program provides academic, career, and financial counseling to its participants and encourages them to graduate from high school and continue on to a postsecondary institution. Each EOC grantee is required to serve a minimum of 1,000 participants each year, while each Talent Search grantee is required to serve a minimum of 600 participants each year.

The EOC and Talent Search programs hold grant competitions every four years. Applicants for grant awards include schools, non-profits, and other organizations. The Department evaluates and scores grant applications based on the project's need, objectives, plan of operation, applicant and community support, quality of personnel, budget, and evaluation plan. The maximum application score for these criteria is 100 points. The Department can also award a maximum of 15 additional points for prior grant experience as a means to encourage providers to continue in the programs.

Our inspection covered the 2006 award year, during which the Department received 335 EOC grant applications, 137 of which were assessed for prior experience points, and 125 of these were awarded grants. The threshold for the 2006 EOC grant awards was 100.33 out of a maximum of 115 points. For the 2006 Talent Search awards, the Department received 772 grant applications, 468 of which were awarded grants, and 400 of those were eligible for and received prior experience points. The threshold for these awards was 98.33 points out of a maximum of 115 points.

Our inspection found that the Department inappropriately awarded prior experience points for EOC and Talent Search applicants. Thus, some grantees that were near the funding threshold may have been wrongly denied awards, while other grantees may have been inappropriately awarded funds. Specifically, we found that the Department's awarding of prior experience points was not in compliance with regulations as it improperly awarded partial points, and did not evaluate an objective in the Talent Search competition. The Department also awarded points to grantees that did not meet minimum program requirements, made errors in the execution of its prior experience points assessment, and changed its process for awarding prior experience points without having the appropriate data to evaluate grantees.

As a result of our findings, we made a number of recommendations, including that the Department cease awarding partial prior experience points for future EOC and Talent Search grant competitions, cease awarding prior experience points to grantees that have not met minimum program requirements in the past, and ensure that the data used to assess prior experience is clearly identified and sufficiently documented to support the calculation for future awards. The Department concurred with some of our findings and recommendations and disagreed with others. *Click here* for a copy of our report.

Grantee Accountability

Project GRAD USA

Title V, Part D of the ESEA authorizes the Fund for the Improvement of Education--a grant program to support nationally significant programs to improve the quality of elementary and secondary education at the state and local levels. During this reporting period, we concluded an audit at Project GRAD USA (PG-USA), a private, not-for-profit organization with operations at 12 sites across the country, which received funds from the Fund for the Improvement of Education. Our audit sought to determine whether PG-USA properly accounted for and used these grant funds in accordance with relevant laws and regulations, and if it carried out the objectives specified in its 2005-2006 grant application.

We found that PG-USA did not account for and use grant funds in accordance with relevant laws and regulations. PG-USA charged over $13.8 million as pre-award costs to the grants without evidence that the costs benefited the upcoming grant period; it paid and reimbursed its program sites for over $17.5 million in unallowable and inadequately documented costs; and it did not adequately administer its contracts with sites or various vendors. As a result, PG-USA and its sites expended $3.3 to $5.4 million per year from its future grant to pay for current operations in each grant period, thus risking the availability of funds for operating expenses during that future grant period. PG-USA did not have reasonable assurance that grant funds were used only for allowable purposes, and could not provide reasonable assurance that it obtained fair and reasonable contract prices. We also found that while PG-USA generally carried out the objectives specified in its 2005-2006 grant application, it did not perform adequate monitoring of its sites. Specifically, PG USA did not complete the formal monitoring process outlined in the approved application, and it did not review required audits from all applicable sites. As a result, PG-USA and the Department did not have reasonable assurance that the funds allocated to these sites were used in compliance with the law, regulations, and the provisions of contracts, thus leaving federal dollars at risk for potential misuse without detection.

As a result of our findings, we made several recommendations, including that the Department require PG-USA to review $13.8 million charged as pre-award costs, identify and provide support for these costs that meet the criteria of a pre-award cost or return those funds to the Department; return over $1.4 in unallowable costs paid and reimbursed to sites; and provide documentation for over $16 million in inadequately documented costs or return that amount to the Department. PG-USA did not concur with our findings or recommendations. *Click here* for a copy of our report.

Teach for America

During this reporting period, we concluded an audit to determine whether Teach for America, Inc.'s discretionary grant expenditures were allowable and spent in accordance with federal laws and regulations. The time period examined was October 1, 2003, through September 30, 2005. Teach for America is a New York-based company focused on recruiting recent college graduates of all academic majors to commit two years to teach in urban and rural public schools. For the time period reviewed, Teach for America received six grants from the Department. Our audit examined three of these grants totaling some $6 million.

As required by federal law and regulations, recipients of federal funds must keep records which fully disclose the amount and disposition of those funds, along with the total cost of the activity for which the funds are used, the share of that cost provided from other sources, and any other records to help facilitate an effective financial or programmatic audit. Federal laws and regulations also require recipients to maintain these records for three years after the completion of the activity for which the funds are used. We randomly and judgmentally sampled over $1.5 million out of the total $6 million expended for the three discretionary grants and found that Teach for America could not adequately support about 50 percent of these expenditures, thus we could not determine whether these funds were spent for the intended grant purposes. Our sample consisted of 26 expenditures for salary and non-salary expenditures, where Teach for America was not able to provide adequate support for 17 of these expenditures, totaling nearly $775,000. Teach for America could not provide adequate supporting documentation for its charges to these grants because of significant deficiencies in its fiscal accountability controls. We also found that Teach for America did not use a professional accounting software package, and instead made use of manual input forms with hand-written notes to account for and support its charges to the grant. In addition, Teach for America lacked project identification numbers to track expenditures for two of the three discretionary grants. Without project numbers, the expenditures could not be properly identified and monitored.

Based on our findings, we recommended that the Department require Teach for America to provide support for the nearly $775,000 we identified or return the funds to the Department, as well as provide support for the remaining $4.4 million-plus in salary and non-salary discretionary grant expenditures or return the funds to the Department. We also recommended that Teach for America provide evidence that it has implemented a professional accounting system that would enable it to support, properly document, and monitor its grant expenditures as required by federal laws and regulations. Teach for America did not specifically concur or disagree with the finding and recommendations. *Click here* for a copy of the report.

Indiana State University

In July, we completed an audit to determine whether Indiana State University complied with selected provisions of law and regulations governing the administration of its Upward Bound and Upward Bound-Math Science (Math-Science) projects during the 2006-2007 grant year. These programs are authorized through the HEA to provide high school students from low income families, high school students from families in which neither parent holds a bachelor's degree, and low-income, first-generation military veterans who are preparing to enter college with opportunities to succeed in their pre-college performance and ultimately in their higher education pursuits. Indiana State was awarded over $370,000 for its Upward Bound project and over $222,900 for its Math-Science project. Both programs are required to serve a minimum number of 50 participants. The 2006-2007 grant year was the last year that the Department funded the school's Math-Science project.

Our audit found that while Indiana State met the minimum number of Math-Science participants, it did not serve the minimum number of Upward Bound participants. This was a repeat finding for the Upward Bound project, as the State Board of Accounts, in its 2005-2006 OMB Circular A-133 Single Audit report, found that both the Upward Bound and Math-Science programs did not serve the minimum number of students. We also found that the school did not always maintain effective control over its Upward Bound and Math-Science grant funds, did not always follow its established procedures for payroll, and did not always follow its established procedures for transportation expenditures, which resulted in employees using school vehicles for periods other than those that were initially requested and/or approved.

Based on our findings, we made several recommendations, including that the Department require Indiana State to return over $337,000 in Upward Bound funds expended during the 2006-2007 grant year, and ensure that Upward Bound staff members receive training on grant requirements for participant eligibility verification and document retention. Indiana State officials concurred with our findings, but did not agree with all of our recommendations. *Click here* for a copy of the report.

Investigations

Our investigations into suspected fraudulent activity by SEAs, LEAs, postsecondary educational institutions, and other federal education grantees have led to the arrest and conviction of a number of individuals for theft or misuse of federal education funds. Here are a few examples of our work in this area over the last six months.

School Officials

New Jersey - Stevens Institute of Technology. The former associate vice president at the Stevens Institute of Technology pled guilty in U.S. District Court, District of New Jersey, to conspiracy to embezzling approximately $264,000 in Upward Bound and other federal education funds designed to assist disadvantaged inner city New Jersey youth by preparing them for college admission. Our investigation revealed that the former official conspired with an alleged school consultant, who is currently a fugitive, to steal education funds by paying the consultant to create a computer database to track former students of the Upward Bound program. The former official submitted vendor invoices and purchase requisitions to improperly authorize $264,000 to the consultant for the database, causing the school to issue approximately 45 separate checks to the consultant over a 17-month period. No database was created or delivered to the school.

New York - William Floyd School District. The former treasurer of the William Floyd School District, Long Island, New York pled guilty to tax evasion in U.S. District Court, Eastern District of New York. The former official admitted that he failed to pay taxes on over $500,000 of income he received from 2000 to 2002 by writing checks to himself from the District's checking account and depositing them into his personal bank accounts. The plea is a result of our investigation, conducted jointly with the Internal Revenue Service Criminal Investigation Division, the FBI, the U.S. Attorney's Office for the Eastern District of New York, and the Suffolk County District Attorney's Office.

Pennsylvania - Community College of Philadelphia. The former director of the Adult Basic Education Program at the Community College of Philadelphia was convicted by a federal trial jury in U.S. District Court, Eastern District of Pennsylvania, on charges related to theft of federal funds. Our investigation, conducted jointly with the FBI and Internal Revenue Service Criminal Investigation Division, with assistance from the Philadelphia District Attorney's Office, found that the former director and five other individuals participated in a scheme to obtain federal funds for adult basic education courses that were not held, and for which teachers were paid without teaching courses. As a result of their efforts, the conspirators fraudulently received $224,000.

Puerto Rico - Puerto Rico Department of Education. The former administrative auxiliary of the PRDE's Community Integrated Services Program pled guilty in U.S. District Court, District of Puerto Rico, for his role in a program fraud scheme at PRDE's Community Integrated Services Program. The plea came about as a result of our investigation, conducted jointly with the FBI and the Puerto Rico Comptroller's Office that revealed that the former official, along with several colleagues and others, participated in a scheme whereby the staffers awarded personal service contracts to themselves, their family members, and fictitious employees for services that were never provided. As a result of the scheme, the individuals fraudulently received approximately $450,000 in funds that were to be directed to programs offering educational and vocational trainings and opportunities in special communities and public housing projects in Puerto Rico.

Texas - Brazosport Independent School District. Five former employees of the Brazosport Independent School District were sentenced in Brazoria County District Court for their roles in an embezzlement scheme. Orchestrated by the special programs director, who oversaw $1 million in federal education program funds each year, the scheme involved paying the employees for hours they did not work and for additional jobs that were never performed. In exchange for the unearned pay, participants agreed to kickback a portion of the funds to the special programs director, who was sentenced to serve six years in prison and was ordered to pay over $42,000 in restitution. Other participants received sentencing ranging from community service to probation and restitution ordered ranging from $1,380 to $30,900.

Texas - Dallas Independent School District. The former Chief Technology Officer at the Dallas Independent School District and the former co-owner and president of a district contractor, Micro Systems Engineering, Inc. were convicted by a federal jury in U.S. District Court, Northern District of Texas, for their roles in a bribery and money laundering scheme. A second former school official, the school district's former Deputy Superintendent and Chief Operating Officer who later became the Detroit School District Superintendent, was sentenced to one year probation, 80 hours of community service, and was ordered to pay a $5,000 fine for his role in the scheme. Our joint investigation with the FBI and the Anti-Trust Division of the Department of Justice found that the three participated in a scheme designed to unjustly enrich themselves through district technology contracts. The former Chief Technology Officer was in charge of procuring technology contracts for the district and provided Micro Systems with inside information enabling the company to obtain two lucrative contracts with the district worth approximately $120 million. In return, the former officer received access to a yacht owned by the contractor, along with other gratuities, including a position at Micro Systems for his son-in-law. The son-in-law received a second paycheck for no additional work and paid a portion of those funds to the former technology officer. The former Chief Operating Officer, who was a consultant for Micro Systems at the time, facilitated discussions between the company and the officer and received over $200,000 from the company in consulting fees. The former official submitted bogus invoices to Micro Systems reflecting work that was never performed to support the payment amounts.

Texas - Garland Independent School District. A bookkeeper with the Garland Independent School District for more than 22 years pled guilty in U.S. District Court, Northern District of Texas, to theft and embezzlement from a program receiving federal funds. Our investigation found that from 2006-2007, the bookkeeper created a fraudulent vendor contract purportedly to perform translation and interpretation services to the school district. She also submitted false invoices reflecting services the vendor provided. As a result of these fraudulent efforts, the bookkeeper received approximately $84,000 in federal education funds.

Washington, D.C. - $1.75 Million Settlement Reached with District of Columbia Public Schools. The U.S. Attorney's Office for the District of Columbia, in collaboration with the Civil Division of the U.S. Department of Justice, reached a $1.75 million settlement resolving allegations that the District of Columbia Public Schools system misused Migrant Education Program funds. The settlement is a result of our investigation that revealed that from 2001 to 2003, the school district falsely certified that it had eligible migratory children residing in the District and, as a result, obtained Migrant Education Program funding. In June 2005, a District of Columbia internal audit mandated by the Department revealed that none of the children included in its child count for 2003 were eligible to participate in the Migrant Education Program.

Washington, D.C. - District of Columbia Public Schools. The former Internal Audit Director for the District of Columbia Public Schools was sentenced in U.S. District Court, District of Columbia, to six months in prison, four months of home detention, and 24 months of probation, and was ordered to pay over $46,000 in restitution for theft of federal funds. Our investigation, conducted jointly with the District of Columbia-OIG and the

FBI, found that the former official liquidated approximately $500,000 from the financial accounts for New Vistas Public Charter School after the school's charter was revoked. He then diverted funds into an account he controlled and expended over $46,000 through ATM cash withdrawals.

Wisconsin - New Hope Institute of Science and Technology Charter School. The former director of the New Hope Institute of Science and Technology was sentenced in U.S. District Court, Eastern District of Wisconsin, to 20 months in prison, three years of supervised release, and was ordered to pay $200,000 in restitution for theft from a program receiving federal funds. The former director controlled the New Hope Child Development Corp., an umbrella corporation for the charter school, and a Wisconsin voucher school. Our joint investigation with the FBI found that the former director embezzled over $300,000 of the charter school's funds and used the funds for personal purchases, including luxury automobiles, furniture, funeral expenses, homes, vacations, clothing, and extensive cash withdrawals.

Grantees

Louisiana - Family Members Indicted. Three family members were indicted in U.S. District Court, Eastern District of Louisiana, on charges related to a fraud scheme involving federal funds. Our investigation, conducted jointly with the FBI, IRS, and the U.S. Department of Housing and Urban Development-OIG, alleges that the three controlled several non-profit and for-profit companies that obtained federal and state charitable and educational grants designed to assist needy, at-risk, and disadvantaged youth and other individuals in need of assistance. The three allegedly funneled grant funds in excess of $600,000 into bank accounts they controlled and used the funds for their personal benefit. A fourth family member, who performed clerical duties at various non-profit corporations controlled by her relatives and received approximately $90,000 in payments from the non-profits, pled guilty for her role in the scheme in June.

Puerto Rico - Contractor, Archdiocese Agree to Settlements. The U.S. Attorney's Office for the District of Puerto Rico reached a $930,000 agreement with PRDE contractor Servicios Educativos Docentes, Inc., and its owner, to resolve allegations of false claims involving federal education funds. The settlement is a result of our investigation that found that the company and its owner made false statements to receive PRDE contracts to provide training opportunities to teachers and principals of private schools in Puerto Rico totaling some $1.5 million. The U.S. Attorney's Office also reached a $175,000 settlement with the Superintendency of Catholic Schools of the San Juan Archdiocese for awarding similar contracts to Servicios Educativos Docentes.

INFORMATION SECURITY AND OTHER INTERNAL OPERATIONS

Given the billions of dollars that the Department distributes each year, Department managers must give top priority to conducting effective oversight and monitoring of programs, operations, and systems that maintain critical data in order to minimize vulnerability to waste, fraud, and abuse. OIG's reviews of the Department's internal operations and information systems security are designed to help improve the overall operation of this mission-focused agency. Our reviews seek to help the Department accomplish its objectives by ensuring the reliability and integrity of its data, its compliance with applicable policies and regulations, its ability to safeguard its assets, and that it is effectively and efficiently utilizing the taxpayer dollars with which it has been entrusted. Work concluded during this reporting period identified weaknesses in information security and information management, as well as a need for improved oversight of its travel program. Below you will find more information on our work in these areas.

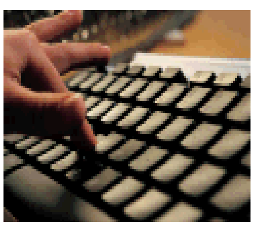
Information Security

Federal Information Security Management Act Reviews

The *E-Government Act of 2002* recognized the importance of information security to the economic and national security interests of the United States. Title III of the E-Government Act, entitled the *Federal Information Security Management Act of 2002* (FISMA), requires each federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. It also requires the Inspectors General to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of the agency's compliance with FISMA.

In support of our FY 2008 FISMA requirement, OIG performed three reviews of the security controls over the Department's Debt Management Collection Process, as administered by FSA. Below is a general presentation of our findings. We presented the Department with a series of recommendations for improvements and corrective actions. The Department concurred with the majority of our recommendations, and stated that our work provides the details for it to formulate a comprehensive action plan. As our FISMA audits fall under exemption (b)(2) of the *Freedom of Information Act*, we discuss only the general/public aspects of our working and findings. For security purposes and to maintain the integrity of the Department's critical data, these audits are not posted on our website or shared outside of officials channels.

In the first of our audits, or Phase I, we evaluated operational and technical security controls over the Debt Management Collection Process to determine whether those controls adequately protect the system and the information within, and if they reduced the likelihood of unauthorized access. Based on our review, we determined that FSA and the Department must improve operations and technical security controls in a number of areas, including: security awareness and training; contingency planning; incident response and handling; identification and authentication; access controls; and personnel security to adequately protect the confidentiality, integrity, and availability of the data residing in the system.



In our second audit, Phase II, we assessed whether IT security controls (management, operations, and technical) were in place to protect Department resources and whether FSA had effective controls in place, including the safeguarding of personal identifying information. During our audit, we identified a serious deficiency in FSA's monitoring and oversight of the outside contractor that hosts the system: system security controls were deficient and did not adequately protect the processing of financial student loan information. Based on our findings, we stressed that FSA must improve certain management, operational, and technical security controls to adequately protect its data.

In the third and final phase of the audit we evaluated the system security controls over FSA's invoices and payments to private collection agencies for the Debt Management Collection Process, including performance bonuses. We identified that FSA did not inventory, provide information security, or assess the internal controls for a major application. As a result, the Department's 2007 FISMA inventory report to OMB was understated. Additionally, based on our review, FSA must improve internal controls over information systems and operational security controls for contingency planning, media protection, and physical and environmental protection over the Debt Management Collection Process to adequately protect its data. Based on our findings, we made recommendations focused on improving internal controls over information systems and operational security.

Other Internal Operations

Department Controls over Travel Expenditures

In July, we issued an audit report that sought to evaluate the effectiveness of Department controls over the appropriateness of travel expenditures. The Department requires that travel be authorized only when necessary, to accomplish the purpose of the Department's mission in the most effective and economical manner. Two types of travel charge cards are used under the Department's program: individually billed accounts that are held and paid by the individual cardholders; and centrally billed accounts that are held and paid for by the Department's Principal Offices.

Overall, our audit found that Department controls over travel expenditures could be improved. First, we found that the individually billed accounts were not always used appropriately. Specifically, we found inappropriate purchases on the accounts both during and not during periods of official travel, Automated Teller Machine (ATM) withdrawals during official travel that exceeded allowances for the trip, ATM withdrawals that were not associated with official travel, and instances where the accounts was not used for all required official travel expenses. Inappropriate use of the travel card violates the terms of the contract with the travel card provider, represents abuse of a government-provided resource, and compromises the integrity of the Department. Second, we found that individually billed account oversight activities need improvement. We found Department officials did not always ensure that costs claimed on individual travel vouchers were accurate, allowable, and actually incurred by the traveler, and noted instances where travel expenditures claimed were not supported by proper documentation or adequate explanation. We also found that Department officials' oversight of the centrally billed accounts was not always effective: they did not always ensure these accounts were used as intended or effectively monitor account activity, and that these account charges were not always appropriately supported or reconciled. As a result, improper reimbursements were made to the cardholders and payments were made for services not received.

In addition, we found that individually billed account management practices should be enhanced. Specifically we found that: the accounts were not always cancelled for separating cardholders; infrequently used accounts were not always deactivated timely; individually billed accounts were issued to employees without a bona fide need; and credit worthiness checks for new individually billed account applicants had not been implemented timely. Our audit also revealed that corrective actions in response to prior audit recommendations were not properly implemented, appropriate disciplinary actions were not always taken for known misuse of the travel charge card, procedures for performing quarterly travel voucher audits were not documented and were not completed in accordance with stated requirements, and inappropriate Merchant Category Codes were not blocked. As a result, the Department is at increased risk for inappropriate charges, and it may have set an unwanted precedent that travel card misuse is not deemed serious. The Department agreed with our 21 recommendations and provided a corrective action plan to address each one of them. *Click here* for a copy of the report.

Department's Financial Disclosure Procedures

During this reporting period, we concluded an inspection to evaluate the adequacy of the Department's procedures to comply with the requirements of Section 306 of the FY 2008 Appropriations law. Section 306 required the Department to implement procedures to assess and disclose whether an individual or entity has a potential financial interest in, or impaired objectivity towards, a product or service involving Department funds. These procedures apply to Department officers and professional employees; contractors, subcontractors, and their employees; consultants and advisors; and peer reviewers. Section 306 required the OIG to evaluate the Department's procedures and report on their adequacy along with any recommendations for modifications within 60 days of implementation. Our work was limited to reviewing the written procedures; we did not review the implementation of the procedures. As required, we will review the implementation of the procedures in the coming months and will report our findings in the Semiannual Report to Congress.

Our inspection found that that the Department's procedures, if fully implemented as planned, are adequate to comply with the requirements of Section 306; however, we did find that one aspect of the Department's procedures for peer reviewers could be misinterpreted. As a result, we recommend that the Department modify its peer reviewer certification procedure to clarify the issue. The Department agreed with our finding. *Click here* for a copy of our report.

OTHER NOTEWORTHY EFFORTS

Nonfederal Audits

The Single Audit Act of 1984, as amended, requires entities, such as state and local governments, universities, and not-for-profit organizations that receive and expend $500,000 or more in federal funds in one year to conduct an annual audit. These audits provide the federal government with assurance that recipients of federal funds comply with laws and regulations, as well as any particular provisions that are tied with the specific funding. This audit provides the federal government with assurance that these recipients comply with such directives by having an independent external source (e.g., a Certified Public Accountant) report on such compliance.

With thousands of grantees participating in federal education programs, single audits are a critically vital tool in ensuring these grantees are fulfilling their obligations with the federal education funds they receive. The OIG Nonfederal Audit Team provides timely and valuable guidance to the numerous auditors who conduct single audits. We produce and update audit guides based on new laws and regulations. To help assess the quality of the thousands of single audits that the Department receives each year, OIG's Nonfederal Audit Team conducts quality control reviews (QCRs) by reviewing a sampling of audits each year.

Participants in Department programs are required to submit annual audits performed by independent public accountants. We perform QCRs of these audits to assess their quality. During this reporting period, we completed 43 QCRs of audits conducted by 40 different independent public accountants, or offices of firms with multiple offices. We concluded that 10 (23 percent) were acceptable or acceptable with minor issues, 24 (56 percent) were technically deficient, and 9 (21 percent) were substandard.

President's Council on Integrity and Efficiency

FORMER INSPECTOR GENERAL TO RECEIVE PRESTIGIOUS AWARD

In August, the President's Council on Integrity and Efficiency (PCIE) announced that it will present former Inspector General John P. "Jack" Higgins, Jr., with the June Gibbs Brown Career Achievement Award for his 40 years of service on behalf of America's taxpayers. This prestigious award recognizes and commends those individuals who made a sustained and significant contribution to the mission of the Inspectors General.

Inspector General Higgins began his career in the IG office of the U.S. Department of Health, Education, and Welfare in 1968, and was among the first employees in the U.S. Department of Education OIG when it became an independent agency in 1980. Inspector General Higgins was involved in all aspects of OIG operations at all levels, culminating in his Senate confirmation as Inspector General in 2002. In 2004, he became the Chair of the PCIE Audit Committee and led the Committee through numerous critical initiatives and projects, most notably the 2007 National Single Audit Sampling Project.

Financial Audit Manual

In July, the PCIE released the Financial Audit Manual--a joint project of the IG Community and Government Accountability Office (GAO)--to provide a methodology, audit tools, and checklists for IGs to utilize in performing their agencies' annual financial statement audits. A working group, led by OIG Financial Statement Internal Audit Team Director Greg Spencer, coordinated with GAO on a thorough and complete update of the manual to reflect the significant changes that have occurred in government auditing since the last major revisions to the manual in 2004. A copy of the revised manual was distributed to all IG offices, and is available on the GAO website at: *http://www.gao.gov/special.pubs/gaopcie/*

Deputy Assistant Inspector General Appointed to Federal Accounting Committee

During this reporting period, the PCIE Audit Committee named George Rippey, OIG Deputy Assistant Inspector General for Audit, to the Accounting and Auditing Policy Committee of the Federal Accounting Standards Advisory Board. The Board promulgates federal accounting standards which play a major role in fulfilling the government's duty to be publicly accountable. The Committee identifies and resolves accounting and auditing issues as they relate to federal financial reporting.

Reporting Requirements of the Inspector General Act, as Amended

Section	Requirement	Table Number
5(a)(1) and 5 (a)(2)	**Significant Problems, Abuses, and Deficiencies** Activities and Accomplishments	NA
5(a)(3)	**Uncompleted Corrective Actions** Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed	1
5(a)(4)	**Matters Referred to Prosecutive Authorities** Statistical Profile	7
5(a)(5) and 6(b)(2)	**Summary of Instances where Information was Refused or Not Provided**	NA
5(a)(6)	**Listing of Reports** OIG Audit Reports on Department Programs and Activities Other OIG Reports on Department Programs and Activities	2 3
5(a)(7)	**Summary of Significant Audits** Activities and Accomplishments	NA
5(a)(8)	**OIG Issued Audit Reports with Questioned Costs** OIG Issued Audit Reports with Questioned Costs	4
5(a)(9)	**OIG Issued Audit Reports with Recommendations for Better Use of Funds** OIG Issued Audit Reports with Recommendations for Better Use of Funds	5
5(a)(10)	**Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period** Unresolved Reports Issued Prior to April 1, 2008	6
5(a)(11)	**Significant Revised Management Decisions**	NA
5(a)(12)	**Significant Management Decisions with which OIG Disagreed**	NA
5(a)(13)	**Unmet Intermediate Target Dates Established by the Department Under the *Federal Financial Management Improvement Act of 1996***	NA

Table 1: Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed

Section 5(a)(3) of the IG Act as amended requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action.

Report Number	Report Title *(Prior Semiannual Report (SAR) Number and Page)*	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per Corrective Action Plan)
					Open	Completed	
Office of the Chief Financial Officer (OCFO)							
A19F0025	Controls Over Excessive Cash Drawdowns by Grantee (SAR 54, page 30)	12/18/06	9/28/2007		2	7	12/31/09
Office of the Chief Information Officer (OCIO)							
A11F0002	Review of the Department's Incident Handling Program and EDNet Security Controls *(OCIO designated as lead action official and OCFO and Federal Student Aid (FSA) as other action officials)* (SAR 52, page 28)	10/6/05	11/16/05		6	3	1/15/09
A11F0006	Audit of the Department's IT Contingency Planning Program – Asset Classification (SAR 52, page 28)	1/31/06	5/25/06		4	0	1/15/09
A11G0001	Review of the Department's Incident Handling Program and Intrusion Detection System *(FSA and the Office of the Under Secretary(OUS) designated as action officials)* (SAR 53, page 24)	9/28/06	11/17/06		0	10	*
A11G0002	System Security Review of the Education Data Center FY 2006 (SAR 53, page 25)	9/28/06	4/9/07		5	9	1/15/09

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target Date (Per Corrective Action Plan)
					Open	Completed	
A11G0004	Department's Online Privacy Policy and Protection of Sensitive Information Review *(OUS also designated as action official)* (SAR 53, page 25)	9/29/06	11/17/06		1	1	1/15/09
A19F0009	Telecommunications Billing Accuracy (SAR 52, page 28)	2/1/06	3/22/06		4	3	1/15/09
Office of the Deputy Secretary (ODS)							
A09E0014	Departmental Actions to Ensure Charter Schools' Access to Title I and IDEA Part B Funds *(OESE and OSERS also designated as action officials)* (SAR 50, page 22)	10/26/04	1/10/05		1	5	9/30/08
Office of Elementary and Secondary Education (OESE)							
A07F0014	The U. S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Program Provisions (SAR 52, page 29)	12/29/05	7/10/2007		4	0	7/1/08
Office of Management (OM)							
A19G0007	Audit of the Department's FY 2005 IT Equipment Inventory *(OCFO also designated as action official)* (SAR 54, page 32)	11/29/06	1/8/07		1	7	2/18/09
Office of Postsecondary Education (OPE)							
A19G0001	Audit of the Discretionary Grant Award Process in OPE (SAR 55, page 29)	4/16/07	6/4/07		1	0	12/29/08

* Closure of audit was not completed in the Department's audit tracking system, the Audit Accountability and Resolution Tracking System (AARTS) by the end of reporting period (9/30/2008).

Table 2: OIG Audit Reports on Department Programs and Activities (April 1, 2008, through September 30, 2008)

Section 5(a)(6) of the IG Act as amended, requires a listing of each report completed by OIG during the reporting period.

Report Number	Report Title	Date Issued	Questioned Costs [1]	Unsupported Costs	Number of Recommen-dations
AUDIT REPORTS					
FSA					
A02H0007	Technical Career Institutes, Inc.'s Administration of the Federal Pell Grant and Federal Family Education Loan Programs	5/19/08	$6,458		13
A03H0009	Star Technical Institute's Upper Darby School's Compliance with the 90 Percent Rule	8/15/08	$9,830,436		3
A09H0015	FSA's Estimation of Improper Payments in the Federal Family Education Loan Program	9/25/08			7
A11I0002	IT Security Controls Over the Debt Management Collection Process, Phase I, FY 2008 *(OCIO also designated as action official)*	9/30/08			42
A11I0003	IT Security Controls over the Debt Management Collection Process, Phase II, FY 2008 *(OCIO also designated as action official)*	9/30/08			41
A11I0009	IT Security Controls Over the Debt Management Collection Process, Phase III, FY 2008 *(OCIO also designated as action official)*	9/30/08			14
A19H0011	Audit of the Department's Process for Disbursing ACG and SMART Grants	8/1/08			2
OCFO					
A02H0003	Teach for America, Inc., Review of the Department's Discretionary Grant Awards *(Although report designates OII as action official, OCFO resolves all discretionary grant audits)*	6/5/08		$5,240,654	5
A05H0016	Saint Paul Public School's Teacher Quality Enhancement Grant *(OPE also designated as action official)*	5/23/08	$124,646[2]		7
A05I0009	Indiana State University's Compliance with Selected Provisions of Law and Regulations for the Upward Bound and Upward Bound Math-Science Programs *(OUS also designated as action official)*	7/03/08	$337,077		3

Report Number	Report Title	Date Issued	Questioned Costs[1]	Unsupported Costs	Number of Recommen-dations
A06H0002	Review of Project GRAD USA's Administration of Fund for the Improvement of Education Grants *(OII also designated as action official)*	7/21/08	$1,484,888	$29,899,715	11
A19H0009	Department Controls Over Travel Expenditures	7/1/08	$540	$5,109	21
OESE					
A04H0011	Puerto Rico Department of Education's Administration of Contracts Awarded to Excellence in Education, Inc. and the University of Puerto Rico's Cayey Campus	5/20/08	$175,536	$13,475	10
A05H0010	The School District of the City of Detroit's Use of Title I, Part A Funds Under the NCLB	7/18/08	$1,388,805	$52,230,054	21
A06H0001	Audit of Selected Portions of the Department's Oversight of the Consolidated State Performance Reports	4/4/08			6
A07H0017	St. Louis Public School District's Use of Selected Department Grant Funds *(OSERS also designated as action official)*	9/29/08	$2,408	$762,593	7
Totals			**$13,350,794**	**$88,151,600**	**213**

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

[2] For Audit Report A05H0016, included in this $124,646 figure is $100,675 of questioned cost and $23,971of monetary recoveries made during audit.

Table 3: Other OIG Reports on Department Programs and Activities (April 1, 2008, through September 30, 2008)

Section 5(a)(6) of the IG Act as amended, requires a listing of each report completed by OIG during the reporting period.

Report Number	Report Title	Date Issued
FSA		
I13H0006	Review of the Department's Process for Granting Access to the National Student Loan Data System[1] *(Inspection Report)*	7/24/08
INSTITUTE OF EDUCATION SCIENCES		
I13G0002	The Department Has No Assurance That Research Institutions Will Handle Allegations of Research Misconduct in Accordance with the Requirements Established by the Office of Science and Technology Policy[1] *(Inspection Alert Memorandum)*	6/11/08
OFFICE OF GENERAL COUNSEL (OGC)		
I13I0004	Inspection to Evaluate the Adequacy of the Department's Procedures in Response to Section 306 of the Fiscal year 2008 Appropriations Act – Maintenance of Integrity and Ethical Values Within the Department[1] *(Inspection Report – Congressional Request with recommendations made to the Department, OGC designated as action official by the Office of the Secretary)*	4/21/08
OPE		
I13I0001	Review of the OPE's Awarding of Prior Experience Points in the 2006 Educational Opportunity Centers and Talent Search Grant Competitions[1] *(Inspection Report)*	9/8/08
OFFICE OF THE SECRETARY		
L04I0040	The Government of the Virgin Islands Has Not Fully Implemented a Credible Financial Management System to Manage Department Funds[2] *(Alert Memorandum – State and Local No. 08-05)*	5/9/08
L05I0010	The Department Should Designate the School District of the City of Detroit as a High-Risk Grantee[2] *(Alert Memorandum – State and Local No. 08-06)*	8/15/08

DESCRIPTION OF TABLE 3 PRODUCTS

[1] I13H0006 made eleven non-monetary recommendations.
I13G0002 made two non-monetary recommendations.
I13I0004 made two non-monetary recommendations.
I13I0001 made six non-monetary recommendations.

[2] L04I0040 made four non-monetary suggestions.
L05I0010 made two non-monetary suggestions.

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

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

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

Section 5(a)(8) of the IG Act as amended requires for each reporting period a statistical table showing the total number of audit reports, the total dollar value of questioned and unsupported costs, and responding management decision.

		Number	Questioned[2] Costs	Unsupported [3] Costs
A.	For which no management decision was made before the commencement of the reporting period (as adjusted)	46[4]	$720,884,180[4]	$213,144,784
B.	Which were issued during the reporting period	10	$101,502,394	$88,151,600
	Subtotals (A + B)	56	$822,386,574	$301,296,384
C.	For which a management decision was made during the reporting period	7	$4,299,052	$434,259
	(i) Dollar value of disallowed costs		$4,293,403	$429,150
	(ii) Dollar value of costs not disallowed		$5,649	$5,109
D.	For which no management decision was made by the end of the reporting period	49	$818,087,522	$300,862,125
E.	For which no management decision was made within six months of issuance	40	$716,590,778	$212,715,634

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

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

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

[4] Adjustment necessary as A03-G0014, resolved 1/25/08, had been inadvertently included in beginning figures.

Table 5: OIG Issued Audit Reports with Recommendations for Better Use of Funds[1]			
Section 5(a)(9) of the IG Act as amended, requires for each reporting period a statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use by management.			
		Number	**Dollar Value**
A.	For which no management decision was made before the commencement of the reporting period (as adjusted)	1	$327,577
B.	Which were issued during the reporting period	0	$0
	Subtotals (A + B)	1	$327,577
C.	For which a management decision was made during the reporting period (i) Dollar value of recommendations that were agreed to by management (ii) Dollar value of recommendations that were not agreed to by management	 0 0	 $0 $0
D.	For which no management decision was made by the end of the reporting period	1	$327,577
E.	For which no management decision was made within six months of issuance	1	$327,577

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

Table 6: Unresolved Reports Issued Prior to April 1, 2008

Section 5(a)(10) of the IG Act as amended, requires a listing of each report issued before the commencement of the reporting period for which no management decisions had been made by the end of the reporting period. (Status below represents comments provided by the Department, comments agreed to, or documents obtained from the Department's tracking system, AARTS.)

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommendations
New Since Last Reporting Period				
FSA				
A05G0017	Capella University's Compliance with Selected Provisions of the HEA and Corresponding Regulations *(SAR 56, pg. 25)*	3/7/08	$589,892	9
	Current Status: *AARTS shows FSA administrative stay was approved on 7/9/2008.*			
A05G0029	Wilberforce University's Administration of HEA, Title IV Programs *(SAR 56, pg. 25)*	3/21/08	$2,472,781	25
	Current Status: *AARTS shows FSA administrative stay was approved on 9/24/2008.*			
OCFO				
A09H0014	San Diego Unified School District's Use of Federal Funds for Costs of Its Supplemental Early Retirement Plan	12/18/07	$1,904,918	1
	Current Status*:* *OCFO informed us that it needs to review and analyze information that it recently received from the entity.*			
OESE				
A02G0020	Elizabeth Public School District Allowability of ESEA Title I, Part A Expenditures *(SAR 56, pg. 25)*	10/9/07	$1,946,925	14
	Current Status*:* *OESE informed us that additional documentation was requested from the auditee.*			
A02H0006	Audit of the Virgin Islands Department of Education's 2003 Reopened Consolidated Grants *(SAR 56, pg. 25)*	1/29/08		2
	Current Status: *A draft Program Determination Letter (PDL) was submitted in AARTS on 9/30/2008 and is being reviewed by OIG.*			
A04G0015	Audit of Georgia Department of Education's Emergency Impact Aid Program Controls and Compliance *(SAR 56, pg. 26)*	10/30/07	$9,977,242	9
	Current Status: *OESE informed us that its program team is working with the states to reconcile pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A05G0032	Ohio Department of Education's Administration of its Migrant Education Program *(SAR 56, pg. 26)*	1/8/08	$30,000	6
	Current Status: *OESE informed us this audit is in legal review.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
Reported in Previous SARs				
FSA				
A02H0005	EDUTEC's Administration of the Federal Pell Grant Program *(SAR 55, pg. 27)*	9/27/07	$83,000	5
	Current Status: *AARTS shows FSA administrative stay extension was approved on 9/24/2008.*			
A04B0015	Review of Cash Management and Student Financial Assistance Refund Procedures at Bennett College *(OPE designated as collateral action office for this report) (SAR 45, pg. 16)*	9/26/02	$997,313	7
	Current Status*:* FSA informed us that it will work on getting the audit closed in AARTS by 12/31/2008.			
A04B0019	Advanced Career Training Institute's Administration of the Title IV HEA Programs *(SAR 47, pg. 13)*	9/25/03	$7,472,583	14
	Current Status: *FSA informed us the audit was previously closed in Department's previous tracking system the Common Audit Resolution System, and that. FSA will work on getting this audit closed in AARTS by 12/31/2008. The required documents for resolution are needed in AARTS before this audit is officially resolved.*			
A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown *(SAR 49, pg. 14)*	9/23/04	$2,458,347	7
	Current Status: *FSA informed us that it is still waiting on policy decision to address and resolve this audit**.***			
A05E0013	Audit of the Administration of the Student Financial Assistance Programs at the Ivy Tech State College Campus in Gary, Indiana, During the Period July 1, 2002, through June 30, 2003. *(SAR 50, pg. 21)*	2/25/05	$1,645,160	3
	Current Status: *FSA informed us that the audit was closed on 1/22/2007 and that it will work on getting this audit closed by 12/31/2008 in AARTS. The required documents for resolution are needed in AARTS before this audit is officially resolved**.***			
A0670005	Professional Judgment at Yale University *(SAR 36, pg.18)*	3/13/98	$5,469	3
	Current Status: *FSA informed us that it is still waiting on a policy decision to address and resolve this audit**.***			
A0670009	Professional Judgment at University of Colorado *(SAR 37, pg.17)*	7/17/98	$15,082	4
	Current Status: *FSA informed us that it is still waiting on a policy decision to address and resolve this audit.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A06D0018	Audit of Saint Louis University's Use of Professional Judgment for the Two-Year Period from July 2000 through June 2002 *(SAR 50, pg. 21)*	2/10/05	$1,458,584	6
	Current Status*: FSA informed us that it is still waiting on a policy decision to address and resolve this audit.*			
A06F0018	Philander Smith College's Administration of Title IV Student Financial Assistance Programs Needs Improvement *(SAR 54, pg. 29)*	11/2/06	$476,167	20
	Current Status*: FSA informed us that it is working on this audit.*			
A06H0009	Career Point Institute's Administration of Title IV HEA Programs *(SAR 55, pg. 27)*	9/28/07	$4,178	2
	Current Status*: FSA informed us that the audit was closed on 2/14/2007 and it will work in getting this audit closed in AARTS by 12/31/2008.*			
A06H0010	Eagle Gate College's Administration of Title IV HEA Programs *(SAR 55, pg 27)*	9/28/07	$2,630	6
	Current Status: *FSA informed us that it is currently working on this audit.*			
A0723545	State of Missouri, Single Audit Two Years Ended June 30, 1991	4/1/93	$1,048,768	18
	Current Status: *FSA informed us it is currently researching options to resolve this issue.*			
A0733123	State of Missouri, Single Audit Year Ended June 30, 1992	3/7/94	$187,530	18
	Current Status*: FSA informed us it is currently researching options to resolve this issue.*			
A09D0024	American River College's Compliance with Student Eligibility Requirements for Title IV Student Financial Assistance Programs *(SAR 50, pg. 21)*	12/1/04	$3,024,665	3
	Current Status: *FSA informed us that it will work on getting this audit closed in AARTS by 12/31/2008.*			
N0690010	Inspection of Parks College's Compliance with Student Financial Assistance Requirements *(SAR 40, pg. 18)*	2/9/00	$169,390	1
	Current Status*: Audit was previously not in AARTS when SAR 55 was completed, audit has been now been added into AARTS. FSA will work on getting this audit closed in AARTS by 12/31/2008. Required documents for resolution of this report are needed in AARTS.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
OCFO				
A03F0010	The Education Leaders Council's Drawdown and Expenditure of Federal Funds *(OII also designated as action official) (SAR 52, pg. 8)*	1/31/06	$760,570	12
	Current Status: *OCFO informed us that the resolution activities continue to be suspended.*			
A05D0041	University of Illinois at Chicago's Upward Bound Project *(OPE also designated as action official*) (*SAR 50, pg. 22)*	12/20/04	$223,057	8
	Current Status*:* *OCFO informed us that additional time is needed to continue to review and analyze data provided by the auditee.*			
A05E0002	Audit of the University of Illinois at Chicago's Student Support Services Program *(OPE also designated as action official) (SAR 50, pg. 22)*	12/15/04	$260,050	6
	Current Status: *OCFO informed us that additional time is needed to continue to review and analyze data provided by the auditee.*			
A05E0018	University of Illinois at Chicago's Upward Bound Math and Science Project *(OPE also designated as action official) (SAR 50, pg. 22)*	12/17/04	$274,493	7
	Current Status: *OCFO informed us that additional time is needed to continue to review and analyze data provided by the auditee.*			
A07D0002	Audit of the Talent Search Program at Case Western Reserve University *(SAR 47, pg. 14)*	7/11/03	$212,428	5
	Current Status*:* *OCFO informed us that it is currently working with the entity to determine the amount of funds to be returned to the Department.*			
A09F0010	Pittsburg Pre-School and Community Council, Inc.'s Use of Early Reading First and Migrant Education Even Start Grant Funds *(OESE also designated as action official) (SAR 52, pg. 9)*	3/17/06	$910,217	21
	Current Status: *OCFO informed us that additional time is needed to continue to review and analyze data provided by the auditee.*			
OESE				
A02G0002	Audit of New York State Education Department's Reading First Program *(SAR 54, pg. 31)*	11/3/06	$215,832,254	8
	Current Status: *OESE informed us this audit is pending continued discussions with OIG on resolution.*			
A03G0006	The Department's Administration of Selected Aspects of the Reading First Program *(OCFO also designated as an action official) (SAR 54, pg. 31)*	2/22/07		3
	Current Status: *OESE informed us that this audit has on-going corrective action.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A04F0011	Audit of the Georgia Department of Education's Migrant Education Program *(SAR 52, pg. 4)*	1/12/06		7
	Current Status*: OESE informed us the PDL was issued on 9/29/08. The required documents for resolution of this audit were not in AARTS by the end of report period (9/30/2008).*			
A04G0012	Audit of Mississippi Department of Education's Emergency Impact Aid Program Controls and Compliance *(SAR 55, pg. 28)*	8/8/07	$3,192,395	4
	Current Status: *OESE informed us that its program team is working with states to reconcile the pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A05G0020	Audit of the Alabama State Department of Education's and Two Selected LEAs' Compliance with Temporary Emergency Impact Aid Program Requirements *(SAR 55, pg. 28)*	9/27/07	$4,579,375	5
	Current Status: *OESE informed us that its program team is working with states to reconcile the pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A05G0031	Columbus City School District's Compliance with Financial Accountability Requirements for Expenditures Under Selected NCLB Programs *(SAR 55, pg. 29)*	6/20/07	$48,158	8
	Current Status: *A draft PDL was submitted in AARTS on 9/30/2008 and is being reviewed by OIG.*			
A05G0033	Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirements *(SAR 55, pg. 29)*	6/7/07	$16,809,020	8
	Current Status: *A draft PDL was submitted in AARTS on 9/30/2008 and is being reviewed by OIG.*			
A06E0008	Audit of the Title I Funds Administered by the Orleans Parish School Board for the Period July1, 2001, through December 31, 2003 *(SAR 50, pg. 23)*	2/16/05	$73,936,273	7
	Current Status: *OESE informed us this audit is currently pending review of additional workpapers.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A06F0013	Oklahoma State Department of Education's Migrant Education Program *(SAR 52, pg. 4)*	3/21/06	$509,000	3
	Current Status: *OESE informed us the PDL was issued on 9/30/08. The required documents for resolution of this audit were not in AARTS by the end of report period (9/30/2008).*			
A06F0016	Arkansas Department of Education's Migrant Education Program *(SAR 53, pg. 25)*	8/22/06	$877,000	2
	Current Status: *AARTS shows OESE administrative stay extension was approved on 8/22/2008.*			
A06G0009	Audit of the Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable LEAs (*SAR 55, pg. 29)*	9/18/07	$10,270,000	4
	Current Status: *OESE informed us that its program team is working with the states to reconcile the pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A06G0010	Louisiana Department of Education's Compliance with Temporary Emergency Impact Aid for Displaced Students Requirements *(SAR 55, pg. 29)*	9/21/07	$6,303,000	4
	Current Status: *OESE informed us that its program team is working with the states to reconcile the pupil data submitted for reimbursement for displaced children due to Hurricanes Katrina and Rita.*			
A09F0024	California Department of Education's Migrant Education Program *(SAR 54, pg. 31)*	12/1/06	See Note 1	6
	Current Status: *AARTS shows OESE administrative stay extension was approved on 8/22/2008.*			
OPE				
A07B0011	Audit of Valencia Community College's Gaining Early Awareness and Readiness for Undergraduate Programs Matching Requirement *(SAR 47, pg. 15)*	5/8/03	$1,822,864	5
	Current Status: *OPE informed us that OPE and OGC are revising the PDL based on additional documentation received.*			
OSERS				
A02B0014	Audit of the Puerto Rico Vocational Rehabilitation Administration *(SAR 45, pg. 18)*	6/26/02	$15,800,000	5
	Current Status: *OSERS informed us that the PDL "was uploaded 8/09/05 but could not open due to the incorrect naming convention of the file." The PDL was uploaded again 10/7/08 which was after the close of this reporting period.*			

Report Number	Report Title *(Prior SAR Number and Page)*	Date Issued	Total Monetary Findings	Number of Recommen-dations
A02E0020	The Virgin Islands Department of Health's Administration of the Infants and Toddlers Program *(SAR 51, pg. 28)*	9/28/05	See Note 2	17
	Current Status: *OSERS informed us the staff will meet to discuss next steps toward resolution of the findings.*			
A06F0019	Results of five audits of the IDEA, Part B requirements at schools under the supervision of the Department of Interior's Bureau of Indian Affairs (BIE) *(Report was addressed to the Bureau of Indian Education, Department of the Interior) (SAR 54, pg. 32)*	3/28/07	$328,000,000	6
	Current Status: *OSERS informed us that a teleconference was held on October 1, 2008 with BIE concerning the status of BIE's response to audit findings. Staff will meet with OGC in early November 2008 to discuss next steps toward resolution of the findings.*			
	TOTAL		**$716,590,778**	**344**

Note 1 - We identified significant numbers of ineligible children in this report, but did not project estimated questioned costs. We recommended that more thorough reviews be conducted to determine the total numbers of ineligible children and the return of funds expended for the ineligible children found.

Note 2 - We identified $327,577 in one-time better use of funds in audit number A02E0020.

Table 7: Statistical Profile: FY 2008	Six-Month Period Ending 3/31/2008	Six-Month Period Ending 9/30/2008	FY 2008 Total
OIG Audit Reports Issued	18	16	34
Questioned Costs	$45,444,898	$13,350,794	$58,795,692
Unsupported Costs	$5,483,187	$88,151,600	$93,634,787
Recommendations for Better Use of Funds	$0	$0	$0
Other OIG Products Issued *(Includes inspection reports, alert memoranda, audit closeout letter/memoranda, attestation reports, management information reports, and special products.)*	13	6	19
OIG Audit Reports Resolved By Program Managers	24	13	37
Questioned Costs Sustained	$283,533,367	$3,864,253	$287,397,620
Unsupported Costs Sustained	$23,056,577	$429,150	$23,485,727
Additional Disallowances Identified by Program Managers	$6,230,017	$107,543	$6,337,560
Management Commitment to the Better Use of Funds	$892,000,000	$0	$892,000,000
Investigative Case Activity			
Cases Opened	74	66	140
Cases Closed	56	45	116[1]
Cases Active at the End of the Reporting Period	399	408	408
Prosecutorial Decisions - Accepted - Denied	128 53 75	114 54 60	299[2] 129[3] 170[4]
Investigative Results			
Indictments/Informations	38	68	109[5]
Convictions/Pleas	37	58	96[6]
Fines Ordered	$14,094	$22,800	$39,894[7]
Restitution Payments Ordered	$1,645,766	$3,229,468	$4,875,235
Civil Settlements/Judgments (number)	9	13	22
Civil Settlements/Judgments (amount)	$2,495,593	$4,844,573	$7,340,166
Recoveries	$2,053,474	$4,160,463	$6,285,836[8]
Forfeitures/Seizures	$0	$0	$0
Estimated Savings	$10,684,068	$305,940	$15,216,282[9]

[1] Includes 15 closed cases that were not reflected in SAR 56
[2] Includes 57 cases that were not reflected in SAR 56
[3] Includes 22 cases that were not reflected in SAR 56
[4] Includes 35 cases that were not reflected in SAR 56
[5] Includes 3 cases that were not reflected in SAR 56
[6] Includes 1 additional conviction/plea that was not reflected in SAR 56
[7] Includes $3,000 that was not reflected in SAR 56
[8] Includes $70,730 that was not reflected in SAR 56.
[9] Includes $4,226,273 in savings not reflected in SAR 56

U.S. Department of Education
Margaret Spellings
Secretary

Office of Inspector General
Jerry Gayle Bridges
Acting Inspector General

November 2008

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