



U.S. Department of Education  
Office of Inspector General

# Semiannual Report to Congress, No. 64



Office of Inspector General  
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*Inspector General*

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# Message to Congress

On behalf of the U.S. Department of Education (Department) Office of Inspector General (OIG), I present this Semiannual Report on the activities and accomplishments of this office from October 1, 2011, through March 31, 2012. The audits, inspections, investigations, and related work highlighted in the report are products of our continuing commitment to promoting accountability, efficiency, and effectiveness in our oversight of the Department's programs and operations.

*Accountability. Efficiency. Effectiveness. Oversight.* These words seem to appear regularly on the front page of newspapers and are frequently mentioned on news programs across the country whenever the Federal Government is the topic of discussion. It is no surprise, as they are among the cornerstones and characteristics of good governance. When employed, they help ensure that government programs and operations are performing as intended and that government resources are responsibly managed. They promote integrity and careful decisionmaking. OIG is committed to good governance—our work triggers results and makes it clear that anyone who ignores the rules or abuses or misuses the taxpayer dollars entrusted to them will be held accountable for their unlawful actions. This commitment is evident in the work we completed over the last 6 months. Our audits and inspections recommended needed improvements in the programs we examined and by the entities we reviewed, and our investigative work led to criminal actions against corrupt officials, unscrupulous contractors, and other people for stealing or otherwise misusing Federal funds. For example:

- Our audit found that the Department complied with the *Improper Payments Elimination and Recovery Act of 2010*. However, we also found that the Department's estimates of improper payments were not always accurate; limitations existed in its methodologies for calculating improper payment rates; and the numbers, amounts, and percentages for two of its largest programs, the Pell Grant program and the Direct Loan program, were not always based on accurate or complete data.
- As discussed in this Semiannual Report, criminal charges were filed against 53 people for participating in Federal student aid "fraud rings"—large, loosely affiliated groups of criminals who exploit distance education programs in order to fraudulently obtain Federal student aid.
- Point Park University agreed to pay \$1.4 million to settle allegations that the school violated rules pertaining to the Federal Supplemental Educational Opportunity Grant Program.
- Our inspection found that the Department provided no oversight of schools' compliance with drug and alcohol abuse prevention program requirements for 12 years and that the oversight process it developed in

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2010 provided no assurance that schools were in compliance with requirements.

- Our audit of Saint Mary-of-the-Woods College determined that the school has been ineligible to participate in Federal student aid programs since 2005 because at least half of its students were enrolled in ineligible correspondence courses and that the school should be terminated from participating in the Federal student aid programs and should return more than \$42 million in student aid funds.
- The former superintendent of California's El Centro Elementary School District was convicted on fraud charges involving some \$400,000 in Federally-funded math and science program funds.
- Our audit found that the Department's implementation of the Teacher Incentive Fund program did not effectively apply Congressional intent and its own internal guidance. Further, the Department funded applications that did not fully meet the priorities for the competitions and did not ensure that recipients met applicable requirements prior to making continuation awards.
- The owner of a grant writing company was sentenced to 6 years in prison and was ordered to pay a \$60,000 fine for preparing and submitting fraudulent grant applications totaling more than \$35 million for a youth program in California.

Below you will find more details on these actions, as well as summaries of the 19 reports we issued over the last 6 months, which identified nearly \$44 million in financial recommendations. Also during this reporting period, we closed 75 investigations of fraud and corruption involving Department programs and operations and secured nearly \$16 million in settlements, fines, restitutions, forfeitures, seizures, recoveries, and savings.

In December, I was honored to be asked to lead the Recovery Accountability and Transparency Board. In this role, I will ensure that there is effective oversight, accountability, and transparency involving Recovery Act dollars. I remain, however, fully committed to my responsibilities as the Inspector General of the Department and will continue to spearhead efforts to help ensure that vital Federal education funds reach the intended recipients and achieve the desired results. In these tough economic times, America's taxpayers deserve nothing less from those of us tasked with keeping watch over their hard-earned investment.

I greatly appreciate the interest and support of this Congress, Secretary Duncan, and Deputy Secretary Miller in our efforts. I look forward to working with you in meeting the challenges and opportunities that lie ahead.



Kathleen S. Tighe  
Inspector General


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Goal 1: Improve the Department's ability to effectively and efficiently implement its programs to promote educational excellence and opportunity for all students.



Our first strategic goal addresses the core of our statutory mission—to promote the efficiency, effectiveness, and integrity of the U.S. Department of Education’s (Department) programs and operations. Work that the Office of Inspector General (OIG) conducted over the past 6 months in this area includes specific efforts related to the *American Recovery and Reinvestment Act of 2009* (Recovery Act), as well as programs geared for kindergarten through 12th grade, established by statutes such as the *Elementary and Secondary Education Act of 1965*, as amended (ESEA).

## Recovery Act

In December, Inspector General Tighe was appointed by President Obama to chair the Recovery Accountability and Transparency Board (Recovery Board) through its statutory sunset in 2013. Inspector General Tighe takes on these duties while continuing to lead the OIG’s efforts, including our Recovery Act work. The OIG also continued to participate in an advisory capacity on the Department’s internal Recovery Act team and several Recovery Board work groups. During this reporting period, we continued the third phase of our Recovery Act work and initiated our fourth phase. In our third phase, we performed reviews at 22 school districts in 21 States and the District of Columbia to provide a national perspective on how school districts used Recovery Act and Education Jobs funds (stimulus funds). This nationwide review looks to determine the extent that districts used or planned to use stimulus funds to stabilize budgets; provide new or expanded services to eligible students; or pursue new and innovative methods to improve schools, raise achievement, and implement other reforms. As part of this effort, we are also assessing whether districts would spend stimulus funds by the end of the respective grant periods, determining whether actual or planned uses of stimulus funds could result in unsustainable continuing commitments once the stimulus funds were no longer available, and identifying the factors that influenced how school districts spent or planned to spend stimulus funds. In our fourth phase, we are reviewing final Recovery Act expenditures at multiple local educational agencies (LEAs) in five States to determine whether they obligated and expended final Recovery Act funding on reasonable, allocable, and allowable activities in accordance with applicable requirements. We will also review Recovery Act closeout processes at the five State educational agencies (SEAs) and at selected LEAs. We will report the findings of these efforts once completed.

### Audits of Recovery Act Funds

During this reporting period, we completed several audits related to the Recovery Act—an audit of Alabama’s use of Recovery Act funds; an audit of Saint Mary-of-the-Woods College’s administration of the Federal student aid programs (Saint Mary-of-the-Woods College received a portion of that funding after passage of the Recovery Act, which increased funding for the Pell Grant and Federal Work Study programs); and a review of the processes five SEAs used to award School Improvement Grant funds, most of which was awarded through the Recovery Act.

#### Alabama’s Use of Recovery Act Funds

Although we found that the entities reviewed generally used Recovery Act funds in accordance with applicable requirements, we identified internal control



weaknesses related to the Alabama State Department of Education's (ALSDE) award of Recovery Act funds to LEAs, cash management, and reporting requirements. ALSDE did not have sufficient controls in place to ensure that its School Improvement Grant (SIG) award selection process was fair and equitable, as we identified an apparent conflict of interest. Specifically, we found that the participation of ALSDE's Federal Programs Director in the award process resulted in an apparent conflict of interest because her husband's employer was listed in three LEA applications as a provider of SIG services. All three of the LEAs were awarded SIG funds, totaling some \$10 million for services provided by her husband's employer. We also found scoring discrepancies in the documentation supporting the SIG selection process and noted that some scoring information was missing. As a result, ALSDE may have awarded SIG funds to LEAs that would not have been otherwise selected to receive the funds. ALSDE also erroneously made a duplicate transfer of Recovery Act IDEA funds to the Mobile Public School District, resulting in an improper payment of \$1.4 million. In addition, we found that ALSDE did not report accurate expenditure, vendor payment, and job data in accordance with Recovery Act reporting requirements. We recommended that ALSDE establish and implement systems of internal control to ensure the independence of employees and contractors who participate in processes to award competitive grants to LEAs; establish written policies and procedures pertaining to draws received in error, improper payments, and the handling of excess cash; and develop and implement policies and procedures to ensure the accuracy of its current and future reporting. Although ALSDE officials did not agree with all of our findings, they acknowledged the identified conditions and stated that they were in the process of addressing all of our recommendations.

### **Saint Mary-of-the-Woods College**

In our audit of the Saint Mary-of-the-Woods College's administration of the Title IV programs, we found that the school was not eligible to participate in those programs and had not been eligible since at least July 2005 because 50 percent or more of its students were enrolled in correspondence courses. Therefore, the college received more than \$42 million that it was not eligible to receive. According to Section 102(a)(3)(B) of the *Higher Education Act of 1965*, as amended (HEA), an institution is not eligible to participate in the Title IV programs if 50 percent or more of its students were enrolled in correspondence courses during its latest complete award year. The college considered its programs to be offered in either on-campus or telecommunications (distance education) formats and did not consider any of its programs to be offered through correspondence. We also identified instances of noncompliance with HEA requirements governing award calculations, student eligibility, disbursements, and return of Title IV aid. Specifically, the college incorrectly calculated Title IV awards for students enrolled in correspondence courses, could not provide documentation supporting its cost of attendance budgets, improperly disbursed Title IV funds to students who should not have received the funds, did not return all Title IV funds for students who never began attendance, did not return the proper amounts of Title IV funds for students who unofficially withdrew, and did not provide required notifications for disbursements of Title IV funds or provide timely Federal Family Education Loan (FFEL) program exit counseling. We recommended that the Federal Student Aid office terminate the college's participation in the Title IV programs and require the college to return more than

\$42 million in Title IV funds to the Department and the appropriate FFEL program lenders. The college did not agree with most of our findings or recommendations.

### **School Improvement Grants**

We audited SIG award processes at five SEAs and found that all five generally awarded funds to eligible schools. We reviewed SIG award processes at the Florida Department of Education, the Georgia Department of Education, the New York State Education Department, the Ohio Department of Education, and the Texas Education Agency. All five SEAs had plans to monitor each LEA's implementation of the selected intervention models and monitor each LEA's progress toward meeting the goals described in the application for each school. All five SEAs also appropriately allocated SIG funds to LEAs with schools having the greatest need for the funds. Three of the five SEAs (Florida, Georgia, and Texas) also allocated funds to LEAs with the strongest commitment to using the funds to raise student achievement. However, two SEAs did not always do so. In New York, applications for 2 of 12 schools in our sample (both in the Rochester City School District) did not include all required elements of their selected intervention models. Further, Rochester did not use SIG funds awarded for the two schools to benefit students attending those schools. Instead, Rochester used the funds for a new school as it was phasing out the two eligible schools. We also identified four additional Rochester schools that were eligible for SIG funds but were also being phased out so they did not receive SIG funds. In Ohio, although the SEA required each LEA to provide an assurance stating that it would use its SIG funds to fully and effectively implement an intervention model in each school that the LEA committed to serve, for 8 of 11 schools reviewed, the SEA did not ensure that the LEAs initially had plans to do so. We recommended that the Department instruct New York to improve its processes to ensure that all LEAs awarded funds in the future plan to fully and effectively implement the intervention model set forth in each selected school's application and that funds will be used to increase the achievement of students attending those eligible schools. We also recommended that the Department ensure that Ohio implements its new procedure requiring LEAs to provide an outline of each school's specific plans to implement all of the required elements of the selected intervention models before Ohio provides new or renewed SIG funding to LEAs. In addition, we recommended that the Department clarify its Final Requirements for School Improvement Grants and modify its SIG guidance. The Department agreed with some of our findings and recommendations.

## **Investigations**

OIG investigators continued to examine allegations of waste, fraud, and abuse involving Recovery Act funds over the last 6 months. Summaries of two of these investigative cases are below.

### **City University of New York Employee Sentenced (New York)**

A former employee at the City University of New York Research Foundation, who was hired to work as an instructor in the In School Youth Prep for Success Program at Medgar Evers College in Brooklyn, was sentenced to serve 30 months in prison for attempting to defraud the school and the Department of Recovery Act funds. The former employee presented and attempted to have processed fraudulent Grant Award Notifications totaling more than \$3 million. This case was referred to us by an alert Department employee who had recently attended a Recovery Act grant fraud awareness training provided by the OIG.

## Former Everglades University Financial Aid Director Sentenced (Florida)

After pleading guilty to fraud, a former financial aid director at Everglades University was sentenced to serve a year and a day in prison, 3 years of supervised release, and 50 hours of community service. She was also ordered to pay nearly \$93,000 in restitution. The former official used her position to embezzle more than \$88,800 in student aid loan checks from students.

## K-12 Programs

With the significant increase in education funding that the States, SEAs, and LEAs are receiving through the Recovery Act and the Education Jobs Fund in addition to their annual allotments for kindergarten through 12th grade programs, effective oversight of and accountability for Federal education funds are even more vital. Work conducted over the last 6 months showed that the programs and entities we reviewed need improved oversight and accountability.

### Audits of Departmental Operations

During this reporting period, we completed an audit of the Department's implementation of the Teacher Incentive Fund grant program and an audit that assessed the extent to which the Department's high school programs were duplicative.

#### Department's Implementation of the Teacher Incentive Fund Grant Program

We determined that the Department could improve the effectiveness of the Teacher Incentive Fund grant program (TIF) in the areas of program implementation, grant proposal evaluation and awarding processes, and program oversight. First, the Department did not always effectively apply Congressional intent and its own internal guidance in its implementation of the program. Specifically, we determined that the high-need schools definition and programmatic cost-sharing requirements applied during the initial TIF competitions were not consistent with the intent expressed through the applicable Congressional committee report and internal Departmental guidance. Second, the Department funded applications that did not fully meet the Department's absolute priorities for the competitions. It also funded applications containing weaknesses that could be detrimental to program implementation or sustainability. Third, the Department did not always ensure that recipients met applicable requirements prior to making continuation awards or ensure that implementation of funded applications was consistent with recipients' proposals. We also noted weaknesses in the processes established by the Department to assess program results. During the course of our audit, we found that the Department took some steps to help improve some of the weaknesses we identified. Additional improvements, however, were still necessary, including the need for the Department to develop and implement procedures to ensure that the intent of Congress and its own internal guidance are effectively considered and applied in the establishment of criteria applicable to discretionary grant competitions and to revisit the TIF program requirements considering legislative intent and other applicable criteria prior to the next competition and make any

necessary changes. The Department disagreed with all of our findings and one of our recommendations.

### **Potentially Overlapping High School Programs**

We found that although none of the 18 high school-related programs reviewed appeared to be duplicative, 6 programs (33 percent) appeared to overlap with at least one other program. We also noted that a number of those 18 programs, including the 6 that appeared to overlap, had been proposed for elimination and/or consolidation by the Department, partly due to concerns over duplication with other programs. Further, although the Department had collected performance data on the 18 programs reviewed, it had not collected data or established performance measures specifically related to the programs' effectiveness in reducing gaps between low-income and minority students and their peers in high school graduation and college access and success. We recommended that the Department continue to actively promote coordination among similar programs, continue to work with Congress to consolidate or eliminate programs that overlap one another and establish performance measures related to low-income and minority student performance with regard to high school graduation and college access and success rates in applicable programs. The Department agreed with all of our recommendations.

## **Audits of Grant Recipients**

OIG regularly conducts audits and reviews of SEAs, LEAs, and other grant recipients to determine whether those entities administer and use Department funds as required by statute, regulations, and Department guidance. Below are the results of one such audit that was completed during this reporting period.

### **New Jersey—Camden City Public School District**

In our audit of the Camden City Public School District's (Camden) administration of non-salary-related Federal education funds, we found that Camden did not always comply with applicable laws and regulations for the expenditures we reviewed. Specifically, Camden's accounting system did not accurately reflect its ESEA expenditures for FYs 2007 and 2008; it improperly charged about \$373,000 in ESEA expenditures; it lacked supporting documentation for nearly \$1.4 million in expenditures; it did not have an adequate inventory system to ensure that it properly managed equipment it purchased with ESEA funds; and it did not properly procure goods and services for purchases that exceeded the statutory bid threshold as required by State law.

This was the third audit of Camden that we have conducted over the last 2 years, all of which identified significant internal control deficiencies that affected Camden's ability to effectively and efficiently administer Federal education funds and programs. Because our cumulative work revealed that the Department has no assurance that Camden used Federal education funds for their intended purposes or safeguarded those funds against fraud, waste, and abuse, we recommended that the Department take appropriate actions to protect future Federal education funds awarded to Camden by working with New Jersey Department of Education to designate Camden as a high-risk grantee. We also recommended that the Department appoint a third party servicer to administer Camden's Federal education funds and rescind Camden's flexibilities to operate a schoolwide plan. The New Jersey Department of Education did not agree with all of our findings or recommendations.

Below are summaries of some of our significant investigations involving State and local school district officials and their contractors who abused and misused Federal funds.

### Schools and School Officials

#### **Former Chief Executive Officer of Charter School Pled Guilty (Pennsylvania).**

The former chief executive officer of the New Media Technology Charter School in Philadelphia pled guilty to charges that she and the former president of the school diverted more than \$522,000 of New Media funds to other projects in order to enrich themselves and to advance their personal business interests, including a nonprofit private school they controlled and operated and other personal business ventures.

**Former El Paso Independent School District Official Pled Guilty (Texas).** The former associate superintendent for the El Paso Independent School District pled guilty for his role in a bribery and fraud scheme. The former official accepted bribes from a now-defunct school district contractor in exchange for his support on a contract worth several million dollars. The bribes included cash, campaign contributions, and kickbacks.

**Former Executive Director of the Pennsylvania Northeastern Intermediate Unit Indicted (Pennsylvania).** The former official was indicted on charges of fraud, theft, and money laundering. During his tenure, he allegedly converted Northeastern Intermediate Unit funds and property for his personal use and that of his family. He also allegedly created and ordered his employees to create false travel vouchers and to perform personal services such as home maintenance, secretarial services, planning and preparing for family events, and shopping for himself and his family.

**Former Superintendent of the El Centro Elementary School District Pled Guilty (California).** The former superintendent pled guilty to fraud involving Federal grant funds for math and science programs. During his tenure, he fraudulently arranged to hire an entity to evaluate a federally funded math and science program for nearly \$400,000. In return, he received \$90,000 disguised as research assistant payments. The former superintendent was not, however, a research assistant on the grant and thus was not entitled to those funds.

**Former Pontiac School District Assistant Superintendent Indicted (Michigan).** The former assistant superintendent was indicted on charges related to program fraud and money laundering. He allegedly directed an employee to write a \$236,000 check to a business that he owned, which was deposited into an account that he controlled, a portion of which he allegedly used for personal expenses.

**Former Charles County Public Schools Title I Coordinator Sentenced (Maryland).** The former Title I coordinator was sentenced to serve 27 months in prison and 36 months of supervised release. She was also ordered to pay more than \$115,300 in restitution for theft. The former official used Title I grant funds to purchase technology items for herself, family, and friends, including computers, video games consoles, portable media players, tablet computers, and televisions.

**Four Jefferson Parish Public School System Employees Sentenced (Louisiana).** Four former employees of Jefferson Parish Public School System were each sentenced for their roles in an embezzlement scheme. For more than 2 years, two of the former employees submitted fraudulent documents for themselves and the other co-conspirators to receive supplemental pay and stipends for various tutoring, testing, and remediation programs funded by Jefferson Parish Public School System, although none of them were certified teachers or qualified to perform those activities. The scheme's two ringleaders were each sentenced to serve 6 months of home confinement and 5 years of probation. They were also ordered to pay more than \$132,000 in restitution. Their two co-conspirators were sentenced to serve between 3 and 5 years of probation and were ordered to pay \$9,700 and \$11,800, respectively, in restitution.

**Chief of School Lunch Program Convicted (American Samoa).** The former chief of the School Lunch Program was convicted on charges that he obstructed a Federal grand jury and law enforcement investigation into a bribery scheme. The scheme involved several officials and the owner and operator of a company that sold school bus parts to the Government. The officials arranged to order "phantom" bus parts that they never received and purchased parts at inflated prices in exchange for kickbacks from the company. The former official met with the vendor and told him to destroy evidence of their business transactions and to lie to law enforcement officials conducting the investigation into the scheme.

## **Contractors**

**Luzerne County School District Contractor Sentenced (Pennsylvania).** The owner of an engineering firm was sentenced to 1 year in prison and 2 years of supervised release for making a corrupt payment to influence official action. He was also ordered to pay a fine of \$250,000. The contractor paid cash bribes to a school board member in exchange for the board member's support on lucrative school district contracts.

**Former Detroit Public Schools Board Candidate and Her Daughter Indicted (Michigan).** A former Detroit Public Schools contract accountant and school board candidate, along with her daughter, a Detroit Public Schools teacher, were indicted on charges of fraud, conspiracy, and money laundering. The indictment alleges that between 2004 and 2008, the two obtained more than \$530,000 from the school district when a sham company the two controlled placed orders for books and educational materials that were never provided.

**Grant Writer Sentenced in Fraud Case (California).** The owner of Cross Resources, Inc., a grant writing company that assisted businesses in securing Federal and State grants, was sentenced to serve 6 years in prison and was ordered to pay a \$60,000 fine for fraud. Contracted by the Indio Youth Task Force for grant writing services, the woman agreed to prepare and submit grant applications, often with forged and altered information, on behalf of the task force in exchange for 15 percent of the total amount received. As a result of her fraudulent actions, the Indio Youth Task Force would have received more than \$35 million in State and Federal grant funds, of which she would have received more than \$5.3 million.



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## OTHER ACTIVITIES

### Participation on Committees, Work Groups, and Task Forces

#### Departmental Groups

- *Department Recovery Act Metrics and Monitoring Team.* OIG participates in an advisory capacity on this team that meets regularly to coordinate Recovery Act funds oversight efforts and develop reports for posting on the Recovery.gov Web site.

#### Inspector General Community

- *Recovery Accountability and Transparency Board.* In December, Inspector General Tighe was appointed as Chair of the Recovery Board. OIG staff members also participate in a work group composed of all of the OIGs that provide Recovery Act oversight and a subgroup focused on Recovery Act grant funds.

#### Federal and State Law Enforcement-Related Groups

- *U.S. Department of Justice's Financial Fraud Enforcement Task Force.* The Department and OIG are charter members of this task force, established by Executive Order in November 2009. The OIG also participated in the following two working groups.
  - *Recovery Act, Procurement, and Grant Fraud Working Group.* The Inspector General co-chairs and the OIG participates in this working group focused on improving efforts across the Government to investigate and prosecute significant financial crimes involving Recovery Act funds.
  - *Department of Justice Consumer Protection Working Group.* OIG participates in this working group composed of Federal law enforcement and regulatory agencies that works to strengthen efforts to address consumer-related fraud.
- *Northern Virginia Cyber Crime Working Group.* OIG participates in a workgroup of various Federal, State, and local law enforcement agencies conducting cyber crime investigations in northern Virginia. The purpose is to share intelligence and collaborate on matters that may affect multiple agencies.

#### Federal and State Audit-Related Groups

- *Association of Government Accountants Intergovernmental Partnerships for Management and Accountability.* OIG participates in this partnership that works to open lines of communication among Federal, State, and local governmental organizations with the goal of improving performance and accountability.
- *Interagency Coordination Group of Inspectors General for Guam Realignment.* OIG participates in this group to provide input on education-related issues affecting the realignment of about 8,000 Marines and about 9,000 dependents from Okinawa to Guam.







Goal 2: Strengthen the Department's efforts to improve the delivery of student financial assistance.

This goal addresses an area that has long been a major focus of our audit, inspection, and investigative work—the Federal student financial aid programs. These programs are inherently risky because of their complexity, the amount of funds involved, the number of program participants, and the characteristics of student populations. Our efforts in this area seek not only to protect Federal student aid funds from waste, fraud, and abuse, but also to protect the interests of the next generation of our nation’s leaders—America’s students. Summaries of the work we completed in this area over the last 6 months are provided below, along with information on our more significant investigations involving Federal student aid fraud.

## Federal Student Aid Internal Operations

As the office responsible for administering the student aid programs, the Federal Student Aid office (FSA) must conduct effective oversight of programs, operations, and participants to help protect Federal funds from waste, fraud, and abuse. Work we concluded over the last 6 months identified needed improvements in FSA’s oversight processes involving foreign medical school pass rates and its contracts with student loan servicers.

### Audits and Assessments

#### FSA Oversight of Foreign Medical Schools’ Pass Rates

We found that improvements were needed in FSA’s oversight of foreign medical school pass rates. FSA was not timely in taking appropriate actions against schools identified as having failed to submit the required pass rate data or meet the pass rate threshold, was inconsistent in its application of the methodology for calculating pass rates, and accepted United States Medical Licensing Examination pass rate data submissions from foreign medical schools that either were not complete or were not in the required format. As a result, FSA did not have assurance that Federal student loan funds were disbursed only to students who attended schools that were eligible to participate in the Federal student loan programs. We found that over the past year, FSA provided Federal student aid to students at six ineligible schools and that some or all of these students were likely to be ineligible to receive the aid. By providing funding to students attending ineligible schools, FSA failed to ensure that funds were directed only to students attending high-quality programs that would sufficiently prepare them to pass the United States Medical Licensing Examination and practice medicine in the United States. We recommended that FSA complete loss of eligibility actions for all schools identified as noncompliant as related to the pass rate requirement and develop and implement written policy and procedures that describe the process for monitoring the annual pass rate requirement, the methodology for calculating the annual pass rates, and the process for referring noncompliant schools for loss of eligibility actions. FSA stated that it would move quickly to implement our recommendations.

## Title IV Servicers Capacity Assessment

The assessment of the capacity of Title IV Additional Servicers (TIVAS) to handle servicing of all new Direct Loan Program loans and FFEL Program loan purchases under the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) found that although FSA was able to on-board the TIVAS, weaknesses were identified in FSA's management and oversight of the contracts. The assessment, performed on our behalf by Ernst & Young, LLP, found the following.

- FSA did not document all of the assumptions used to forecast borrower volume and did not have a formal communication mechanism to notify the TIVAS of unexpected changes in borrower volumes.
- Although FSA did not expect volume to grow to the maximum of 50 million borrowers by 2014, each TIVAS indicated that it was unable to service the maximum volume without sufficient lead time to increase computer processing, staffing, and facilities.
- FSA defined the contract requirements at a very high level and detailed requirements were not provided until after the contract awards, resulting in the TIVAS having a short time frame to implement the changes needed to meet the requirements.
- FSA did not formally track the modifications to requirements or evidence of each TIVAS' compliance with the requirements.
- FSA should have monitored the TIVAS' contingency planning for back-up capabilities and servicing excess borrower volumes.
- FSA had not established baseline servicing standards for the TIVAS; such standards could proactively address performance issues.
- The metrics used for allocating borrower volume among the TIVAS are weighted equally but did not appear to be of equal importance.
- The schools surveyed were not based on a representative sample across school types (public, not-for-profit, and for-profit schools).

The assessment recommended that FSA improve its documentation of contract requirements, establish baseline servicing standards, improve its oversight of the TIVAS, improve the methodology for allocating borrower volumes, and improve the on-boarding of additional servicers in the future. FSA agreed with some, but not all, of the recommendations made in the report.

## Investigations

Identifying and investigating fraud and abuse in the Federal student financial assistance programs has always been a top OIG priority. The following are summaries of some of our more significant cases of student aid fraud conducted over the last 6 months.

## Schools and School Officials

### Point Park University Agrees to \$1.4 Million Civil Fraud Settlement (Pennsylvania)

Point Park University agreed to pay \$1.4 million to settle allegations that it intentionally discriminated against certain classes of students in awarding Federal Supplemental Education Opportunity Grant Program funds. The University was alleged to have used a formula that purposely excluded commuter and part-time students from receiving funds that they were entitled to receive.

### Former Iona College Vice President Sentenced (New York)

The former vice president was sentenced to time served in prison, 3 years of probation, and community service for embezzling more than \$850,000 from the school. She was also ordered to pay more than \$352,800 in restitution. From 1999 to 2009, the former official submitted false vendor invoices and credit card bills for personal expenses to be paid by the school.

### Additional Crown College Officials Sentenced (Washington)

In previous Semiannual Reports to Congress, we reported that the former vice president and the former financial aid director of the now-defunct Crown College were sentenced for their roles in a Federal student aid fraud scheme. During this reporting period, their co-conspirators—the former fiscal manager and the former admissions director—were sentenced. These former officials falsely represented themselves as students in order to receive Federal student aid. They did so believing that the school would be closed shortly after they received the aid and planned to apply for loan discharges once the school officially closed. When the school remained open, they attempted to conceal their activity by making it appear as though they were attending classes. As a result of their fraudulent efforts, the officials and others received more than \$65,000 in Federal student aid they were not entitled to receive. The former officials were each sentenced to serve 3 months of home confinement and 3 years of probation, and they were ordered to pay \$42,000 in restitution.

### Former Anthem Institute Employee Sentenced (New York)

The former admissions representative was sentenced to serve 1 year of probation and was ordered to pay a \$250 fine for fraud. The former employee forged high school diplomas and GED certificates in order to enroll students who did not meet standard eligibility requirements. As a result of her fraudulent actions, 11 students received at least \$73,000 in Federal student aid they were not entitled to receive.

## Fraud Rings

### Fifteen People Indicted for Roles in Fraud Scheme (South Carolina)

Fifteen people were indicted for conspiracy to commit student loan fraud. The scam's presumed ringleaders allegedly obtained personally identifiable information from the other participants as well as other people, and enrolled them in online classes at the University of Phoenix, Grand Canyon University, Capella University, and other institutions, knowing that the individuals were not eligible for admission to the schools and that they did not plan to attend the classes. As a result of the alleged actions, more than \$400,000 in Federal student aid was distributed to the scheme's participants.

### **Leader of Identity Theft Ring, Five Others Sentenced (Pennsylvania)**

The ringleader of an identity theft scheme and five of his co-conspirators were sentenced for their roles in a fraud scheme. They submitted false certifications of employment, educational enrollments, and stolen identities to financial institutions and student loan lenders to obtain Federal student aid funds they were not entitled to receive. Sentences for the six people ranged from 30 months in prison to 1 year of probation, and a total of \$434,000 in restitution was ordered.

### **Ringleader and Two Others Indicted for Roles in Fraud Scheme (Wisconsin)**

Three people, including the alleged ringleader, were charged in a 19-count indictment with devising and participating in a scheme to fraudulently obtain Federal student financial aid. From 2003 to 2010, the three allegedly used personally identifiable information from more than 50 people to apply for and receive Federal student aid at a number of Minnesota schools. The presumed ringleader allegedly recruited people to participate in the scheme, submitting their own personally identifiable information and that of others, which they stole or otherwise improperly obtained. As a result of these alleged actions, the participants received more than \$400,000 in Federal student aid they were not entitled to receive.

### **Twelve People Indicted for Roles in Fraud Scheme (South Carolina)**

Twelve people were indicted for their alleged involvement in a scheme to obtain Federal student aid funds through the University of Phoenix and the Western Governors University. The scam's presumed ringleaders allegedly obtained personally identifiable information from the other participants in order to enroll them in the online classes, knowing that the individuals were not eligible for admission to the schools and that they did not plan to attend the classes. As a result of the alleged actions, more than \$100,000 in Federal student aid was distributed to the scheme's participants.

### **Twelve People Indicted for Roles in Fraud Scheme (Mississippi)**

A Federal Grand Jury indicted 12 people for their involvement in an alleged scheme to obtain Federal student aid funds for purported online attendance at Pikes Peak Community College in Colorado. According to the indictment, the presumed ringleader allegedly recruited people to act as "straw" students—submitting false admissions and financial aid applications to the College even though they had no intention of attending the classes. The indictment also alleges that the ringleader expected a cut of about \$800 from the aid awarded to each straw student. As a result of these fraudulent actions, the participants allegedly received more than \$52,000 in student loans and grants they were not entitled to receive.

### **Four People Indicted for Roles in Fraud Scheme (California)**

Four people were indicted for conspiring to commit student aid fraud. They allegedly submitted false admissions and financial aid applications to Axia College



at the University of Phoenix and to Capella University on behalf of students who did not plan to attend either school. In some cases, they used stolen or wrongfully obtained personally identifiable information from people who did not know their identities would be used to apply for financial aid. As a result of these alleged actions, more than \$200,000 in grants and loans were disbursed, \$110,000 of which went directly to the four and their co-conspirators.

### **Last Participants Sentenced for Roles in Fraud Scheme (California)**

In previous Semiannual Reports to Congress, we reported on actions taken against people who participated in a fraud scheme at the Los Rios Community College District, an accredited higher education district with campuses that include American River College, Cosumnes River College, and Sacramento City College. The scam involved people receiving Federal student aid for purported attendance at the schools when they had no intention of attending the schools. During this reporting period, the final two participants were sentenced for their roles in the scheme. Both participants were sentenced to 60 months of probation, one was ordered to pay more than \$58,300 in restitution, and the other was ordered to pay \$7,580 in restitution.

## **Other Individuals**

### **Woman Posing as Troy University Recruiter Indicted (Alabama)**

A woman was indicted for allegedly posing as a recruiter and offering to help three people gain admission to the school and receive student financial aid. She obtained their personally identifiable information and completed and submitted fraudulent admissions and financial aid application forms. She listed her own address on the forms in order to receive student aid refund checks. As a result of these alleged actions, the Department disbursed more than \$18,400 in Federal student aid funds.

### **Tax Preparers Sentenced (Arkansas)**

A couple that operated a tax return business were sentenced to prison and supervised release. They were also ordered to pay more than \$800,000 in restitution and were prohibited from engaging in a tax preparation business in the future as a result of being found guilty of theft from several Federal agencies, including the Department. The couple completed and filed false tax returns for themselves and their clients; they underreported income and overstated deductions. They also made false statements on Free Application for Federal Student Aid applications for their daughters so they could obtain Federal student aid and grants that they were not entitled to receive.

### **Father and Son Sentenced (Michigan)**

A father and son were sentenced for their roles in conspiring to defraud a number of Federal programs, including Federal student aid programs. They falsely represented their income and assets on various application forms in order to receive Federal benefits they were not entitled to receive. The father was sentenced to serve 5 years in prison, 3 years of supervised release, and 100 hours of community service. He was also ordered to pay more than \$658,600 in restitution. His son was sentenced to 8 months in prison and 3 years of supervised release. He was also ordered to pay more than \$165,300 in restitution.



## Tax Manager Sentenced (New Hampshire)

A tax manager for companies in Massachusetts was sentenced to 3 years in prison and 3 years of home confinement. He was also ordered to pay nearly \$752,000 in restitution for fraud. While employed by a medical supply company, the man created false invoices on behalf of various entities to generate tax payments to the Massachusetts and New Hampshire Departments of Revenue and the Vermont Department of Taxation. After the tax payments were made, the man contacted the payees and claimed the payments were erroneous and requested repayment. He used this scheme to generate funds for his own personal use, including \$100,000 to pay off his student loans. He used similar tactics with other companies, causing the State tax agencies to provide refunds totaling more than \$497,000 directly to him.

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## OTHER ACTIVITIES

### Participation on Committees, Work Groups, and Task Forces

- *OIG-FSA Risk Project.* OIG staff work with FSA staff to identify risks and reduce fraud and abuse in Federal student aid programs.
- *Department of Education Policy Committees.* OIG staff participate in an advisory capacity on these committees, which were established to discuss policy issues related to two rounds of negotiated rulemaking: one for student loan regulations and another for teacher preparation regulations.

### Special Presentations

- *2011 FSA Fall Conference.* The Inspector General addressed nearly 7,000 student aid administrators, sharing with them information on OIG operations and the issues we plan to look into in 2012. This was the first time an IG had delivered an address at the conference. The OIG Assistant Inspector General for Investigations also presented at the conference, participating in a panel discussion on distance education fraud.

### Review of Legislation, Regulations, Directives, and Memoranda

- *Dear Colleague Letter on Distance Education Fraud Rings.* OIG provided suggestions to the Department's letter to Financial Aid Administrators on distance education fraud. The letter was drafted in response to recommendations made in an OIG investigative program advisory report issued in 2011.
- *Dear Colleague Letter on Valid High School Diplomas.* OIG provided technical suggestions to the Department's letter to Financial Aid Administrators on the eligibility of students who received student financial assistance in a prior award year without having a valid high school diploma. We suggested clarifications to instructions for schools to report ineligible disbursements or possible fraud to FSA or OIG.
- *Code of Honor for Educational Institutions Serving Service Members and Veterans.* OIG provided technical suggestions on a proposal for the Secretaries of Defense and Veterans Affairs to establish a Code of Honor for educational institutions receiving Federal military and veteran educational benefits, which the Departments of Education, Defense, and Veterans Affairs would apply to new agreements with educational institutions for services for veterans and service members.





**Goal 3: Protect the integrity of the Department's programs and operations by detecting and preventing vulnerabilities to fraud, waste, and abuse.**

Our third strategic goal focuses on our commitment to protect the integrity of the Department's programs and operations. Through our audit and inspection work, we identify problems and propose solutions to help ensure that programs and operations are meeting the requirements established by law, and that federally funded education services are reaching the intended recipients—America's students. Summaries of our work in this area, as well as summaries of our criminal investigations involving Department grantees, their subrecipients and contractors, and other people who abused Department funds, are provided below.

## Audit-Related Efforts

### Compliance

#### Department's Compliance With Improper Payments Requirements

Although we found that, for the programs reviewed, the Department complied with applicable requirements of the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the Office of Management and Budget's (OMB) Circular A-123, Appendix C, Parts I and II, we also identified areas in need of improvement. We reviewed the Department's FY 2011 improper payment activities involving the ESEA, Title I, Part A programs; the Direct Loan program; the Federal Pell Grant program; and the FFEL program. We found that the Department's reporting of its improper payment data was not always accurate and complete and limitations existed in its estimated improper payment rate methodology for the ESEA, Pell, and Direct Loan programs; we also identified issues with the availability and completeness of the calculation of the estimated improper payment rate for the Pell Grant program. We found that the numbers, amounts, and percentages reported for the Pell and Direct Loan programs were not always based on accurate or complete data, and although the Department was in the process of implementing plans to reduce and recapture improper payments, it needs to continue these efforts. Based on these findings, we recommended that the Department consider revising its methodologies to improve the accuracy and completeness of the data used in its calculations, develop corrective actions to reduce certain improper payments in the Direct Loan program, update its analysis for determining whether payment recapture audits of all grant and loan programs would be cost-effective in FY 2012, and develop an estimated improper payment rate for the FFEL program for FY 2012. The Department concurred with our findings and recommendations.

#### Department's Process for Ensuring Compliance With Drug and Alcohol Abuse Prevention Program Requirements

Our inspection of the Department's process for ensuring compliance by institutions of higher education (IHEs) with the Drug and Alcohol Abuse Prevention Program requirements of the HEA and related regulations found that the Department performed no oversight for 12 years and that the oversight process it developed in 2010 provided no assurance that IHEs were in compliance. The Department's Office of Postsecondary Education (OPE) was responsible for ensuring IHE compliance beginning in 1989 to June 2010. We could not draw a

conclusion on the appropriateness of OPE’s oversight from 1989 through 1998 due to a lack of available evidence. In 1998, after FSA was created as a Performance-Based Organization, the Secretary did not delegate responsibility for this program to either FSA or OPE. OPE was formally delegated this responsibility in 2007; however, the corresponding memorandum for the delegation stated that the responsibility had remained in OPE despite the inadvertent omission. We concluded that OPE performed no oversight activities from 1998 through 2007, and despite the formal delegation in 2007, OPE continued to perform no oversight activities. In June 2010, oversight responsibility was delegated to FSA where we found that although FSA had developed an oversight process, it provided no assurance that IHEs were in compliance with requirements. We found that this was due to lack of documentation supporting IHE compliance, failure of FSA reviewers to fully understand the requirements, and information not being included in the program review report where the program reviewers identified noncompliance by IHEs. We also found that IHEs that did not participate in Title IV, HEA programs were not covered by FSA’s oversight process even though they are covered by the Drug and Alcohol Abuse Prevention Program. We recommended that FSA adequately document its review of IHE compliance with program requirements, report identified cases of IHE noncompliance, and develop a process to ensure that IHEs that received Federal funds but do not participate in the Federal student aid programs are in compliance with the requirements. FSA agreed with our findings and recommendations.

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## Oversight

### Department’s Process to Identify and Monitor High-Risk Grantees

Our inspection did not identify any issues with the Department’s processes for identifying, designating, and monitoring high-risk/at-risk formula grantees but found that the processes had not been formalized. For discretionary grantees, the Department had developed new processes for identifying and monitoring high-risk grantees; however, those processes had not been fully implemented at the time of our review, thus we could not draw a conclusion on their effectiveness. We recommended that the Department formalize its formula grant processes to ensure consistency in identifying and monitoring high-risk grantees and monitor whether the processes for both formula and discretionary grantees are effective. The Department generally concurred with our results and recommendations.

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## Contracts

### Department’s Controls Over EDUCATE Contract Costs

We found that improvements were needed in the Department’s controls relating to cost management of the Education Department Utility for Communications, Applications, and Technology Environment (EDUCATE) contract. Specifically, the Department did not

- establish a complete and accurate baseline of costs related to operations being transitioned from the government-owned, contractor-operated information technology environment to the contractor-owned, contractor-operated environment;
- adequately document its calculations of anticipated cost savings over the life of the contract; or
- implement an oversight structure that emphasized cost control.



We also found that the Department's actual costs for four of the eight (50 percent) EDUCATE contract line item numbers varied significantly from projected costs during the first 3 years of the EDUCATE contract, which may limit the Department's ability to meet projected savings. As a result of these issues, the Department's ability to assess EDUCATE cost savings and efficiencies is hindered. Further, the Department may not always identify opportunities to reduce costs, hold individuals accountable for cost performance in relation to initial expectations, and seek to assess and address cost performance variances where applicable. As of June 22, 2011, the Department had incurred approximately \$151 million in expenses for the EDUCATE contract compared to the approximately \$136 million projected for the same period at the onset of the contract, an increase of approximately \$15 million (11 percent). To correct the weaknesses identified, we made a number of recommendations, including that the Department develop and implement appropriate controls to ensure that acquisition planning provides for the preparation and documentation of complete and adequate data by which to effectively evaluate the future performance of contracts in relation to stated goals, formally define and emphasize roles and responsibilities for monitoring the contract's performance with respect to the cost saving objective of the contract, and retain documentation for all information technology costs incurred under the EDUCATE environment to ensure that comparisons can be made regarding cost savings with any future information technology service contracts that may be awarded. The Department concurred with our recommendations.

## Investigations

Our investigations into suspected fraudulent activity by Federal education grantees and vendors have led to the arrest and conviction of a number of people for theft or misuse of Federal funds. Below are a few examples of our work in this area over the last 6 months.

### Schools and School Officials

#### **Former Southern University IT Director Sentenced (Louisiana)**

The former official was sentenced to a year and a day in prison and 3 years of probation for using his position at the school to commit fraud. He was also ordered to pay more than \$157,000 in restitution. Together with an associate professor who has been indicted, the former official formed shell companies purportedly offering computer equipment. They then initiated the purchase of equipment from those companies for the school, but the school never received the equipment as ordered.

### Program Participants

#### **Two Leaders of Nonprofit Organization Indicted (Illinois)**

The director and a member of the Board of Directors of the Beacon Street Gallery and Performance Company were charged with fraudulently obtaining and misapplying 21st Century Community Learning Center funds. The indictment alleges that from May 2004 through June 2010, the two submitted nine grant applications that contained false statements about the intended and actual use of the grant funds. They allegedly received at least \$1 million as a result, about \$400,000 of which they used for their personal benefit, including payment of personal credit card bills, household expenses, automobile payments, apartment

rental expenses, and personal travel expenses. The two are also alleged to have fraudulently received a salary for teaching an after school program at three Chicago elementary schools when they did not do so.

### **Actions Taken Against Vocational Rehabilitation Program Officials and Volunteers (North Dakota)**

In our last Semiannual Report, we reported that eight people were indicted for their roles in an alleged embezzlement scheme involving family members, employees, and volunteers of the Spirit Lake Vocational Rehabilitation Program. During this reporting period, six of the people pled guilty to embezzling more than \$84,000 in program funds, which they used for personal expenditures such as household appliances and goods, groceries, car repairs, and utilities.

## **Other Individuals**

### **Former Louisiana State Representative Sentenced (Louisiana)**

A former State Representative and New Orleans City Councilmember was sentenced to 7 years in prison and 3 years of supervised release, and she was ordered to repay about \$1.1 million in restitution for violating the Conspiring to Violate the Racketeer Influenced and Corrupt Organizations or RICO Act. Together with the sister, brother, and niece of a former U.S. Congressman, the former State Representative diverted Federal and State grant money received by nonprofit and for-profit organizations that they controlled to their personal bank accounts and used the funds for personal expenses.

### **Former E-Rate Company President Sentenced (Alabama)**

The former president of E-Rate Consulting Services who pled guilty in 2011 to embezzling funds intended for information technology services in school districts in Arkansas, Florida, Idaho, Massachusetts, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Pennsylvania, Tennessee, and Texas was sentenced to serve 51 months in prison and 36 months of supervised release. He was also ordered to pay nearly \$882,000 in restitution. The company was in the business of assisting schools and libraries in qualifying for E-Rate program funding. The former president received E-Rate checks from the Government intended for the schools and libraries, but instead of forwarding the checks to them, he deposited the checks into his personal account and used the funds largely for personal expenses.

### **River Forest Community School District Consultant Sentenced (Indiana)**

The owner and director of the Project Managers, Inc., an information technology consulting company specializing in assisting entities in qualifying for E-Rate program funding, was sentenced to 27 months in prison and 3 years of supervised release for committing fraud. She was also ordered to pay more than \$213,000 in restitution. She admitted to defrauding the E-Rate program and the River Forest Community School District by submitting false invoices and information to the E-Rate program, which caused the district to submit false information to the E-Rate program, and accepting payments for products and services not provided.







Goal 4: Contribute to improvements in  
Department business operations.

Effective and efficient business operations are critical to ensure the Department effectively manages its programs and protects its assets. Our fourth strategic goal speaks to that effort. OIG work in this area seeks to help the Department accomplish its objectives by ensuring the reliability, integrity, and security of Department data; the Department's compliance with applicable policies and regulations; and that the Department is effectively, efficiently, and fairly using the taxpayer dollars with which it has been entrusted. Below are summaries of our efforts in this area over the last 6 months, including criminal investigative cases involving Department employees and contractors.

## Financial Management

One of the purposes of the *Chief Financial Officers Act of 1990* is to provide for improvement in agency systems of accounting, financial management, and internal controls to ensure the issuance of reliable financial information and to deter fraud, waste, and abuse of Government resources. The Act requires an annual audit of agency financial statements. These audits are intended to help improve an agency's financial management and controls over financial reporting. Below are the results of our FY 2011 financial audits, as well as the results for other financial-related statutory reviews.

### Financial Statement Audits

In November 2011, OIG transmitted the final audit reports covering the Department's and FSA's FY 2011 and FY 2010 financial statements. Both the Department and FSA received unqualified (clean) opinions on their financial statements; however, the Report on Internal Control for both audits noted modified repeat significant deficiencies relating to credit reform estimation and financial reporting processes and to controls surrounding information systems. Although the audits, both of which were performed by an independent public accountant (IPA), disclosed no instances of noncompliance or other matters that were required to be reported under "Government Auditing Standards" or OMB Bulletin No. 07-04, as amended, they did note that the Department's financial management systems did not substantially comply with certain systems requirements of the *Federal Financial Management Improvement Act* because of control weaknesses surrounding information systems. The Department and FSA concurred with the findings and recommendations in the reports.

### Special Purpose Financial Statements

In November 2011, the OIG transmitted the final audit report covering the Department's FY 2011 and FY 2010 special purpose financial statements. The Department received a clean opinion on the statements. There were no material weaknesses in internal controls and no instances of noncompliance reported.

### Drug Control Funds

As required by Section 1704(d) of Title 21, U.S. Code, and in accordance with the Office of National Drug Control Policy circular, "Drug Control Accounting," we authenticated the Department's accounting of FY 2011 drug control funds and related performance data by expressing a conclusion on the reliability of each assertion made in the Department's accounting and performance reports. Based on our review, nothing came to our attention that caused us to believe that management's assertions contained in the Department's detailed accounting and performance reports were not fairly stated in all material respects.

# Information Technology Security Management

The *E-Government Act of 2002* recognized the importance of information security to the economic and national security interests of the United States. Title III of the *E-Government Act*, the *Federal Information Security Management Act of 2002* (FISMA), requires each Federal agency to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. It also requires the Inspectors General to perform independent evaluations of the effectiveness of information security control techniques and to provide assessments of the agency's compliance with FISMA. Below is the result of our FY 2011 FISMA review.

## FISMA Review

We assessed the Department's (1) information security policy and procedures, (2) enterprise-level information security controls, (3) management of information security weaknesses, and (4) system-level security controls. We identified weaknesses in each of these areas. In addition, our review of 5 controls areas—risk management, configuration management, remote access management, identity and access management, and contingency planning—contained repeat findings from OIG reports issued during the prior 3 years. Without adequate management, operational, and technical security controls in place, the Department's systems and information are vulnerable to attacks that could lead to a loss of confidentiality caused by unauthorized access to data and to a possible loss of integrity through data modification or limited availability from unauthorized access and excessive use of system resources. We made 18 recommendations to assist the Department in establishing and sustaining an effective information security program. The Department concurred with most of our findings and recommendations.

## Investigations

Accountability applies to everyone, but especially to people in positions of trust within the Department: Federal employees and contractors entrusted with stewardship of taxpayer dollars and administering Federal education programs and services. Below are summaries of three cases involving Department employees and one case involving a contractor that were completed during this reporting period.

## Department Employees

### FSA Loan Analyst Sentenced (Georgia)

The FSA employee was sentenced to 10 years in prison and 5 years of supervised release for collecting child pornography using his government computer. Our investigation revealed the employee was able to bypass Web filtering software on the Department's network and obtain child pornography from the Internet. OIG agents, alerted to the employee's suspicious on-line activities by network administrators, seized the man's work computer and found child pornography and evidence of his browsing history that showed he had frequented foreign Web sites that trafficked in child pornography. OIG agents later conducted a search warrant at his home, where they found additional child pornography and other obscene images. The Department removed the employee.

### **FSA Program Specialist Sentenced for Theft (Maryland)**

The employee was sentenced in St. Mary's County Court to 18 months in prison and 2 years of probation for theft. From 2007 to 2009, the employee used the stolen identification of another person to obtain more than \$3,000 in credit from Lendmark Financial Services. The Department removed the employee.

### **Office for Civil Rights Employee Sentenced for Fraud (Missouri)**

An employee in the Office for Civil Rights was sentenced in Platte County Court to 2 years of probation for fraudulently obtaining hydrocodone, a controlled substance. To receive a prescription, she misrepresented to a dentist that she was not taking any medication. From 2007 to 2011, the employee received at least 334 prescriptions from 100 prescribers, including at least 183 prescriptions for narcotic pain medication. This resulted in Federal Employees Health Benefits Plan payouts of more than \$10,275 in pharmaceutical claims and more than \$125,700 in medical claims. The Department removed the employee.

## **Contractors**

### **Two People Sentenced for Stealing Student Data From ECMC (Minnesota)**

Two people were sentenced for their roles in stealing two safes from ECMC, a guaranty agency of Federal student loans. The safes contained computer disks that held personally identifiable information of more than 3 million student loan borrowers. The individuals discarded the safes and computer discs in a dumpster in Minneapolis shortly after the theft after realizing the safes did not contain money. The two were sentenced to serve between 21 and 24 months in prison and were each ordered to pay more than \$6,475 in restitution.

## **Non-Federal Audit Activities**

The IG Act requires that the Inspectors General take appropriate steps to ensure that any work performed by non-Federal auditors complies with Government Auditing Standards. To fulfill these requirements, we perform a number of activities, including conducting quality control reviews of non-Federal audits, providing technical assistance, and issuing audit guides to help independent public accountants performing audits of participants in the Department's programs.

## **Quality Control Reviews**

OMB Circular A-133 requires entities, such as State and local governments, universities, and nonprofit organizations that expend \$500,000 or more in Federal funds in 1 year, to obtain an audit, referred to as a single audit. Additionally, for-profit institutions and their servicers that participate in the Federal student aid programs and for-profit lenders and their servicers that participate in the FFEL program are required to undergo annual audits performed by IPAs in accordance with audit guides issued by the OIG. These audits assure the Federal Government that recipients of Federal funds comply with laws, regulations, and other requirements that are material to Federal awards. To help assess the quality of the thousands of single audits performed each year, we conduct quality control reviews (QCRs) of a sample of audits. During this reporting period, we completed 31 QCRs of audits conducted by 30 different IPAs, or offices of firms with multiple offices. We concluded that 22 (71 percent) were acceptable or acceptable with minor issues, and 9 (29 percent) were technically deficient.

## OTHER ACTIVITIES

### Participation in Committees, Work Groups, and Task Forces

#### Departmental Groups

- *Department of Education Senior Assessment Team.* OIG participates in an advisory capacity on this team, which provides oversight of the Department's assessment and reports on internal controls and provides input to the Senior Management Council concerning the overall assessment of the Department's internal control structure, as required by the *Federal Managers' Financial Integrity Act of 1982*, and OMB Circular A-123, "Management's Responsibility for Internal Control."
- *Department of Education Investment Review Board and Planning and Investment Review Working Group.* OIG participates in an advisory capacity in these groups that review information technology investments and the strategic direction of the information technology portfolio.
- *Department Human Capital Policy Working Group.* OIG participates in this working group, which meets monthly to discuss issues, proposals, and plans related to human capital management.

#### Federal Government

- *Government Accountability and Transparency Board.* Inspector General Tighe was appointed to serve on this board. This board is looking at whether the transparency and accountability work of the Recovery Board can be used to oversee all Federal funding.

#### Inspector General Community

- *Council of Inspectors General on Integrity and Efficiency (CIGIE).* OIG staff play an active role in CIGIE efforts. Inspector General Tighe is a member of CIGIE's Audit Committee, Investigations Committee, and the Interagency Coordination Group for Guam Realignment. She is also Vice Chair of the Information Technology Committee. In addition, Inspector General Tighe is a member of the Suspension and Debarment Working Group, which is a subcommittee of the Investigations Committee. OIG staff also participate in the Assistant Inspector General for Investigations Committee, the Subcommittee for Investigations of the Information Technology Committee, the Cyber Security Work Group, the Inspections and Evaluations Working Group, and CIGIE's Federal Audit Executive Council's Professional Development Committee, and co-chair the Federal Audit Executive Council's Financial Statement Committee. OIG also participates in the Federal Audit Executive Council's Financial Statement Audit Committee, the Council of Counsels to the Inspectors General, and the CIGIE New Media Working Group. OIG staff also participated in the following CIGIE-related activities:
  - *New Auditor Training.* During this reporting period, the OIG led coordination of one session of CIGIE-sponsored Introductory Auditor Training. The training provided entry-level IG auditors with the concepts, practices, skills, and standards that Federal Government auditors apply in their work.
  - *Financial Statement Audit Network.* OIG staff chair this governmentwide working group that identifies and resolves key issues concerning audits of agency financial statements and provides a forum for coordination with the Government Accountability Office (GAO) and the Treasury on the annual audit of the Government's financial statements.
  - *CIGIE/Government Accountability Office Annual Financial Statement Audit Conference.* OIG staff chair the Planning Committee for the annual conference that covers current issues related to financial statement audits and related standards.
  - *Cloud Computing Working Group.* OIG participated in this IG-community group that was tasked with developing clauses for inclusion in cloud computing contracts to ensure that OIGs have adequate access for the purposes of audits and criminal investigations.



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## Federal and State Audit-Related Groups and Entities

- *Chief Financial Officers Council Federal Reporting Model Work Group.* OIG staff act in an advisory capacity to this work group, which focuses on developing and implementing revisions to the Federal financial reporting model in order to better deliver financial information that taxpayers and decisionmakers need.
- *Comptroller General's Advisory Council on Government Auditing Standards.* OIG staff serve on this council, which provides advice and guidance to the Comptroller General on government auditing standards.
- *Department of Defense OIG Financial Statement Audit Advisory Committee.* OIG staff participate in this committee, which makes recommendations to help resolve accounting and auditing issues related to the Department of Defense OIG's financial reporting and the financial statement audit, the system of internal controls, and compliance with laws and regulations that could have a material effect on the financial statements.
- *Intergovernmental Audit Forums.* OIG staff chair and serve as officers of a number of intergovernmental audit forums, which bring together Federal, State, and local government audit executives who work to improve audit education and training and exchange information and ideas regarding the full range of professional activities undertaken by government audit officials. OIG staff chair both the Midwestern and the Southeastern Forums, and they serve as an officers on the Southwestern Forum and the New Jersey-New York Forum.
- *Interagency Working Group for Certification and Accreditation.* OIG participates in this working group, which exchanges information relating to Federal forensic science programs that share intergovernmental responsibilities to support the mission of the National Science and Technology Council's Subcommittee on Forensic Science.
- *Interagency Fraud and Risk Data Mining Group.* OIG participates in this group sharing best practices, raising awareness, and offering a forum to evaluate data mining and risk modeling tools and techniques to detect fraudulent patterns and emerging risks.
- *AICPA Government Audit Quality Center's Single Audit Roundtable.* OIG staff responsible for single audit policy and quality participate in this discussion group semiannually. The group consists of members of the Federal government involved in all aspects of single audits, and State and local government auditors and members of the public accounting profession who perform single audits. The participants discuss recent or anticipated changes in single audit policy, such as the Compliance Supplement to OMB Circular A-133, new auditing standards, and issues of audit quality found in recent quality control reviews.

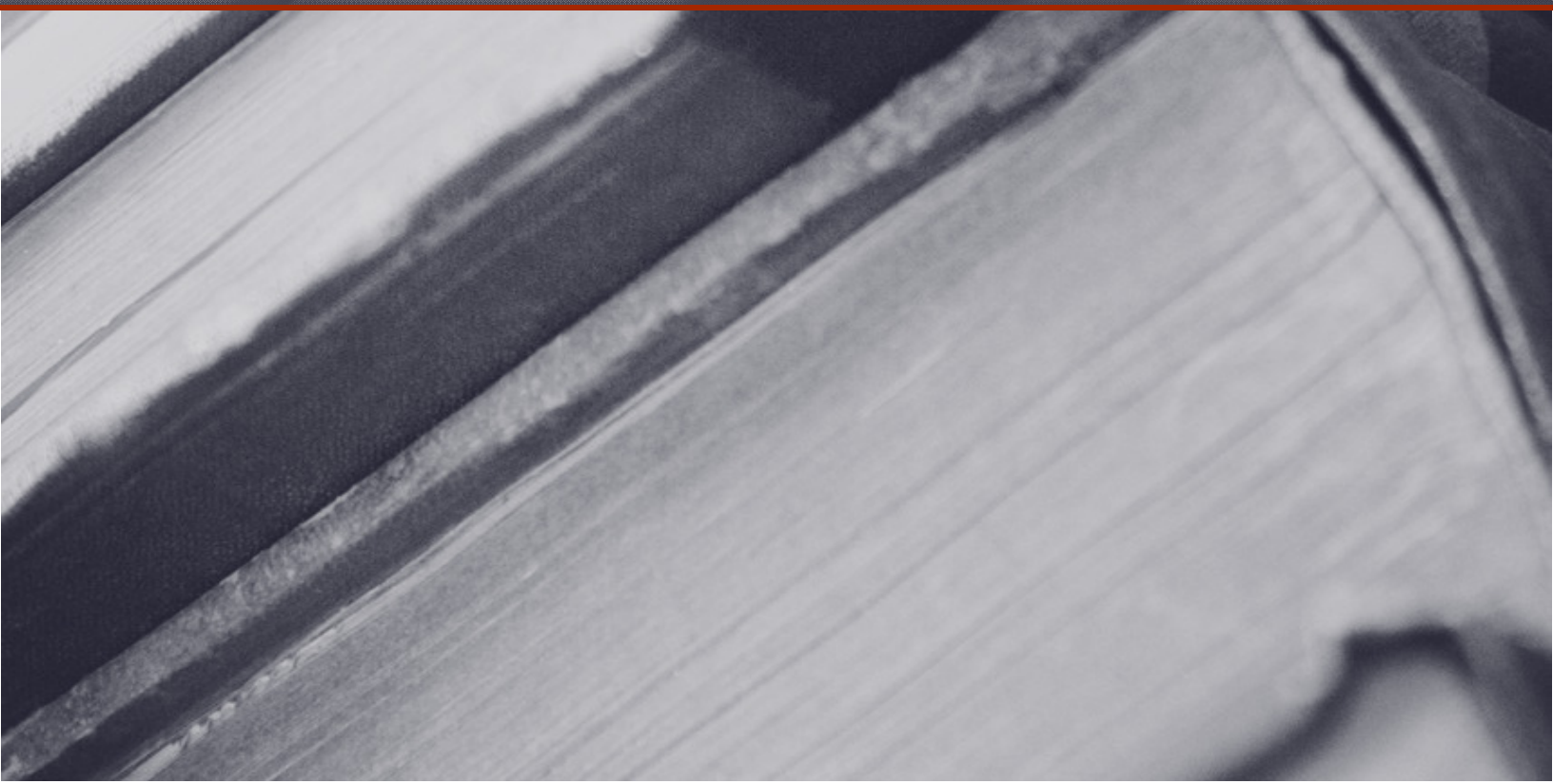
## Reviews of Legislation, Regulations, Directives, and Memorandum

- *Subpoena Testimony.* OIG provided technical comments to CIGIE on proposed legislation to provide authority for IGs to subpoena testimony of certain witnesses.
- *Government Ethics.* OIG provided comments on proposed legislation to amend the *Ethics in Government Act of 1978*, noting our opposition to add a subparagraph (B) to section 402(e)(2) of the Act to require agency Inspectors General to report to the Office of Government Ethics as soon as they have determined that there is reason to believe that there has been a violation of the conflicts-of-interest laws.
- *Suspension and Debarment.* OIG provided a technical comment on the proposed rule relating to suspension and debarment.





# Annexes



## Annex A. Contract-Related Audit Products with Significant Findings

*The following is provided in accordance with Section 845 of the National Defense Authorization Act for Fiscal Year 2008, which requires each Inspector General to include information in its Semiannual Reports to Congress on final contract-related audit reports that contain significant findings.*

**Report Number:** ED-OIG/A19L0003

**Date Issued:** 3/29/2012

**Subject:** Department's Controls Over EDUCATE Contract Costs

**Finding:** We found that improvements were needed in the Department's controls relating to cost management of the EDUCATE contract, as the Department did not establish a complete and accurate baseline of costs related to operations being transitioned from the Government-owned, contractor-operated information technology environment to the contractor-owned, contractor-operated environment; adequately document its calculations of anticipated cost savings over the life of the contract; or implement an oversight structure that emphasized cost control. As a result, the Department's ability to assess EDUCATE cost savings and efficiencies was hindered.

## Annex B. Peer Review Result

*Title IX, Subtitle I, Sec. 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203) requires the Inspectors General to disclose the results of their peer reviews in their Semiannual Reports to Congress.*

No peer reviews were conducted during this reporting period.





## Required Tables



## Reporting Requirements of the Inspector General Act, as amended

Section	Requirement (Table Title)	Table Number
5(a)(1) and 5(a)(2)	<i>Significant Problems, Abuses, and Deficiencies</i>	N/A
5(a)(3)	<i>Uncompleted Corrective Actions</i> Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed	1
5(a)(4)	<i>Matters Referred to Prosecutive Authorities</i> Statistical Profile Fiscal Year 2011 (October 1, 2011, through March 31, 2012)	6
5(a)(5) and 6(b)(2)	<i>Summary of Instances where Information was Refused or Not Provided</i>	N/A
5(a)(6)	<i>Listing of Reports</i> Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (October 1, 2011, through March 31, 2012)	2
5(a)(7)	<i>Summary of Significant Audits</i>	N/A
5(a)(8)	<i>Questioned Costs</i> Audit, Inspection, and Evaluation Reports with Questioned Costs	3
5(a)(9)	<i>Better Use of Funds</i> Audit, Inspection, and Evaluation Reports with Recommendations for Better Use of Funds	4
5(a)(10)	<i>Unresolved Reports</i> Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to October 1, 2011  Summary of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made	5-A 5-B
5(a)(11)	<i>Significant Revised Management Decisions</i>	N/A
5(a)(12)	<i>Significant Management Decisions with which OIG Disagreed</i>	N/A
5(a)(13)	<i>Unmet Intermediate Target Dates Established by the Department Under the Federal Financial Management Improvement Act of 1996</i>	N/A

## Table 1: Significant<sup>1</sup> Recommendations Described in Previous Semiannual Reports to Congress on which Corrective Action Has Not Been Completed

*Section 5(a)(3) of the IG Act, as amended, requires identification of significant recommendations described in previous Semiannual Reports on which management has not completed corrective action.*

Report Number	Report Title (Prior Semiannual Report (SAR) Number and Page)	Date Issued	Date of Management Decision	Number of Significant Recommendations		Projected Action Date
				Open	Completed	
<b>AUDIT REPORTS</b>						
<b>Federal Student Aid (FSA)</b>						
A11J0006	Data Protection Controls Over FSA's Virtual Data Center (SAR 61, page 33)	9/29/2010	12/13/2010	6	18	10/30/2012
A17K0002	Financial Statement Audits FY 2010 and FY 2009-FSA (SAR 62, page 24)	11/15/2010	1/7/2011	2	5	1/18/2013

<sup>1</sup> This table is limited to OIG internal audit reports of Departmental operations because that is the only type of audit in which the Department tracks each related recommendation through completion of corrective action.

**OIG Product Web Site Availability Policy.** OIG final issued products are generally considered to be public documents accessible on OIG's Web site unless sensitive in nature or otherwise subject to *Freedom of Information Act* exemption. Consistent with the *Freedom of Information Act*, and to the extent practical, OIG redacts exempt information from the product so that nonexempt information contained in the product may be made available on the OIG Web site.

## Table 2: Audit, Inspection, Evaluation, and Other Reports and Products on Department Programs and Activities (October 1, 2011, through March 31, 2012 )

*Section 5(a)(6) of the IG Act, as amended, requires a listing of each report completed by OIG during the reporting period.*

Report Number	Report Title	Date Issued	Questioned Costs <sup>1</sup> (Includes Unsupported Costs)	Unsupported Costs <sup>2</sup>	Number of Recommendations
<b>AUDIT REPORTS</b>					
<b>FSA</b>					
A05K0012	Saint Mary-of-the-Woods College's Administration of the Title IV Programs	3/29/12	\$42,362,291		19
A17L0002	Financial Statement Audits Fiscal Years 2011 and 2010 Federal Student Aid	11/15/11			12
A19L0004	Federal Student Aid's Oversight of Foreign Medical School Pass Rates	1/30/12			5
<b>Office of the Chief Financial Officer (OCFO)</b>					
A03M0001	U.S. Department of Education's Compliance with the Improper Payments Elimination and Recovery Act of 2010 for Fiscal Year 2011 (FSA is also designated as an action official)	3/15/12			11
A17L0001	Financial Statement Audits Fiscal Years 2011 and 2010 U.S. Department of Education	11/15/11			12
A17L0003	Financial Statement Audits for Fiscal Years 2011 and 2010 U.S. Department of Education Special Purpose Financial Statements	11/15/11			None
<b>Office of the Chief Information Officer (OCIO)</b>					
A11L0003	The U.S. Department of Education's Compliance with the Federal Information Security Management Act for Fiscal Year 2011 (FSA is also designated as an action official)	10/18/11			18
A19L0003	Department's Controls Over EDUCATE Contract Costs (OCFO is also designated as an action official)	3/29/12			7
<b>Office of the Deputy Secretary (ODS)</b>					
A19K0013	Potentially Overlapping High School Programs	12/1/11			6



Report Number	Report Title	Date Issued	Questioned Costs <sup>1</sup> (Includes Unsupported Costs)	Unsupported Costs <sup>2</sup>	Number of Recommendations
<b>Office of Elementary and Secondary Education (OESE)</b>					
A02K0014	Camden City Public School District's Administration of Non-Salary Federal Education Funds	3/6/12	\$1,585,204 <sup>3</sup>	\$1,269,021	18
A04K0007	Alabama: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs ( <i>OCFO, OSERS, and the Implementation and Support Unit are also designated as action officials</i> )	2/15/12			7
A05L0002	School Improvement Grants: Selected States Generally Awarded Funds Only to Eligible Schools	3/29/12			4
A19I0007	Department's Implementation of the Teacher Incentive Fund Grant Program	12/30/11			9
<b>INSPECTION REPORTS</b>					
<b>FSA</b>					
I13L0002	The Department of Education's Process for Ensuring Compliance by Institutions of Higher Education With the Drug and Alcohol Abuse Prevention Program Requirements	3/14/12			4
<b>ODS</b>					
I13K0002	U.S. Department of Education's Process to Identify and Monitor High-Risk Grantees	3/9/12			2
<b>OTHER REPORTS AND PRODUCTS</b>					
<b>FSA</b>					
S15L0001	Consulting Report Title IV Additional Servicers Capacity Assessment ( <i>Special Project</i> ) <i>Note: This report contains sensitive data. Public distribution requires prior approval.</i>	12/15/11			19
<b>OESE</b>					
A02L0005	Closure of Office of Inspector General Audit of East Ramapo School District ( <i>Audit Closure Letter</i> )	12/13/11			None
B19M0001A	Office of Inspector General's Independent Report on the U.S. Department of Education's Performance Summary Report for Fiscal Year 2011, dated February 8, 2012 ( <i>Attestation Report</i> )	2/14/12			None

Report Number	Report Title	Date Issued	Questioned Costs <sup>1</sup> (Includes Unsupported Costs)	Unsupported Costs <sup>2</sup>	Number of Recommendations
<b>Office of Planning, Evaluation, and Policy Development (OPEPD)</b>					
B19M0001	Office of Inspector General's Independent Report on the U.S. Department of Education's Detailed Accounting of Fiscal Year 2011 Drug Control Funds, dated January 24, 2012 ( <i>Attestation Report</i> )	1/31/12			None
<b>TOTALS</b>			<b>\$43,947,495<sup>4</sup></b>	<b>\$1,269,021</b>	<b>153</b>

<sup>1</sup> As defined by the IG Act, as amended, questioned costs are identified during an audit, inspection, or evaluation because of (1) an alleged violation of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) such cost not being supported by adequate documentation; or (3) the expenditure of funds for the intended purpose being unnecessary or unreasonable. OIG considers that category (3) of this definition would include other recommended recoveries of funds, i.e., recovery of outstanding funds and/or revenue earned on Federal funds, or interest due the Department. During this reporting period, no OIG report was issued identifying a better use of funds.

<sup>2</sup> As defined by the IG Act, as amended, unsupported costs are costs that, at the time of the audit, inspection, or evaluation, were not supported by adequate documentation. These amounts are also included as questioned costs.

<sup>3</sup> Figure includes \$316,183 of questioned cost and \$1,269,021 of unsupported cost (A02K0014).

<sup>4</sup> Figure includes \$42,678,474 of questioned cost and \$1,269,021 of unsupported cost.

#### Description of Non-Audit Report Products

**Attestation Reports** convey the results of attestation engagements performed within the context of their stated scope and objective(s). Attestation engagements can cover a broad range of financial and nonfinancial subjects and can be part of a financial audit or a performance audit. Attestation engagements shall be conducted in accordance with American Institute of Certified Public Accountants (AICPA) attestation standards, as well as the related AICPA Statements on Standards for Attestation Engagements.

**Audit Closure Memoranda/Letters** are used to notify the audited entity of OIG's decision to terminate the audit without issuing an audit report.

**Inspections** are analyses, evaluations, reviews or studies of the Department's programs. The purpose of an inspection is to provide Department decisionmakers with factual and analytical information, which may include an assessment of the efficiency and effectiveness of their operations, and vulnerabilities created by their existing policies or procedures. Inspections may be conducted on any Department program, policy, activity, or operation. Typically, an inspection results in a written report containing findings and related recommendations. Inspections are performed in accordance with quality standards for inspections approved by the Council of Inspectors General for Integrity and Efficiency.

**Special Projects** are those by which OIG staff may perform work that is not classified as an audit, attestation, inspection, or any other type of alternative product. Depending on the nature and work involved in the special project, the special project may result in a report issued outside OIG. Information presented in the special project report varies based on the reason for the special project (for example, response to congressional inquiry, or other evaluation and analysis). The report may contain suggestions.

## Table 3: Audit, Inspection, and Evaluation Reports with Questioned or Unsupported Costs<sup>1</sup>

Section 5(a)(8) of the IG Act, as amended, requires for each reporting period a statistical table showing the total number of audit and inspection reports, the total dollar value of questioned and unsupported costs, and responding management decision.

		Number	Questioned Costs <sup>2</sup> (Includes Unsupported Costs)	Unsupported <sup>3</sup> Costs
A.	For which no management decision has been made before the commencement of the reporting period	47	\$583,564,214	\$364,318,499
B.	Which were issued during the reporting period	2	\$43,947,495	\$1,269,021
	Subtotals (A + B)	49	\$627,511,709	\$365,587,520
C.	For which a management decision was made during the reporting period.	9	\$256,097,686	\$124,413,844
	(i) Dollar value of disallowed costs		\$256,097,686	\$124,413,844
	(ii) Dollar value of costs not disallowed		\$0	\$0
D.	For which no management decision was made by the end of the reporting period	40	\$371,414,023	\$241,173,676

<sup>1</sup> None of the products reported in this table were performed by the Defense Contract Audit Agency.

<sup>2</sup> "Questioned costs" is defined in Table 2.

<sup>3</sup> "Unsupported costs" is defined in Table 1. These amounts are also included in questioned costs.

## Table 4: Audit, Inspection, and Evaluation Reports with Recommendations for Better Use of Funds<sup>1</sup>

*Section 5(a)(9) of the IG Act, as amended, requires for each reporting period a statistical table showing the total number of audit, inspection, and evaluation reports and the total dollar value of recommendations that funds be put to better use by management.*

		Number	Dollar Value
A.	For which no management decision has been made before the commencement of the reporting period	2	\$18,200,000
B.	Which were issued during the reporting period	0	\$0
	Subtotals (A + B)	2	\$18,200,000
C.	For which a management decision was made during the reporting period:		
	(i) Dollar value of recommendations that were agreed to by management;	0	\$0
	(ii) Dollar value of recommendations that were not agreed to by management	0	\$0
D.	For which no management decision was made by the end of the reporting period	2	\$18,200,000

<sup>1</sup> None of the products reported in this table were performed by the Defense Contract Audit Agency, and no inspection or evaluation reports identifying better use of funds were issued during this reporting period.

## Table 5-A: Unresolved Audit, Inspection, and Evaluation Reports Issued Prior to October 1, 2011

Section 5(a)(10) of the IG Act, as amended, requires a listing of each report issued before the commencement of the reporting period for which no management decision had been made by the end of the reporting period. Summaries of the audit and inspection reports issued during the previous SAR period follow in Table 5-B.

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
<b>NEW SINCE LAST REPORTING PERIOD</b>				
<b>AUDIT REPORTS</b>				
<b>ODS</b>				
A02K0009	Milwaukee Public Schools: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) (SAR 63, page 36)  <b>Current Status:</b> ODS/Implementation and Support Unit (ODS/ISU) informed us that the draft program determination letter (PDL) is in the review process. Office of Special Education and Rehabilitative Services/Office of Special Education Programs (OSERS/OSEP) informed us that it is developing a PDL.	4/21/11		4
A04K0006	South Carolina Governor's Office: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs (OESE is also designated as an action official) (SAR 63, page 36)  <b>Current Status:</b> ODS/ISU informed us that it is currently working to resolve this audit.	8/23/11	\$8,287 <sup>1</sup>	2
A07K0002	Missouri: Use of and Reporting on Selected Recovery Act Program Funds (OCFO and OESE are also designated as action officials) (SAR 63, page 36)  <b>Current Status:</b> ODS/ISU informed us that the auditee responded to request for additional documentation in 3/12 and that a PDL is being developed.	6/7/11		4
A09K0001	Utah: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) (SAR 63, page 37)  <b>Current Status:</b> ODS/ISU informed us that it is currently working with OESE to resolve the audit. OSERS/OSEP informed us that it is developing a PDL.	5/13/11	\$62,111	16
A09K0002	California: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) (SAR 63, page 37)  <b>Current Status:</b> ODS/ISU informed us that it is currently working with OESE to resolve the audit. OSERS/OSEP informed us that it is developing a PDL.	4/28/11	\$23,407	9

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
<b>OESE</b>				
A02J0002	Camden City Public School District's Administration of Federal Education Funds (OSERS is also designated as an action official) (SAR 63, page 37)  <b>Current Status:</b> OESE informed us that resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL.	6/6/11	\$15,057,565	15
A02K0011	Camden City Public School District's Administration of its Supplemental Educational Services Program (The Office of Innovation and Improvement is also designated as an action official) (SAR 63, page 37)  <b>Current Status:</b> OESE informed us that resolution activities are in process.	5/4/11	\$413,716	6
A04K0005	South Carolina: Use of Funds and Data Quality for Selected Recovery Act Programs (OSERS is also designated as an action official) (SAR 63, page 37)  <b>Current Status:</b> OESE informed us that resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL.	4/20/11		9
A05K0005	Illinois: Use of Funds and Data Quality for Selected Recovery Act Programs (ODS/ISU, OESE, and OSERS are also designated as action officials) (SAR 63, page 36)  <b>Current Status:</b> OESE informed us that resolution activities are in process. OCFO/Post Audit Group (PAG) informed us that it issued its PDL on 12/5/2011. OSERS/OSEP informed us that it is developing a PDL.	6/9/11	\$22,498 <sup>2</sup>	8
<b>OSERS</b>				
A06K0003	Louisiana: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and ODS are also designated as action officials) (SAR 63, page 37)  <b>Current Status:</b> OSERS/OSEP informed us that it is developing a PDL.	4/11/11	\$388,815	5
<b>REPORTED IN PREVIOUS SARs</b>				
<b>AUDIT REPORTS</b>				
<b>FSA</b>				
A02H0007	Technical Career Institutes, Inc.'s Administration of the Federal Pell Grant and FFELP (SAR 57, page 25)  <b>Current Status:</b> FSA informed us that it is currently working to resolve this audit.	5/19/08	\$6,458	13



Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A03I0006	Special Allowance Payments to Sallie Mae's Subsidiary, Nellie Mae, for Loans Funded by Tax-Exempt Obligations (SAR 59, page 41)  <b>Current Status:</b> <i>The Department's Audit Accountability and Resolution Tracking System (AARTS) shows the FSA's administrative stay was approved by OCFO on 3/16/2012.</i>	8/03/09	\$22,378,905	3
A04B0019	Advanced Career Training Institute's Administration of the Title IV HEA Programs (SAR 47, page 13)  <b>Current Status:</b> <i>FSA informed us that it is currently working to revolve this audit in AARTS.</i>	9/25/03	\$7,472,583	14
A04E0001	Review of Student Enrollment and Professional Judgment Actions at Tennessee Technology Center at Morristown (SAR 49, page 14)  <b>Current Status:</b> <i>FSA informed us that the draft audit determination/PDL is currently under review.</i>	9/23/04	\$2,458,347	7
A05G0017	Capella University's Compliance with Selected Provisions of the HEA and Corresponding Regulations (SAR 56, page 25)  <b>Current Status:</b> <i>FSA informed us the draft audit determination/PDL is currently under review.</i>	3/7/08	\$589,892	9
A05I0011	Special Allowance Payments to the Kentucky Higher Education Student Loan Corporation for Loans Made or Acquired with the Proceeds of Tax-Exempt Obligations (SAR 59, page 41)  <b>Current Status:</b> <i>AARTS shows that FSA's administrative stay was approved by OCFO on 3/16/2012.</i>	5/28/09	\$9,018,400	4
A05I0014	Ashford University's Administration of the Title IV HEA Programs (SAR 62, page 24)  <b>Current Status:</b> <i>FSA informed us that it is currently working to resolve this audit.</i>	1/21/11	\$29,036	13
A0670005	Professional Judgment at Yale University (SAR 36, page 18)  <b>Current Status:</b> <i>FSA informed us it is waiting on outcome of Secretary's decision of school's appeal of Professional Judgment finding for Saint Louis University before it can resolve this audit.</i>	3/13/98	\$5,469	3
A0670009	Professional Judgment at University of Colorado (SAR 37, page 17)  <b>Current Status:</b> <i>FSA informed us that it is waiting on outcome of Secretary's decision of school's appeal of Professional Judgment finding for Saint Louis University before it can resolve this audit.</i>	7/17/98	\$15,082	4

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A06D0018	Audit of Saint Louis University's Use of Professional Judgment from July 2000 through June 2002 (SAR 50, page 21)  <b>Current Status:</b> AARTS shows the FSA's administrative stay was approved by OCFO on 1/27/2012. FSA informed us that it is waiting on Secretary's decision on school's appeal of this audit which pertains to a Professional Judgment finding.	2/10/05	\$1,458,584	6
N0690010	Inspection of Parks College's Compliance with Student Financial Assistance Requirements (SAR 40, page 18)  <b>Current Status:</b> FSA informed us that the final audit determination/PDL is currently in the review process.	2/9/00	\$169,390	1
<b>OCFO</b>				
A09H0020	California Department of Education Advances of Federal Funding to LEAs (SAR 58, page 31)  <b>Current Status:</b> OCFO/PAG informed us that it is in the process of resolving audit findings 1 and 2.	3/9/09	\$728,651 <sup>3</sup>	10
A09I0010	Center for Civic Education's Administration of the We the People Program and Cooperative Civic Education and Economic Education Exchange Program (Office of Safe and Drug-Free Schools (OSDFS) also designated as an action official) (SAR 60, page 38)  <b>Current Status:</b> OCFO/PAG informed us that it is currently developing a draft PDL.	11/20/09	\$5,938,537	30
<b>ODS</b>				
A02K0005	Use of Recovery Act Funds and Reporting in Wisconsin (OSERS also designated as an action official) (SAR 61, page 33)  <b>Current Status:</b> ODS/ISU informed us that the draft PDL is in review process. OSERS/OSEP informed us that it is developing a PDL.	9/29/10		7
A03J0010	Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds (OSERS, OS/ Risk Management Services (RMS), and OCFO also designated as action officials) (SAR 60, page 39)  <b>Current Status:</b> Final PDL was uploaded to AARTS on 3/30/12. OSERS/OSEP informed us that it is developing a PDL. The audit cannot be resolved until all PDLs are entered into AARTS.	3/15/10		8
A04J0010	Tennessee Recovery Act Audit Internal Controls over Selected Funds (Recommendations were made to OESE in conjunction with OSERS) (SAR 60, page 39)  <b>Current Status:</b> Final PDL was uploaded to AARTS on 3/30/12. OSERS/OSEP informed us that it is developing a PDL. The audit cannot be resolved until all PDLs are entered into AARTS.	12/15/09		2

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A04K0001	Systems of Internal Controls over Selected Recovery Act Funds in Puerto Rico (OCFO, OESE, and OSERS are also designated as action officials) (SAR 62, page 25)  <b>Current Status:</b> ODS/ISU informed us that it is currently working with OESE and ODS/RMS to resolve the audit. OSERS/OSEP informed us that it is developing a PDL.	12/16/10	\$2,051,000	16
A05J0012	Systems of Internal Control Over Selected Recovery Act Funds in the State of Illinois (OSERS also designated as an action official) (SAR 60, page 40)  <b>Current Status:</b> ODS/ISU informed us that its final PDL was uploaded into AARTS on 3/30/12. OSERS/OSEP informed us that it is developing a PDL.	2/23/10		4
A06J0013	Systems of Internal Control Over Selected Recovery Act Funds in the State of Texas (SAR 60, page 40)  <b>Current Status:</b> ODS/ISU informed us that the final PDL was uploaded into AARTS on 3/26/12. OSERS/OSEP informed us that it is developing a PDL.	1/27/10		5
A06K0001	Systems of Internal Control Over Selected Recovery Act Funds in Louisiana (OSERS also designated as an action official) (SAR 61, page 34)  <b>Current Status:</b> ODS/ISU informed us that it is currently working with OESE to resolve the audit. OSERS/OSEP informed us that it is developing a PDL.	9/29/10		8
A06K0002	Oklahoma: Use of Funds and Data Quality for Selected Recovery Act Programs (OESE and OSERS are also designated as action officials) (SAR 62, page 25)  <b>Current Status:</b> ODS/ISU informed us that it is currently working with OESE to resolve the audit. OSERS/OSEP informed us that it is developing a PDL.	2/18/11	\$16,150,803	10
A09J0006	State and Local Controls over Recovery Act Funds in California (OCFO and OSERS also designated as action officials) (SAR 60, page 40)  <b>Current Status:</b> ODS/ISU informed us that it is currently working with OESE to resolve the audit. OSERS/OSEP informed us that it is developing a PDL.	1/15/10		7
A19J0001	Department's Implementation of the State Fiscal Stabilization Fund Program (SAR 61, page 34)  <b>Current Status:</b> ODS/ISU informed us that it is working to resolve this audit.	9/24/10		4
A19K0006	Department's Process for Screening and Selecting Peer Reviewers for the Race to the Top Grant Program (SAR 61, page 34)  <b>Current Status:</b> ODS/ISU informed us that all recommendations have been completed. However, the required documents needed for resolution of this audit were not in AARTS by 3/31/12.	8/16/10		1

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
<b>OESE</b>				
A02J0009	New York State LEAs Systems of Internal Control Over Recovery Act Funds (SAR 60, page 39)  <b>Current Status:</b> OESE informed us that the PDL is currently under review. OSERS/OSEP informed us that it is developing a PDL.	2/17/10		16
A02K0003	Kiryas Joel Union Free School District Title I, Part A of the ESEA and IDEA Part B Expenditures (SAR 62, page 25)  <b>Current Status:</b> OESE informed us that the PDL is currently under review.	2/2/11	\$467,567 <sup>4</sup>	5
A03G0006	The Department's Administration of Selected Aspects of the Reading First Program (OCFO also designated as an action official) (SAR 54, page 31)  <b>Current Status:</b> OESE informed us that resolution activities are in process.	2/22/07		3
A03H0010	Philadelphia School District's Controls Over Federal Expenditures (OSERS, OSDFS, and OPE also designated as action officials) (SAR 60, page 39)  <b>Current Status:</b> OESE informed us that PDL (3) is currently under review. OSERS/OSEP informed us that it is developing a PDL.	1/15/10	\$138,769,898	27
A03K0003	Commonwealth of Pennsylvania's Local Educational Agencies' Systems of Internal Controls over Recovery Act Funds (OCFO, OESE, OSERS, and RMS are also designated as action officials) (SAR 62, page 24)  <b>Current Status:</b> OESE informed us that the PDL is under review. OSERS/OSEP informed us that the PDL is in the clearance process.	12/21/10	\$443,403 <sup>5</sup>	11
A04G0012	Audit of Mississippi Department of Education's Emergency Impact Aid Program Controls and Compliance (SAR 55, page 28)  <b>Current Status:</b> OESE informed us that the PDL was issued on 12/19/11. However, the required documents needed for resolution of the audit were not in AARTS prior to 3/31/12.	8/8/07	\$3,192,395	4
A04H0011	Puerto Rico Department of Education's Administration of Contracts Awarded to Excellence in Education, Inc. and the University of Puerto Rico's Cayey Campus (SAR 57, page 26)  <b>Current Status:</b> OESE informed us that resolution activities are in process.	5/20/08	\$189,011	10

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A04H0017	Puerto Rico Department of Education's Administration of Title I Services Provided to Private School Students (SAR 58, page 31)  <b>Current Status:</b> OESE informed us that the PDL is currently under review.	10/9/08	\$821,714	15
A04I0042	Virgin Islands Department of Education's Administration of Property Purchased with Federal Funds (SAR 59, page 42)  <b>Current Status:</b> OESE informed us that the PDL is currently under review.	08/17/09	\$4,304	10
A04J0004	Virgin Islands Department of Education's Current Efforts to Address Prior Audit Findings (SAR 60, page 39)  <b>Current Status:</b> OESE informed us that a PDL is currently under review. OSERS/OSEP informed us that the joint PDL is currently under review.	11/13/09		3
A04J0005	Puerto Rico Department of Education's Award and Administration of Personal Services Contracts (Office of Vocational and Adult Education (OVAE), OSDFS, and RMS are also designated as action officials) (SAR 62, page 25)  <b>Current Status:</b> AARTS shows that OESE's administrative stay was approved by OCFO on 2/12/2012. OESE informed us resolution activities are in process.	1/24/11	\$15,194,468	10
A05H0010	The School District of the City of Detroit's Use of Title I, Part A Funds Under the ESEA (SAR 57, page 26)  <b>Current Status:</b> OESE informed us that resolution activities are in process.	7/18/08	\$53,618,859	21
A05I0016	Illinois State Board of Education's Oversight of Subrecipients (OSERS also designated as an action official) (SAR 59, page 42)  <b>Current Status:</b> OESE informed us that the PDL is currently under review. OSERS/OSEP informed us that its PDL was issued on 10/29/2010. Closure letter was issued on 11/1/2011. However the required documents needed for resolution of this audit are not in AARTS.	09/23/09	\$667,876	9
A06F0016	Arkansas Department of Education's Migrant Education Program (SAR 53, page 25)  <b>Current Status:</b> OESE informed us that resolution activities are in process.	8/22/06	\$877,000	2
A06G0009	Audit of the Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable LEAs (SAR 55, page 29)  <b>Current Status:</b> OESE informed us that resolution activities are in process.	9/18/07	\$10,270,000	4

Report Number	Report Title (Prior SAR Number and Page)	Date Issued	Total Monetary Findings	Number of Recommendations
A06G0010	Louisiana Department of Education's Compliance with Temporary Emergency Impact Aid for Displaced Students Requirements (SAR 55, page 29)  <b>Current Status:</b> OESE informed us that resolution activities are in process.	9/21/07	\$6,303,000	4
A06H0011	Adequacy of Fiscal Controls Over the Use of Title I, Part A Funds at Dallas Independent School District (SAR 59, page 42)  <b>Current Status:</b> OESE informed us that the PDL is currently under review.	4/14/09	\$3,524,636	6
<b>OPEPD</b>				
A04J0003	Georgia Department of Education's Controls Over Performance Data Entered in ED Facts (OSDFS, OESE, and OSERS also designated as action officials) (SAR 61, page 34)  <b>Current Status:</b> We did not receive a response from OPEPD on this audit during this report period. OSERS/OSEP informed us that it is developing a PDL.	4/7/10		9
<b>OSERS</b>				
A02B0014	Audit of the Puerto Rico Vocational Rehabilitation Administration (SAR 45, page 18)  <b>Current Status:</b> OSERS/Rehabilitation Services Administration informed us that the PDL is in the review process.	6/26/02	\$15,800,000	5
<b>OVAE</b>				
A06J0001	Arkansas' Adult Education and Family Literacy Act Program (SAR 61, page 33)  <b>Current Status:</b> AARTS shows that OVAE's administrative stay was approved by OCFO on 3/28/2011. OVAE informed us that the PDL is currently under review.	5/28/10	\$583,403	7
<b>REPORTED IN PREVIOUS SARs</b>				
<b>INSPECTION REPORTS</b>				
<b>OGC</b>				
I13I0004	Inspection to Evaluate the Adequacy of the Department's Procedures in Response to Section 306 of the FY 2008 Appropriations Act—Maintenance of Integrity and Ethical Values Within the Department (OGC was designated as the action official by OS) (SAR 57, page 27)  <b>Current Status:</b> We did not receive a response from OGC on this inspection during this reporting period.	4/21/08		2



	Total Monetary Findings	Number of Recommendations
<b>Totals</b>	<b>\$335,175,070</b>	<b>450</b>

<sup>1</sup> Audit report A04K0006 identified the amount of \$8,287 was other recommended recovery.

<sup>2</sup> Audit report A05K0005 figure includes \$10,000 of “monetary recoveries” made during the audit and \$5,728 of unsupported costs.

<sup>3</sup> Audit Report A09H0020 identified \$728,651 in other recommended recoveries, \$13,000,000 in annual better use of funds, and no questioned costs.

<sup>4</sup> Audit report A02K0003 identified an annual better use of funds in the amount of \$5.2 million.

<sup>5</sup> Audit report A03K0003 identified the amount of \$4,568 was “monetary recoveries” made during the audit.

## Table 5-B: Summaries of Audit, Inspection, and Evaluation Reports Issued During the Previous Reporting Period Where Management Decision Has Not Yet Been Made

*Section 5(a)(10) of the IG Act, as amended, requires a summary of each audit, inspection, or evaluation report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period. These are the narratives for new entries. Details on previously issued reports can be found in Table 5-A of this Semiannual Report.*

Report Title, Number, and Date Issued	Summary
<b>Elementary, Secondary, and Special Education Program-Related</b>	
<p>Camden City Public School District's Administration of Federal Education Funds</p> <p>ED-OIG: A02J0002</p> <p>Issued: 6/6/2011</p>	<p>We reviewed 50 of Camden's ESEA contracts totaling more than \$11.7 million and determined that some of the expenditures were not allowable and were not spent in accordance with applicable laws and regulations. We found that Camden did not have a system to maintain and track contracts and, therefore, could not provide a universe of contracts funded with ESEA funds, could not support more than \$4.5 million for contracts that were missing or improperly executed, had inadequate documentation to support expenditures of more than \$1 million for some of these contracts, and had inadequate documentation to support expenditures of more than \$3 million. In addition, Camden did not perform cost or price analysis for competitive and noncompetitive contracts, did not comply with Federal requirements for competitive or sealed bids, and did not comply with State statutes. To address these weaknesses, we made 15 recommendations, including that the Department require New Jersey Department of Education (NJDOE) to direct Camden to develop and implement a contract administration system to properly track the administration of contracts, provide support to show that contracts were properly executed, and provide adequate supporting documentation for unsupported ESEA expenditures. The NJDOE concurred with 12 of our 15 recommendations.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL.</i></p>
<p>Camden City Public School District's Administration of its Supplemental Educational Services Program</p> <p>ED-OIG: A02K0011</p> <p>Issued: 5/4/2011</p>	<p>We found that Camden's expenditures for supplemental educational services (SES) were not always spent in accordance with applicable laws and regulations. Specifically, we determined that Camden overpaid seven SES providers more than \$392,300 in excess of rates approved by the NJDOE. Camden paid the erroneous rates because it did not have proper controls to ensure that SES providers were paid using NJDOE's approved rates. We also found that NJDOE did not have adequate procedures for informing school districts that SES providers had been removed from its approved provider list. As a result, Camden paid one SES provider more than \$21,300 after it had been removed from NJDOE's approved SES provider list. Further, NJDOE's monitoring process was ineffective to ensure that payments to SES providers were allowable. In view of these issues, LEAs throughout New Jersey may be overpaying SES providers or receiving services from ineligible SES providers. Based on these findings, we made a number of recommendations, including that the Department require NJDOE to direct Camden to return to the Department more than \$413,000 for unallowable SES expenditures. NJDOE did not concur with all of our recommendations.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process.</i></p>

Report Title, Number, and Date Issued	Summary
<b>Recovery Act-Related External Reports</b>	
<p>Milwaukee Public Schools: Use of Funds and Data Quality for Selected Recovery Act Programs</p> <p>ED-OIG: A02K0009</p> <p>Issued: 4/21/2011</p>	<p>We determined that Milwaukee Public Schools (MPS) generally used Recovery Act funds in accordance with applicable laws, regulations, and guidance, and that its reported jobs and subaward data were also accurate. However, we also found that MPS did not properly track SFSF program funds as required, as it did not adjust its records to account for some \$75.8 million of State Fiscal Stabilization Fund (SFSF) program funds. MPS also needed to improve its internal controls over Federal funds, including Recovery Act funds, because we found that it did not follow its own procedures for obtaining semiannual employee certifications, preapproving journal entries, and tracking its computer equipment. Based on our findings, we made a number of recommendations to the Wisconsin Department of Public Instruction and the Department of Administration, neither of which concurred with all of our recommendations.</p> <p><b>Current Status:</b> <i>OESE informed us that the resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL. ODS/ISU is the Lead Office. ODS/ISU informed us that the draft PDL is in review process.</i></p>
<p>South Carolina: Use of Funds and Data Quality for Selected Recovery Act Programs</p> <p>ED-OIG: A04K0005</p> <p>Issued: 4/20/2011</p>	<p>We found that Recovery Act funds were generally used in accordance with applicable laws, regulations, and guidance at the entities reviewed; however, we did identify internal control weaknesses related to cash management and contract procurement at the South Carolina Department of Education (SCDOE) and at two of the LEAs reviewed—Charleston County School District and Spartanburg County School District. Specifically, SCDOE did not assess cash needs of subgrantees before it advanced Recovery Act funds, did not monitor spending to determine whether the advanced funds were spent in a timely manner, did not have policies and procedures to remit interest earned on Federal cash advances to the Department, and had insufficient policies and procedures over the Recovery Act claims reimbursement process. We also found that Charleston and Spartanburg did not have documentation available to support that Recovery Act funded contracts were awarded and administered in accordance with district, State, and/or Federal procurement requirements. Based on these findings, we made recommendations to improve these practices, all of which SCDOE concurred with.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL.</i></p>
<p>South Carolina Governor’s Office: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs</p> <p>ED-OIG: A04K0006</p> <p>Issued: 8/23/2011</p>	<p>Our review of the use of Recovery Act funds by the South Carolina Governor’s Office, the University of South Carolina, and the South Carolina Department of Corrections (SCDC) identified a minor issue of noncompliance: SCDC used approximately \$8,300 of the Recovery Act funds to pay for unallowable expenditures. We recommended that the Governor’s Office reobligate those funds to allowable costs. We also found that the Governor’s Office reported inaccurate job data. Specifically, the four State agencies reviewed reported a total of 28.17 full-time equivalent (FTE) jobs created or retained in the March 31, 2010, quarterly report to the Governor’s Office. However, the Governor’s Office reported four FTE jobs for the same reporting period to FederalReporting.gov. In addition, for the quarter ending June 30, 2010, the Governor’s Office reported 14 jobs as created or retained; however, the State agencies reviewed did not report any jobs created or retained for the same period. We did not recommend correcting the reported number of jobs; per the OMB, changes to prior reports cannot be initiated for the “number of jobs” field.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process. ODS/ISU informed us that it is currently working to resolve the audit.</i></p>

Report Title, Number, and Date Issued	Summary
<p>Illinois: Use of Funds and Data Quality for Selected Recovery Act Programs</p> <p>ED-OIG: A05K0005</p> <p>Issued: 6/9/2011</p>	<p>We found that Illinois took proactive measures to provide reasonable assurance that it and its subrecipients complied with Recovery Act requirements, and the subrecipients we reviewed generally expended Recovery Act funds in accordance with applicable laws, regulations, and guidance. However, we also determined that the State could do more to ensure the appropriate use of Recovery Act funds and the quality of data reported to the Federal Government. Specifically, we found that the Illinois State Board of Education and its subrecipients did not always follow Federal cash management requirements; did not always ensure that data reported to the Federal Government were accurate, reliable, and complete; and three of the subrecipients reviewed (Waukegan Public Schools, East Saint Louis Public Schools, and Chicago Public Schools) charged a small amount of unallowable or inadequately documented costs to Recovery Act grants. We recommended that Illinois and its subrecipients strengthen their systems of internal control to provide reasonable assurance that the time elapsing is minimized between the transfer of funds by the Illinois State Board of Education and disbursement by the subrecipients and that Illinois collects and reports complete, reliable, and accurate Recovery Act data. The Illinois State Board of Education did not fully agree with our recommendation.</p> <p><b>Current Status:</b> <i>OESE informed us that resolution activities are in progress. OSERS/OSEP informed us that it is developing a PDL.</i></p>
<p>Louisiana: Use of Funds and Data Quality for Selected Recovery Act Programs</p> <p>ED-OIG: A06K0003</p> <p>Issued: 4/11/2011</p>	<p>Although the four LEAs we reviewed—Jefferson School District, East Baton Rouge School District, Calcasieu School District, and Recovery School District—generally used Recovery Act funds in accordance with applicable laws, regulations, and guidance, we identified more than \$179,700 in unsupported payroll expenses. We also found that the Louisiana Department of Education (LDE) and the LEAs reviewed did not ensure that data reported were accurate, reliable, and complete: LDE and the Jefferson, East Baton Rouge, and Calcasieu School Districts all had data quality errors in the expenditure data that were reported by LDE to FederalReporting.gov for the first four Recovery Act reporting periods, and they incorrectly reported jobs saved or created to LDE. In addition, LDE did not have internal controls to ensure that policies or procedures were followed to verify and report required Recovery Act data elements or for reporting errors identified after submission of reports. We made a number of recommendations to address these issues, including that the LDE provide documentation to adequately support more than \$179,700 in Recovery Act payroll expenditures or return those funds to the Department. The LDE generally agreed with our recommendations.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL. ODS/ISU informed us that it is currently working with OSERS and OESE to resolve the audit.</i></p>
<p>Missouri: Use of and Reporting on Selected Recovery Act Program Funds</p> <p>ED-OIG: A07K0002</p> <p>Issued: 6/7/2011</p>	<p>We found that the subrecipients reviewed—the Kansas City School District, the St. Louis Public Schools, and the University of Missouri—might not have used Recovery Act funds for authorized activities and did not always report accurate, reliable, and complete data. Specifically, they did not properly account for \$59.8 million in Recovery Act SFSF monies; did not always follow Federal cash management requirements; and data that Missouri reported to the Federal Government were not always accurate, reliable, and complete. To reduce the likelihood of such problems occurring in the future, we recommended that Missouri and its subrecipients improve their systems of internal control to provide reasonable assurance that SFSF funds are accounted for properly; cash management procedures are aligned with Federal regulations; and data reported to the Federal Government are accurate, reliable, and complete. Missouri officials generally concurred with our recommendation.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL. ODS/ISU is the Lead Office. ODS/ISU informed us that it received auditee response to request for additional documentation in 3/12. PDL is being drafted.</i></p>

Report Title, Number, and Date Issued	Summary
<p>Utah: Use of Funds and Data Quality for Selected Recovery Act Programs</p> <p>ED-OIG: A09K0001</p> <p>Issued: 5/13/2011</p>	<p>We found that the State and local recipients and subrecipients reviewed did not consistently use Recovery Act funds in accordance with applicable laws, regulations, and guidance. Specifically, we found that the University of Utah and the Utah Housing Corporation (UHC) made improper charges to the SFSF Government Services grant totaling more than \$65,000, and UHC also did not remit interest earned on Recovery Act funds that were received before the funds were needed to cover program costs. We identified more than \$1.3 million in improper charges and internal control weaknesses at the Nebo School District and found that neither Nebo nor the Granite School District maintained sufficient documentation to support personnel costs. We also found significant data quality deficiencies at all entities reviewed, and as a result, the data for the number of jobs, vendor information, and amount of funds spent that were reported to Recovery.gov for the reporting period ending December 31, 2009, were not reliable. The Utah State Office of Education also improperly included Federal expenditures and certain inappropriate State and local expenditures in its Title I school-by-school per-pupil expenditures report submitted to the Department. As a result, the report does not accurately portray State and local expenditures at the school level and cannot be relied upon. To address the weaknesses identified, we made 15 recommendations. A number of the entities reviewed stated they had corrected the deficiencies or were in the process of implementing corrective actions.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL. ODS/ISU informed us that it is currently working with OESE to resolve the audit.</i></p>
<p>California: Use of Funds and Data Quality for Selected Recovery Act Programs</p> <p>ED-OIG: A09K0002</p> <p>Issued: 4/28/2011</p>	<p>Although the three LEAs we reviewed generally used Recovery Act funds in accordance with applicable laws, regulations, and guidance, we did identify instances of noncompliance with applicable Federal requirements by the Fresno Unified School District and the San Diego Unified School District that resulted in improper charges of approximately \$23,000 to the Title I Recovery Act grant. We also found that the California Department of Education (CDE) reported jobs data that were not reliable for the reporting period ending December 31, 2009. Control weaknesses in its processes for compiling, processing, and reviewing the jobs data could affect the reliability of future reports. To address the weaknesses identified, we made a number of recommendations, including that CDE implement appropriate data quality controls to ensure that future jobs data are accurate, complete, and consistent with applicable guidance. CDE did not state whether it agreed with our findings and recommendations.</p> <p><b>Current Status:</b> <i>OESE informed us resolution activities are in process. OSERS/OSEP informed us that it is developing a PDL. ODS/ISU informed us that it is currently working with OESE to resolve the audit.</i></p>

## Table 6: Statistical Profile: October 1, 2011, through March 31, 2012

Audits, Inspections, Other Products	October 1, 2011- March 31, 2012
Audit Reports Issued	13
Inspection Reports Issued	2
Questioned Costs (Including Unsupported Costs)	\$43,947,495
Recommendations for Better Use of Funds	\$0
Other Products Issued	4
Reports Resolved By Program Managers	20
Questioned Costs (Including Unsupported Costs) Sustained	\$256,097,686
Unsupported Costs Sustained	\$124,413,844
Additional Disallowances Identified by Program Managers	\$97,429
Management Commitment to the Better Use of Funds	\$0
Investigative Cases Opened	68
Investigative Cases Closed	75
Cases Active at the End of the Reporting Period	432
Prosecutorial Decisions Accepted	52
Declined	34
Indictments/Informations	64
Convictions/Pleas	52
Fines Ordered	\$320,078
Restitution Payments Ordered	\$7,559,928
Civil Settlements/Judgments (number)	2
Civil Settlements/Judgments (amount)	\$1,475,000
Recoveries	\$4,556,524
Forfeitures/Seizures	\$1,044,233
Estimated Savings	\$1,010,636
Suspensions Referred to Department	6
Debarments Referred to Department	22



## Abbreviations and Acronyms Used in this Report

AARTS	Audit Accountability and Resolution Tracking System
ALSDE	Alabama State Department of Education
Camden	Camden City Public School District
CDE	California Department of Education
CIGIE	Council of Inspectors General for Integrity and Efficiency
Department	U.S. Department of Education
ECASLA	Ensuring Continued Access to Student Loans Act of 2008
EDUCATE	Education Department Utility for Communications, Applications, and Technology Environment
ESEA	Elementary and Secondary Education Act of 1965, as Amended
FFEL	Federal Family Education Loan
FISMA	Federal Information Security Management Act of 2002
FSA	Federal Student Aid
FTE	Full-Time Equivalent
GAO	Government Accountability Office
HEA	Higher Education Act of 1965, as Amended
IDEA	Individuals with Disabilities Education Act
IHE	Institution of Higher Education
IPA	Independent Public Accountant
IPERA	Improper Payments Elimination and Recovery Act of 2010
LDE	Louisiana Department of Education
LEA	Local Educational Agency
MPS	Milwaukee Public Schools
NJDOE	New Jersey Department of Education
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
ODS	Office of the Deputy Secretary
ODS/ISU	Office of the Deputy Secretary Implementation and Support Unit
OESE	Office of Elementary and Secondary Education
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPEPD	Office of Planning, Evaluation and Policy Development
OSDFS	Office of Safe and Drug-Free Schools

## Abbreviations and Acronyms Used in this Report (continued)

OSEP	Office of Special Education Programs
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
PAG	Post Audit Group
PDL	Program Determination Letter
QCR	Quality Control Review
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
RMS	Risk Management Services
SAR	Semiannual Report to Congress
SCDC	South Carolina Department of Corrections
SCDOE	South Carolina Department of Education
SEA	State Educational Agency
SES	Supplemental Educational Services
SFSF	State Fiscal Stabilization Fund
SIG	School Improvement Grant
Stimulus Funds	Recovery Act and Education Jobs Funds
TIF	Teacher Incentive Fund
Title IV	Title IV Higher Education Act of 1965
TIVAS	Title IV Additional Servicer
Treasury	U.S. Department of the Treasury
UHC	Utah Housing Corporation

## FY 2012 Management Challenges

The Reports Consolidation Act of 2000 requires the OIG to identify and summarize the most significant management challenges facing the Department each year. Below are the management challenges OIG identified for FY 2012.

- 1. Improper Payments, meeting all new requirements and intensifying efforts to prevent, identify, and recapture improper payments.**
- 2. Information Technology Security, including management, operational, and technical security controls to adequately protect the confidentiality, integrity, and availability of its systems and data.**
- 3. Oversight and Monitoring, including Federal student aid program participants, distance education, Recovery Act, grantees, and contractors.**
- 4. Data Quality and Reporting, including program data and Recovery Act reporting requirements.**

For a copy of our FY 2012 Management Challenges report, visit our Web site at [www.ed.gov/oig](http://www.ed.gov/oig).



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Office of Inspector General  
400 Maryland Ave., S.W.  
Washington, D.C. 20202

Electronic submission (internet):  
<http://www2.ed.gov/about/offices/list/oig/index.html>

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