

Statement of

JOHN P. HIGGINS, JR.

ACTING INSPECTOR GENERAL
U.S. DEPARTMENT OF EDUCATION



Before the
SUBCOMMITTEE ON LABOR,
HEALTH AND HUMAN SERVICES
AND EDUCATION

Committee on Appropriations
United States House of Representatives

Regarding

PROPOSED FISCAL YEAR 2000
BUDGET REQUEST
APRIL 28, 1999

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss our Fiscal Year (FY) 2000 budget request to support salaries and expenses of the Department of Education's Office of Inspector General.

I would like to submit my statement for the record and present a short summary of it for the Committee.

PURPOSE OF OPERATIONS

The Office of Inspector General (OIG) was created under the Inspector General Act of 1978, as amended, to prevent and detect fraud, waste and abuse and improve the economy, efficiency and effectiveness of Education Department (ED) programs and operations. These responsibilities are carried out by staff in headquarters and in regional offices and under contracts administered by the OIG staff.

FY 2000 BUDGET REQUEST

ED's FY 2000 budget request for the OIG is \$34 million, a net increase of \$2.758 million above the 1999 appropriation. The request supports 285 full-time equivalent positions, the same staffing level as 1999. Approximately \$1.1 million of the increase will support salary costs, including annualization of the 1999 pay raise, the proposed 4.4 percent government-wide FY 2000 pay raise, and increased employee benefits. The remaining increased amount of \$1.7 million will help defray non-personnel costs, including the OIG's increased share of ED's overhead costs for services such as ADP processing and contracts, communication services, and other services. Also included in this increase is \$895,000 in contract services for the OIG to supplement its own technical expertise in information technology and financial statement audits.

FY 2000 PERFORMANCE GOALS/PRIORITIES

The OIG's budget justification includes a description of all the major initiatives we plan to undertake to support the continuous improvement in ED's programs and operations and to identify fraud and abuse. Our initiatives include a mix of improvement and deterrence activities focusing on systemic improvements, up-front assistance to ED in designing/improving its information systems, and identifying significant instances

of non-compliance. For today, I would like to focus on two activities, which require contracting for technical expertise to supplement our staff.

- **Systems Auditing.** ED has 14 mission-critical ADP systems to manage its programs and operations, and there are numerous and complex systems used by the external entities (lenders, guaranty agencies, schools, and state and local education agencies). To operate in this diverse environment, the OIG is developing a Systems Auditing Staff to guide its ongoing ADP audit functions. The types of activities they engage in include: information technology strategic planning and consulting; systems development life cycle audits; general and application controls testing; and computer assisted audit and investigative techniques assistance. Much of the effort being planned is to meet requests made by senior ED officials for a greater OIG presence as ED designs and implements its information systems. To conduct this effort, the Systems Auditing Staff would use contract funds to obtain highly specialized skills it is still developing. Specific uses of the funds would be:

Student Financial Aid (SFA) Information Systems Audits. The OIG is requesting \$230,000 to help conduct audits and evaluations of ED's development of information systems supporting SFA. ED oversees the delivery of approximately \$50 billion per year in student financial aid and an overall loan portfolio of \$190 billion through the use of 13 mission-critical systems. As ED begins a major effort to modernize and integrate these systems, the OIG plans to review ED's systems development life-cycle practices, policies, and procedures to ensure that they provide the guidance necessary for effective control of the development of new systems.

Security Audits. The OIG is requesting \$200,000 in contract funds to assist in audits of ED's security for critical information systems. Information systems managers face the dilemma of balancing the need for security controls with the rising cost of computer operations. Highly publicized incidents of successful hacking of government systems raise the awareness of the need for better security over Federal information systems and data. Security becomes a more pressing concern as agencies, including ED, provide increasing public access to systems and databases over

the Internet.

Our security reviews will provide management with an independent assessment on the adequacy of security controls and the impact of any weaknesses on the information technology (IT) environment.

The reviews will provide risk exposure assessments for both the electronic data processing and manual portions of the IT control environment.

- **Financial Statement Audit.** The OIG is requesting an additional \$465,000 to fully fund its contract for the statutorily required audit of the ED-wide FY 1999 financial statements. As required by the Government Management Reform Act of 1994, the OIG will oversee the conduct of an audit of the financial statements. The increase is necessary because the cost of the audit has increased significantly due to expansion of the scope of work and audit efficiencies lost when the contract was recompeted and awarded to a different contractor.

SIGNIFICANT ACCOMPLISHMENTS

Improvement Activities: The OIG's activities in the last year included the following products designed to help ED improve its operations and programs.

- **Information Systems.** The OIG has concentrated major resources in the areas of information systems technology, financial systems and controls, and student financial assistance (SFA) information systems. Our work has been centered on "front-end" controls that should assist ED in administering its programs and leave the systems less vulnerable to fraud, waste, and abuse. For example, we reviewed ED's Grants Administration and Payment System (GAPS), a core component of ED's new central automated processing system. Our assessment of the overall security surrounding the GAPS production environment identified a number of technical and procedural security exposures. The OIG's recommendations presented opportunities for the enhancement of GAPS security in various areas, including security access control, cash management, audit trail controls, security administration, and ensuring accountability
- **Year 2000 (Y2K) Readiness.** Since our March 1998 report on ED's readiness for the Y2K, the

OIG staff has continued to assist ED in preparing for the Y2K. We regularly attend and advise at the Y2K Steering Committee meetings chaired by the Acting Deputy Secretary. Some highlights of our Y2K-related work include: an assessment of Y2K risks associated with the Title IV programs (a report required by the Higher Education Act Amendments of 1998)); a report on the reasonableness of ED's Y2K cost estimates reported to OMB, including recommendations for strengthening the cost estimation process; and reviews at five guaranty agencies to determine the status of their Y2K readiness, which provided ED with information to assist in monitoring guaranty agency progress. In addition, we assisted in the contingency planning process for the Title IV programs by actively participating in team meetings and providing comments on draft documents.

- **GPRA (Results Act).** ED has prepared a strategic plan and an annual performance plan for FY 1999 and designed a framework for the validation and verification of performance indicators. However, we determined that ED needs to finalize and implement a process for assembling and analyzing performance data and preparing the performance report. Further, to ensure accurate and fair reporting, ED needs to establish controls over the analysis and reporting of performance indicators in its report. One such control we recommended was that program managers provide an assertion on the reliability and validity of the data sources or identify the weaknesses and have a plan for correcting them.
- **Reauthorization.** The OIG devoted significant resources to provide input to ED and Congress for three statutory reauthorizations.

Higher Education Act (HEA). The OIG submitted a package of HEA amendment proposals to Congress based on audits and investigations that the OIG designed to improve the integrity of the programs and to save hundreds of millions of dollars. When passed in October 1998, the reauthorization of the HEA included a number of OIG recommendations: eliminate Pell eligibility for high-default schools; require verification of applicants' income data with IRS, and require discharge of loans to the extent of unpaid refunds for student

victims of refund fraud by schools.

Elementary and Secondary Education Act (ESEA). The OIG conducted a series of audits and reviews involving a wide variety of Federal, State, and local officials and institutions. Using these audits and reviews as well as many discussions with State and local officials, we developed a “Perspective Paper” on the 1999 reauthorization of the ESEA. This paper provided a discussion on “common sense” tests for determining necessary and comprehensible compliance requirements and how they might be formulated to incorporate the requirements of GPRA. The paper also provided a compendium of the pertinent audit results with recommendations for legislative changes and was designed to assist ED and Congress in determining needed revisions, additions, and/or deletions to the ESEA.

Safe and Drug Free Schools (SDFS). The OIG issued an audit report in December 1998 titled: “Safe and Drug Free Schools, Increasing Accountability and Preserving Flexibility.” This audit provided information to ED and Congress for the upcoming reauthorization of the Safe and Drug-Free Schools and Communities Act in 1999. The review found that the Federal and State application review process generally complied with the Act; funds were properly distributed to State and local education agencies (LEAs); some LEAs did not plan their SDFS activities to address their needs; and LEAs should be accountable for greatest need funding. We also found that three of the four states reviewed did not assure that their LEAs had outcome-based performance indicators.

- **Program Improvement Audits.** The OIG’s activities included several program-specific audits designed to provide ED with recommendations to improve the programs. Two such activities were:

Direct Loan School Monitoring. Our review examined ED’s process for monitoring school administration of the Direct Loan Program. We identified three weaknesses or concerns with ED’s oversight of the program: (1) ED did not have sufficient data to

effectively monitor schools participating in the Direct Loan Program; (2) ED needed to improve its approach to monitoring Direct Loan schools; and (3) the lack of loan-level matches decreased control over data reliability.

85/15 Percent Rule. The rule, which became effective July 1, 1995, requires that an institution eligible to receive Title IV funds receive at least 15 percent of its revenue from non-Title IV program funds. The OIG's first audit of the 85/15 requirement identified \$8.6 million of Federal funds awarded to two ineligible institutions. We recommended that they return the funds and be terminated from participating in the Title IV programs.

- **Financial Statement Audit.** Due primarily to extraordinary efforts by ED staff and our auditors, in FY 1998 ED received an unqualified opinion on its FY 1997 financial statements. This is the first time management has reached that goal on a Department-wide basis.

Deterrence Activities: The OIG's significant deterrence efforts included:

- **CSX Corporation.** An OIG investigation of Cybernetics and Systems, Inc. (CSI), a subsidiary of CSX Corporation, resulted in a criminal conviction and a large civil settlement. CSI, which acted as a servicer for student loans reinsured by the Federal government, paid \$28 million as well as a \$2 million criminal fine to the United States government. The evidence showed that CSI employees falsified due diligence documentation used to support claims for federal student loans.
- **Fraud by Student Aid Consultants.** The OIG is presently involved in ten major fraud cases involving schemes by student financial aid consultants. To date, five consultants have been convicted. In one case, an individual self-employed as a student financial aid consultant helped approximately 700 clients to use falsified financial documents to get Pell Grants to which they were not entitled because their incomes were too high. In another case, a person who owned financial aid consultant businesses in Michigan and Alabama charged clients for supplying false income information to enable more than 300 clients to get more than \$1.7 million in Pell and Supplemental Educational Opportunity Grant funds fraudulently.
- **Toldos Yakov Yosef Seminary.** A long and complex OIG investigation in conjunction with several

other law enforcement agencies recently culminated in guilty verdicts by a Federal jury in White Plains, New York. Four defendants were found guilty of conspiracy, wire fraud and mail fraud in connection with the theft of tens of millions of government dollars, including millions of dollars in Pell Grants for ineligible persons.

REPORTING ON COLLECTIONS

The OIG's activities have generated significant savings over the years from its audits and investigations. For several years, the Committee in its appropriations bill report has directed this and other OIGs under the Subcommittee's jurisdiction to submit quarterly reports of detailed information on actual monies collected as a result of OIG investigations and audit activities. Last year, the Committee's report expressed concern about our reporting. I can assure the Chairman that we have made substantial efforts to provide the information from available data and have made considerable progress in obtaining and reporting more timely and accurate data. We have met periodically with staff of this Subcommittee and with the Department of Justice to discuss our difficulties, and I believe these efforts will substantially improve the reporting process in the future.

In the last year, OIG investigations have in fact resulted in substantial collections, \$34 million on two cases alone--about the entire amount of our FY 2000 budget request. This is not to say that we can expect to have similar results every year, since it can take years of hard work to bring major court cases to such successful conclusions. Using our small investigation staff with auditor assistance, we make every effort to collect ill-gotten gains when possible, including using the asset forfeiture laws when appropriate. We think we have a good record of returning value for both our audit activities and criminal and civil investigations.

CONCLUSION

Let me conclude by saying that the OIG has set an aggressive agenda for itself. We believe our plan for FY 2000 addresses the major issues facing ED, including some common to the rest of government such as the Y2K problem, computer security, identity theft, abuse of electronic transmissions of funds, and electronic

signatures.

Mr. Chairman and members of the Committee, this concludes my statement. I will be happy to respond to any questions that you and the Committee members may have.