# Appendix E
## Management Challenges

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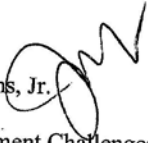## Management Challenges

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

## MEMORANDUM

DATE:      September 17, 2004

TO:        The Secretary

FROM:      John P. Higgins, Jr.

SUBJECT:   2004 Management Challenges of the Department of Education

Pursuant to the Reports Consolidation Act of 2000, we provide the attached management challenges for the Department for 2004. We look forward to continuing to work with the Department to improve the efficiency and effectiveness and to protect the integrity of its programs and operations.

Attachment

cc: Senior Officers

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*Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.*

Pursuant to the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) of the Department of Education identifies the following management challenges of the Department. These challenges are long-term management issues that require the continued focus and commitment of the Department. They are not a compilation of our recent audit findings, but rather issues that arise from our audit, inspection, and investigation work, our knowledge of the Department's and the Administration's initiatives, and our understanding of the statutory requirements imposed by Congress. As required by the statute, we also discuss the Department's progress in meeting these challenges.

## CHALLENGE 1: HUMAN CAPITAL MANAGEMENT

Comprehensive human capital planning that includes effective planning for future needs, recruitment, hiring, and development of its current workforce is a management challenge for the Department. When the Government Accountability Office (GAO) placed this issue on its high-risk list in 2001, it identified the fundamental problem facing federal agencies as the long-standing lack of a consistent strategic approach to managing and maintaining the workforce necessary for a more effective and efficient government.

### *Department's Progress*

In May 2004, the Under Secretary articulated five human capital expectations for the Department: effective and efficient hiring processes; performance standards that clearly articulate expected results; performance evaluations that differentiate among performance; pay for performance; and customized development and succession plans. Subsequently, the Department initiated steps to develop a comprehensive human capital plan, intending to complete the task by September 2004. Federal Student Aid (FSA) released its final human capital plan in July 2004. Also in July 2004, the Chief Human Capital Officer initiated an effort to see that each employee's performance plan includes standards that reflect clarity of results, focus on the Department's strategic goals, and communicate the five priorities expected from the employee during the performance period.

## CHALLENGE 2: FINANCIAL MANAGEMENT

The Department faces financial management challenges in implementing erroneous payments requirements and a new financial management system. The Improper Payments Information Act of 2002 greatly expanded the requirements for agencies to identify and reduce erroneous payments in the government's programs and activities. In addition, the Office of the Chief Financial Officer (OCFO) and FSA plan to re-implement the Oracle Federal Financials system as version 11i to take advantage of available enhancements and to stay current with Oracle-supported products. This implementation will consolidate the Department's and FSA's general and subsidiary ledgers and eliminate the need for complex system interfaces. A systems implementation of this magnitude is a significant and complex undertaking that must be carefully planned and diligently executed.

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### Department's Progress

The Department's and FSA's fiscal year (FY) 2003 financial statements received an unqualified audit opinion, and the FY 2003 Performance and Accountability Report (PAR) was submitted to the Office of Management and Budget (OMB) by the accelerated due date of November 15, one year ahead of the statutory implementation deadline for accelerated reporting. The Department also became the first cabinet level agency to receive a green score for financial management on its President's Management Agenda scorecard. The Department has issued the FY 2004 quarterly financial statements required by OMB. In addition, the Department plans to submit its FY 2004 PAR on or before November 15, 2004. These are major accomplishments toward strengthening financial management.

The Department has stated that it has completed its risks assessments of FSA and the Title I programs, has moved forward with assessing the risk of its remaining grant programs, and is expanding on its initial assessment of its grant programs. The Department also entered into a memorandum of understanding with the Oak Ridge National Laboratory to perform data mining on information from various sources.

The Department's target date to go live with the Oracle 11i system is October 2006. The Department has developed a four-tier approach for implementing the system: conduct impact assessments, develop an upgrade strategy and approach, develop a detailed implementation plan, and implement version 11i.

## CHALLENGE 3: FEDERAL STUDENT AID PROGRAMS

The Department's challenges related to its annual $65 billion student financial assistance programs, and its outstanding loan portfolio of over $300 billion, are oversight and program review, reducing improper payments in the Pell grant program, and encouraging innovative educational program delivery without jeopardizing program integrity.

FSA is responsible for oversight of about 6,000 schools, three dozen guaranty agencies, more than 3000 lenders, and many third-party servicers retained by these entities. A challenge is for FSA to provide adequate oversight and program review of these institutions to reduce abuse in these programs.

The Department estimated that $365 million in Pell grants was improperly disbursed in FY 2003 because applicants understated their income. The 1998 amendments to the Higher Education Act (HEA) appeared to provide FSA the authority to verify applicant income with the IRS, but did not make corresponding changes to the Internal Revenue Code to authorize disclosure of confidential tax information to FSA. Until the Internal Revenue Code is amended to allow for an income match with income reported on the FAFSA, the challenge remains for the Department to use alternative methods to reduce improper payments in the Pell Grant program.

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Advances in technology and the growth of the Internet have led to an increasing number of students pursuing distance education. The Department's challenge is to encourage innovative educational program delivery while ensuring accountability of taxpayer dollars and preserving the integrity of the student aid programs.

### *Department's Progress*

FSA is in the initial stages of developing an improved electronic management system to provide case teams electronic access to all information on a school, which should improve its process for reviews of statutorily required audits and school recertifications. FSA also is in the process of implementing a corrective action plan to address the weaknesses identified by OIG related to guaranty agency oversight.

The Department has made a commitment to address factors that resulted in the student aid programs' placement on GAO's high-risk list and has made progress in reducing risk in these areas. On August 9, 2002, in a joint letter to Congress, Secretary Paige, Treasury Secretary O'Neill, and OMB Director Daniels submitted a legislative proposal to amend the Internal Revenue Code to allow for a very limited disclosure of certain taxpayer information, but only after a series of safeguards designed to protect taxpayer confidentiality were implemented. Legislation that would permit this income match is pending before Congress.

The 1998 reauthorization of the HEA created the Distance Education Demonstration Program. The Department is charged with administering the program and monitoring the participants.

## CHALLENGE 4: INFORMATION TECHNOLOGY

The Department faces information technology (IT) challenges, including the need to adequately manage and safeguard IT assets and meeting electronic-government requirements. The Department's more than 70 IT systems comprise a number of complex and costly investments that are essential to conducting ongoing business and meeting the agency's core mission. The Department needs to develop a mature IT investment management capability, a well-defined enterprise architecture, and a robust system acquisition/development life cycle methodology. It also needs to ensure that these systems are secure, in accordance with the Federal Information Security Management Act of 2002, to protect the data they contain and the operations they support.

The Department faces a challenge in managing a transition to government-wide system solutions because of their potential to dramatically change the "back-office" operating environment. For example, OMB's Lines of Business initiatives are directed at financial management, grant management and human resources, and encompass other Executive Branch electronic-government initiatives. In addition, to reduce the risk of program fraud, waste, and abuse that could arise from possible misuse, the Department needs to

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employ appropriate Personal Identification Number (PIN)-based electronic authentication.

### Department's Progress

The Department has continued its efforts to strengthen and detail enterprise architecture artifacts, so that they can consistently be used as an effective IT governance tool. The Department also has devoted considerable time and resources to enhance security for its systems, including formally certifying most of its general support systems and major applications. We noted that the process did not adequately identify the residual risks that Department officials were accepting at the time of system certification, and the Department developed a corrective action plan, which it anticipates completing by December 2004. During FY2004, the Department also completed its *Critical Infrastructure Protection Mission Essential Infrastructure Interdependency Study,* and plans to use the results of this study to test critical interdependencies during its annual Disaster Recovery testing.

The Department has embarked on several modernization efforts that have the potential to increase business efficiency and significantly improve customer service. These are in various stages of conceptualization and development. The Department is also implementing PINs in FSA.

## CHALLENGE 5: PROGRAM PERFORMANCE AND ACCOUNTABILITY

The Department's management challenges in program performance and accountability are to ensure data reliability and to conduct adequate monitoring. A major focus of the No Child Left Behind Act of 2001 is the need for states to report on performance in areas such as teacher quality and student achievement. The utility of this reporting will depend on the collection of reliable data. The same is true for other Department programs, such as Migrant Education, that also rely upon data from the states to make important program decisions.

We continue to identify significant accountability and compliance issues in the Virgin Islands, Puerto Rico, and the Pacific Outlying Areas. In addition, we continue to identify other entities, including school districts, to the Department for consideration of high-risk status and appropriate special conditions. An increased awareness by program managers about their responsibility to oversee programs carefully, rather than focus exclusively on technical assistance, would help protect program integrity.

### Department's Progress

The Department is responding to data reliability problems. The Office of Elementary and Secondary Education (OESE) stated that it is using its Title I monitors and state contacts to monitor progress on report submissions and working with states on data quality issues as part of its monitoring process. OESE is also updating its monitoring guide to include

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questions about controls over scoring of state assessments, and it plans to publish a summary from its monitoring visits for the past year. The Office of Special Education and Rehabilitative Services stated that it is developing corrective actions in conjunction with an outside consultant hired by the Rehabilitation Services Administration. The Office of Vocational and Adult Education stated that it is implementing enhancement efforts for technical assistance and revising its reporting instrument to require states to provide additional information to support their attestation that data are accurate, complete, and reliable.

The Department's inter-office Insular Affairs Committee is undertaking projects to address accountability and compliance issues identified by our work. The Department has placed several grantees on high-risk status with special conditions placed on future funding. In the past year, the Department also has increased its site visits to these entities. The Department's recent initiative to reengineer its grants monitoring process reflects the importance it is placing on improving its monitoring process.

## CHALLENGE 6: PROCUREMENT

Improving contractor oversight to ensure that contract terms and conditions are met and that high-quality goods and services are received is a management challenge for the Department. GAO lists acquisition as a major management function that is key to high-performing organizations. The Department contracts for many services that are critical to its operations, at a value of over $800 million in FY 2003. Implementation of the Federal Activities Inventory Reform Act of 1998 and the Administration's emphasis on competitive sourcing are likely to lead to additional contracts for services now performed by Department staff. The Department needs to improve its monitoring of these contracts.

### Department's Progress

The Department recently reissued its directive, Contract Monitoring for Program Officials (the previous version was from 1987), without substantial change from the prior policy. FSA recently issued an Audit Review Guide to assist with monitoring of its private collection agency contractors.

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