

U.S. Department of Education

Office of Inspector General:  
Promoting Integrity in  
Federal Education Programs for 25 Years

Excellence



Accountability



Integrity





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Promoting Integrity in  
Federal Education Programs for 25 Years

U.S. Department of Education  
Office of Inspector General  
2005





**U.S. Department of Education**

Margaret Spellings  
*Secretary*

**Office of Inspector General**

John P. Higgins, Jr.  
*Inspector General*

Mary Mitchelson  
*Counsel to the Inspector General*

December 2005

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# 1. The Creation and Evolution of the Office of Inspector General

## The Inspector General Concept

What exactly is an “inspector general?” Some say it is a military officer responsible for investigations. Others say it is a term that goes back to 17th-century France, when Louis XIV needed someone to inspect his troops and to report back to him on their condition. Here in the United States, the term “inspector general” has been associated with maintaining and improving the operational efficiency of our armed forces since colonial times.

In the 1970s, government scandals, the Vietnam War, oil shortages and stories of corruption covered by newspapers and television and radio stations took a toll on the American public’s faith in its government. The U.S. Congress knew it had to take action to restore the public’s trust. It had to increase oversight of federal programs and operations. It had to create a mechanism to evaluate the effectiveness of government programs. And it had to provide an independent voice for economy, efficiency and effectiveness within the federal government that would earn and maintain the trust of the American people.

A bold move was in order. In 1978, President Jimmy Carter signed into law the landmark legislation known as the *Inspector General Act (IG Act)*. The *IG Act* created independent inspectors general, who would: protect the integrity of government; improve program efficiency and effectiveness; prevent and detect fraud, waste and abuse in federal agencies; and keep agency heads, Congress, and the American people fully and currently informed of the findings of the IGs’ work.

Almost 30 years later, that bold concept is a proven success. The IGs continue to deliver significant benefits to our nation. Thanks to IG audits and inspections, billions of dollars have been returned to the federal government or have been better spent based on recommendations identified through those audits and inspections. IG investigations have also contributed to the prosecution of thousands of wrongdoers. In addition, the IG concept of good governance and accountability encourages foreign governments to seek our advice, with the goal of replicating the basic IG principles in their own governments.

## The U.S. Department of Education’s Office of Inspector General

When the *IG Act* was passed in 1978, IG offices were established in 12 agencies. The agency responsible for coordinating federal education programs at that time was the U.S. Department of Health, Education and Welfare (HEW). Just one year later, illustrating that access to a quality education is one of our nation’s fundamental rights and is essential for a strong and secure future, President Carter signed into law the *Department of Education Act*. The law created an independent U.S. Department of Education (Department), separating it from HEW. On May 4, 1980, the U.S. Department of Education officially opened its doors for business.

The *Department of Education Act* also established the Office of the Inspector General (OIG) within the Department. Our mission is to promote the efficiency, effectiveness and integrity of the Department’s programs and operations by conducting independent and objective audits, investigations, inspections and other activities. Our vision is to be a continual learning and improving organization, one that appreciates, challenges, respects, and honors its employees; serves as a change agent to encourage fiscal integrity and continuing improvement in program delivery and program effectiveness; and seeks to achieve the highest level of customer satisfaction possible within our independent and objective role.

2005 marks our 25th year of service to the Department, Congress and the American people. For a quarter-century, we have successfully promoted the efficiency, effectiveness and integrity of the Department’s programs and operations. We have actively identified problems so that federal education funds are used effectively, and we have worked with the Department to prevent fraud, waste, abuse and mismanagement. We have consistently conducted independent and objective audits, investigations and inspections, and based on our findings, we have made recommendations to the Department to address the problems we find, and investigate fraud leading to the prosecution of those who try to gain federal education funds illegally.

As anniversaries provide unique opportunities to reflect on the past and look to the future, this report commemorates our first 25 years of operation by highlighting our most significant contributions to federal education programs and services, and illustrates how we plan to pursue our vital mission in the years ahead.





***Without a doubt, it's been our employees' dedication and belief in core values that has enabled OIG to capably fulfill its mission for the last 25 years.***

— Inspector General John P. Higgins, Jr.

## The Dedication of Office of Inspector General Staff

In 1980, we began our journey with a budget of \$10.7 million. Twenty-five years later, we're 300 staff strong, with a budget of over \$47 million, working in 17 locations in the U.S., including Puerto Rico and the Virgin Islands. Our staff includes: financial, information technology and program auditors; criminal investigators; inspectors; computer intrusion experts; management and budget analysts; and attorneys.

The OIG operates by a set of core values. Those values are:

- **Excellence** in people, processes, products and impact;
- **Accountability** or compliance with professional standards; and
- **Integrity** in all that we do, ensuring that our products are fair, balanced and credible.

Excellence in people has always been a priority. When recalling his task of establishing a new office in a new agency, James Thomas, the Department's first inspector general, stated: "I have always believed our greatest accomplishment was in pulling together an excellent group of individuals from which all other accomplishments flowed." One of the individuals who started with Inspector General Thomas that very first day was John P. Higgins, Jr., who is our fourth and current inspector general.

Inspector General Thomas' sentiment was echoed in 1996 by our second inspector general, Thomas R. Bloom, who delivered a message to Congress that spoke to the pride OIG staff have in amassing a "record of accomplishments and initiatives ... that will help ensure that the Department's programs serve the nation's students and taxpayers with efficiency, effectiveness and accountability."

The dedication of OIG staff was perhaps never more apparent than during the terrorist attacks on the World Trade Center on Sept. 11, 2001, which occurred only one block from our New York office. Our third inspector general, Lorraine P. Lewis, reflected on the unfailing courage and dedication of OIG employees on and after that day: "I learned of the poise and leadership of the OIG New York staff as they ensured that all Department employees were evacuated safely from the building. In the weeks and months that followed, I saw how those employees cared about each other and about returning to their work. OIG staff from around the country volunteered to aid the search and recovery efforts and to assist the FBI. The OIG staff was a shining example of the very best that public service stands for."

## Growing Responsibilities

Since 1980, the U.S. Congress has entrusted the Department with increasing sums of taxpayer dollars for education programs aimed at America's students from kindergarten through graduate school. For example, the funds that Congress provided to elementary and secondary programs increased in the last quarter-century, from \$6.9 billion in fiscal year (FY) 1980 to nearly \$38 billion in FY 2005. In FY 1980, the Department oversaw the delivery of about \$10 billion in financial aid for postsecondary students, compared to \$73 billion in FY 2005, and the outstanding student loan portfolio grew from just over \$12 billion to \$400 billion for the same period.

The Department's budget and responsibilities were not the only things that grew over the years, however. The OIG's statutory responsibilities have grown as well. Congress now requires that we conduct financial audits, assess information security efforts, and identify the Department's most significant management challenges in promoting economy and efficiency, and fight fraud, waste and abuse. We have also seen an increase in the role of investigations conducted by IG offices. In 2002, Congress granted our special agents, and those in certain other IG offices, statutory law enforcement authority. In addition, in our post Sept. 11 world, the federal law enforcement agencies that once handled the bulk of computer crime investigations are now focused on other threats. The IG community has stepped forward and is working together to counter the cyber threat to information and security.

Further, the explosion of information technology (IT) has revolutionized the way the Department does business. Virtually every program in the Department, as well as its financial accounting, relies heavily on information systems. As an example, approximately 8.4 million students and parents received student financial assistance last year alone. More than 90 percent of them applied for aid online. In addition, with the enactment of the *No Child Left Behind Act* in 2001, program performance and results are increasingly used as a basis for funding decisions. That means information collection and maintenance is more critical than ever.

## Delivering Results

Throughout our 25-year history, the OIG has consistently delivered value that is commensurate with, and even exceeds, the resources invested in our operations. During the last six fiscal years, our activities have resulted in sustained costs, recoveries, judgments and fines of more than twice our total budget allocation. That is more than \$2 returned for every \$1 spent.

Without question, the OIG has always demonstrated excellent stewardship of the taxpayer dollars that are entrusted to us and we have delivered an excellent value for the investment. This speaks volumes to the dedication and effort of our staff—past and present. That dedication has enabled the OIG to achieve significant accomplishments over the last 25 years, and has also helped to make us a leader in the areas of innovation and results. As a leader in innovation, we:

- Led the development and implementation of the single-audit process throughout government;
- Were the first IG to establish an official IG counsel;
- Established the first combined cyber group Information Technology Audits and Computer Crimes Investigation—which ensures problematic IT issues are addressed and not overlooked; and
- Produced a DVD for identity theft outreach; and Employed data mining efforts to find fraud within loan and grant programs.

As leaders in results, our work has:

- Recovered nearly \$500 million from 1999 to 2005 through our recoveries, judgments and fines;
- Led to the conviction of the former secretary of education of Puerto Rico for fraud and extortion involving department contract funds;
- Led to the Educational Credit Management Corporation's return of \$103 million to the U.S. Treasury—the largest actual recovery of funds resulting from an audit in our history; and
- Revealed that Orleans Parish, La., did not properly account for over \$69 million in Title I funds.

We have received a number of prestigious awards for our outstanding work, including:

- The 2004 National Missing Child Award and the Federal Law Enforcement Officers Association Investigative Excellence Award;
- The 1999 White House Hammer Award for the Cooperative Audit Resolution and Oversight Initiative team;
- President's Council on Integrity and Efficiency (PCIE) Award for Excellence for our investigative work;
- PCIE Award for Excellence for our audit work;
- PCIE Award for Excellence for our multidisciplinary work;
- PCIE Award for Excellence for system development and security reviews in 2003 and 2004;
- PCIE Award for Excellence in developing new audit techniques and innovative strategies in IT security; and
- PCIE Award for Excellence for producing guidance to review purchase card programs.

## Emerging Issues, Evolving Techniques

Over the years, the OIG has identified emerging threats, such as identity theft, information security and student financial assistance fraud, to the integrity of the Department's programs and has capitalized on new and evolving techniques to help address these issues. Identity theft was a little-known occurrence 25 years ago, but is now one of the fastest-growing consumer crimes in the world. We have investigated cases of individuals who used deceased persons' identities, stolen identities, and identities of relatives to fraudulently obtain or attempt to obtain student aid. Since we began tracking these cases in 2002, we have opened over 148 cases, and we have recovered millions of dollars of fraudulently received student financial assistance funds from these identity thieves.

The OIG also has evolved to meet new challenges to the integrity of the Department's operations. In 2000, the OIG was among the first IG offices to establish two components within the OIG to focus almost exclusively on Department operations. The first component was the Analysis and Inspection Services (AIS) division, created to conduct fast, focused management reviews that do not require a traditional audit, and also to provide recommendations the Department can act on immediately. The team, which in 2003 became part of Evaluation, Inspection and Management Services, coordinates analyses, internal and external inspections and special studies that are designed to improve the Department's programs and operations.



The second component was the Operations Internal Audit Team (OIAT), which coordinates and conducts audits relating to the internal operations of the Department. Internal auditing and review is rapidly growing in importance, as the Department and Congress base their decisions on reports and records rather than on personal observations. Internal auditors examine and evaluate their firm's financial and information systems, management procedures and internal controls to ensure that records are accurate and controls are adequate to protect against fraud and waste. These individuals also evaluate the efficiency and effectiveness of the Department's policies and procedures, as well as laws and government regulations.

In 2003, the OIG formed an Investigative Support and Intelligence Unit in its Investigations Services division to conduct data mining to detect and deter fraud in the Department's databases. Two years later, many of the inspectors from our Evaluations, Inspection and Management Services joined the data mining efforts to uncover suspicious identities and other data that have been referred to our field investigators for follow-up.

Also in 2003, the OIG, together with the Office of Federal Student Aid (FSA), initiated a public awareness campaign to alert students, schools and other financial aid participants about identity theft via our special Web site, [www.ed.gov/misused](http://www.ed.gov/misused). The site provides information on scams, suggestions for preventing identity theft, and resources on how to report identity theft involving federal education dollars. With the assistance of the Arizona Department of Public Safety, we produced a DVD, "FSA Identity Theft: We Need Your Help," that features an individual incarcerated for student aid fraud who describes the techniques he used to steal identities. We are using this DVD in our ongoing outreach campaign to all participants in the student aid programs, and getting help from the media to spread the word throughout the country. In 2003, "NBC Nightly News" aired a segment on students and identity theft, which featured Inspector General Higgins. In 2005, "ABC World News Tonight" highlighted the DVD in its story on identity theft.

In 2004, the OIG initiated a joint project with FSA to detect and prevent fraud in the student financial aid programs. This collaborative effort continues to bring together OIG and FSA personnel who have extensive audit, investigative, inspection, program, and systems/data knowledge and experience. Staff members develop profiles of known fraud and abuse to identify patterns, research existing data from internal sources through the use of data mining techniques, and consider information from external sources. Based on the findings, they produce work plans with timelines and milestones to effectively address these issues and reduce risks in this complex program.

And also in 2004, the Information Technology Audit and Computer Crime Investigation Services (ITACCI) was created. This unit combines audit, investigative and computer evidence recovery resources and expertise to address management and security issues involving the Department's information systems. We have established a state-of-the-art computer laboratory that enables ITACCI team members to coordinate forensic media analysis, data mining and advanced statistical techniques, as well as IT audits and systems security testing and evaluation.

## Expanding Expertise

Commensurate with these new challenges, the OIG's workforce has evolved and our expertise has expanded. Preventing and responding to threats to the Department's programs and operations requires a highly skilled workforce with specialized technological expertise, advanced computer tools and advanced training. This is particularly true for our auditors and investigators.

The OIG's Audit Services (AS) conducts, coordinates and oversees audits and other activities and makes recommendations to promote economy, efficiency and effectiveness in the administration of programs and operations administered or financed by the Department. AS also recommends changes needed in the Department's existing and proposed legislation and regulations to promote economy, efficiency and effectiveness in the administration, or the prevention and detection of fraud and abuse in its programs and operations. Our auditors must complete 80 hours of audit training every two years. In addition, many of our staff hold special credentials and certificates in such fields as computer intrusion, fraud examining, information assurance, information systems auditing, and government financial management, to name a few.

Our Investigative Services (IS) division is responsible for all investigative activities relating to the Department's programs and operations, and conducts, supervises and coordinates investigations of suspected fraudulent activity by Department employees, contractors, grant recipients, students, teachers, school systems, and so on. IS is responsible for establishing the necessary procedures for coordinating with the



Department of Justice (DOJ) on all criminal matters dealing with the Department's programs and operations. OIG investigators spend 11 weeks at the Federal Law Enforcement Training Center (FLETC) for the Criminal Investigator Training Program. Within a year, they return for another six weeks of IG Academy training.

## Leaders Within the Inspector General Community

Much like the OIG, the federal IG community as a whole has changed greatly during the past quarter-century. The passage of the IG Act in 1978 established independent IG offices, which at that time numbered 12. Over the years, as the federal government grew, so did the number of IG offices. There are now nearly 60 IG offices that provide audit, inspection and investigative oversight across the federal government.

In 1981, President Ronald Reagan, by executive order, created the President's Council on Integrity and Efficiency (PCIE) to coordinate and enhance government efforts to promote integrity and efficiency and to detect and prevent fraud, waste and abuse in federal programs. The Executive Council on Integrity and Efficiency (ECIE) was subsequently created in 1992. Through the PCIE, which is primarily composed of the presidential-appointed IGs, and the ECIE, which is primarily composed of the IGs appointed by their agency heads, the IG community collaborates on issues regarding integrity, economy and efficiency that transcend individual agencies. It also seeks to enhance the professionalism and effectiveness of OIG personnel throughout the government.

Throughout its history, the OIG has been a leader in the IG community. Perhaps nowhere is this clearer than in the areas of single audit, nonfederal-audit quality and auditing standards. The IGs in each federal agency are responsible for assuring that the single audits for which their agency is cognizant are performed in accordance with all applicable requirements and standards. The IGs also provide technical audit advice and assistance to their agencies, grantees and nonfederal auditors.

When the single-audit concept was first mandated, it became clear that the IG community needed to ensure that all IG offices were consistently carrying out their single-audit responsibilities. To do so, the IG community needed guidance and guidelines. In 1981, Inspector General Thomas and the OIG staff led a team composed of various IG offices to produce the *Cognizant Audit Agency Guidelines*, commonly referred to as the *Orange Book*. Inspector General Thomas toured the country, training and discussing the implementation of the guidelines. His efforts set the pace for the OIG in the single-audit arena. In the ensuing years, Inspector General Thomas established and chaired

the PCIE's Single-Audit Committee and the committees that followed until his retirement. Under his leadership, the OIG staff led interagency teams in the following major PCIE activities relating to single-audit implementation and nonfederal audit quality:

- 1984—issued a report on implementation, impact and usefulness of the single-audit concept under the Office of Management and Budget (OMB) Circular A-102, Attachment I, which included a recommendation that the PCIE support legislating the single-audit concept. Months later, the *Single Audit Act of 1984* was enacted.
- 1985—updated the *Orange Book*, which was retitled *Cognizant Agency Audit Organization Guidelines*, to correspond with the new act.
- 1986—developed PCIE checklists for desk and quality-control reviews for single audits for use by government agencies. We also updated these checklists several times over the years as requirements and standards changed.
- 1992—developed and issued questions and answers for OMB Circular A-133, after OMB extended the single audit requirements to nonprofit organizations.
- 1993—issued the report *Study on Improving the Single-Audit Process*, which contained over 80 recommendations for improving the single-audit process that were directed at Congress, OMB and the American Institute of Certified Public Accountants (AICPA). The vast majority of the recommendations were implemented in the 1996 amendments to the *Single Audit Act*, the revised OMB Circular A-133 issued in 1997, and in subsequent AICPA guidance.

In addition to leading the IG community in single-audit matters, Inspector General Thomas was the IG leader who engaged and worked with the auditing profession, including the AICPA, the General Accounting Office (GAO)—now the Government Accountability Office—and state auditors to improve the quality of nonfederal audits and ensure that the IGs had a say in the development of auditing standards that apply to their work. He created and chaired the PCIE Accounting and Auditing Committee, which later became the PCIE Audit Committee, and whose purpose was to provide input from the IG community to the accounting and auditing standard-setting bodies whose standards applied to the work of the IGs or to federal programs. The committee also published the results of IG reviews of the quality of non-federal audits and hosted periodic roundtables with leaders of the nonfederal audit community on audit-quality issues. The OIG has remained active on the PCIE Audit Committee, as our second and third leaders, Inspector General Bloom and Inspector General Lewis, both served on the Committee. In 2004, the OIG took the lead again when Inspector General Higgins was appointed chair of the PCIE Audit Committee.

***We were leaders in developing and implementing the single-audit process throughout government, and in working with the public accounting profession and other auditing groups to develop standards and rules we would have to implement. These contacts brought us new ideas and networks which made us more effective.***

**—Former Inspector General James Thomas**

Inspector General Thomas was also a member of GAO's first Auditing Standards Advisory Council that advised GAO on the 1988 version of *Government Auditing Standards*. When GAO established a permanent Government Auditing Standards Advisory Council in 1991, Inspector General Thomas was named chairman. He served in that capacity through 1998, and remains the only federal IG to have served as chair. Inspector General Bloom also served on the council.

The tradition of active participation in the IG community and the auditing profession continues today. In addition to his duties as chair of the PCIE Audit Committee, Inspector General Higgins was also appointed to serve on the GAO Advisory Council, and was named chair of the PCIE IT Roundtable—an interagency forum that shares knowledge, procedures and techniques to aid in facilitating effective IT audits, evaluations and investigations by IGs, and provides a vehicle for the expression of the IG community's perspective on governmentwide IT operations. These are great honors that speak volumes to the OIG's record of results, innovative ideas and proven leadership in the auditing arena.

## Leaders at All Levels

For the OIG, active participation in the auditing profession is not limited to the inspector general level. Over the years, many of our managers have served as presidents or other officers of their local Association of Government Accountants (AGA) and Institute of Internal Audit (IIA) chapters and as chairs of the Regional Intergovernmental Audit Forums. An assistant inspector general for audit and a former director of the Nonfederal Audit Team served at different times on the AICPA's Government Auditing and Accounting Committee, which was the committee responsible for issuing the detailed audit guides for audits of state and local governments subject to single audits. These individuals were the only two representatives of the IG community to serve on this committee.

The OIG's current deputy assistant inspector general for audits (DAIGA) was a member of the task force that developed and published the first strategic plan of the National Intergovernmental Audit Forum. The assistant inspector general for audit (AIGA) is the current chair of the Federal Audit Executive Council and was a member of the team that developed and published the 2003 version of *Quality Standards for Federal Offices of Inspector General*, known as the *Silver Book*. The AIGA and the director of the Nonfederal Audit Team serve, respectively, as the chairman of the board and project director of the National Single-Audit Sampling Project, which is an intergov-

ernmental project to statistically measure the quality of single audits for the first time. The director of the Nonfederal Audit Team also serves as the chairman of the National Single-Audit Coordinators, which is made up of the head single-audit person of each federal agency. The DAIGA is beginning his second year as a member of the AICPA's Auditing Standards Board, which is the body that promulgates generally accepted auditing standards for all U.S. entities except for issuers of securities. He is the first representative from the IG community to serve on the board. At least one of our regional managers is currently serving as president of the local AGA chapter.


As a result of our active involvement, the OIG is recognized as a leader in the IG community and the auditing profession. Our staff is constantly sought after to speak at national, regional and local professional conferences on matters that are important to our mission.

Keep in mind that the OIG auditors aren't the only staff members who are blazing a trail—our investigators do so as well. OIG investigative staff regularly lead training and give presentations on all aspects of their work, including identity theft detection and prevention and cybercrime. These individuals are regularly called on by universities, organizations, other government agencies and FLETC.

## Providing Support in Times of Crises

During times of national crises, the OIG has wholeheartedly supported local, state and federal efforts related to combating terrorism, protecting the general public from potential terrorist attacks, and assisting in the recovery and clean-up efforts related to terrorist acts and devastation caused by natural disasters.

Following the terrorist attacks of Sept. 11, 2001, OIG staff members provided vital investigative assistance in both New York City and Washington, D.C. In New York City, 24 OIG criminal investigators assisted the FBI as part of the Joint Terrorism Task Force, composed of various local, state and federal law enforcement entities. No task was too big or too small for our agents. They engaged in a number of activities, conducted interviews of witnesses who purportedly had information regarding suspicious or potential terrorist activity, participated in "terrorist profile" interviews, provided airport security, and escorted dignitaries around ground zero. At the Pentagon, nine OIG criminal investigators worked closely with multiple law enforcement agencies in combing through tons of debris in the collection of criminal evidence of the hijacking. Our staff assisted in the heartbreaking task of identifying the personal remains and effects of the victims of the attack. An OIG agent was



also named as a team leader to the National Infrastructure Protection Center and played a vital role in identifying and analyzing critical information related to the ongoing terrorist investigation. Another OIG agent was detailed to the Federal Aviation Administration, Air Marshall Service division, to provide aircraft security. Additionally, three OIG agents and auditors were recalled to active duty and served their country under Operation Noble Eagle/Enduring Freedom and Operation Iraqi Freedom. The OIG staff continues to support our nation's anti-terrorism efforts by providing a number of key services, including the analysis of electronic data and the evaluation of terrorist Internet data.

In fall 2002, when sniper attacks paralyzed the day-to-day activities of residents and visitors in the Washington, D.C., metropolitan area, the OIG staff stepped forward to help. OIG special agents joined the Sniper Task Force—a concerted effort to protect the public and bring the perpetrators to justice. Our staff helped man the National Tip Hotline by fielding calls, assessing information and forwarding potential leads and intelligence information to the task force command.

In 2004, when the Department announced that it was seeking volunteers to work with the Coalition Provisional Authority in Iraq, OIG staff stepped forward again. The director of our Financial Statement Internal Audit Team accepted a six-month position in Iraq to advise the Iraqi inspector general for the Education Ministry.

Most recently, in September 2005, when state and national leaders called for law enforcement assistance in the wake of the destruction left by Hurricane Katrina, over 50 percent of OIG criminal investigators, as well as other OIG staff, volunteered to serve in the devastated areas, exhibiting a willingness to leave home and their loved ones for indeterminate periods of time to help their neighbors in need. This outpouring of support speaks volumes for the individuals that we collectively call OIG.



A close-up photograph of a person's hand holding a pen, poised to write on a document. The lighting is dramatic, highlighting the texture of the paper and the metallic sheen of the pen. The background is dark and out of focus.

## 2. The Impact of Our Work

The thousands of audits, inspections and investigations we have undertaken since our creation have contributed greatly to improving the operations and the programs of the Department. This chapter highlights examples of the OIG's work that has had the most significant impact. Further details on these activities and other undertakings are contained on the OIG's Web site at <http://www.ed.gov/about/offices/list/oig/index.html>.

The OIG's mission—to prevent and detect fraud, waste and abuse and to promote economy, efficiency and effectiveness—has a common core and guiding objective: to ensure integrity in the Department's operations and programs. The OIG's audits, investigations and inspections have identified integrity issues throughout our 25-year history, resulting in the Department taking administrative actions against abusers of its programs and establishing much needed internal controls, thereby contributing to significant legislative reforms. Nowhere has our success been more evident than with our extensive work in the high-risk student financial assistance arena.

### Student Financial Assistance

Originally authorized by the *Higher Education Act (HEA)* of 1965, the student financial assistance programs were created to provide access to funds so that financially needy students could meet the costs of postsecondary education. In 1980, the PLUS loan program was created to also provide access to funds for parents of dependent students. Throughout our history, these programs have been the major focus of our audit and investigation efforts, as they have been the most susceptible to fraud, waste and abuse. The programs are large, complex and inherently risky due to their design, reliance on numerous entities, and the nature of the borrower population.

Until 1980, education was only a small part of HEW, due to the fact that Medicare, Medicaid and welfare programs demanded the bulk of the agency's audit and investigative attention. That changed with the creation of the Department of Education and its own independent OIG. Our job was to identify and help prevent fraud, waste and abuse in federal education programs and operations. And, in the student financial assistance arena, we found plenty of it.

Throughout the 1980s, almost everywhere we looked we found abuses—at proprietary schools, at guaranty agencies, with lenders and with servicers. We

found many proprietary schools were involved in recruiting and enrolling ineligible students, falsifying attendance records, obtaining funds for “ghost students,” failing to pay refunds, opening ineligible campuses and providing ineligible programs, among other abusive practices. Some guaranty agencies: failed to assure lenders performed with due diligence in collecting loans before paying default claims; misused federal reserve funds; and provided the Department with untimely and inaccurate loan data. Some lenders and servicers were involved in falsifying due diligence and did not provide timely and accurate loan data to the guaranty agencies. In 1990, these abuses played a significant role in the GAO’s decision to place these programs on its high-risk list of government programs most vulnerable to fraud and abuse. The data integrity problems in the Federal Family Education Loan Program (FFEL) were a significant financial management problem and eventually helped to prevent the Department from obtaining clean opinions on its financial statements in the early years under the requirements of the *Chief Financial Officers Act of 1992*.

### **An Unprecedented Commitment**

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Our work made it clear that the management and administration of the programs needed intense scrutiny to identify the systemic issues that allowed the problems to occur without detection by the Department. To undertake this challenge, in 1988 we initiated the SFA Project. We allocated 75 percent of our resources to launch this coordinated, nationwide, multi-disciplinary approach to assess the systemic issues, identify the causes, and recommend corrective actions. We initiated the project by categorizing and summarizing the most common abuses identified through our audits and investigations, then launched the effort with a series of internal audits of the Department’s “gatekeeping” controls (processes used by the Department to assess the suitability of schools to begin and to continue participation in the programs). These audits included assessing the Department’s reliance on accreditation and state licensure, its determinations of schools’ administrative capabilities and financial responsibility, and the adequacy of oversight of program participants. We then established a team of experienced auditors and investigators to analyze complaints and other existing information to target dozens of suspect schools for quick, surprise inspections.

For four years, OIG worked tirelessly in this effort. We identified millions of dollars that were misused and likely represented cases of fraud and forwarded them to our investigators. We issued numerous reports calling for administrative actions to terminate program participants or recover funds; recommended improvements to Department oversight and internal controls; and offered suggestions for much-needed regulatory and legislative reforms. Our investigations consistently resulted in successful

prosecutions and the recovery of millions of dollars through fines, court-ordered restitutions and civil settlements. Our efforts culminated in the 1992 release of 14 management improvement reports that called for regulatory and legislative reform. Collectively, these efforts provided the support for our significant input to the congressional hearings on the student financial assistance programs and recommendations for the 1992 reauthorization of the HEA that was needed to strengthen the integrity of these programs.

### **Overhauling the Higher Education Act in 1992**

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Throughout the 101st Congress and the 102nd Congress, Georgia Sen. Sam Nunn, the chairman of the Permanent Subcommittee on Investigations of the Committee on Government Affairs, held a series of hearings, that put the student financial assistance programs through a level of scrutiny never before witnessed. Inspector General Thomas was called to testify on four occasions, offering guidance on how to address integrity issues in the programs. He reported on our success in identifying fraud and abuse in the programs, and described the limitations in the programs’ accreditation, certification and eligibility processes.

Our hard work and effort paid off. The 1992 amendments to the *HEA* included the most sweeping statutory changes in the history of the student financial assistance programs. Many of our recommendations were adopted by Congress. The most notable changes based on our work were:

- The elimination of correspondence schools from participation in the programs—an area OIG found rife with fraud and abuse;
- A further defining of the roles and expectations of the states, accrediting agencies and the Department in monitoring and oversight;
- Requirements for annual compliance and financial statement audits;





- Limitations on the number of ability-to-benefit and incarcerated students;
- The establishment of a 30-week academic year and subsequent regulatory clock-to-credit hour conversion rules;
- The reduction in lender and guaranty agency subsidies through risk-sharing; and
- Strengthened criminal penalties, including making the failure to pay refunds a criminal offense.

Following the enactment of the 1992 amendments, we participated in two years of negotiated rulemaking to assure the regulations under the statute addressed known instances of fraud, waste and abuse.

#### **The Prevention and Detection of Fraud and Abuse**

Throughout the 1990s, as part of our audits, we effectively used computer-based matching of records in order to mine data and identify control weaknesses in the verification process for students applying for student financial assistance. In four of our most successful matches, we identified hundreds of millions of ineligible awards or loan discharges, and subsequently recommended corrective actions. In response to our audit recommendations, the Department implemented improved edits and internal controls where possible. These include:

- **Default Match:** In 1992, the OIG reported on a weakness in the screening of the Free Application for Federal Student Aid (FAFSA), which we estimated was possibly costing the Department and the taxpayers \$300 million a year because no edit check existed to screen for previous defaulters who falsely reported they were not in default on a student loan.
- **Citizenship Match:** A 1994 OIG audit determined that the citizen verification process the Department was using allowed ineligible, non-U.S. citizens to receive Pell Grants totaling over \$70 million during award year 1992–93 because the edit process did not verify the accuracy of applicants who falsely indicated U.S. citizenship.
- **IRS Match:** In 1997, an OIG audit provided evidence that underreporting of income by applicants for student aid and their parents was a serious and growing problem that was costing federal taxpayers hundreds of millions of dollars in “over-awards” of Pell Grants and awards to ineligible persons. We performed a match of the income data reported on the FAFSA with the applicant income reported to the Internal Revenue Service (IRS), and found as much as \$177 million in Pell Grant funds were over-awarded due to the underreporting of income for the 1995–96

award year. For the 2004–05 award year, the Department estimated that the amount of over-awards due to underreporting of income had grown to \$365 million. Although the OIG recommended, and Congress provided the authority in the 1998 HEA reauthorization for the Department to verify applicant income with the IRS, the needed corresponding statutory change to the Internal Revenue Code has not been enacted. It’s our hope Congress will do so before the close of its 109th session.

- **Death and Disability Match:** A June 1999 OIG audit reported that student loans were discharged (forgiven) for the total and permanent disability or death of borrowers, even though the borrowers subsequently continued to earn wages, according to the Social Security Administration’s (SSA) master earnings file. From July 1994 to December 1996, nearly \$77 million in loans were forgiven for individuals who claimed to be totally and permanently disabled, or who were reported as deceased, but who, according to the SSA, had earned income from employment during 1997.

#### **The Reauthorization of the Higher Education Act in 1998**

Based on our audit and investigative efforts during the mid-1990s we submitted 17 proposals to Congress for consideration in the 1998 HEA reauthorization. We compiled a 53-page report that was delivered to Congress in July 1997, and that was supplemented by a series of detailed presentations to the Senate and House education committees. Our recommendations were organized into four major areas:

- Institutional eligibility and enforcement;
- Student eligibility;
- Loan programs; and
- Law enforcement.

Four of our proposals were fully adopted by Congress and five other proposals were partially adopted. The following were adopted by Congress:

- Require verification of applicants’ income data with IRS;
- Require discharge of loans to the extent of unpaid refunds for student victims;
- Eliminate Pell Grant eligibility for schools’ loss of eligibility for the loan programs due to high default rates; and
- Require schools to post a surety when appealing the loss of eligibility due to high default rates.

### Identifying and Investigating Significant Fraud and Abuse

In the last quarter-century, the OIG's investigations have racked up an exemplary record of fraud detection in the student financial assistance programs, leading to a virtually unbroken string of successful prosecutions and hundreds of millions of dollars returned to the federal government in fines, restitutions and civil settlements. The following examples demonstrate the continued impact of our efforts involving the misuse of student financial assistance funds, from the SFA Project to the present:

- Phillips Colleges, Inc. (PCI), located in Gulfport, Miss., was a privately held corporation wholly owned by one individual. From 1987 to 1989, PCI expanded from 27 schools to 91 schools, becoming the largest chain of proprietary schools in the country, receiving over \$200 million annually in student financial assistance funds. The OIG performed at least nine separate audits, inspections or investigations at PCI schools from 1989 to 1992, and each uncovered serious integrity issues, such as untimely student refunds and ineligible programs. Due to the pattern of deficiencies, we performed an audit of the PCI corporate headquarters and identified \$155 million of student financial assistance funds inappropriately received by PCI schools due to the violation of the statutorily prohibited use of commissioned salespersons. In addition, other serious deficiencies were noted in the corporate and school audits and inspections. Due to the \$155 million liability and the Department's efforts to resolve the serious problems at PCI, all of its 91 schools eventually were closed or sold, and the corporation was dissolved.
- A 1992 audit found that Federal Truck Driving School in California improperly disbursed about \$38 million in student financial assistance for students enrolled in an ineligible program.
- A 1993 joint investigation with the FBI, the IRS and the Department of Justice (DOJ) resulted in a settlement agreement providing for the liquidation of a Newark, Del., school owner's personal assets and the payment of some \$14 million to the Department and the DOJ. The investigation found evidence that the school, once the largest proprietary trade school in the nation, falsely certified course lengths, failed to make student refunds, falsified student attendance records, and violated federal tax laws.

- In 1994–95, three officials of a college in Aguada, Puerto Rico, were sentenced to prison terms totaling nine years after a 43-month joint OIG-FBI investigation disclosed that they had operated branch campuses without a license and fraudulently obtained more than \$3 million in Pell Grant funds for students enrolled there.
- In 1996, based on information gleaned from an OIG investigation, AmSouth Bank in Birmingham, Ala., agreed to pay the Department \$5.7 million in restitution and civil penalties for falsified collection efforts on guaranteed student loans.
- In 1998, an OIG audit and subsequent OIG-U.S. Postal Inspection Service investigation led Cybernetics and Systems, Inc. (CSI), a subsidiary of CSX Corporation, to plead guilty to a one-count criminal information charge for



*OIG investigations have racked up an exemplary record of fraud detection in the student financial assistance programs.*

possession of false papers with intent to defraud the United States. CSI was ordered to pay a \$2 million criminal fine and also entered into a civil settlement in which it agreed to pay the Department \$28 million.

- In 1999, our audit of the University of Phoenix determined that it had violated the 12-Hour Rule and needed to immediately establish an academic year for its undergraduate programs and return \$50.6 million in FFEL funds as well as \$4 million in Pell Grant funds. The school settled the audit with the Department and returned over \$6 million.
- In 2000, based on information gleaned from an OIG investigation, CORUS Bankshares, Inc., and CORUS Bank, agreed to pay over \$7.75 million for allegedly submitting fraudulent insurance and reinsurance claims of guaranteed student loans.
- In 2001, a joint OIG-U.S. Postal Inspection Service investigation led to the conviction and sentencing of a student financial aid consultant whose actions resulted in an estimated loss to the government of over \$1 million, with a potential loss in grants and loans totaling over \$10.7 million. The individual held seminars at churches and universities, instructing attendees in how to apply for federal aid and assisting individuals in preparing and submitting false FAFSAs to obtain student financial assistance.
- In 2002, an OIG investigation led to a six-year prison term and restitution order of over \$11.6 million for the leader of a fraud scheme. The ringleader and six associates created a fictitious postsecondary institution they called Yeshiva of New Square, for the purpose of collecting Pell Grants and other aid. The leader initially fled the country but was extradited to the United States in November 2001.
- In 2003, we issued our audit report on the California Student Aid Commission's (CSAC) establishment of its Federal and Operating Funds, as mandated by the HEA. We recommended the return of \$16.4 million to the Federal Fund. Although CSAC disagreed with our findings and recommendations, FSA concurred with several of them. In April 2004, the Department sustained a \$7.7 million liability, and CSAC returned \$7.7 million to the Federal Fund.
- In 2003, in an audit of the Educational Credit Management Corporation, we recommended that the Department recall excess reserve funds of \$103 million. The Department concurred, and the \$103 million was returned to the U.S. Department of the Treasury in February 2004. This, by far, was the largest return of funds due to a single OIG effort.

- In August 2004, the Department executed settlement agreements with 22 postsecondary institutions based on a series of OIG audits, finding the institutions had violated either the statutory prohibition on paying incentive compensation for recruiting students or the regulatory 12-Hour Rule formerly used in assessing institutional compliance with statutory provisions on the minimum length of educational programs. As part of the settlement, the institutions paid \$4.4 million in fines and liabilities to the Department.
- In 2004, an OIG investigation revealed that an individual submitted or prepared some 2,370 false FFEL loan applications requesting disbursement of approximately \$43.8 million.

## State and Local Assistance

### *The Elementary and Secondary Education Act*

The Elementary and Secondary Education Act (*ESEA*), first enacted in 1965, is the principal federal law affecting K–12 education, providing guidance and funds to K–12 schools. Title I of the *ESEA* is the largest federal program serving children in grades K–12, funded at over \$12 billion in FY 2004. Over the years, we have identified hundreds of millions of dollars that schools and school districts did not use for its intended purposes. Our work has focused on a myriad of issues within this arena, including detecting and correcting fraud and improper use of *ESEA* funds, helping states improve their procedures for



approving and monitoring *ESEA*-funded projects, and assuring state and local education agencies' compliance with program-specific requirements.

As an example of our work in this area, in 2005, we reported that the Orleans Parish School Board did not properly account for nearly \$69.3 million in Title I funds. As a result of our work, the Louisiana Department of Education designated Orleans Parish a high-risk grantee and imposed special conditions on its grants. The OIG has been working with the Department, the Louisiana Department of Education, and Orleans Parish to correct the deficiencies identified during the OIG audit. In addition, OIG, the FBI and the New Orleans Police Department developed evidence that an Orleans Parish payroll clerk conspired with Orleans Parish teachers, secretaries and paraeducators to submit fraudulent travel reimbursements, stipend payments and payroll checks in exchange for a kickback of 50 percent of the illegal payments. Seven former employees of Orleans Parish have pled guilty for their involvement in the \$70,000 kickback scheme.

### Special Education

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The *Individuals with Disabilities Education Act (IDEA)* is our nation's special education law. Prior to its implementation in 1975, approximately one million children with disabilities were shut out of schools and hundreds of thousands more were denied appropriate services. *IDEA* changed that by providing billions of dollars in federal funding to assist states and local communities in providing educational opportunities for approximately six million students with varying degrees of disability who participate in special education.

*IDEA* has improved the lives of these children, and the OIG, through our audits, inspections and investigations, has worked with the Department, Congress and states to improve *IDEA*. For example, in the 1990s, OIG assessed whether the process of allocating federal funds to the states under *IDEA* was reasonable and equitable. Prior to our work in this area, the Department based its allocation of special education funds on the count of students receiving special education in each state. Our work revealed that the count was unreliable. We concluded that a more appropriate allocation base would be the total population aged three to 21, weighted by poverty measures. The use of such objective data to distribute funds would provide each state an equitable share of the special education funds, and eliminate any incentive for states to manipulate the count or to retain students in the program longer than necessary. The Department agreed, and Congress incorporated those provisions in the *IDEA* amendments that were enacted in 1997.

### Vocational Education

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Vocational education is an organized education program that is directly related to the preparation of individuals for paid or unpaid employment and helps prepare young people and adults for postsecondary education. Our early work in this area focused on state and local education agency compliance with applicable laws and regulations, which sought to correct problems at specific entities, as well as the examination of management controls and performance, which affects all participants. In a 1981 audit, we found that one state spent as much as \$27.9 million of vocational education funds on ineligible projects, and we recommended that the funds be returned to the federal government. Twenty years later, a series of OIG audits found a number of state agencies had inadequate monitoring and tracking controls to ensure data associated with vocational education programs were complete and accurate. We recommended that the Department require the agencies to take corrective actions to ensure that these states strengthen their controls over their processes to collect and report performance data to the Department. Concurrently, we assessed the Department's own management controls, and found that it needed to take action to ensure that the data states submitted met the criteria required by law. The Department agreed to implement our recommendations.

### Data Reliability

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From our earliest days, we recognized that data reliability was not just a compliance issue, but a performance issue as well. When Department managers have more reliable data, they can make better decisions, and Congress has a better basis on which to enact legislation.

The OIG was the first IG office to regularly conduct data reliability and data security audits. In 2002, a joint audit with the GAO, Texas, Pennsylvania, and the city of Philadelphia found that many states were not ensuring that the performance data they reported were reliable. We recommended that the Department improve its management controls over the timely publication of school improvement data and strengthen its management controls to ensure that Title I school improvement data are reliable and valid. The Department generally agreed with our findings and recommendations, and the report received a PCIE Award for Excellence.

### **The Cooperative Audit Resolution and Oversight Initiative**

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New ideas are conceived by looking at things from a different and unconventional perspective. Such was the case in 1995, when the OIG worked with the Department to create the Cooperative Audit Resolution and Oversight Initiative (CAROI). It began with the realization that education programs improve when federal, state and local education officials work together to resolve issues identified through audits, and has grown into an innovative practice that enhances the auditing, monitoring, and technical assistance processes in the OIG, the Department and other federal and state government agencies. From this genesis, Department officials reviewed audit resolution practices. The review disclosed that many audits resulted in lengthy legal battles that often produced insignificant monetary recoveries, while developing significant ill will. Additionally, the review identified numerous instances in which the causes of the findings did not receive permanent corrective action and, consequently, subsequent audit reports identified the same findings and problems. Given these recurring conditions, it is ultimately the student and other learners who suffer. Therefore, the Department needed a new approach to audit resolution. Through a collaborative effort by the Department and state and local partners, CAROI was created.

CAROI is a collaborative method that provides alternative and creative approaches to resolve audit findings and their underlying causes. Designed to avoid costly litigation, lengthy adversarial discussion and nonproductive impasses, as well as to make permanent corrective action the norm, the CAROI process promotes continuous dialogue, innovative solutions, horizontal lines of communication, and a fundamental commitment to serving education's ultimate customer: the learner.

Early CAROI successes first occurred in Florida, Washington and Mississippi. The most ambitious CAROI project began in Pennsylvania the summer of 1997. The state was facing a backlog of 119 single-audit findings—some dating back to 1990. The traditional methods of reaching agreement and addressing problems were failing. The parties involved decided to give CAROI a try. An aggressive six-month timetable was established to resolve all 119 findings by the target date of Feb. 27, 1998. Within six months of its start date, all 119 were resolved. CAROI was a success. “The CAROI process represents a giant step forward in audit resolution,” stated Harvey Eckert, deputy secretary for Comptroller Operations for the Commonwealth of Pennsylvania. “CAROI teams are now in position to address and resolve future issues as soon as they are discovered or reported.”

In addition to efforts in the area of audit resolution, CAROI works Departmentwide and partners with states to develop guidance on flexibility issues. CAROI team members were actively involved in the Department's production of guidance on schoolwide programs and OMB's A-133 Compliance Supplement. CAROI also serves as a resource for information in the area of audits, monitoring and technical assistance. CAROI representatives often make presentations at conferences across the country, addressing state and local education agencies and organizations at the national level. The OIG also assisted in producing a CAROI procedures manual, which is available via our Web site and continues to be requested and distributed across the country. With such a successful track record, it's no wonder Congress voted to incorporate CAROI into the *ESEA* reauthorization in 2001.

### **Making Recommendations to the Department and Congress**

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Most of our audits and inspections include recommendations for the Department to correct an inappropriate expenditure or to implement a better use of program dollars. However, sometimes the problems disclosed through our activities are such that they can best be addressed by changing applicable laws or regulations. *ESEA* is a prime example. *ESEA* must be reauthorized by Congress every five to six years. For more than a decade, the U.S. Congress has incorporated a number of OIG recommendations into the *ESEA* reauthorizing legislation. In 1994, *ESEA* was amended by the *Improving America's Schools Act*—legislation that provided greater flexibility in the administration of programs in return for increased accountability and results. An example of an OIG recommendation that Congress included in the bill was the establishment of incentives to motivate local education agencies to find ways to improve the academic success of educationally deprived students. In 1999, the OIG issued a perspective paper with recommendations to be considered by the Department and Congress during the next reauthorization of *ESEA*. Our recommendations addressed how to reduce the burden on state and local education agencies, and improve the quality of performance data and the monitoring process.



Another provision of the *ESEA* that OIG has focused on is the *Gun-Free Schools Act (GFSA)*. Incorporated into the *ESEA* in 1994, the *GFSA* requires that each state receiving *ESEA* funds have in effect a state law requiring local education agencies to expel, for a period of not less than one year, any student who is determined to have brought a weapon to school. The OIG has conducted a number of audits to determine whether the state and local education agencies were in compliance with the *GFSA*. In 2001, the OIG issued a perspective paper to assist the Department and Congress during the reauthorization of the *GFSA*. Our perspective paper pointed out that the *GFSA* did not cover BB guns, pellet guns, antique firearms or replicas of antique firearms. We also pointed out that the *GFSA* required states and local education agencies to collect and report information on the expulsions of students who brought firearms to school, but did not require the collection of information on incidents involving students who were found to have brought firearms to school. This project received a PCIE Award for Excellence.

### Identifying and Investigating Corrupt Officials

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While OIG auditors and inspectors have been hard at work identifying fraud, waste and abuse in elementary, secondary, special and vocational education programs, OIG investigators have been working with them, investigating suspected fraudulent activity by education grantees. Our activities in this arena have led to the arrest and conviction of a number of high-ranking state and local education employees who have misused federal education funds. Here are just a few examples of the more significant cases our work has identified:

- A 2000 OIG investigation revealed a conspiracy to steal \$1.9 million in Impact Aid funds. Seven people were involved in the scheme, in which federal education funds were fraudulently wired from the Federal Reserve to improper bank accounts of day-care center operators. The funds were intended for two school districts in South Dakota. A Lincoln Navigator, a Cadillac Escalade, and a piece of real estate in Maryland were among the items purchased with the misappropriated federal dollars.
- In 2002, an OIG investigation revealed that a former secretary of education of Puerto Rico spearheaded a money-laundering scheme that led to kickbacks of up to \$4.3 million in federal funds. The former official and his coconspirators awarded some \$138 million in contracts, using the money to benefit themselves and their political party.
- OIG's 2004 investigation in the Pacific Rim found that the former director of the American Samoa Department of Education devised a scheme to defraud the U.S.

Territory of American Samoa, the Department, and other federal agencies of at least \$61,000 by agreeing to fraudulently award education contracts to companies in exchange for over \$9,000 in cash and goods.

- Our 2004 investigation in Georgia found that a former deputy state superintendent of the Georgia Department of Education (GDOE), a former federal programs manager for the GDOE, and a former CFO of an Atlanta computer company who received more than \$500,000 in state dollars derived from federal education grants, were among individuals who pled guilty in a scheme to funnel federal grant monies through the company into a gubernatorial candidate's campaign. The candidate was a former state superintendent of Georgia state schools.
- In 2005, three officials of the Prepared Table Charter School in Texas were sentenced for their roles in defrauding federal and state government agencies. The individuals each received prison terms ranging from one to six years. A federal task force consisting of the OIG, the FBI, the IRS' Criminal Investigation Division, the U.S. Department of Agriculture's OIG, and the Texas Education Agency uncovered information that the officials misreported student attendance data, which enabled the school to receive funding to which it was not entitled. From academic year 1999–2000 to academic year 2001–02, the school received over \$2.5 million in federal funds. The school also comingled its financial activities with a church in Houston. The school's charter was revoked in August 2002.

## Department Operations

Earlier in this report we discussed how the OIG has evolved over the years to help the Department meet new challenges to the integrity of its programs and operations, as well as to meet new requirement and responsibilities assigned by Congress. To this end, we have increased our focus on the Department's internal operations, including the statutorily mandated audits of the Department's annual financial statements and the Department's IT security, and other internal Departmentwide programs, including human capital planning. The OIG has received noteworthy attention for our hard work and effort in this area.

### Financial Statement Audit

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To improve federal financial management, Congress passed legislation in 1990 requiring inspectors general to audit the financial statements of their respective agencies. To coordinate this task, the OIG established the Accounting and

Financial Management Staff (AFMS)—staff experts to coordinate and conduct the financial statement audit, as well as perform special studies of financially related audit areas, and provide advice and assistance regarding financially related issues. For the first several years, we were asked to audit only revolving funds, trust funds and activities that performed substantial commercial functions, such as the Department’s guaranteed student loan program. We carried out our tasks so efficiently and effectively that we were asked by the GAO to combine our talents to produce the first-of-its-kind joint audit of the FY 1993 financial statements of the FFEL program. As a result of that historic review, the Department initiated efforts to resolve long-standing concerns.

In 1994, Congress extended the requirement for audited financial statements by passing legislation requiring IG offices to conduct annual agencywide audits, covering every federal dollar the agency received and disbursed, beginning with the FY 1995 statements. This was no small task, as the Department had a history of material weaknesses and ineffective information systems for its financial reporting.

For more than a decade, the OIG staff has worked closely with the Department, focusing on cooperation and earning the Department’s staff’s trust in the audit process. This invaluable assistance has enabled the Department to establish new processes and procedures. In doing so, the Department has obtained an unqualified opinion on its statements since 2002 and has the mechanisms in place to stay the course for years to come. In addition, thanks to the OIG, the Department was among the first to implement the accelerated reporting deadline to OMB, the Department of the Treasury and Congress, turning around its annual financial report in 45 days—a process that used to take nine months. Meeting this challenge makes financial information more useful and timely and helps managers to better assess and plan out their programs, all of which enables the Department to better exercise stewardship of the taxpayer dollars to which it has been entrusted.

Our success in the area of financial statement audits is well-known and respected throughout the IG community. The OIG staff are extremely active in the government-wide Financial Statement Audit Network, participating in a number of working groups that produce “best practices” documents for use by all government agencies. In fact, the OIG’s director of the Financial Statements Internal Audit Team was a primary author of the PCIE Audit Committee’s *Best Practices Guide: Coordinating the Preparation and Audit of Federal Financial Statements*, issued in June 2001.

### **Information Technology Security**

Information technology (IT) permeates all aspects of programs and services coordinated through the Department. Safeguarding information and informa-

tion systems is, therefore, essential to preserving the ability of the Department to perform its mission and meet its responsibilities. And, while we think of IT security as a contemporary concern, its roots go back many years. One of the OIG’s earliest audits disclosed at least \$105 million in unrecorded payments to grantees, which was the result of inadequate controls, the Department’s failure to use a computerized accounting system, and the Department’s reliance on manual processes and employee integrity to ensure payment accuracy.

Fast-forward to the 21st century, where IT security has extended its conceptual and practical framework to encompass not just the government’s ability to protect its disbursement systems from accidental errors, but also its ability to operate in the event of a disaster (contingency planning) and to protect the billions of dollars it disburses annually in student financial aid from ID theft and other fraud. Our 2003 audit of the Department’s contingency planning for its student aid systems and services recommended improvements in several critical areas. The Department agreed with our recommendations and committed to develop a full corrective action plan to address them. This audit received a PCIE Award for Excellence for its innovative strategies that enabled the Department to significantly improve its information security plans, program and practices.

### **Internal Control**

Internal control issues are central to operational integrity. Examples of internal control weaknesses bookend the OIG’s 25-year history.

A 1980 review of the Department’s control over \$2.5 billion in direct payments to contractors identified internal control weaknesses that resulted in overpayments to grantees and the loss of control over appropriation balances, creating the potential for losses due to fraud. The OIG found that, despite having a computerized system, the Department relied almost entirely on manual processes and the integrity of its employees to ensure the propriety of payments, primarily because adequate controls had not been established to ensure that all payment transactions were entered electronically. We recommended that the Department



improve its internal controls, separate duties in the payment process, implement frequent report preparation, and maintain physical security over fiscal documents and negotiable receipts.

Two decades later, an OIG audit on computer equipment furnished to Department contractors found that: the Department did not ensure that its contractors accounted for all property or managed property according to regulations; contractor records were not accurate or complete; equipment was not appropriately identified as Department property; and some equipment could not be found. We again recommended that the Department improve its internal controls and develop and implement a monitoring plan that clearly defined responsibilities and that reinforced staff responsibilities to determine the need for government property and ensure its proper utilization and disposition. The Department concurred with our findings and agreed to implement our recommendations.

#### **Control Over Purchase Cards**

Another significant OIG initiative at the turn of the century was our review of the Department's internal control over its purchase card and third-party draft programs. Purchase cards are credit cards used by federal employees. What makes purchase cards different from ordinary credit cards is that they may be used only with certain types of merchants. The OIG was the first IG office to tackle this subject. Our work noted several deficiencies in the program and provided recommendations to help safeguard against potential misuse or waste and ensure that purchase card transactions and third-party drafts were serving program needs. Subsequently the Department terminated its third-party draft program. A follow-up audit of purchase cards found that the Department had made some progress, but we recommended that it develop on-site guidelines, conduct on-site internal control reviews, and reassess the number of cardholders assigned to an approving official.

During the same period, we worked with the Department of Commerce's OIG to develop a first-of-its-kind publication, *A Practical Guide for Reviewing Government Purchase Card Programs*, that provided guidance to OIGs, federal agencies and other organizations in reviewing purchase card programs. The publication received a PCIE Award for Excellence.

#### **Control Over Travel Cards**

The OIG was also one of the first IG offices to review controls over government travel cards. Our 2002 audit found that the Department needed to increase its monitoring and to provide training to cardholders on appropriate uses. We recommended that the Department develop and implement guidelines for monitoring travel card activity, ensure the Department staff received appropriate training, take immediate action to cancel travel card accounts when needed, and establish overall policies and administrative procedures. The Department concurred with our findings and took corrective action. Our audit program for travel cards was shared with other OIGs for their use and reference.

#### **Human Capital Planning**

Beginning in 2002, the OIG identified the strategic management of human capital as one of the Department's management challenges. Initially, the Department attempted to rely on its *One-ED* report—the Department's strategic investment and human capital plan. However, inspection work completed in 2004 concluded that this report failed to provide guidance in several key areas, including the alignment of strategic goals and human capital requirements, the assessment of organizational structures, and the development and implementation of workforce and succession plans. In 2004, in response to our work, the Department developed a revised human capital plan, which it began implementing in the fall of that year.

#### **Leading the Way in Fighting Cybercrime**

The OIG took its IT audit work to a higher level in 2004 by creating the Information Technology and Computer Crime Investigations (ITACCI) division—a “one-stop shopping” department for all IT-related issues ranging from the review of enterprise architecture management and the *Federal Information Security Management Act* activity, to investigating network intrusions and traditional computer crime investigations. With the current focus on expanding electronic government, it is even more critical that the Department's systems be effectively implemented, managed and kept safe and secure. It is also important that all cyber-related issues be properly identified and addressed.

*I continue to be amazed at the work our ITACCI operation is coordinating. Our capabilities are astounding, and we're only a little more than a year into the project. Imagine what we'll be able to do over the next 25 years!*

—Inspector General John P. Higgins, Jr.



It is essential to attract and retain skilled Computer Crime Investigators (CCI) to be able to investigate high-tech crimes such as network intrusions, identity theft, fraud and any other type of criminal activity associated with computers. ITACCI is doing just that. We have hired highly skilled professionals with expertise in multiple disciplines, such as IT, law enforcement and auditing. For CCIs, this approach allows the use of technology as a force multiplier, allowing a small cadre of criminal and technical investigators to actively investigate more cases than would similarly staffed units. In addition, ITACCI staff have created managerial tools for the remote matrix management of investigations and operations, thus enhancing our force's deployment presence. Combine this with our state-of-the-art ITACCI lab, and it is clear why we are regularly collaborating with other government agencies, universities and the private sector to enhance the security of the U.S. national infrastructure. The ITACCI team also produces IT audit reports, security reviews and other products to assist the Department in identifying risks and offers recommendations to improve the management of the Department's systems.

Up and running for just a little over a year, ITACCI is showing results. In March 2004, we completed an audit of the implementation of electronic signatures for select FFEL and Pell Grant transactions. We found that the Department needed additional measures to reduce the risk of program fraud, waste and abuse that could arise from the possible misuse of its computer systems that use a Personal Identification Number (PIN) for authentication and electronic signatures. We made several recommendations, including improvements in periodic risk evaluations, enhancement to technical controls, and enhancements to user warnings and notices to keep PINs confidential.

#### **Identifying and Investigating Internal Abuse**

As the OIG's auditors and inspectors work hard to help the Department exercise improved stewardship of the taxpayer dollars to which it has been entrusted, the OIG's investigators work hard to investigate suspected fraudulent activity by Department staff and contractors. Here are a few examples of the cases our work has identified:

- In 1999, we uncovered a million-dollar scheme involving a Department employee. The employee, a former COR, was the mastermind of a conspiracy that cost the Department more than \$1 million. She ordered more than \$350,000 worth of goods paid for by the Department for her personal use and that of her conspirators. She also generated over \$934,000 in fraudulent labor and overtime claims, also paid for by the Department. The former employee was sentenced to 54 months in prison for conspiracy and government theft. Her coconspirators also received prison terms.
- In 2003, in a case related to the 1999 case described, the Department reached a \$2 million settlement against a phone company for its role in the conspiracy. Its former telephone technicians, assigned on a permanent basis to support the Department, engaged in a wide-ranging conspiracy with the former employee, her family members and close associates, whereby they used the Department's contract with the phone company to purchase hundreds of thousands of dollars worth of computers, digital cameras and electronic equipment for personal use.
- In 2000, an OIG investigation led to a civil settlement agreement between the Department and a former chief financial officer/chief information officer. The settlement was a result of the former employee's failure to disclose his wife's ownership of computer stock in his public financial disclosure reports. As a result of this nondisclosure, the former CFO was not recused from his participation on a committee within the Department that made key decisions related to the purchase of computers. The former CFO later sold his shares of stock, resulting in a profit of \$61,000.
- In 2003, an OIG investigation led to the arrest and conviction of two former Department employees and a vendor for their roles in a \$160,000 fraud scheme. The former employees approached various Department vendors and asked them to charge the Department's credit cards for work performed for their personal use. To hide the fraud, the employees created false invoices claiming that the work was done for the Department. One of the employees also used government-issued credit cards to purchase residential furniture for herself, friends and coworkers, and asked the furniture salesmen to create false invoices describing the residential furniture as office furniture.
- In 2005, a former deputy under secretary for the Office of Safe and Drug-Free Schools was sentenced to one-year probation and received a \$5,000 fine and 100 hours of community service after pleading guilty to misdemeanor conflict-of-interest charges. An OIG investigation uncovered evidence that the former staffer approved travel for himself at the government's expense that involved at least some personal travel. On some of these trips, the former deputy under secretary conducted some personal business, and some of his expenses were reimbursed by the government. He also took sick leave and received his government salary for days on which he was working and being paid as a visiting judge in the state of Texas. In addition, he failed to record on his government financial disclosure forms the salary he received from the state of Texas.



## 3. Looking Ahead

As Inspector General Thomas has stated, “The quality of the individuals of an organization controls its product and outcome. If you have good people in an organization and provide them with training and other support, they will shine, and quality products and accomplishments will result. Twenty-five years of excellence and commitment by the OIG staff have proved his point.”

Over the last quarter-century, the OIG’s work has resulted in: the return of hundreds of millions of taxpayer dollars to the Department; countless improvements in how education programs are delivered to our nation’s students; thousands of prosecutions, as well as civil and personnel actions; the debarment of businesses or punishment of individuals who sought personal gain at the expense of the rightful recipients of education benefits; and many other accomplishments that have helped the Department make education more accessible and accountable.

While we celebrate and acknowledge our achievements over the past quarter-century, we know that significant challenges still remain for the Department. We must continue to help the Department to exercise better stewardship of the taxpayer dollars to which it has been entrusted. We must continue to work with the Department to improve program and operations performance and accountability. Without this accountability, the Department cannot reliably assess how, and how well, the funds it dispenses are used. We must remain vigilant in our long-standing efforts to investigate and identify fraud, waste and abuse in the area of student financial assistance. In addition, we must continue to enhance our capabilities to address new, emerging issues and opportunities in the areas of student financial assistance, IT, procurement and the IG community as a whole.

### Improved Stewardship of Taxpayer Dollars

While the Department’s improved systems are helping it to identify a number of problem areas in which there may be possible misappropriations of federal funds, the Department has much to do to achieve effective oversight, accountability and enforcement throughout its programs and operations. To achieve effective stewardship of taxpayer dollars, the Department must increase its diligence to prevent fraud, waste and abuse.

The Department must also make the goal of effective stewardship of taxpayer dollars a priority. It must establish effective accountability of its grantees, program

participants, contractors and employees. Only by emphasizing oversight and enforcement can the Department provide effective stewardship over the hundreds of billions of dollars supporting its programs and operations.

To help the Department reach this goal, we will continue to provide recommendations and suggestions for improved management of its resources.

### Student Financial Assistance Programs

Throughout the years, the OIG has consistently made the minimization of fraud and abuse in the student financial assistance programs a priority. Our audits, inspections and investigations have helped the Department improve its delivery and oversight of these massive programs. While these programs were removed from the GAO’s high-risk list in 2005, due in part to the implementation of numerous OIG recommendations, the programs continue to be inherently risky. Recent OIG audits continue to demonstrate the need for the Department to improve its oversight of program participants. The increased use and variety of education delivery methods (i.e., nontraditional terms and Internet courses), together with the virtually paperless electronic delivery of program funds, demands effective oversight to identify, assess and manage new and persistent risks for fraud and abuse. The OIG will continue to devote a significant portion of its limited resources to address fraud and abuse in the student financial assistance programs.

### Information Technology

To keep pace with the developing high-tech forms of fraud, waste and abuse in government programs, the OIG will continue to enhance the skills of its cyber group and the IT skills of its entire workforce. The OIG operating environment includes at least 20 major IT systems that the Department uses to manage its programs, as well as the numerous and complex systems used by external entities (lenders, guaranty agencies, schools and state and local government agencies). To perform its work efficiently, it is important for the entire OIG workforce to have sophisticated IT skills. The OIG will also develop its data mining and data matching efforts. We are currently working with the FSA staff to identify ways to detect and prevent fraud and abuse in the student financial aid programs. As part of this effort, OIG anticipates increased data mining into the complex systems through which the Department operates and the monitoring of these programs.



It is imperative that the Department's IT systems remain secure. The OIG will conduct audits relating to IT capital planning and management, electronic government and information resources security. Further, OIG will explore system implementation and controls for select FSA and other Department programs and services. Its computer intrusion investigations will also identify vulnerabilities in these systems to better assist the Department in securing them.

## Procurement

The value of the Department's contracts for goods and services is approaching a billion dollars per year. Many of these services are critical to its operations and programs. The implementation of the *Federal Activities Inventory Reform Act of 1998* and the current emphasis on competitive sourcing are likely to lead to additional contracts for services now performed by Department staff. Add to that the growing improvements in technology, and it is clear that the Department will require more sophisticated goods and services from outside sources to successfully carry out its programs. This will amplify the Department's exposure to risk if those contracts are not properly managed. Identifying and implementing measures to contain and reduce costs through more careful spending and assessing and making changes to contract processes are vital to the Department's ability to effectively and efficiently operate and deliver its programs and services, both now and in the future.

This means that there will be an increased emphasis on OIG pre-award audits so that we can help strengthen the Department's ability to clearly and completely define contract requirements. We will also help to create mechanisms for effective communication between relevant contracting and program office personnel, to ensure contractors are performing in accordance with contract terms and conditions. All in all, the OIG must increase its focus on the Department's procurement activities to help ensure that the Department's contractors are meeting the terms of their contracts and that the Department receives the high-quality goods and services that it requires, and that taxpayer dollars deserve.

## The Inspector General Community


The IG community as a whole continues to be a positive force in the federal government, as each office regularly recommends improvements in combating fraud, waste and abuse. Billions of dollars are returned to the federal government each year or are spent in better ways thanks to the work of the IG offices. But there is more to do, and more the community can do as a whole to address the integrity, economy and effectiveness issues that impact all government agencies.

The IG community continues to work to amend and strengthen the IG Act to better enhance IG independence—most notably to establish a single Inspectors General Council in which all of the federal government's IGs who are currently part of the PCIE or ECIE would participate. The statutory codification of the PCIE and ECIE would result in a number of improvements in the IG community, including: facilitating communication among the IGs and their staffs; improving the effectiveness of joint activities between IG offices; enhancing the sharing of law enforcement and audit-related information; increasing the level of consistency in the training that is available to IG staff governmentwide; and ensuring the availability of resources to carry out interagency and governmentwide activities by the IGs to improve the economy and efficiency in government programs and operations.

## The Best Is Yet to Come

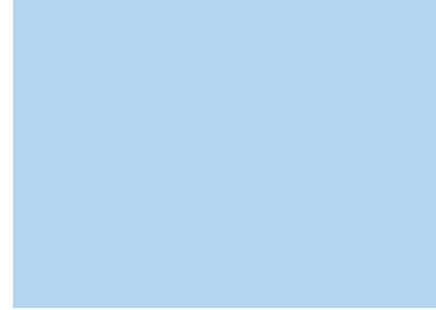
If any organization is up to meeting these challenges, it's the OIG. In this report, we have had an opportunity to highlight a number of our achievements. Notwithstanding this admirable history, we are sure that our best years are yet to come. As Inspector General Higgins recently stated, "I've had the opportunity to work with many talented public servants during my career, and I'm very proud of our many, many significant accomplishments. But I've never seen the OIG with the depth and breadth of talent and resources we have today. We are poised to make even greater contributions to the Department and to our nation's education system."

Without a doubt, the OIG performs a critical function through its efforts to prevent and detect fraud, waste and abuse, and to promote economy, efficiency and effectiveness in the Department's programs and operations. We make significant contributions that better enable the Department to meet its mission, which is to ensure equal access to education and to promote educational excellence throughout the nation. The American public and the American taxpayer deserve no less. We will continue to strive for excellence in all that we do for the next 25 years and beyond.



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