

Statement of

THOMAS R. BLOOM

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 1998

BUDGET REQUEST

MARCH 13, 1997

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss our Fiscal Year (FY) 1998 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 in 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 by contracts with independent certified public accountants.

FY 1998 BUDGET REQUEST

The Department's FY 1998 budget request for OIG is \$32 million, a net increase of \$2 million above the 1997 budget authority, and 317 full-time equivalent positions (FTE). The staffing level is the same as our 1997 level and supports the Department's streamlining plan.

Approximately \$1.1 million of the new increase is to support salary costs, including annualization of the 1997 pay raise, the proposed Government-wide 1998 pay raise of 2.8 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 \$.9 million is to support non-personnel costs such as contracts for reviews of controls over major ED financial and operating computer systems, including the Department's new primary accounting and financial system and the National Student Loan Data System. Another major increase is for the Department's assessment to complete expansion of its wide-area network which will include OIG's field offices.

TOWARD A MORE EFFECTIVE ORGANIZATION

Like that of most government agencies, our staff has been reduced significantly over the last four years, but we have continued to challenge ourselves to remain effective by finding more innovative ways to deploy our resources and conduct our audit and investigative efforts. To that end:

- # We focus the majority of our audit activity on program and operation improvements, with more than half that devoted to programs undergoing reauthorization by Congress. This front-end work leads to more effective programs with built-in controls and self-enforcing mechanisms to prevent fraud, waste and abuse by all participants rather than rely on After-the-fact detection at those few participants we have the opportunity to review. For example:
 - # Our review of system controls over the student eligibility process found that the accuracy of Pell Grant awards could be improved if income data were obtained from the Internal Revenue Service. We found that, for award year 1995-96, at least 102,000 students were over-awarded approximately \$109 million in federal Pell grants because they either failed to report or under-reported their income on their student aid applications. Although ED requires institutions to verify key eligibility information reported by selected students, the process cannot detect students who intentionally underreport their income and provide false documentation.
 - # We reported that based on current information, the Department's initiative to target defaulted Debt Collection Service borrowers' loans for consolidation into the Federal Direct Consolidation Loan Program was not cost-effective. We recommended that, to limit the financial risk, the Department discontinue the active pursuit of consolidating DCS loans and conduct a study to determine the economic viability of this initiative. The Department agreed.
 - # Last month we testified on our review of the special education funding formula. Our review had found that the formula is inequitable and the process, which is based on State counts of the number of students receiving special education, is inefficient. We had recommended that the State allocations be based on census data for the total population ages 3 through 21. We testified that the use of such objective data to distribute funds would be fairer, simpler and less burdensome.

We focus about 85 percent of our investigative activity on complex investigations of institutions, including postsecondary institutions, lenders, guaranty agencies and servicers. These cases are very resource-intensive, but their impact is far greater in terms of future savings than investigating individual student recipients. Also, institutional cases tend to generate more publicity which in turn helps deter fraud. Some examples of successful institutional investigations are:

Pursuant to a civil fraud settlement reached by the U.S. Attorney's office, Birmingham, Alabama, and AmSouth Bank, AmSouth Bank agreed to pay the Department of Education a total of \$5.7 million in restitution and penalties and withdraw \$1.4 million in pending default claims against the Department in settlement of allegations regarding the mishandling of federally guaranteed student loans. Our investigation revealed that AmSouth employees apparently falsified records to show that the required collection efforts had been made on approximately \$2.2 million in defaulted student loans, an estimated \$1.4 million in pending default claims, and an estimated \$1.3 million in future default claims.

The owner and operator of a California school was found guilty by a federal jury of wire fraud and false statements arising from a scheme that defrauded the Department of Education of at least \$6.3 million. The owner recruited students from such locations as homeless shelters, unemployment offices and public housing projects, then retained the proceeds of the student aid for which they invariably applied. When students dropped out, the owner kept the loan proceeds (which he was required by law to refund) and used the money to maintain an expensive and luxurious lifestyle, purchasing and improving several parcels of real property, purchasing luxury cars, expensive jewelry, vacations, clothing, and other personal items, and making significant investments.

The president and chief executive officer of a vocational school headquartered in New York City with locations in 10 other Eastern United States cities, pled guilty in Akron, Ohio, to a three-felony-count indictment charging him with mail fraud, conspiracy to defraud the U.S. Department of Education, and false statements. During the period charged in the indictment, the schools received federally insured loans totaling more than \$100 million and Pell Grant funds totaling more than \$41 million. The indictment charged the individual with concealing the high withdrawal rates in order to prevent the schools from losing their accreditation and, consequently, the schools' eligibility to receive federally insured loans and grants.

- # The owner of a California school and its corporate financial aid director were indicted by a federal grand jury on 20 counts of conspiracy, theft, money laundering, and making false statements to a federal agency for allegedly defrauding the Department out of more than \$1 million in Pell Grant funds. A joint investigation by ED/OIG and the FBI developed evidence that the owner instructed school personnel to input false credit hours for students who never attended classes in order to fraudulently obtain Pell funds. The financial aid director is alleged to have submitted reports to ED falsely certifying the school's receipt and expenditure of the funds, and to have advised the owner in writing how the two faced criminal liability unless they followed his instructions to cover up their no-show student problem.

- # OIG responds to requests made by members of Congress to assist them in their oversight role; for example:
 - # The House Subcommittee on Oversight and Investigations, Committee on Economic and Educational Opportunities requested that we review the management of the Office of Student Financial Assistance Programs. Our review focused on management's use of a dedicated special task force separate from OPE management's normal supervisory channels to start up the Federal Direct Loan program.
 - # At the request of the House Subcommittee on National Security, International Affairs and Criminal Justice, we performed a review to determine how nine local school districts used their Drug-Free Schools and Communities Act funds. Our review found that all nine districts had programs that clearly discouraged drug use and that they all had programs that included aspects other than just drug avoidance, such as improving self-esteem, conflict resolution and improving social behavior.

- # OIG is at the forefront of the Department's Cooperative Audit Resolution and Oversight Initiative (CAROI) to improve Federal, State and local performance through auditing, monitoring, and technical assistance. CAROI has four key strategies: 1) create and maintain a dialogue with state partners to address State concerns, remove obstacles to improve program performance, foster new cooperative methods of audit resolution, and avoid recurrence of violations; 2) work with States to resolve open audits; 3) improve the Single Audit process by focusing on the most important issues in the OMB Compliance Supplement; and 4) coordinate audits, project monitoring, and technical

assistance activities with the Department. The end result of this program will be systemic correction of recurring problems, along with fewer legal and program resources spent on resolving disputed audit findings. We are also working with the President's Council on Integrity and Efficiency to expand CAROI governmentwide.

OIG is also taking steps to become more productive. To that end:

We are developing a comprehensive program to enhance our auditors and investigators' EDP skills to provide them with the skills necessary to work in today's complex EDP environment. For example, we are training and equipping specialists for our recently implemented Computer Evidence Recovery Program. These specialists have greatly decreased the time between the seizure of electronic data from its source to the point that it is analyzed and returned to a case agent. Another example is that we are developing a team of EDP specialists to focus on the Department's major computer systems.

We implemented a new organizational structure, consolidating our previous four regional areas into two and placing an assistant inspector general for operations in charge of each. These positions are located in the area offices, thus placing our senior leadership closer to the staff they lead.

In past years' testimony before this Committee, we have discussed the need for deputization authority. This past year we began to participate in a pilot program which is scheduled to run through most of 1997, under which OIG was granted full blanket Special U.S. Marshal deputization authority for our special agents. With this authority, our agents no longer have to depend on other Federal or state agents who have full law enforcement authority to obtain and serve search and seizure warrants and perform other services that can be done with full deputization authority.

OIG is taking action to assure that the steps we are taking are having the proper effect by implementing the Government Performance and Results Act. We issued our first strategic plan in FY 1994 and are revising it now to include performance measures. One example of a measure we will be adopting is how much direct time (time on products we provide the Department and Congress) we spend. My goal is to increase it by 20 percent, thereby decreasing the cost per direct hour by about 15 percent. We expect to issue the new plan and measures in Spring 1997.

OIG ACCOMPLISHMENTS

OIG's quantitative accomplishments for FY 1996 are attached to this statement. Descriptions of some of our major audits and investigations are discussed above. In this section I would like to discuss specifically our current efforts to provide the Department and Congress with information on programs undergoing reauthorization.

During this fiscal year, the OIG is spending considerable resources preparing for the upcoming reauthorization of the Higher Education Act. The student loan and grant programs authorized by that Act have been a particular focus of OIG work, given their vulnerability to fraud, waste and abuse. For the purposes of reauthorization, we are conducting a number of audits and other projects on issues we believe will and/or should be the subject of Congressional consideration during reauthorization. We will continue our work with the Department on some of these issues and plan to work with Congress in developing needed legislative changes to ensure the integrity and efficiency of student financial assistance.

We are currently finalizing a series of audits covering the Vocational Rehabilitation Program. Our work focused on financial issues related to program income, establishment grants and the allocation formula. We also covered programmatic issues related to the rates of successful case closures and provision of job training services. We will be providing a summary of the results of these audits to the Department and Congress for use during the current reauthorization.

FY 1998 PRIORITIES

Consistent with our efforts in the past several years, we plan to devote the majority of our audit resources to program and operations improvement efforts (65 percent), with the remainder focusing on compliance-related assignments. Almost all investigative resources will be devoted to compliance activities. From a program standpoint, the majority of our resources will focus on the Student Financial Assistance programs (about 71 percent), with the remainder devoted to Elementary and Secondary Education programs, Departmental operations and financial management, contracts and non-Federal audit quality.

Program and Operations Improvement

Reauthorization Activity: OIG places great importance on reauthorization by Congress on programs administered by the Department. We have met extensively with Federal, State and local program managers and congressional staffs to identify issues for study. In FY1998 our reauthorization efforts will include:

HEA: Student Financial Assistance: OIG will complete its reauthorization effort focusing on providing our analyses to support improvements in the programs and participating with the Department as the program managers develop implementing regulations.

Elementary and Secondary Education Act (ESEA): OIG will continue the audit effort we recently began to address the issue areas we identified in collaboration with program managers and staff, state and local officials, and congressional staff. Some of the issues we are addressing are:

Are Bilingual Education funds being used to teach limited English proficient students in English as well as in their native language?

Are the state and local education agencies using the available flexibility provisions and how effective are those provisions?

What is the impact of lowering the poverty threshold on services to students in schoolwide programs?

What types of activities are being funded by the Safe and Drug Free Schools program?

Other Program Improvement Activities: Some examples are:

SFA Information Systems: OIG has designated oversight of SFA systems development and operations to be one of our highest priorities and an area where we will concentrate resources. This effort has started with the creation of an EDP system audit team to provide this oversight. Given the highly complex nature of these systems, we will require outside contractors to assist in completing this work in a timely fashion.

SFA Programs: OIG's audits will focus on the structures and internal controls in the Federal Family Education Loan program and the Federal Direct Student Loan program to compare and contrast the program operations and to make recommendations to improve both programs. In another effort, we will review the

Department's process for procuring major computer systems that deliver and account for the SFA funds and review the Department's oversight of the contractors.

- # Financial Management: OIG will oversee the audit of the Department-wide financial statement audit for FY1997.
- # Government Performance and Results Act: OIG will evaluate the performance measures in most ongoing and planned program improvement audits of Department programs. We also plan to assist the Department's implementation of GPRA to evaluate the program performance measures and to evaluate the data collection and reporting systems, as well as the validity of the data.
- # Non-Federal Audits: OIG will concentrate on improving the quality of non-Federal audits which the Department relies on for monitoring its programs and ensuring their fiscal integrity. We will accomplish this by conducting quality control reviews of the auditors' work, providing audit guidance and providing training on that guidance.

Program and Operations Integrity

- # In the area of program and operations integrity, 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 is increasing its number of large complex financial investigations of guaranty agencies in their use of reserve funds; of servicers and banks in the falsification of due diligence; and of collection agencies in the falsification of due diligence and loan consolidations.
- # OIG has also targeted 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 and/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
OCTOBER 1, 1995 - SEPTEMBER 30, 1996
(DOLLARS IN MILLIONS)**

<u>AUDIT</u>	<u>FY 1996</u>
REPORTS ISSUED	
OIG	34
NON-FEDERAL	411
TOTAL REPORTS ISSUED	445
AMOUNTS RECOMMENDED	
QUESTIONED COSTS	\$33.8
UNSUPPORTED COSTS	\$19.8
BUF*	\$14.5
AMOUNTS SUSTAINED	
REPORTS RESOLVED	557
QUESTIONED COSTS	\$56.8
UNSUPPORTED COSTS	\$3.8
ADDITIONAL DISALLOWANCES IDENTIFIED BY PROG. MNGRS.	\$10.5
BUF*	\$7.0
<u>INVESTIGATIONS</u>	
CASES OPENED	153
CASES CLOSED	227
CASES ACTIVE AT END OF PERIOD	306
CASES REFERRED FOR PROSECUTION	57
CASES ACCEPTED	36
CASES DECLINED	21
INDICTMENTS/INFORMATIONS	52
CIVIL FILINGS	0
CONVICTIONS/PLEAS	58
RESTITUTION/FINES ORDERED	\$2.0
RESTITUTION PAYMENTS COLLECTED	\$0.3
RECOVERIES	\$1.4
CIVIL JUDGEMENTS/SETTLEMENTS	\$5.8
FORFEITURES/SEIZURES	0
<u>DEBARMENT/SUSPENSION ACTIVITIES</u>	
OIG REQUESTS FOR DEPARTMENTAL ACTION	37
INDIVIDUALS/ENTITIES DEBARRED	16
INDIVIDUALS/ENTITIES SUSPENDED	8

*BUF = BETTER USE OF FUNDS