MANAGEMENT CHALLENGES OF THE DEPARTMENT OF EDUCATION
FEBRUARY 2002

The Office of Inspector General's (OIG) strategic goals include improving the Department's programs and operations and protecting the integrity of those programs and operations. We are committed to ensuring the proper, efficient, and effective use of federal education funds, and welcome our continued partnership with the Secretary and the Congress in this endeavor. We have determined that the top management challenges now facing the Department of Education (the Department or ED) are:

- Correct long standing financial management problems
- Strengthen information technology security
- Improve internal controls
- Improve contract monitoring
- Balance compliance monitoring and technical assistance
- Meeting its goal of removing the student financial assistance programs from the General Accounting Office "high risk" list
- Pursue appropriate electronic government initiatives
- Improve strategic management of human capital
- Improve and test continuity of operations plans
- Improve management of IT assets
- Obtain reliable performance data and improve performance measures

We have identified these challenges from our work--our audits, inspections, and investigations--and from the priorities identified by the Administration and the Department. The latter include:

✓ the President's Management Agenda for Fiscal Year 2002,
✓ ED's Blueprint for Management Excellence and Action Plan (October 30, 2001) developed by the Department's Management Improvement Team (MIT)
✓ ED's Strategic Plan for 2002-07 (currently in draft for 2002-07)

With regard to each challenge, below we explain why we judge it to be a priority for the Department and how the Department is addressing it. We also attach a list identifying our work most pertinent to each challenge.

More detailed information about our work can be found on our website, www.ed.gov/offices/OIG. The website for the Department's Strategic Plan and MIT are http://www.ed.gov/inits/mit/index.html and http://www.ed.gov/pubs/stratplan2001-05/index.html.

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• CHALLENGE: Correct long standing financial management problems

The Department is responsible for over $100 billion dollars each year through both appropriations and loan programs. Sound financial management of these funds is critical for the financial integrity of the Department's programs and operations. The President has stressed the need for accurate and timely financial information and demanded that each agency obtain clean audits of its financial statements by the fiscal year (FY) 2002 audits. Although the Department has not achieved this goal for the last three years, it has recognized the challenge and is working to develop and maintain financial integrity.

Department's Efforts

For the last two years, the Department has met the statutory deadline for submission of its financial statement audit, and has developed a schedule to do so again this year. In October 2001, the Department reported that it completed corrective action on approximately 58 percent of the recommendations being tracked by the MIT and developed corrective action plans for another 30 percent. It also has purchased and is implementing a new financial management system--Oracle Federal Financials--hired new financial managers, brought in experts from the Treasury Department, and enlisted the assistance of private sector accounting firms. In addition, the Department identified a number of financial management issues in its Blueprint that need to be resolved.

Planned OIG Work

We are auditing the Department's implementation of its new financial management system and producing a series of reports. We also are responsible for the independent audits of the two sets of FY 2001 financial statements--the Department's and those of Student Financial Assistance (SFA). These results are presented in the Reports of Independent Auditors, the Reports on Internal Controls and the Reports on Compliance with Laws and Regulations.

Our results will provide the performance measure of the Department's progress in meeting the goals of the President's Management Agenda and the Department's Blueprint and Strategic Plan. We also are responsible for the audits of the Department's and SFA's FY 2002 financial statements.

• CHALLENGE: Strengthen information technology security

In light of the events of September 11th and the continued threat of terrorist attacks, the importance of information technology (IT) security is even more vivid. The Department's IT systems must be capable of ensuring the availability, confidentiality, and protection of the data they contain. Improved IT security can also enable the Department to safely expand its use of technology to better serve its customers.

In our Government Information Security Reform Act (GISRA) report of September 2001, we found significant IT deficiencies in the Department. These deficiencies included incomplete risk assessments and lack of tested disaster recovery plans. In addition, most systems have not undergone a formal certification and accreditation process. We recommended 15 corrective actions that the Department needs to take to safeguard the security of its systems that deliver critical services, such as loans and assistance to public schools. We had previously identified security and disaster recovery weaknesses related to the Department's systems.

Department's Efforts

The Department has recognized this challenge in both its Blueprint and Strategic Plan. It is working to improve coordination of IT security and has dedicated more resources to improving IT security.

OIG Planned Work

We are initiating our 2002 GISRA review which will focus on several areas including the Department's compliance with OMB Circular A-130. In addition, we will verify the effectiveness of the Department's corrective actions to reduce security risks we identified previously. We also plan another assessment of the Department's disaster recovery plans for certain IT systems.

• CHALLENGE: Improve internal controls

A strong set of internal controls is essential for reliable financial reporting and for protecting programs and operations from waste, fraud, and abuse. It is also an important element of the President's and the Department's efforts to strengthen financial management. We have found weaknesses in the Department's internal controls in several areas, including purchase cards, third party drafts, cellular telephones, the contract payment process, and the audit follow-up process.

Department's Efforts

The Department has concurred with many of the recommendations in our reviews and is implementing corrective action plans. It has recognized the need to strengthen its internal controls and to incorporate a stronger culture of accountability in the Department. It has initiated management improvement training programs including internal controls training.

OIG Planned Work

We are performing reviews to examine the Department's controls over travel cards and telephone calling cards. We identify and analyze management controls while conducting internal audit projects. We are also conducting a number of criminal investigations where criminal opportunities arose in an environment of weak or non-existent internal controls.

We will strengthen our efforts to analyze data for fraud indicators and other anomalies. We will continue to refer fraud allegations for possible prosecution, and where appropriate, refer non-criminal matters to responsible managers for administrative action.

• CHALLENGE: Improve contract monitoring

The Department must improve its contract monitoring to ensure that contract terms and conditions are met and that it receives the high-quality goods and services required. The Department now contracts for many services, with more individuals working under contracts than as federal employees. Implementation of the Federal Activities Inventories Reform Act (FAIR) and the President's emphasis on competitive sourcing likely will lead to additional contracting out.

We have performed a number of audits and found weaknesses in the Department's contract monitoring processes, including its controls over government property. These weaknesses can result in lost and misused property, misused government funds, or frauds--as reflected in our investigative work.

Department's Efforts

The Department has recognized the mandate for competitive sourcing but needs to improve its contractor oversight to protect the Government's interests adequately.

OIG Planned Work

We have audits underway on monitoring non-SFA contracts and SFA's contract for modernization of its IT systems. We also plan to perform contract closeout audits on four Regional Education Laboratory contracts.

• CHALLENGE: Balance compliance monitoring and technical assistance

The Department must strengthen its compliance monitoring and balance this monitoring with technical assistance. Stronger compliance monitoring would help ensure the integrity, efficiency, and effectiveness of these programs.

Over the past few years, the department has emphasized technical assistance, rather than compliance monitoring. This emphasis has weakened the Department's oversight. For example, our audits of the Department's monitoring process for both discretionary and formula grant programs found weaknesses including the lack of provisions to identify high-risk grantees. We also found that the Department did not fully implement its guidance for monitoring discretionary grants. Further, our work in Puerto Rico on Title I grant administration found major deficiencies in cash management and the procurement process. A joint OIG/FBI investigation

resulted in the indictment of 17 people for the illegal diversion of federal education funds. In addition, we found that the Department has significantly reduced on-site compliance monitoring over student financial assistance programs and has focused on technical assistance.

Department's Efforts

The Department is revising its directive for monitoring discretionary grants and plans training on the directive by the end of FY 2002. The Office of Elementary and Secondary Education is also revising its monitoring process for formula grants. The Department also agreed with our audit recommendations on balancing compliance monitoring and technical assistance in student financial assistance programs.

OIG Planned Work

We will follow-up on our previous work to assess the Department's progress in compliance monitoring of SFA programs.

- **CHALLENGE: Meeting its goal of removing the student financial assistance programs from the General Accounting Office "high risk" list**

Student financial assistance programs have been on the "high risk" list of the General Accounting Office (GAO) since 1995. Our reviews have identified numerous shortcomings in the Department's oversight of these programs, including insufficient oversight and inadequate program enforcement. In addition, these programs are the largest focus of our investigation efforts relating to fraud perpetrated by third parties on the Department.

One way to lower risk in student financial assistance programs is to have a system to match the income an applicant claims on the Free Application for Federal Student Aid (FAFSA) with the records of the Internal Revenue Service (IRS). We recommended this match in 1997, and the Higher Education Amendments of 1998 provided certain authorization. The President's proposed budget for fiscal year 2003 requests further authority for the IRS to implement this match.

Department's Efforts

The Department has established a goal of removing these programs from the GAO "high risk" list. Many of its Blueprint action items support that goal. The Department continues to work with the IRS, Office of Management and Budget (OMB), and Congress to address further legislative changes related to the match. The Department has performed two sample income matches with IRS.

OIG Planned Work

We continue to investigate cases of applicants providing false income information on the FAFSA and preparers who assist applicants in this fraudulent activity. We continue to recommend that Congress enact whatever legislative changes are necessary to implement the match.

● CHALLENGE: Pursue appropriate electronic government initiatives

The President has directed agencies to enhance electronic government (e-government) to provide greater services at lower cost and to meet high public demand for e-government services. The Government Paperwork and Elimination Act (GPEA) requires agencies to increase use of electronic forms and processes. These processes must be performed in a way that ensures data integrity and confidentiality.

The purpose of e-government is not simply to replace paper transactions with electronic ones. It is intended to streamline systems across agencies, eliminate redundant systems, reduce costs, and simplify interactions with the public.

Department's Efforts

The Department has acknowledged the need for e-government services and has updated its GPEA plan and submitted a progress report to OMB. It has also assumed leadership for Online Access for Loans, a program to streamline the loan application process across multiple agencies.

OIG Planned Work

We have initiated a review of the Department's progress in implementing GPEA and in automating its business process. Our review will focus on the Department's planning and transition to e-government applications. We also plan to review the Department's implementation of its responsibilities under the Online Access for Loans programs.

● CHALLENGE: Improve strategic management of human capital

The dynamics effecting the Federal workforce--the need for technology skills, the high percentage of employees nearing retirement, the drive toward competitive sourcing--make this a critical issue on the President's agenda, and those of GAO and the Department. The Department has recognized the need to align its human capital planning with its goals and mission to develop a workforce that is responsive and efficient.

Department's Efforts

The Department's Blueprint action plan establishes an aggressive agenda and timetable to address this challenge. The Office of Management has also established a team to work on the human capital issue and develop recommendations.

OIG Planned Work

We are beginning a series of inspections addressing human capital issues. We will provide independent analysis of the Department's plans and products as it moves through its human capital action items.

● CHALLENGE: Improve and test continuity of operations plans

The importance of plans to continue operations and delivery of services has taken on new urgency since September 11. The Department and OIG experienced numerous problems in the New York regional office. The Department has acknowledged the need for plans to address interruptions of resources such as working space, telephone and utility services, IT systems, and mail delivery. The Department's existing continuation of operations plan (COOP) was prepared in 1999 and addressed disruptions only at its Washington headquarters offices. In addition, its COOP lacks clear emergency procedures.

Our work and meetings with Department officials indicates that while efforts are underway to develop plans for continuity of operations, much remains to be done. Our audits also identified vulnerabilities in disaster recovery planning for important IT systems. We recommended the inclusion of the lack of adequate continuity of operations as a material weakness in the Department's Federal Managers' Financial Integrity Act (FMFIA) report.

Department's Efforts

The Department acted quickly when Department offices (including the OIG regional office) were affected in New York City. The Department has received additional COOP guidance from the White House and is working to meet this guidance. The Department's Blueprint establishes some action items related to disaster recovery and infrastructure protection.

OIG Planned Work

We plan to review the Department's preparedness to respond to disruptions and the Department's activities to improve its preparedness. We will also review the adequacy of service continuity provisions for select Department systems.

• CHALLENGE: Improve management of IT assets

The Department must meet the requirements of the Clinger-Cohen Act which requires agencies to institute specific practices to improve management of IT including acquisition, use, and disposal of IT resources. Our prior work led to an agreement between OIG and the Office of the Chief Information Officer (OCIO) on a corrective action plan to address our recommendations in key areas of the Act.

Department's Efforts

The Department has taken several actions to improve IT capital planning and investment control, IT architecture, and IT skills of agency personnel--three key requirements of the Act. The Department's Blueprint also identified actions needed to improve management of IT resources.

OIG Planned Work

We have started an audit to review the Department's continued progress in meeting the Act's requirements. We will focus on the student financial assistance programs which comprise over 80 percent of the Department's IT budget. We also plan to perform an assessment of the Department's overall IT architecture and the effectiveness of its efforts to improve the IT skills of its personnel.

• CHALLENGE: Obtain reliable performance data and improve performance measures

In order to meet the President's directive to better integrate budget and performance data, the Department must improve its performance measures and obtain reliable performance data. To meet the requirements of the Government Performance and Results Act (GPRA) the data used for performance measures must be reliable, valid, and timely and should focus on program performance.

The Department must ensure that the performance measures it selects focus on outcomes, so that measures have value in improving programs and operations. It must also ensure the reliability, validity, and timeliness of data used for these measures. The Department also needs to examine its reliance on data from third parties. In our work, we have found weaknesses in the reliability, validity, and timeliness of data reported to the Department in certain programs.

Department's Efforts

The Department plans to publish a document that integrates performance and financial reports to demonstrate the relationship of financial and program management. It also has recognized the importance of tracking performance to goals in its planned efforts to strengthen the culture of accountability in the Department and in its objective to link federal education funding to accountability for results.

OIG Planned Work

We are participating in a joint audit with GAO and others to determine the reliability, validity and timeliness of Title I performance data used to identify schools that need improvement. We are also performing an audit on the adequacy of internal controls for scoring of the National Assessment of Education Progress. In addition, we will determine whether there are established GPRA goals and measures for each project in our FY 2002/2003 Work Plan. We will review these goals and measures if they are present, and if not, determine whether to recommend their inclusion.

**OFFICE OF INSPECTOR GENERAL
AUDITS AND INSPECTIONS
RELATED TO
U.S. DEPARTMENT OF EDUCATION
MANAGEMENT CHALLENGES
FEBRUARY 2002**

These reports represent some of our most pertinent recent work related to the top management challenges now facing the Department of Education.

- **CHALLENGE: Correct long standing financial management problems**
  - FY 2000 Annual Financial Statements (A17-A0002, 2/29/2001)
  - Management Letter FY 2000 (A17-B0003, April 2001)
  - Student Financial Assistance FY 2001 Financial Statements (A17-A0003)
  - Management Letter, Student Financial Assistance FY 2000 (April 2001)
  - Analysis of GAPS Duplicate Payments (3/30/2001)
  - Monitoring of ED's Implementation of Oracle Federal Financials (Phase 1), (Letter Report, 12/17/2001)

- **CHALLENGE: Strengthen information technology security**
  - Department of Education Implementation of GISRA (A11-B0007, 9/07/2001)
  - Review of Education's Disaster and Recovery Plans (A11-A0009, 11/28/2001)

- **CHALLENGE: Improve internal controls**
  - Review of Impact Aid Disbursement Process within the U.S. Department of Education, Office of Elementary and Secondary Education (S17-B0013, July 2001)
  - Review of the Formula Grant Disbursement Process within the U.S. Department of Education, Office of Vocational and Adult Education (S17-B0015, July 2001)
  - Review of the Discretionary Grant Disbursement with the U.S. Department of Education, Office of Educational Research and Improvement (S17-B0014,7/19/2001)
  - Audit of Controls over Audit Followup Process (A19-B0002, October 2001)
  - Audit of Controls over Contract Payments (A07-A0015, March 2001)

- **CHALLENGE: Improve contract monitoring**
  - Audit of Controls over Government Property Furnished to Computer Sciences Corporation (A19-B0003, March 2001)
  - Audit of Controls over Government Property Furnished to Affiliated Computer Service, Inc. (A19-B0004, April 2001)
  - Audit of Controls over Government Property Managed by Raytheon Systems Company (A19-B0005, September 2001)

- **CHALLENGE: Balance compliance monitoring and technical assistance**
  - OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act (S14-80010, 11/99)
  - Review of the Office of Elementary and Secondary Education Discretionary Grants Monitoring Process (A03-A0021, 9/24/2001)
  - Audit of the U.S. Department of Education's Discretionary Grant Monitoring Process (A03-B0018, 10/24/2001)
  - Review of the Division of Vocational-Technical Education's Monitoring of Formula Grants (A04-A0013, 9/25/2001)
  - Review of the Office of Elementary and Secondary Education's Monitoring of Formula Grants (A04-A0013, 11/26/2001)
  - Monitoring of Formula Grants (A04-B0008, 11/27/2001)

- **CHALLENGE: Meeting its goal of removing student financial assistance programs from the General Accounting office "high risk" list**
  - Audit of Commissioned Sales and Course Length at Benedictine University (A05B0003, 12/13/2001)
  - Audit of Student Financial Assistance Enforcement of the Institutional Financial Responsibility Regulations. (A09A0018, 09/28/2001)
  - Audit of Course Length at William Penn University (A07B0014, 9/28/2001)
  - Audit of Olivet Nazarene University, School of Graduate and Adult Studies Administration of Title IV Programs,(A05B0014, 09/28/2001)
  - Audit of Indiana Wesleyan University, Adult and Professional Studies Administration of Title IV Programs, (A05B0007 ,09/25/2001)
  - Audit of The Michigan Guaranty Agency's Administration of the Federal Family Education Loan Program Federal and Operating Funds(A-05, 9/25/2001)
  - Audit of Controls over Government property managed by Raytheon Systems Company (A19-B0005, 9/19/2001)
  - Audit of the Implementation of the District of Columbia College Access Act of 1999 (A06A0015, 08/29/2001)
  - Audit of ESS College of Business' Administration of the Title IV Student Financial Assistance Programs (A05A0030, 05/21/2001)
  - Audit of the Title IV Programs Administered by Olivet Nazarene University's School of Graduate and Adult Studies, Bourbonnais, Illinois(A05A0030 5/21/2001)
  - Audit of Indiana State University's Policies and Procedures Covering Educational Programs and Courses Delivered Through Distance Education Methods (A09-A0021, 5/18/2001)
  - Audit of Commissioned Sales at William Penn University (A0790035_5/15/2001)

- **CHALLENGE: Pursue appropriate electronic government initiatives**
  - Review of Department's Fall 2000 GPEA plan

- **CHALLENGE: Improve and test continuity of operations plans**
  - Review of the Department's Disaster and Recovery Plans (A11-A0009, 11/28/2001)

- **CHALLENGE: Improve management of IT assets**
  - OIG monitors Department's actions to correct deficiencies identified in Clinger-Cohen audit (A11-7007, 3/31/98)

- **CHALLENGE: Obtain reliable reporting data and improve performance measures**
  - State-Reported Data Used to Evaluate Performance of the Individuals with Disabilities Education Act (Information Memorandum, 9/28/2001)
  - Audit of Michigan Department of Education Management Controls over IDEA, Part B Special Education Performance Data (A05-A0031, 9/21/2001)
  - Audit of Kansas State Department of Education Management Controls over IDEA Part B Special Education Performance Data (A07-A0020, 7/20/2001)
  - California Department of Education Management Controls over IDEA, Part B Special Education Performance Data (A09-A0016, 3/30/2001)
  - Arizona Department of Education Management Controls over IDEA, Part B Special Education Performance Data (A09-A0001, 9/22/2000)
  - Department Controls over TRIO Grantee Monitoring (A07-90034, 1/4/2002)