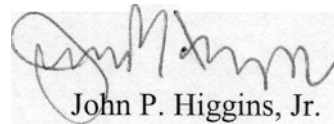# Archived Information

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MANAGEMENT CHALLENGES OF THE DEPARTMENT OF EDUCATION
FEBRUARY 2003

We are providing the management challenges for the Department of Education in accordance with the Reports Consolidation Act of 2000 (PL 106-531). More detailed information about our work is available on our website, www.ed.gov/offfices/OIG.

John P. Higgins, Jr.

CHALLENGE: FINANCIAL MANAGEMENT

Sound financial management allows managers to make decisions based on reliable financial information and encourages trust between a government agency and the public. Improved financial management is a key component in the President's Management Agenda. The Department continues to focus on improving financial management and is addressing its many challenges in achieving its goal of an unqualified opinion on its financial statements. While all aspects of financial management are important, three specific areas should be highlighted: strong internal controls, successful implementation of a new general ledger system, and effective contract monitoring.

INTERNAL CONTROLS

Strong internal controls are essential to the integrity of the Department's programs and operations, and the Secretary has stated his commitment to maintaining an effective system of internal controls. The Department must remain focused on addressing issues in the *Report on Internal Controls* that accompanies the financial statement audit report. In addition, our other audits, inspections, and reviews have examined a number of internal controls issues and have resulted in recommendations for improving the Department's programs and operations. In the future, we will continue to focus on how the Department conducts its business and whether its programs have adequate internal controls built into its processes.

GENERAL LEDGER SYSTEM

The Department faces a major challenge in the implementation of a new general ledger system, which produces the financial statements necessary for the Department to account for its funds. Previously, the Department's system required some level of manual intervention. The implementation of the new general ledger system, Oracle Federal Financials, is expected to allow the Department to automatically produce these critical statements. The Department implemented the new general ledger system during fiscal year (FY) 2002, thus we will not know its degree of success until we complete the audit of the FY 2002 Financial Statements. The move away from manual processing and considerable year-end efforts would be a significant improvement to the financial statements reporting process.

CONTRACT MONITORING

The Department relies heavily on contractors for assistance to administer its programs and operations, and effectively monitoring contractor performance is essential to sound financial management. Recent audit work in one principal office determined that the Department did not always ensure compliance with contract terms and conditions or follow established regulations, policies, and procedures in contract monitoring. We are working with Department officials to provide the results of this audit through a training program for staff from all principal offices. We have also initiated a series of external audits focusing on contractor performance.

CHALLENGE: FEDERAL STUDENT AID PROGRAMS

Federal student aid programs are the largest dollar value programs in the Department with an annual disbursement of approximately $70 billion and a loan portfolio of $170 billion. A majority of our investigative work focuses on these programs. We also have a substantial audit presence through audits of the participating institutions and of the Department's oversight of these programs.

While the loan programs and the Pell Grant program are inherently risky, the Department has been working toward its goal to remove them from the General Accounting Office's (GAO) high-risk list. Reducing the risk in these programs is also a program initiative of the President's Management Agenda. The Department must exercise oversight and protect itself from fraud and abuse perpetuated against the programs by the people who benefit from the programs, such as students; and the people who administer the programs, such as postsecondary education institutions, lenders, and guaranty agencies.

E-GOVERNMENT

As the Department moves to a more electronically based process for delivering federal student aid -- from application, through disbursement, to repayment -- it needs to be prepared for new fraud schemes. The Department must work more effectively to ensure that processes are secure. It must provide a secure environment while fulfilling the mandate under the Government Paperwork Elimination Act to move toward electronic government and paperless transactions. The Department must complete and implement the required security policies and plans in the electronic delivery of these programs, as well as identify, analyze, and consider for automation additional information processes.

DATA MATCH

A critical control to reduce risk in the programs is implementation of a matching agreement between the Department and the Internal Revenue Service (IRS), provided for in the Higher Education Act (HEA) Amendments of 1998 (P.L. 105-244). The Department has worked with the IRS and the Office of Management and Budget on a legislative proposal for changes to the IRS code to allow the Department to match income information on applications for federal student aid with data that the applicants or their parents have reported to the IRS. That proposal, which was part of the President's FY 2003 Budget, was sent to Congress on August 9, 2002.

OVERSIGHT

Oversight of these programs and enforcement of the HEA and regulations are also essential to reducing abuse. In the past, we expressed concerns about the emphasis on technical assistance rather than compliance reviews of schools and have recommended a balance between them. We have cited four deficiencies that we are most concerned with: decrease in onsite program reviews, lack of enforcement of annual compliance audits, lack of enforcement of

financial responsibility, and the ineffective process for recertifying foreign schools. The Office of Federal Student Aid has pledged to improve the coordination between our offices. Better coordination of efforts is a step toward removing the loan programs and Pell Grant program from the GAO high-risk list.

CHALLENGE: INFORMATION TECHNOLOGY

We have identified several challenges in the Department's development, operation, and management of its information technology (IT) systems. The President's Management Agenda's emphasis on e-government also highlights the importance of IT security. The Department's IT resources must be free from unacceptable risks that threaten data integrity and confidentiality, assets, and services. Deficiencies in IT security could compromise the Department's ability to deliver services and maintain operations.

ENTERPRISE ARCHITECTURE

Developing an enterprise architecture is necessary for Department-wide systems to function in a cost effective and efficent manner. We issued an audit report on the Department's efforts to develop an enterprise architecture and found several areas where the Department needs to complete development and implementation of an integrated enterprise architecture. This includes fully implementing data standardization characteristics and techniques. We noted that the Department has completed a number of enterprise architecture tasks.

IT SECURITY

The Department has made significant progress in several areas since our 2001 report on the Government Information Security Reform Act (GISRA). For example, the Office of the Chief Information Officer (OCIO) has finalized its Information Technology Security Program Management Plan and conducted training sessions on performing risk assessments, developing systems security plans, and meeting requirements for system certification. The Department also has set milestones for the completion of specific IT security activities on Department systems and major applications.

Our second GISRA report found significant deficiencies in the Department's information security plans, programs, and practices. Specifically, the Department must improve the protection of critical assets, incident response capability, security of contractor-provided services, technical security control and other areas. We made recommendations to the OCIO based on our findings in these areas. The Department concurred with all but one of our recommendations. We will work with the OCIO, providing expertise to address these recommendations.

CHALLENGE: PROGRAM PERFORMANCE AND ACCOUNTABILITY

Performance measures and reliable data are necessary to determine whether programs are accomplishing their purposes. The President's Management Agenda calls for a link between budget and performance, and the Office of Management and Budget (OMB) is beginning to evaluate program success in making budget decisions. A significant amount of the data used to measure education programs is provided to the Department by state and local education entities. It is imperative for this data to be accurate because the Department relies on it to provide Congress, OMB, and the public an objective measure of the success of education programs. The Department has recognized the importance of improving data quality and addressed this issue in its performance plan.

DATA RELIABILITY

We completed a series of audits on the reliability of Title I, Part A, performance data for schools identified for improvement. This data is critical for implementation of the No Child Left Behind Act because the law can impose enforcement actions against low performing schools that do not demonstrate improvement. The Department needs to improve its controls over the timeliness, reliability, and validity of this data. The Department recently developed Information Quality Guidelines that address many of the concerns identified during our audits. The Department plans to disseminate those guidelines to the Chief State School Officers.

MONITORING

In addition to having reliable data to assess performance, the Department needs strong monitoring to ensure that the recipients of federal education dollars are held accountable for spending these funds in accordance with applicable laws and regulations. The Secretary has made accountability an underlying principle of the Department's programs and operations.

PROGRAM ACCOUNTABILITY

There are accountability problems in the Puerto Rico Department of Education's administration of federal education dollars. Puerto Rico received over $600 million in Fiscal Year 2002. We investigated fraud in program administration resulting in indictments, arrests, and prosecutions. The Department developed a corrective action plan for Puerto Rico addressing significant deficiences.

We have planned additional work on accountability and data reliability for students served by Title I programs. We will also examine the administration of special education programs in Puerto Rico and the Virgin Islands and review allegations of misuse of education funds in the Pacific Rim.

CHALLENGE: HUMAN CAPITAL

Strategic human capital management is fundamental to the government's ability to effectively, efficiently, and economically deliver services to the American people. Lack of attention to human capital now can have a long range, adverse impact on government services for many years. Human capital management is an item on the President's Management Agenda and is also on GAO's high-risk list.

ONE-ED PLAN
The Department has established a goal of organizational excellence and has started to address human capital issues by re-engineering its human resources process. The Department's primary initiative for human capital planning, the One-ED Plan, contains a number of steps to address human capital issues including recruitment, hiring authorities, training, and succession planning.

CONTINUITY
FOCUS
We plan to conduct reviews to identify needed improvements in the Department's delivery of certain operations, functions, support services, and other activities in the human capital area. As the Department develops its workforce and restructuring plan, core competencies, and the post-selection process for new hires, we will review its progress.