

## Inspector General's Discussion of Management Challenges

The Office of Inspector General (OIG) works to promote efficiency, effectiveness and integrity in the programs and operations of the U.S. Department of Education (Department). Through our audits, inspections, investigations and other reviews, we continue to identify areas of concern within the Department's programs and operations and recommend actions the Department should take to address these weaknesses.

The *Reports Consolidation Act of 2000* requires OIG annually to identify and summarize the top management and performance challenges facing the Department, as well as to provide information on the Department's progress in addressing those challenges. Based on our recent work and knowledge of the Department's programs and operations, we have identified six specific challenge areas for the Department for 2009: (1) student financial assistance programs and operations; (2) information security and management; (3) grantee oversight and monitoring; (4) contract awards, performance and monitoring; (5) data integrity; and (6) human resources services.

Recent OIG work has identified that the predominant challenge facing the Department within each of these areas is implementation and coordination of effective monitoring and oversight. While the Department is working to make progress in these areas, it is evident that additional focus, attention and emphasis are needed. Only by significantly improving its monitoring and oversight activities and capabilities will the Department be an effective steward of the billions of taxpayer dollars supporting its programs and operations.

### **Challenge: Student Financial Assistance Programs and Operations**

The federal student financial assistance programs involve over 6,200 postsecondary institutions, more than 3,100 lenders, 35 guaranty agencies and many third party servicers. During FY 2008, Federal Student Aid (FSA), the Departmental office with responsibility for these programs, provided \$96 billion in awards and oversaw an outstanding loan portfolio of over \$500 billion. FSA must conduct effective monitoring and oversight to help protect higher education dollars from waste, fraud and abuse. Effective oversight of these programs has been a long-standing and significant challenge for FSA, as it has not hired personnel with the necessary skills and has not devoted the necessary resources to identify and implement effective oversight and monitoring of its programs or program participants. Furthermore, recent problems in the credit market could have an adverse impact on the loan programs, putting these dollars and programs at an even higher risk. Effective implementation of the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), providing authority for the Department to purchase lender loans, the Lender of Last Resort program and expanding the capacity of the Direct Loan program will be crucial to protecting students and federal funds.

**The Department's Progress:** FSA has agreed to improve the management of its programs and to develop and implement consistent oversight procedures. FSA is in the process of restructuring and improving its Chief Compliance Officer organization for the oversight of the Federal Family Education Loan program. The Department is finalizing steps in response to our audit work on 9.5 percent special allowance payments (SAP) by requiring all lenders billing at the 9.5 percent SAP rate to be paid at the regular rate until the Department receives the results of acceptable audits to determine the eligibility of loans for payments at the 9.5 percent rate. The Department is also in the process of implementing

the authorities provided by ECASLA for the Loan Participation/Purchase programs, and establishing internal controls to provide for accountability and monitoring of compliance with the law and program agreements.

### **Challenge: Information Security and Management**

The *Federal Information Security Management Act* (FISMA) requires each federal agency to develop, document and implement an agency-wide program to provide information security and develop a comprehensive framework to protect the government's information, operations and assets. To ensure the adequacy and effectiveness of information security controls, Inspectors General conduct annual independent evaluations of the agencies' information security programs and report the results to the Office of Management and Budget (OMB).

In our information security audits to support our FISMA requirements, we have identified security weaknesses that the Department must address to protect its systems and to maintain its security certification and accreditation. These weaknesses include certain management, operational and technical security controls; the incident handling process and procedures; intrusion detection system deployments; and enterprise-wide technical configuration standards for all systems.

With regard to information management, the Department's anticipated information technology (IT) capital investment portfolio for FY 2009 is over \$540 million, with many resource-intensive projects pending. It is critical that the Department have a sound IT investment management control process that can ensure that technology investments are appropriately evaluated, selected, justified and supported. This oversight and monitoring process must address IT investments as an agency-wide portfolio. It must also ensure that individual projects are appropriately managed so they meet their technical and functional goals on time and on budget. This is an area that continues to challenge the Department.

In addition, work conducted since 2004 has revealed weaknesses in FSA's management of its National Student Loan Data System (NSLDS) – the central database for Title IV information on loans, grants, students, borrowers, lenders, guaranty agencies, schools and servicers. These weaknesses involve a lack of effective internal control procedures for granting access to external users, security plans that did not comply with the Department's IT security policy and contract employees working in NSLDS without appropriate security clearances, all of which increase the risk for inappropriate disclosure or unauthorized use of sensitive and personally identifiable information in NSLDS.

**The Department's Progress:** The Department continues its efforts to establish a mature computer security program as it relates to technical configuration standards for all of its systems, managing its outsourced contractors who operate its critical information systems, and improving its incident handling program and intrusion detection systems. In addition, the Department recently established plans to improve its controls relating to the protection of personally identifiable information in order to meet the standards and good practice requirements established by OMB. Management, budget and contracting constraints, however, have hampered the Department in moving forward with improving these controls.

With regard to IT management, while the critical issue of independent assessment remains unaddressed, the Department has recently strengthened the IT capital investment program by expanding membership on two of its review groups, the Investment Review Board and

the Planning and Investment Review Working Group. The Department continues its efforts to strengthen individual business cases and to map proposed investments to an agency-wide enterprise architecture strategy.

### **Challenge: Grantee Oversight and Monitoring**

The success of an organization's mission and the achievement of its goals depend on how well it manages its programs. Our recent audits, inspections and investigations continue to uncover problems with program control and oversight of Department grantees and program participants, placing billions of taxpayer dollars at risk of waste, fraud, abuse and non-compliance. The Department must ensure that all entities involved in its programs are adhering to statutory and regulatory requirements and that the offices responsible for administering these programs are providing adequate oversight of program participants. Without effective monitoring and oversight, the Department is not able to identify and manage the risks associated with its grant programs. Only by improving effective oversight of its operations and demanding accountability by its managers, staff, contractors and grantees can the Department be an effective steward of the billions of taxpayer dollars supporting its programs and operations.

**The Department's Progress:** The Department has initiated steps to improve its performance in this area. The Secretary established a new Grants Policy Team and a Risk Management Service (RMS) office that are reviewing all policies, including requirements for monitoring, with the objective of developing standards that would apply across all formula grant programs. During the past year, RMS has initiated several projects to address issues with some of the Department's high-risk grantees. For example, RMS is working closely with Puerto Rico and the Virgin Islands, including holding several on-site meetings with senior staff. RMS also invited representatives from multiple federal agencies to initiate a cross-cutting approach to address a variety of issues in American Samoa. As additional high-risk issues are identified by RMS the staff works with states and school districts to address the concerns. The Grants Policy Team also is completing the process of revising the Education Department General Administrative Regulations to incorporate performance management requirements for funded applicants. In addition, the Office of Elementary and Secondary Education continues to enhance its monitoring system and will continue to conduct Title I program reviews of all states at least once during a three-year monitoring cycle.

The Department continues to implement an Enterprise Risk Management program throughout the Department. As part of this program, the Department is developing a risk management data analysis tool. Based on input from the Oak Ridge National Laboratory and other sources, the Department is in the process of identifying specific tool capabilities and the data and other indicators to be incorporated into the tool.

### **Challenge: Contract Awards, Performance and Monitoring**

The Department contracts for many services that are critical to its operations, at a cost of over \$1 billion a year. The Department must improve its procurement and contract management processes to ensure that it is receiving quality goods and services in accordance with contract terms. OIG audits, inspections and investigations uncovered problems in the area of contractor activities, including: inadequate oversight and monitoring of contractor performance; failure to identify and take corrective action to detect and prevent fraudulent activities by contractors; not ensuring that the procurement and contract

management processes provide assurance that the Department receives quality goods and services for its money; and inadequate attention to improper payments.

**The Department's Progress:** The Department and FSA have each hired consultants to review their acquisition processes and make recommendations for improvement. In addition, the Department recently revised its Contracting Officer's Representative Training Program to incorporate more stringent certification, training and recordkeeping requirements. The Department is working with applicable principal offices to ensure all future performance-based contracts include appropriate contractor incentives and disincentives.

### **Challenge: Data Integrity**

Data integrity is both a compliance issue and a performance issue. Recipients and sub-recipients, as well as the Department, must have controls in place and effectively operating to ensure that accurate, reliable data are reported. Without valid and reliable data, the Department cannot make effective decisions on its programs or know if the funds it disburses are indeed reaching the intended recipients. States must annually collect and report various performance data to the Department in the consolidated state performance report, including the number of persistently dangerous schools, graduation and dropout rates, assessment results, and the number of schools identified as in need of improvement. In several nationwide reviews by our office, the Government Accountability Office and others, we collectively found issues of noncompliance with data collection and reporting requirements and lack of effective controls to ensure data quality. For example, in our reviews of the data that four states used to report graduation and dropout rates, we found that the data were not always accurate, consistent throughout the state, complete and verifiable. We found that in some states student enrollment status was incorrectly classified, a student group was not included in calculations, reportable dropouts were not reported, and inadequate or no documentation was available to verify data accuracy. We also questioned the validity of the data when calculations of the graduation or dropout rates did not meet required definitions, which resulted in the reviewed states reporting graduation or dropout rates that were overstated.

**The Department's Progress:** The Department recognized the need to improve its data quality and data reliability and launched the Performance-Based Data Management Initiative to streamline existing data collection efforts and information management processes. The resulting Education Data Exchange Network, now called *EDFacts*, provides state educational agencies (SEAs) and the federal government the capacity to transfer and analyze information about education programs. Through *EDFacts*, the Department instituted data validation and verification steps and required states to address their data issues before the Department will officially accept the data.

To help ensure that SEAs will be ready to submit education data through *EDFacts* exclusively by established deadlines, the Department requires each SEA to submit a State Submission Plan yearly with actual submission, to date, and planned submission dates. The Department monitors the progress of the states by comparing actual submissions to the plan to ensure that the states stay on schedule. Further, the Department is planning to give \$80,000 to each SEA to assist with efforts in getting education data submitted to *EDFacts* in a more efficient and effective manner.

To decrease the risk of inconsistent education data in consolidated state performance reports, certain parts of the report are pre-populated with *EDFacts* data. In addition, the

Department is able to create ad hoc reports from ED*Facts* data to provide to entities such as Congress, without having to individually ask SEAs or program offices for the information. This provides for a more efficient use of time in preparing reports, and it decreases the risk of inconsistent reporting of education data.

The Department has advised us that it is working in coordination with the Data Quality Campaign and the National Forum on Education Statistics to help SEAs implement, by FY 2009, high-quality, longitudinal data systems that include a state data audit system assessing data quality, validity and reliability. The Department has also advised us that it worked with a task force of state, local and federal experts (organized through the National Center for Education Statistics) to develop a resource document for local educational agencies to use with their staff to ensure and improve data quality.

### **Challenge: Human Resources Services**

Like most federal agencies, the Department will see a significant percentage of its workforce eligible for retirement in 2009. The Department is also continuing to experience a significant change in critical skill requirements for many of its staff. Identification and prompt implementation of needed action steps to adequately address these succession planning and workforce issues, including recruitment, hiring and retention, is critically important.

**The Department's Progress:** The Department stated that it is committed to improving the strategic management of human capital. In response to the results of a recent Federal Human Capital Survey, the Department took a three-pronged approach to address the performance culture concerns identified by the survey: (1) senior leadership involvement; (2) principal office action planning training, and (3) the Departmentwide Action Planning Team (APT). In November 2007, the APT's planning efforts received recognition from the Office of Personnel Management for the most outstanding work completed by a planning team.

The APT presented 50 long-term, mid-term, and short-term recommendations in the areas of rewards and recognition, managing a diverse workforce, and execution of performance management, 49 of which the Department agreed to implement. During FY 2008, 36 of the recommendations were implemented. The majority of the action items not completed are linked to the implementation of a new employee performance management system that is planned for FY 2010, pending negotiations with the American Federation of Government Employees Council 252, the union representing Department employees.

In addition to implementing the APT recommendations, while the Department has made some progress in reducing the processing time in bringing new employees on board and has put metrics in place to monitor its performance in this area, it must continue to identify and adopt innovative ways to ensure that skilled, high-performing employees are available and deployed appropriately.