

Statement of

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

Committee on Appropriations
United States House of Representatives

Regarding

PROPOSED FISCAL YEAR 1999
BUDGET REQUEST

MARCH 31, 1998

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss our Fiscal Year 1999 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 OIG staff.

FY 1999 BUDGET REQUEST

The Department's FY 1999 budget request for OIG is \$31.2 million, a net increase of \$1 million above the 1998 budget authority, and 285 full-time equivalent positions. The staffing level is the same as our 1998 level.

Approximately \$.5 million of the increase will support salary costs, including annualization of the 1998 pay raise, the proposed Government-wide 1999 pay raise of 3.1 percent, and employee benefits. The Government's share of employee benefits costs is increasing as employees covered under the Civil Service Retirement Act leave and are replaced by employees covered under the Federal Employees Retirement System.

The remaining \$.5 million will help defray non-personnel costs including OIG's share of the Department's overhead services such as payroll processing, ADP processing, and other contractual services; and will provide small increases for advisory and assistance contracts, leasing and maintaining equipment due to replacement of older equipment, travel, printing, supplies, goods and services from other government agencies such as the Federal Law Enforcement Training Center and the General Services Administration, and other contractual services.

As our staff has decreased to its present level, OIG has continued to meet the challenge to remain effective by finding more innovative ways to deploy our resources and conduct our audit, investigation and management review efforts. For example, we have shifted our emphasis and approach to focus our efforts on program and operations issues and systemic problems that are larger in scope than the traditional single-entity focus. This front-end work will lead to more effective programs with built-in controls and self-enforcing mechanisms to prevent fraud, waste and abuse by all participants, rather than relying on “after-the-fact” detection at those few participants we have the opportunity to review.

STRATEGIC PLAN AND RECENT ACCOMPLISHMENTS

OIG’s strategic plan states that its mission is to “promote the efficient and effective use of taxpayer dollars in support of American education by providing independent and objective assistance to the Congress and the Secretary in assuring continuous improvement in program delivery, effectiveness and integrity.”

OIG’s strategic goals to achieve its mission, and some examples of accomplishments for each are:

GOAL: The Department, Congress and other interested parties use OIG products and services to improve the efficiency, effectiveness, and integrity of education programs and operations.

! We devoted significant resources to provide input for the 1998 reauthorization of the **Higher Education Act** (HEA). To assist Congress in its task of reauthorizing HEA, the OIG submitted a package of HEA amendment proposals to Congress, based on OIG audits and investigations, that we designed to greatly improve the integrity of SFA programs and save hundreds of millions of dollars. We shared our proposals with Departmental officials and met with various staffers on the educational committees to discuss our proposals in detail, and we believe our proposals had an impact on both the Department’s proposals and the HEA bill recently reported out by the House Committee on Education and the Workforce.

! As part of our **Direct Student Loan** oversight efforts, we issued our nationally representative direct loan school audit report that summarized the results of 16 audits, including

recommendations for improvement. We discovered weaknesses in the administration of the Direct Loan Program at the individual schools; collectively these findings affect program accountability, as a whole. If uncorrected, these problems could grow and thus materially affect the Department's ability to report reliable numbers on its financial statements.

Accordingly, we made recommendations to improve monitoring and review of participating schools; we are also in the final stages of a follow-on report on the Department's monitoring of the program.

- ! We just completed two **ADP systems** audits. In the first, on the Department's implementation of the Clinger-Cohen Act, we identified the need for the Chief Information Officer (CIO) to establish a greater leadership role in the Department's information technology (IT) matters. In part, the CIO needs to establish an IT architecture, implement an adequate capital planning and investment control process, and complete IT knowledge and skills assessments department-wide. The second audit, on the Department's readiness for the year 2000 (Y2K), concluded that the Department was behind schedule and needed to accelerate its effort. While good progress was made in the past few months, the pending departure of the Y2K Project Director presents a significant challenge to avoid loss of momentum at a critical point during the countdown to the new millennium.
- ! In our last appearance before this Committee, we noted that we recommended a change in the **Special Education** funding formula to make it more equitable between States by using objective data. Congress adopted our recommendation for the Individuals with Disabilities Education Act which the President signed into law.
- ! We participated, in an advisory capacity, in the development of the Department's strategic plan and the related performance plan, and will continue to provide this service to Department managers as they implement the **Government Performance and Results Act** (GPRA). The

OIG is completing the first in a series of audits which assesses the Department's process for institutionalizing the results-oriented management envisioned by GPRA and assesses the development of the system for collecting and reporting performance data. The report is due this summer.

GOAL: OIG's work discloses significant fraud, waste, and abuse; results in enforcement and corrective actions; and promotes **deterrence**.

- ! We have completed cases on complaints which allege that employees of a servicer, lender or collection agency falsified due diligence collection efforts in order to retain the Federal guarantee on a portion of its student loan portfolio. An example is the First Tennessee Bank, National Association (FTB) which agreed to pay \$2.75 million to settle a pending lawsuit filed against the bank. The agreement settled a suit, resulting from a joint OIG audit/investigative effort, alleging that FTB falsified its collection efforts before submitting a total of more than \$1.3 million in claims to the Department for payment. In addition to the settlement, FTB previously repurchased more than \$200,000 in loans, and the Department and the IRS have collected nearly \$1 million from the defaulted borrowers in aggressive post-default collections.
- ! We have an ongoing effort to identify and investigate individual consultants and/or owners of marketing companies who provide guidance to parents and students on illegal methods and devices to help them fraudulently obtain student financial aid funds. One example of this effort is the case of E. Dale Bleam, a self-employed financial aid consultant, who was indicted by a Federal Grand Jury on four counts of financial aid fraud and aiding and abetting. Bleam allegedly counseled parents and students to provide false information on their applications for Federal student financial aid and offered to assist them in qualifying by understating family income and assets and changing their dependency status. In addition to the action against Bleam, Department of Justice has received 190 affirmative civil enforcement agreements from

Bleam's clients and payments totaling over \$1 million. An additional 400 clients have been contacted. We estimate that the final amount of repayments could total \$4 million.

- ! OIG has an ongoing investigation effort into individuals who falsely claim attendance at foreign institutions, thereby obtaining Federal student financial aid for which they are not entitled. In one case, Mohammad Bilal Afif Ibrahim was found guilty in the Southern District of Texas on all counts charged in a 46-count indictment. Ibrahim obtained loans totaling \$407,000 in various names by claiming to be a student enrolled in a Dominican Republic medical school. During the investigative initiative, we identified systemic weaknesses in the SFA programs and made written recommendations to the Department on ways to correct these deficiencies.

GOAL: Transform the OIG into a **high-performance** organization which promotes productivity and a positive work environment.

- ! OIG formed its Systems Auditing Group to guide ongoing ADP audit functions intended to help the Department operate in a highly complex ADP environment. The types of activities we will engage in include: information technology strategic planning and consulting (including Y2K issues), systems development life cycle audits, general and application controls testing, and computer assisted audit techniques assistance. The first three will directly assist the Department's efforts to manage its ADP systems properly; the latter will assist auditors' and investigators' efforts to identify noncompliance and fraud by program participants.
- ! OIG continued its implementation of GPRA by issuing our strategic plan and adopting performance measures to evaluate our impact on the Department's programs and operations.

Our quantitative accomplishments are shown on the attachment.

FY 1999 PRIORITIES

In FY 1999, our program improvement activity work will focus on:

Student Financial Aid programs and operations--Our efforts to improve the Student Financial

Aid programs and operations will include:

! *Contractors for SFA delivery and information systems:* The Department expends over \$300 million a year on contracts to operate the SFA delivery and information systems. The Department has recognized existing shortcomings--systems that are not integrated and do not contain complete or accurate data, and some data duplication--and has initiated plans for systems integration. We will monitor the Department's progress towards integrating its systems throughout the design and implementation stages, and help ensure that appropriate controls are included, sound development methodologies are employed, and adequate consideration is given to program efficiency and cost effectiveness .

! *Management Review:* We will complete our management review of the Institutional Participation and Oversight Service. The review will address resources, proper training and technical capabilities of staff to perform their functions, consistency of operations between case management teams, and effectiveness of monitoring and oversight of schools. The effectiveness portion of our work will include the recertification process (including determinations of financial viability), audit follow-up, and adequacy of on-site reviews.

Audits of information systems--Information investment management, systems development, and operations are among the most significant management areas confronting the Department, and thus are included among the OIG's highest priorities. We have identified many key information systems issues the Department must address including: lack of integration of SFA Systems; system readiness for Year 2000 and beyond; and information system management effectiveness. The OIG will provide the Department with independent security assessments of its major ADP systems and identify exposures of its Internet-based technologies.

Reauthorization effort--In FY 1999, OIG will complete its efforts, started in FY 1997, to develop information to support the reauthorization of the Elementary and Secondary Education Act. Our activity will include participating in Departmental workgroups that will discuss proposed changes to ESEA; developing and presenting OIG positions to the workgroups based on our audit work; providing objective analyses of Departmental positions; and testifying before appropriate congressional committees. OIG expects to provide input on the following areas:

- ! *flexibility provisions in Title XIV:* the number State Education Agencies using the Title XIV flexibility provisions and whether consolidated administrative funds resulted in more of the Department's funds are reaching the classroom;
- ! *safe and drug free schools and communities:* the flow and use of funds for the Title IV Safe and Drug Free Schools program at the Federal, State and local levels and the process used for developing measurable goals and objectives at the Federal, State and local levels;
- ! *charter schools:* effectiveness of Federal, State and local agencies in informing charter schools about Federal requirements and ensuring their compliance with the requirements; and
- ! *amount of funds reaching the classroom:* the amount of ESEA Title I, Part A, and Basic Vocational Education funds that reach the classroom.

GPRA--As part of its implementation of GPRA, the Department will provide performance data to Congress. OIG plans to assess selected data and the control systems the Department uses to assure data reliability. We will report on the extent to which we believe the Department and Congress can rely on the data. Our first audit is underway; the report is due this Summer.

Financial Management--We will contract for and oversee an audit of the Department-wide financial statements for the fiscal year 1998. The audit will include an examination of account balances, a review of applicable financial systems, an evaluation of internal controls, and a determination of compliance with significant laws and regulations. Audit results will include an assessment of the fair

presentation of the financial statements, recommendations for improving financial accountability and stewardship, and identification of areas requiring further review.

In FY 1999, our deterrence activities will include:

Audits and investigations--The OIG will conduct audits and criminal and/or civil investigations of continuing and new allegations that occupational, vocational, trade and technical schools are defrauding the SFA programs. Additionally, OIG will continue to focus on large complex financial investigations such as falsification of due diligence by servicers, banks and collection agencies and falsification of due diligence and loan consolidations by contractors.

National projects--OIG will continue to target several areas of SFA for national projects, including:

- ! misuse of Pell Grant funds for college athletes;
- ! fraudulent receipt of loans for students purportedly enrolled in foreign medical schools;
- ! use of HEA Title IV funds by foreign medical schools;
- ! manipulation of cohort default rates by school officials; and
- ! receipt of loans by individuals who had previous loans canceled due to death or disability.

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

**STATISTICAL SUMMARY
FY 1997**

AUDITS

OIG AUDIT REPORTS ISSUED	48
QUESTIONED COSTS RECOMMENDED	\$17,074,024
UNSUPPORTED COSTS RECOMMENDED	\$8,403,106
BETTER USE OF FUNDS RECOMMENDED	\$141,793,546
 OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	 54
QUESTIONED COSTS SUSTAINED	\$210,972,471
UNSUPPORTED COSTS SUSTAINED	\$9,200
ADDITIONAL DISALLOWANCES IDENTIFIED BY PROG. MANAGERS	\$1,215,818
MANAGEMENT COMMITMENT TO BETTER USE OF FUNDS	\$116,709,884
 NON-FEDERAL AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS *	 26
QUESTIONED COSTS SUSTAINED	\$ 6,335,461
UNSUPPORTED COSTS SUSTAINED	\$82,622
ADDITIONAL DISALLOWANCES IDENTIFIED BY PROG. MANAGERS	\$27,408,578

INVESTIGATIONS

CASES OPENED	246
CASES CLOSED	147
CASES ACTIVE AT END OF PERIOD	399
CASES REFERRED FOR PROSECUTION	81
CASES ACCEPTED	
66	
CASES DECLINED	15
INDICTMENTS/INFORMATIONS	71
CONVICTIONS/PLEAS	70
RESTITUTION/FINES ORDERED	\$8,277,409
RESTITUTION PAYMENTS COLLECTED	\$2,251,000
RECOVERIES	\$22,085
CIVIL JUDGEMENTS/SETTLEMENTS	\$5,336,192
FORFEITURES/SEIZURES	\$224,700

DEBARMENT/SUSPENSION ACTIVITIES

OIG REQUESTS FOR DEPARTMENTAL ACTION	41
INDIVIDUALS/ENTITIES DEBARRED/SUSPENDED	22

* OIG no longer issues non-federal reports; these audits were issued by OIG in prior years.