STATUS OF FINANCIAL MANAGEMENT AT THE U.S. DEPARTMENT OF EDUCATION

HEARING

BEFORE THE

SUBCOMMITTEE ON SELECT EDUCATION

OF THE

COMMITTEE ON EDUCATION AND THE WORKFORCE

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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TABLE OF CONTENTS

TABLE OF CONTENTS 1

OPENING STATEMENT OF CHAIRMAN PETER HOEKSTRA, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC 1

OPENING STATEMENT OF RANKING MINORITY MEMBER, TIM ROEMER, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC.....5

STATEMENT OF THE HONORABLE WILLIAM D. HANSEN, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC 7

STATEMENT OF LORRAINE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC 11

STATEMENT OF LINDA CALBOM, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC 13

APPENDIX A -- OPENING STATEMENT OF CHAIRMAN PETER HOEKSTRA, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC....43

APPENDIX B -- OPENING STATEMENT OF RANKING MINORITY MEMBER, TIM ROEMER, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC 53

APPENDIX C -- STATEMENT OF THE HONORABLE WILLIAM D. HANSEN, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC 57

APPENDIX D -- STATEMENT OF LORRAINE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC 65

APPENDIX E -- STATEMENT OF LINDA CALBOM, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC.....101

TABLE OF INDEXES 124

STATUS OF FINANCIAL MANAGEMENT AT THE U.S. DEPARTMENT OF EDUCATION

Tuesday, July 24, 2001

House of Representatives,

Subcommittee on Select Education,

Committee on Education and the Workforce,

Washington, D.C.

The subcommittee met, pursuant to call, at 9:30 a.m., in Room 2175, Rayburn House Office Building, Hon. Peter Hoekstra presiding.

Present: Representatives Hoekstra, Tiberi, Norwood, Schaffer, Platts, Roemer, Scott, Holt, Davis, McCollum, and Sanchez.

Staff Present: Patrick Lyden, Professional Staff Member; Stephanie Milburn, Professional Staff Member; Michael Reynard, Deputy Press Secretary; Deborah L. Samantar, Committee Clerk/Intern Coordinator, Jo-Marie St. Martin, General Counsel; Holli Traud, Legislative Assistant; Heather Valentine, Press Secretary; Maggie McDow, Minority Legislative Associate/Education; and Joe Novotny, Minority Staff Assistant/Education.

Chairman Hoekstra. A quorum being present, the Subcommittee on Select Education will come to order. We are here to hear testimony on financial management at the Department of Education. Under Committee Rule 12-B, opening statements are limited to the Chairman and the Ranking Member of the subcommittee; therefore, if other members have statements, they may be included in the hearing record. With that, I ask unanimous consent for the hearing record to remain open for 14 days to allow members' statements and other extraneous material to be submitted in the official hearing record.

Mr. Roemer. Without objection.

OPENING STATEMENT OF CHAIRMAN PETER HOEKSTRA, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC

Chairman Hoekstra. Without objection, so ordered. Thank you.

This is a continuing saga. A couple of our witnesses have been here before. Deputy Secretary Hansen, welcome, and we look forward to working with you.

This is actually the fifth hearing that we have held to review these issues. This will be the first time we have had the opportunity to hear from the new administration and, as Mr. Roemer and I have indicated, we would like nothing better than to make this one of the last hearings that we have on the financial management of the department. We look forward to the day when this becomes more of a formality to review the financial statements and the financial condition of the department, and we can spend most of our time not talking about where the dollars have gone or our ability to account for the dollars, but that we can focus all of our time talking about the effectiveness of how those dollars are being spent and the programs that this committee has jurisdiction over.

As you know, for the last three years of the Clinton administration, the department failed three consecutive annual audits of its financial statements. What that means is that the auditors who came in and took a look at these statements, the independent auditors, did not have a high degree of confidence that the numbers reflected in the financial statements accurately reflected what went on within the department during that year.

During our hearing in April we heard that an estimated $450 million was lost to waste, fraud, and abuse. Unfortunately, today we will again hear from the General Accounting Office. We are glad you are here, but we are not all that excited about what you are going to have to say, and also from the Inspector General, that there are still inadequate internal controls that may have led to improper payments. As we move forward to enacting the president's budget which has a commitment to increasing federal education spending, it is now more important than ever that we make sure that we get the proper financial controls in place so that we know that each and every dollar that we spend is going to the place and for the intended purpose that Congress has appropriated that money for.

Secretary Paige and the new administrators at the department have inherited what I think simply can be called a mess. The department faces a number of significant financial management challenges highlighted in the annual financial audit statements. We have discussed these during our last hearings, and GAO and the Office of Inspector General have also made these points.

I want to express our appreciation to both of you and the organizations that you represent for the persistence in highlighting these issues, and to continue kind of peeling away the layers of the onion and pointing out the problems consistently.

Also, the GAO is currently conducting a fraud audit, at the request of this committee. GAO's staff is examining the internal controls for the department's disbursement processes and searching records for possible instances of improper payments. They have helped identify two which have gotten some attention lately, which are the use of third-party drafts and government purchase cards which are, in effect, government credit cards.

At our last hearing, GAO testified that a lack of segregation of duties when issuing third-party drafts has left the Department vulnerable to the possibility of employees using drafts for personal expenses. In addition, while third-party drafts have a limit of $10,000 each, one of the department's manuals gave instructions to employees on how to add a suffix to an invoice in order to issue multiple checks to a payee, which means that the department's manual gave instructions to its own employees on how to circumvent the rules that the department had established.

At the same hearing, GAO also identified that 230 department employees had government credit cards. While most had monthly limits of $10,000, two employees could charge up to $300,000 per month. In addition, GAO noted that an official did not sign 141 of the 676-cardholder monthly statements that they reviewed. Indicating that the purchase was approved, despite Department policy requiring a signature and review of each statement. That says that the department paid for almost 25 percent of the payments that were incurred by government credit cards, without the department authorizing the payment.

Today, GAO will inform us about other internal control weaknesses in the use of purchase cards, third-party drafts, and in the operations of the grant administration and payment system.

We know that insufficient internal controls have resulted in fraud against the department. In May of this year, 11 individuals, including 4 employees of the department, were indicted for their participation in a wide-ranging fraud scheme against the department. In the scheme, the defendants allegedly conspired together so that electronic items ordered for personal use were paid for under a Bell Atlantic contract with the department. Items obtained included computers, cellular and cordless phones, Palm Pilot organizers, cameras, and, what all of us are waiting for when it comes to public auction, is the 61-inch television. The total value of the goods obtained by this group exceeded $300,000, in addition to more than $600,000 in false overtime payments to contractors.

This occurrence of fraud follows another incident with which this committee is familiar. In March 2000, 1.9 million in impact aid grant money intended for two South Dakota school districts was embezzled from the department. Although she is limited in what she can share with us today, we also appreciate Ms. Lewis conducting other investigations of possible criminal action within the department.

Given this background I am quite pleased and encouraged by the actions of Secretary Paige and Deputy Secretary Hansen. They are taking steps to find the root cause of these management woes and chart a new course for financial oversight at the department.

In April, Secretary Paige announced a new initiative to address past mismanagement and fraud at the department. The plan included three parts: install new leadership in the financial management areas of the department; assemble a management improvement team; and solicit the counsel and advice of external advisors.

Deputy Secretary Hansen is here today to update us on the work ongoing as part of this initiative, but I think a couple of points are worth highlighting. The Secretary reported last week on the effort of the Management Improvement Team. I think one of the most astounding statistics that came out of the interim report is that the team identified 661 recommendations for management improvements that were open as of April 1, 2001 or subsequently identified before July 16. And has already addressed 309 of these recommendations.

A couple of facts here are remarkable. First, 661 recommendations from a variety of sources including financial statement audits, GAO, the student financial assistance performance plan, and the Office of the Inspector General were carried into this new administration without being addressed. Second, in just three months' time, the new Management Improvement Team has closed 104 of the recommendations and developed

corrective action plans for another 205.

I hope and believe that these statistics underscore the lack of attention these critical issues had received in the past and hopefully the expectation and we will monitor that, the commitment of the new administration to resolve these issues.

Secretary Paige also responded swiftly to the concerns that Congressman Tiberi and I raised about the use of third-party drafts and government purchase cards. In June, the government eliminated the use of third-party drafts.

Thank you very much. We appreciate that.

The department determined that the administrative conveniences that their use provided were far outweighed by the risk and potential for abuse.

In addition, the department restricted access and reduced purchase limits for employee use of government purchase cards. Single purchase and monthly limits have been lowered to ranges of $500 to $30,000, and the department is strengthening review and approval of all credit card purchases and bills, and updating policies and training for use of the cards.

In addition, the president has announced the nomination of Jack Martin to be chief financial officer at the department. Upon his confirmation, Mr. Martin will fill a position that had been vacant for the last 2-1/2 years of the previous administration. I understand the nomination of Assistant Secretary for the Office of Management will be made soon. That position has been vacant for five years. Filling these positions I think reflects a commitment to ensure that leadership for financial management will be in place at the highest levels.

Today we want to learn more about the areas of vulnerability and how those areas can best be addressed. It is clear that the previous administration lacked a commitment to financial management. Now we have an opportunity to work with this new administration and a new Secretary to get the department's books in order and put the proper systems in place, the proper systems in place to prevent further waste, fraud, and abuse of taxpayer dollars. Thank you for being here.

At this time I will yield to my friend and Ranking Member, Congressman Tim Roemer.

OPENING STATEMENT OF CHAIRMAN PETER HOEKSTRA, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC – SEE APPENDIX A

Mr. Roemer. Thank you. I thank my friend from the State of Michigan and ask unanimous consent that my entire statement be entered in the record.

Chairman Hoekstra. Without objection, so ordered.

OPENING STATEMENT OF RANKING MINORITY MEMBER, TIM ROEMER, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC

Mr. Roemer. I thank the chairman from the great State of Michigan for holding this hearing and want to begin my remarks, which I hope will be brief, by just stating that my constituents, the Hoosiers in Indiana, are very concerned about how tax dollars are spent. They want them spent wisely and efficiently, whether it is the Department of Education we are talking about, whether it is the Department of Defense we are talking about, or whether it is another agency or cabinet-level department.

I also want to say that I don't enjoy sitting through now my fifth hearing on this topic, when we could be discussing how we better impact the kind of services we provide to children through Head Start programs. I could be meeting on the Conference on the Elementary Secondary Education Act, which is being reconciled as we speak, between the House and the Senate. We could talk about after-school programs or tutoring programs to remediate many of the children in this country and the problems they are having. We can talk about bold new reforms to help our public education system. Instead, once again, we are here talking about insufficient internal controls and some management problems at the Department.

Now, I strongly support the Department of Education. I think it is one of the most important and vital departments that we can have and that we can support with tax dollars. There have been efforts to dismantle and get rid of the Department of Education through the years by some on the other side of the aisle. We have fought those efforts tooth and nail, and we will continue to fight any kind of efforts that would eliminate the Department of Education and much of the good work that goes on there.

However, there are problems. Just as in a Charles Dickens novel, there are both stories of good news and bad news as we speak about the Department of Education. I want to talk first about some of the good news. The cohort default rate on student loans has declined for seven consecutive years. It is now at a record low, 6.9 percent. Several years ago, it was up at 22 percent. Now it has declined to 6.9 percent. That is a savings not of hundreds of thousands of dollars, but tens of millions, maybe hundreds of millions of dollars to taxpayers. That is good news. Additionally, the collections on default of loans have more than doubled from $1 billion in 1993 to over $3 billion in 1999. That is a savings not of tens of thousands of dollars or hundreds of millions of dollars, but billions of dollars to taxpayers. And data improvement in the national student loan data system has prevented the disbursement of as much as $1 billion in grants to students that are ineligible. That is good news; again a billion dollars in savings.

So there are some good things going on in the Department of Education, and we hope over the next 10 and 20 years, with the authorization of ESEA, we are going to be tackling the authorization of IDEA, Individuals with Disabilities and Education Act. We hope there continues to be more good news for taxpayers and bold reform in our Nation's public schools.

But today we are here with the very good work of the General Accounting Office, who does excellent work for both Republicans and Democrats in this Congress; and with our IG and with this new administration, we are here to look at some of the ongoing aggravating, nagging problems that don't go away. Some of these started in the first Bush administration, some of them continued through the Clinton administration, and they are there today.

The General Accounting Office states in their financial management testimony for release today, that I am sure we are going to hear about, poor internal control exposes Department of Education to improper payments. And a reference to Page 15, for example, we found an instance that there is now being investigated by our Office of Special Investigations in which a cardholder, holding these credit cards, made several purchases from two pornographic Internet sites.

Now, the administration, the current administration, can do some good things to take back the number of cards. They can do some good things to limit the amount that can be charged to these cards, but they also need to implement the controls internally over the department so that we can catch, if they split what they are spending this money on and try to disguise it, maybe sometimes with the help of vendors or who knows what, how do we catch that internally; or, if they are going to pornographic sites, how do we catch that internally? That is an ongoing problem.

So I hope that we can get some answers to some of these problems. I hope that we have not another 12 hearings on these problems of financial mismanagement and insufficient internal controls. I hope this will bring to a conclusion some of the ongoing problems that have been going on for a decade and longer there in a department that does some very important, very fine, and very valuable work for the nation's children, for our nation's schools and for our nation's taxpayers. But we have got to get these internal controls fixed, and we have got to work together to make sure that the American people have confidence in the way the Department of Education works.

So with that, Mr. Chairman, I look forward to the testimony this morning. I hope we will soon conclude these hearings and we don't have them for another four years, and I hope that you and I can concentrate on some other hearings in the next few months, too. And with that, I yield back the balance of my time.

OPENING STATEMENT OF RANKING MINORITY MEMBER, TIM ROEMER, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC – SEE APPENDIX B

Chairman Hoekstra. I thank my colleague, and we will move on to other things as well. We reported out of this subcommittee Juvenile Justice. I indicated to my colleague this morning that I had the opportunity to meet the new nominee to head the Corporation for National Community Service. We look forward to working together on reauthorizing that legislation. But before we do that, we have got to get through today, and the person that is going to lead the effort to make sure we don't have many more of these hearings is Deputy Secretary Bill Hansen. Good morning and welcome.

Mr. Hansen is the recently confirmed Deputy Secretary of Education at the Department of Education. He has served in several positions at the department, including Assistant Secretary for Management and Budget, Chief Financial Officer, Deputy Under

Secretary for Planning, Budget and Evaluation, and Assistant Secretary for Legislation and Congressional Affairs. He's also had a number of other positions in the private sector and in government service. He brings a great background for the challenges he faces at the department.

Deputy Secretary Hansen, welcome and good morning. Thank you for being here.

We also have back again Ms. Lorraine Lewis. Ms. Lewis has been the Inspector General at the U.S. Department of Education since June of 1999. Previously Ms. Lewis served as the general counsel at the U.S. Office of Personnel Management where she led efforts to privatize two major programs and abolish the Federal Personnel Manual. She also served with the U.S. Senate Government Affairs Committee as general counsel, counsel, and assistant counsel. Ms. Lewis has a bachelor's degree from Yale and a law degree from Harvard. Welcome back.

We also have Ms. Linda Calbom. Ms. Calbom is the director of the Division of Financial Management and Assistance at the General Accounting Office. She is also responsible for GAO's financial management work at many federal civil agencies that include HHS, SSA, Education, DOE, USDA, HUD, Transportation, Interior, SBA. You are one busy person.

Ms. Calbom. I have a few things going on.

Chairman Hoekstra. She is a certified public accountant and a certified government financial manager. Welcome back and thank you for being here.

Chairman Hoekstra. We will begin with you, Deputy Secretary Hansen.

STATEMENT OF THE HONORABLE WILLIAM D. HANSEN, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC

Mr. Hansen. Thank you, Mr. Chairman, and thank you, Mr. Roemer, for your comments, and I welcome the opportunity. This may be the last hearing on this issue but I suspect we may be here again.

I would like to thank you for the opportunity to discuss the status of our progress in bringing better financial management and more accountability to the Department of Education. Since taking the oath of office as Deputy Secretary just over 8 years ago, I have been grateful for the support I have received from members of your committee. The work done by you and your colleagues over the last few years has helped us hit the ground running by identifying the department's problems and guiding the new administration in where we need to be headed. Likewise, I appreciate the efforts of the General Accounting Office and our Inspector General's Office as they have also helped point out the problems we need to have our arms around.

I would like just to put in context the size and scope of the department. Back 15 years ago, the department made about $13 billion in discretionary awards and about $7 billion guaranteed loans, totaling about $20 billion. Today the discretionary budget is totaling $45 billion, and the mandatory account and student loans is about $35 billion. So it is a total of about $80 billion that we are responsible for managing. It has basically quadrupled in the last 15 years, and I just think it is important to keep the size and scope of what we administer at the department as we go about our business here.

We are making steady progress in addressing the department's longstanding financial management problems. When this effort began back in April, we faced 661 recommendations for management improvements. Last week, Secretary Paige reported that we have already taken action on more than 300 of these recommendations. More than 100 recommendations for management improvement have been put into effect, and corrective action plans for another 205 have been drawn up and put in place.

Tackling these longstanding problems is a top priority for this administration. As you know, President Bush is holding all agency heads accountable for obtaining and maintaining unqualified or clean opinions on their financial annual audit statement. But this is not simply an end in and of itself. To get to this goal, we must get beyond the symptoms and deal with the deeper problem, which is a lack of organizational culture that incorporates accountability.

For this reason, Secretary Paige and I are committed to transforming the department's approach to delivering program services, including the financial operations that support those services, to one where every department employee, grantee, and contractor is accountable for results.

The disclaimers and qualified financial audit opinions that the department has received in prior years were indications of the extensive problems facing the department. These problems include a serious lack of internal controls that allowed employee and contractor misconduct to occur. This misconduct has tarnished the department's reputation and damaged the perception of Congress and of the American people.

On April 20, Secretary Paige established a Management Improvement Team of senior career managers to identify, resolve, and close our outstanding management improvement recommendations and develop a blueprint to address longer-term and structural issues that hinder the efficient and effective performance of the department.

Last week the department issued an interim report on our progress during the first 90 days. Our next report, which will be completed by September 30, will update our complete continued progress and outline where we are headed in the future.

The Management Improvement Team started out by a assessing each of the 661 outstanding recommendations and determining which could be addressed immediately and which would take longer to correct. The team prioritized the recommendations and segmented them into three primary financial management categories: financial management, student financial assistance high-risk issues, and information technology security issues. Next, we immediately went after the problem areas. For example, we reduced the spending limits on government purchase cards, some by more than 90 percent. We also reduced the number of employees with access to purchase credit cards.

To begin to move to this culture of accountability that I mentioned earlier, we are requiring all purchase cardholders to go through mandatory training on the proper use of the cards, and are now requiring all supervisors to review the card statements each month for the cardholders in their respective offices. Similarly, we increased controls to ensure against the improper use of travel cards.

We also are in the process of eliminating, and have eliminated in some respects, the use of third-party drafts that were easy targets for abuse. This method of disbursement was intended to replace an antiquated and inefficient expense reimbursement fund, but the benefits of this system clearly did not outweigh the risks. So we decided to transfer the function entirely to the Department of Treasury. This will simplify our operations and allow us to focus on other remaining problems while virtually eliminating any possibility of fraud in this area.

Our auditors identified many weaknesses in the current accounting system, and these weaknesses are being addressed in the implementation of a completely new accounting system that will produce fully integrated financial management information. In addition, staff members are reviewing the department's financial processes and systems to facilitate reconciliation of major accounts and ensure all transactions are recorded properly. This will provide us an important tool used in detecting and correcting errors. Monthly reconciliation's of critical accounts are already being done.

We are improving internal controls over the procurement of goods and services through strong accountability measures. This is another area that has been subject to abuse, and we want to make sure that it does not recur in the future. To do this, we are updating internal policy directives, informing employees of these changes, and holding managers accountable for their implementation. We are completely reengineering asset management to ensure that proper internal controls and accountability are maintained.

We recently completed a reconciliation of the department's asset inventory, and we will conduct spot checks of inventory throughout the year as well as annual physical inventories.

The secretary has made getting the student financial assistance programs off the General Accounting Office's list of high-risk programs a high priority. These programs have been considered high risk ever since the GAO first began issuing the list in 1990. We have already taken important steps toward removing the student financial aid programs from this watch list, including developing a corrective action plan that incorporates all the outstanding audit recommendations related to SFA and setting 28 performance goals for improving fiscal and program integrity. I have also directed the department to address all of the financial management and security issues that must be resolved before the student financial assistance programs can be removed from the General Accounting Office's high-risk list.

Despite the department's increasing dependence on computer systems for performing its basic business functions, it has not until recently placed a high priority on the protection of its computer systems or provided adequate resources for IT security. Over the past year and a half, the IG has issued several audit reports critical of the department's computer security environment. The secretary and I are committed to improving the department's information security, and I will personally co-chair, with the CIO, the monthly meetings of the Department's Information Security and Critical Infrastructure Steering Committee to make

sure that this gets done.

We have made the following enhancements to our computer security in the last 90 days. These include purchase and deployment of a new intrusion detection system for the department's computer network, arranging for disaster recovery facilities for our EDCAPs financial management system and our EDnet enterprise computer network, updating our IT security policies, and we developed a security training program for our IT professional staff and managers and are using it to train our employees.

We will also be completing security reviews of each of the department's 135 information systems under the Government Information Security Reform Act of 2000. As I mentioned before, the biggest challenge we face is developing a department culture that emphasizes individual responsibility and accountability. We must be diligent in establishing and enforcing internal controls throughout the department.

In May, Secretary Paige asked all staff to share their ideas and to join in this effort. Many of the professional career staff at the department have already rolled up their sleeves and are working hard to help us achieve everything that we have accomplished to date. A couple of them are here today.

Jack Higgins, the Deputy Inspector General, is on loan to us from the IG's office, is heading up the Management Improvement Team.

Phil Maestri from the Chief Financial Officer's staff, and Ann Clough from the Office of Legislation and Congressional Affairs, both of whom have many, many years of valuable experience with these issues, are key team members.

Secretary Paige and I know that Jack, Phil, Ann, and the rest of the department's employees are ready and willing to embrace this culture of accountability.

Finally, here are some action steps that will help get us there:

First, every senior officer, including myself, will have a performance contract with Secretary Paige that will hold each of us accountable for results.

Second, every manager and employee will have a performance agreement that reflects the department's goals and objectives and establishes clear individual job performance expectations.

And, third, we will provide training for managers and staff on internal financial and administrative controls and ethical conduct.

Fostering a culture of accountability and excellence also requires that we make better use of the performance management tools available under the Government Performance and Results Act. First of all I'd like to say, throw in the garbage can the previous plan that we have been using and start over. It was very much of a bureaucratic document, and we are going to start from scratch and make this document an important management tool for us. In doing so, we will review all current performance indicators for validity, timeliness, and value. We will also align principal office and individual employee performance plans with the revised department plan, and we will also closely monitor the results against these plans.

Finally, Secretary Paige and I recognize that the enactment of the President's "No Child Left Behind" education reform plan is landmark legislation in bringing accountability to education. We know we cannot expect our schools to be accountable if we are not accountable here in Washington. We are here to get that done, and, as Secretary Paige has said, there will be no excuses.

Mr. Chairman, thank you for this opportunity to be with you today.

STATEMENT OF THE HONORABLE WILLIAM D. HANSEN, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC – SEE APPENDIX C

Chairman Hoekstra. Thank you very much. Ms. Lewis.

STATEMENT OF LORRAINE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC

Ms. Lewis. Mr. Chairman and members of the subcommittee, thank you for the opportunity to participate in today's hearing on financial management practices at the Department of Education. The department has made progress in addressing its serious financial management issues, but much work remains. I commend the subcommittee for its strong interest and for the attention it has given to financial management.

I will focus my statement on the specific items you requested: our reviews over the use of government purchase cards and third-party drafts or checks; investigations; and our recommendations to the department on how to improve its financial management.

At the request of the department, we reviewed its internal controls over the use of purchase cards and checks. In our report of October 2000, we found significant issues and made recommendations to the department designed to strengthen the control environment over the use of purchase cards and checks, provide for an assessment of the external and internal risks the agency faces, strengthen control activities over the use of purchase cards and checks, strengthen information and communication regarding their use, and strengthen monitoring over their use.

Department officials concurred with our findings and recommendations.

We initiated a follow-up review to address two specific recommendations that are key to ensuring that purchase cards are used properly and that the department is paying the correct amount. These are, number one, requiring that all approving officials review and sign monthly purchase card statements; and, two, reconciling the monthly department-wide purchase card statement to the monthly statements approved by the approving officials from the principal offices and to the department's accounting system.

For the month ending February 16, 2001, we reviewed 184 individual statements and found that six statements lacked required signatures and that 68 statements were not submitted timely. This was an improvement over the last two months that we had looked at, one in 1999 and one in 2000. Further, the department's consolidated bill was paid 38 days after the due date. The department did provide documentation of reconciliation, which we are still evaluating. Department staff stated that when the new financial system is operational,

the reconciliation process should be more efficient.

When we reviewed the documentation for the payment of the department-wide statement for May 2001, we found that the department had not sent timely notices to purchase card-approving officials for 22 overdue statements. The department statement again was paid late, this time 10 days late.

While the department has taken several significant steps, important steps, to correct weaknesses in the purchase card program since our initial review, it still has some work to do to improve its administration. We are conducting an investigation on individuals who between 1997 and 1999 purchased or received equipment paid for with federal funds for no business-related purposes and billed the department for overtime hours not worked. The defendants defrauded the government of more than $300,000 in property and more than $700,000 in false overtime charges.

On May 23, 2001, 11 individuals, including four employees of the department, were charged in a 19-count indictment. The charges included conspiracy to defraud the government, theft of government property, receipt of stolen government property, sale of stolen government property, and conspiracy to submit false claims to the government. Eight individuals, including four former department employees, previously or recently pled guilty. All of the department employees who were involved or who are alleged to be involved in these criminal cases have resigned or been placed on indefinite suspension without pay.

The blueprint for addressing financial management issues lies in the financial statement audit reports, particularly the report on internal controls. Addressing the three material weaknesses and two reportable conditions in the last internal controls report will greatly assist the department in reaching its goal related to responsible financial management.

We have also identified issues critical to financial management in the list of management challenges that we provide on an annual basis to Congress. In addition, the audits and other reports that I discussed in my longer statement for the record contain many recommendations that would improve the internal controls of the department and contribute to strong financial management.

Secretary Paige's establishment of the Management Improvement Team is an important step toward improvement, and I very much commend him for launching this effort. The MIT's interim report of last week reflects a comprehensive review of financial management, information technology security, and other management issues, and illustrates the significant challenges that still lie ahead.

We are committed to identifying problems and working with the department and Congress on solutions. We welcome the opportunity to have GAO join us in our oversight activity and have shared with its auditors the results from many internal control reviews and given them access to our work papers. We appreciate GAO's work and its results, and have learned from its efforts.

Mr. Chairman, this concludes my statement, and to you and members of the subcommittee. I would be happy to answer any questions that you may have.

STATEMENT OF LORRAINE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC – SEE APPENDIX D

Chairman Hoekstra. Thank you. Ms. Calbom.

STATEMENT OF LINDA CALBOM, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Ms. Calbom. Thank you, Mr. Chairman. As all of you know, internal control and financial management weaknesses at the Department of Education are not new. GAO as well as the Inspector General have provided many reports and testimonies over the last several years on the financial management challenges faced by Education and the need to eliminate internal control weaknesses that expose the department to fraud, waste, and abuse.

Because of this exposure, as you mentioned, you requested that we audit selected types of transactions made between May of 1998 and September 2000, which may be particularly susceptible to fraud or other types of improper payments. Our ongoing work is focused on three areas: First, the grant and loan payment system, with $181.4 billion in disbursements. Next, third party drafts that really are similar to the paper checks that you and I all write out of our checking accounts. These total 55 million during the period we reviewed. Finally, the government purchase card transactions that we have been discussing, all of you have been discussing, and those total $22 million.

I want to just spend a few minutes summarizing our review in those areas. First, in the grant and loan area, we found that certain edit checks and other key controls were missing from the education payment system. For example, Education Students Aid Application System lacked automated checks that would identify students much younger or older than you would normally expect to see.

Following up on our tests that identified schools with unusual concentrations of older students, our Office of Special Investigations, in coordination with the IG's Office, identified four schools that disbursed as much as $3.4 million in Pell grants to ineligible students. These students were ineligible because they were not participating in a degree program but, rather, were studying English as a second language. The investigation disclosed that at least one of the schools generated fraudulent student admissions documents to create the appearance that these students in fact were participating a degree program.

We in the department have identified a number of other schools with similar disbursement patterns that we are currently investigating. As you mentioned, Mr. Chairman, during our analysis of education's third-party draft payment process, we identified several additional internal control weaknesses that made this process susceptible to improper payments.

For example, we found 268 instances, totaling $8.9 million, where education employees circumvented a key systems application control designed to avoid duplicate payments. And this is the one you were mentioning, Mr. Chairman, where the policy manual actually told them to do this. Education officials are in the process of researching and providing supporting documentation for these transactions, which we will then test just to be

sure that there were no duplicate payments or other types of overpayments that in fact did occur as a result of this control being circumvented. As you and the Deputy Secretary mentioned, this third-party draft process has in fact been eliminated now.

In the third area of our review, government purchase cards, we also found several internal control weaknesses, including serious deficiencies in the department's process for reviewing and improving purchase card transactions similar to what the IG's Office has found.

During the time of our review, over one-third of the 903 purchase cardholders' monthly statements we reviewed lacked proper review and approval. In at least two instances, we noted these control weaknesses precluded education from detecting the improper use of the purchase cards. In one case, as Mr. Roemer mentioned, we did find that a cardholder made several purchases from a pornographic Internet site, and in another case we found that an employee used the card to pay for a training course that was totally unrelated to activities of the department. Proper supervisory review and approval of these transactions should have, in fact, identified them as improper payments. We also found that some employees were splitting purchases into multiple transactions in order to circumvent the department's limits on individual purchases.

The department is currently researching a list of 124 instances totaling $600,000 where this circumvention of controls may have exposed them to improper payments. Again, as the Deputy Secretary noted, there have been some steps taken of late to improve controls in this area as well.

In closing, Mr. Chairman, I just want to emphasize the importance of education's management giving top priority to improving internal controls, and I think they have made a very good start based on what the Deputy Secretary has told us. The key is good tone at the top, and that is where it really all starts.

While our work thus far hasn't really identified a material amount of improper payments relative to education's total disbursements, the internal control weaknesses that allowed this to happen at all are still there and really make the department vulnerable to this happening again. So it is critical that these be addressed now.

The department has taken some very positive steps to address some of the problem areas, including establishment of the Management Improvement Team. There are other important actions that do need to be taken, and my written statement includes several recommendations in this regard. When we complete our work for you later this fall, we will make additional recommendation as necessary.

That completes my statement, Mr. Chairman.

STATEMENT OF LINDA CALBOM, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC – SEE APPENDIX E

Chairman Hoekstra. Thank you very much. I think you are absolutely right in that the work that you have done doesn't necessarily identify numbers that are material, in that they are relatively insignificant to the total budget of the department. But what they do indicate is that there are weaknesses there in the management structure which make the department

vulnerable to these numbers getting to the point where they might be material; although it is hard to go back to Indiana or to Michigan and say that a million dollars is not material. Again, only in Washington is a million dollars not a lot of money. It is still a lot of money in South Bend, and it is a lot of money in Holland, Michigan.

Mr. Hansen, one of the things that frustrated us as we worked with the last administration is that some of the basic things weren't being done, one of which was that the checks or the invoices that are processed through the department, the checks that have been issued by Treasury and on a monthly basis. The department has a number that says we authorize payment of X amount, and the Treasury would say we have issued checks for Y, and that even though on occasion these numbers might vary into the millions and perhaps a billion dollars per month, there would be no reconciliation process on a daily basis. The difference between Treasury and education would not be reconciled until the end of the year when they had accumulated 12 months of these differences.

Where is the department now on moving towards quarterly or monthly reconciliation with Treasury to identify any discrepancies?

Mr. Hansen. Mr. Chairman, we have moved to a monthly reconciliation system. As I indicated as well in my statement, this is very important for us. We cannot wait for the end of the year to get our arms around these.

One thing I would like to just state at the beginning, and it is coming from the private sector, these audits are an important management tool. I think that the Controller General had mentioned previously in another meeting that out of the 24 agencies that are auditable, 18 of them got a clean audit last year and six did not. But out of the 18, half of those really had to do a lot of paper clip and rubber band and Band-Aids to get to their audit. Our very fundamental goal is to make sure that the audit is a pure audit, that it will be used as a management tool for us and not one that we just try to patch up at the end of the year to get us a clean audit. That really might do us some political good, but it will do us no good in managing our programs. So it is not just getting the clean audit but it is the quality as well, and that is why we are moving towards a monthly reconciliation process.

Chairman Hoekstra. Thank you.

Ms. Calbom, I think in your work you identified a number of instances where a single purchase was broken down into multiple payments so that the department's rules could be circumvented. I believe that you have, if I am not correct, there was one instance where an invoice that must have been over a couple hundred thousand dollars was broken down into 23 separate payments; is that correct?

Ms. Calbom. Yes. We had a number of instances along those lines, and in a lot of cases they turned out to be perfectly valid transactions. But the fact of the matter is there is a reason you have limits on these credit card purchases, and individuals need to stick to those limits.

Chairman Hoekstra. That is right. There is a process in place, and even though the expenditure may be legitimate, if you start creating a culture that says, well, there are rules but there are ways to get around rules, that is when you end up with the waste and the fraud and abuse. Saying, hey, we are cutting 23 checks, maybe I can cut a 24th one to XYZ, and it

may or may not be an appropriate expenditure.

Have you gone back and, as these cases that are identified like this one where a single expenditure was broken down to make it look like 23 different expenditures, have you gone back and taken a look at the management process to see whether this breaking down of that expenditure to 23 payments was authorized by management within the Department of Education. And if management did not authorize it, was the employee who made that decision, was there any kind of personnel action for circumventing the rules? Is that part of the culture within the department or not, or did you not take a look at that?

Ms. Calbom. May I confer one moment with my colleagues?

Chairman Hoekstra. Sure.

Ms. Calbom. Thus far we have not gone back and interviewed those individuals that made, I think, the particular transaction that you are talking about. Again, that transaction turned out to be valid. But the question is did the individual do that of their own volition or did they in fact have instructions from their supervisors to do those split purchases.

Chairman Hoekstra. I would be careful with the use of "valid." The payment was for services that were actually received by the Department, but the payment method was not valid, correct?

Ms. Calbom. Correct. Absolutely correct.

Chairman Hoekstra. If it was not valid, then somewhere along the line, somebody made a conscious decision within the department to break the rules and make that payment. I am hoping that as part of your work, and maybe we need to do some follow-up to understand that within the department as you now uncover these, or if those had been uncovered in the past, were they sanctioned by management who said just go ahead, or were there, what Bill was talking about; was there a culture of accountability that says if you are breaking the rules, sorry, we got you, you broke the rules, you can't do this anymore?

Ms. Calbom. Yeah. Certainly we found, as I mentioned, a significant amount of these type transactions, which would indicate to me that it really was a culture that would say, hey, this is a rule but we don't have to follow it. And when you have that kind of environment, then that is when you have got the opportunity for fraud, and certainly abuse, to occur. So it is very important that these things get taken care of immediately; again, even though we haven't seen a lot of improper payments get through because the opportunity is there, you are very vulnerable.

Chairman Hoekstra. Yes. I mean if you have got a culture where people are saying we have got accounting rules but don't worry about it, we don't need to follow them, you can't audit $40 billion or 70 or $80 billion of payment. What you are doing is the tip of the iceberg.

Ms. Calbom. Exactly.

Chairman Hoekstra. So if you have uncovered this, who knows what is going on, especially if you have got that kind of culture within the department. Thank you very much.

Mr. Hansen.

Mr. Hansen. Mr. Chairman, I'd like to point out that splitting procurements will be considered a procurement violation, and we are going to be training our managers to make sure that the managers will be responsible as well for any split transactions in the future. It will not be tolerated, and our employees will be trained that this is not a way to conduct business in the future.

Chairman Hoekstra. Just one follow-up, if my colleague will indulge me. What does that mean, a procurement violation? Does that mean a reprimand in a personnel file?

Mr. Hansen. It is, and this is something that can be used against the employee or the manager if they enter into and conduct a procurement violation. They have different standards that they need to adhere to, and this will be one of the standards they need to adhere to; and if not, then appropriate personnel action can be taken against them.

Chairman Hoekstra. Thank you. Mr. Roemer.

Mr. Roemer. Thank you, Mr. Chairman. I appreciate all your testimony. The GAO, Deputy Secretary Hansen, has testified that some schools were forging and falsifying documents on their student loans. Does this make an institution ineligible for future loans and grants, and for how long?

Mr. Hansen. It could. It is part of the program review, and if there is fraud that is taking place, there could be program review actions taken against the institution, or the Inspector General could come in with a separate action against the institution.

Mr. Roemer. Do you intend to recommend that type of action to the Inspector General so that institutions that the GAO has pointed out has falsified documents and submitted these forged documents to get government money should be penalized?

Mr. Hansen. Absolutely. And any instances of fraud or abuse will be transferred over to the Inspector General for investigation. This is where the institutions will also have their due process to be able to point out their perspective of things, but that is the role. In fact, frankly, some of the indictments in the other issues that the Inspector General testified about earlier are indeed, in many instances, the types of things that are not transferred from the program office for other types of investigation. Some are them also are investigations that the Inspector General's Office turns up by them.

Mr. Roemer. Ms. Lewis, will you pursue these cases, and what is the penalty for these institutions if, in fact, it is proven that they did falsify and forge documents to get these loans or grants?

Ms. Lewis. Sir, we do have ongoing investigative work relating to these schools. Three of them we had started previously and, in coordination with the GAO, are making referrals on another four. We will follow it diligently.

Mr. Roemer. If they have done it, what is the penalty?

Ms. Lewis. Well, if there were criminal conduct, then we would work with the U.S. Attorney's office. That may lead to criminal charges.

Mr. Roemer. Against the individuals.

Ms. Lewis. It might be institutional. It might be individual. It would be up to the U.S. Attorney's office to make that determination. In fact, one of the schools that we are investigating our investigation opened up, because we had in 1996 conducted an audit relating to that school and found problems, there was enough there that led us to open an investigation.

Mr. Roemer. Okay. Secretary Hansen, it is pretty evident that employees have access to three different cards at the Department of Education: one card for small purchases of different things to hopefully try to save money, a second card to travel, and a third card to pay for car payments and repairs and gasoline and so forth.

Has the department looked at consolidating the number of cards out there as well as trying to find ways to improve internal controls?

Mr. Hansen. Most employees don't have cards.

Mr. Roemer. How many have three cards?

Mr. Hansen. I would say very few.

Mr. Roemer. What is very few? Are we talking about 200?

Mr. Hansen. Probably less. Let me get to the raw numbers. The employees of the department who do travel will have a travel card that is a regular credit card that they will use for their travel. The purchase cards are limited to about 250 employees in the department. These purchase cards are the executive officer-type positions in most of the offices.

Out of the 250 people that do have these purchase cards, 225 of them have a $2,500 limit or less, so that somebody in an office can buy supplies, some computer software or something like that that they might need for the office. And that purchase card can only be used for those activities. It cannot be used for travel or whatnot. Most of these executive office-type people aren't going to be traveling in relation to their job, so they will usually have that card specifically for their purposes.

The other 25 cards are limited to $30,000, and we have about 25 principal offices in the department. So this really aligns up to about one person in each office has a business card, has a purchase card that will be available for them to use up to $30,000. That allows them; again, if the office needs to buy five new computers, they don't have to go through a purchase order-type of process.

We did have to change this dramatically. When we first started looking at this issue, there were a number of employees that could go up to $300,000 with this use, and we have knocked down everybody's purchase card amounts so that we only have two series of people; one person pretty much in each office that can go up to $30,000; and then, as I indicated,

about 225 employees that can go up to $2,500 for very small purchases. Again, most of those people probably do not have a travel card because the function of their jobs would not require them to travel. So people aren't walking around with two or three cards in their pockets to handle their day-to-day activities.

Mr. Roemer. Again, let me emphasize that many of the concerns here are not only the number of cards and the limits on these cards and making sure that you guys get control of that, but also making sure that the internal controls are sufficient to point out and find problems and detect those problems when you are splitting costs and you are trying to do things to disguise what you might be actually purchasing.

Let me just ask one last question and then maybe we would have one final round, Mr. Chairman. You said, Mr. Secretary, that you have addressed 300 of 661 audit recommendations. When you say "addressed" those, do you mean that you have solved those 300 problems, or you are in the process of trying to resolve those problems?

Mr. Hansen. That is a very good question. One of the primary issues that we first got our arms around when we started this effort was to not even just make sure what is closed and what is open, but also what is the quality of when something is marked off as closed, what is the quality behind that check. About a hundred of the recommendations have been closed and I feel very secure they have been closed with quality check offs. This is a joint effort with the Inspector General's Office, our Financial Management Office, as well as, you know, the Budget Office and others.

There are 200 of the recommendations have corrective action plans, which means that they are very close to being moved over into the closed category. We just have to work out the issues internally to make sure that the quality of the corrective action plan to meet that individual problem is a reasonable response to that problem, and that the activities that we are taking can actually move that into the closed category.

This is also a very fungible listing. As time goes on we always have new issues come in that we have to wrestle with. Whenever we close some out there are also new ones coming into the pipeline that we must address.

Mr. Roemer. So that means the remaining 361 outstanding issues aren't even in corrective action?

Mr. Hansen. We are working to get them there.

Mr. Roemer. All right. Thank you.

Chairman Hoekstra. As we also know, that sometimes in the last 361 is the 20 or 30 that are the biggest issues to resolve. But thanks for that. It has got to be an interesting dynamic for the three of you to work together, the independent watch groups, you know, auditing and monitoring, at the same time providing you with the input and the feedback that says here are the types of things you need to do make sure that these problems don't reoccur in the future.

Mr. Tiberi.

Mr. Tiberi. Thank you, Mr. Chairman. Mr. Secretary, following up on the last question, the 661 recommendations that you were faced with in April, how long had those been on the table and where did they come from?

Mr. Hansen. Some of them have been on the table for a very long time. A lot of these issues, as Mr. Hoekstra indicated, come from IG, come from your reports, come from our audit with Ernst & Young, who is our outside auditor, from recommendations from the General Accounting Office. Basically they have come in from different places. One of our tasks was just to get them all put together and assembled so we knew exactly what mountain we had to climb and how high that mountain was to get there.

One point I would just like to add on to Mr. Roemer's question is that on page five of our management report issued last week, we have tried to prioritize between high, medium and lower priority of the 661 open issues. We have determined that 229 of the 661 were high priority. That means those are the ones we have got to take care to have a clean audit to get the student aid programs off the high risk series. And of those, we have closed 49 and have corrective action plans for 87, which is about 60 percent. So we are probably a little under 45 percent department wide. But we are obviously putting our priority on those top priority items.

Some of these other items, frankly, are third tier issues on some technology issues that are important, but they are not critical to our systems, and for us to get a clean audit.

Mr. Tiberi. But some of those recommendations came from GAO and some came from the IG?

Mr. Hansen. Right.

Mr. Tiberi. You mentioned in your testimony the split transactions and violation within the new manual. If someone violated that policy, would that be a cause for termination?

Mr. Hansen. It would depend again on what the action was. If there was any fraud involved, if there was an inappropriate use of paying for a conference, where instead of they should have gone through a procurement process to hypothetically pay for $50,000 to a hotel to run a conference and they used it five times, $10,000 each, that would be what we would, you know, go after administratively. But I don't think that would probably be the level of termination. But if there were fraud involved, if there were other activities involved, each case would have to be based on what the issue was.

Mr. Tiberi. Thank you. Ms. Lewis, over the three-year period of the audit that failed and the mismanagement and the investigations that you have been involved in and your predecessor was involved in, how many department employees have either been fired or resigned?

Ms. Lewis. We know relating to the telecommunications case that I mentioned in my testimony that four employees have resigned.

Mr. Tiberi. How many?

Ms. Lewis. Four employees specifically in that case have resigned as part of their plea agreements. There are another four employees who are indicted. They are currently on suspension without pay. I will have to get back to you for the record to line up for the last two or three years other statistics that we can draw on, from our semiannual report or other public information. It also may require consulting with the Personnel Office or the General Counsel's Office in terms of any administrative actions that have come out of any of our work.

Mr. Tiberi. Just one follow-up; how many vendors have been thus far folks outside the department, non department employees, how many have been indicted thus far?

Ms. Lewis. In the telecommunications case, there were a total of 19 individuals; 11 of them are persons outside the department. Four of them have already pled guilty, so there are a number of family and friends of the key individual department employee who perpetrated the fraud, and then there are some vendors. Two of the contractor employees have already pled guilty. So that is talking about the telecommunications case that I had in my statement.

Mr. Tiberi. Thank you. Thank you, Mr. Chairman.

Chairman Hoekstra. Ms. Davis.

Ms. Davis. Thank you, Mr. Chairman, and I am sorry I missed all the testimony. Have you ascertained exactly when you think there would be a clean audit? What is the time frame?

Mr. Hansen. The secretary committed in early April that we would have a clean audit in the next 18 months. That would be at the end of the next fiscal year, and he reiterated that last week at our press conference when he said that within the next 15 months our goal is to have a clean audit. April 1, when we first got into this, and actually at that time the secretary was still home alone, and there were no other people confirmed for senior management positions. Hopefully, by the end of this fiscal year we will have our whole team in place so that we can get this done by the end of the next fiscal year. He also committed before the reauthorization of the Higher Education Act as well that we would have the student financial aid programs off the General Accounting Office's high-risk list. Those are two very concrete commitments that the secretary has made to the public and to the Congress.

Ms. Davis. In the very short time that I have had a chance to listen, obviously, there is a loss of control, I think. But could you just tell us, what do you think was the key problem that was going on?

Mr. Hansen. I think there are a number of issues. One is if a program is fundamentally flawed from its design, it is going to bring about management and review challenges with it. The second is the fact that I don't think that the audit system or software or processes have been employed. Again, from private sector experience, these audits are just very helpful management tools, and should not be just a bureaucratic process to meet this goal, but to have it be a quality process. I think that there were a number of issues.

I think the fact that Mr. Hoekstra mentioned in his testimony that there has been maybe lack of senior personnel, which might be construed as lack of attention to some of these issues, a lack of priority, you know, that is what we could conjecture.

The secretary is very committed to looking forward and not looking back, and so we are trying to, that is the reason that we put the team together and that we are looking forward to our future goals and a lot of the issues of what people have been looking into for the last couple of years are symptoms of an overall problem. And some of these issues get back to the culture of the department as well. If there is complacency three, four, five layers down into the systems, then you are going to have some breakdowns, and that is where we need to make sure that our training and our systems are in place, and that there are direct lines of accountability and that people are held accountable for some of the actions that Mr. Roemer talked about earlier, that people will be removed or dismissed or suspended from their offices if there are activities going on that are clearly wrong.

Ms. Davis. Interesting. Thank you.

Chairman Hoekstra. Mr. Schaffer.

Mr. Schaffer. Thank you, Mr. Chairman. I have got several questions, but my first stems from the issues in the GAO report about the, I think it was 900. Let me find the portion of the testimony specifically. About the Pell grants that apparently are issued to, in 900 incidents, people who appear to be dead. I would like to ask a little bit more about that total, $2.7 million, according to the GAO testimony today and in a few of those instances, some of that money, some of that money has been well, you identified $43.6 million in potentially improper payments. The department said that it provided sufficient supporting documentation for 18.7 million. That is less than half, about 42 percent of those payments, and they are still searching for the rest. But 900 instances of cases where a Pell grant Social Security application number also coincides with the Social Security Administration's death records seems an alarming figure.

I am curious, could you speak a little bit more about that and let us know whether 900 just seems alarming to me, or should somehow Americans feel comfortable with that figure?

Ms. Calbom. Yeah. That is an issue that is continuing to be researched. What we did is match the Social Security numbers, some of the applicants, with Social Security Administration. Or actually, we ask them to do it for us.

Mr. Schaffer. Let me stop you. How difficult is that to achieve?

Ms. Calbom. It is really not difficult, and in fact the department is starting to do that themselves now.

Mr. Schaffer. Let me just ask you, why did it take the GAO to come in and figure out that you can match death records with applicants?

Ms. Calbom. Well, I think now there are a number of things that you can do to test for improper either Pell Grant or loan disbursements using computerized auditing techniques. I think, you know, this is something that I won't say it is new, but it hasn't been used a lot in certainly the public sector, but I think it is becoming more and more a tool that people are aware of. In fact, GAO issued recently an exposure draft on strategies to manage improper payments, where we went out to various public and private sector organizations and identified tools such as these matching techniques and others that can be used in this.

Mr. Schaffer. Let me jump to one of the other techniques you used with respect to the age trigger on Pell grants. Now, you set that trigger at the age of 70, and that exposed a potential of I think $3.4 million, according to your testimony. That is just from a handful of schools as well. Your recommendation was to establish a similar kind of trigger. The department came back and said the trigger they would set was 80, or 85.

Ms. Calbom. Yeah.

Mr. Schaffer. 85 years of age.

Ms. Calbom. Yes. That they were going to use a trigger of 85, which we felt was really too high. Actually, to find the fraud that we did identify, we even dropped the age limit down more. I believe the department now has plans to use a lower age limit.

Mr. Schaffer. Can you verify that?

Mr. Hansen. Mr. Schaffer, we are looking at a more appropriate age limit. I frankly think 70 is probably a reasonable number to look at. If you start bringing it much lower, you bring into play an awful lot of parent loans into the data base of parents that have loans that are putting their kids through school, and I think it would be a more difficult task to really use this as a quality check. So we could come lower, and we are looking at that right now. But I think we agree with the GAO that, you know, 70 is probably a good place to start from.

Mr. Schaffer. Regarding the duplicate payments, the third party draft process, I know it has been eliminated at the department; but as I understand, employees were actually adding digits to the check numbers in order to circumvent, deliberately circumvent the department's control application or their application control design. That has been resolved. And my question is along the lines of some of the others that have been asked here. At some point, somebody made the decision to add those digits and to violate the department's policies. And since this seems to take place through several different agencies within the department, it suggests that there is a cultural malaise that has somehow allowed employees at the management level down to the subordinate level that policies are there to be ignored and that depending on whims, I suppose, they can be violated.

You know, a lot of money has been lost through that particular process, and I am glad that we kind of figured out finally what the source of it was and seem to have resolved that. But ultimately, someone is in charge of making the decisions to violate policy. I want to know if they have been identified. And we don't need to know names. But I want to know who has been fired or who has been demoted or what specifically has happened, because absent of that, I am afraid that all your other policies will also be ignored unless there is swift and sure and very public response within the agency to deliberate efforts to circumvent department policy.

So let me ask, what has happened to the people who deliberately decided to violate the department policy in a way that has cost our taxpayers an estimated $450 million?

Mr. Hansen. Mr. Schaffer, the activities you talked about are being taken very seriously. As I indicated, I have been on board for about two months now, and we are getting our senior management team in place to make sure that these efforts are being appropriately handled. The secretary has made it very clear that managers are going to be held accountable, and we

take this very serious.

We are instituting training programs with our new policies in place so that there will be no excuses from people not understanding what the dos and don'ts are of this process in the future, as well as going back and cleaning up the mess. A lot of these issues have just pretty much landed on our lap in the last couple of weeks from abuses of years ago, and we will get those taken care of and let you know what specific actions take place in each of the instances that you asked about.

Mr. Schaffer. Mr. Secretary, I can appreciate that you may not have the answer to the question here. But let me just ask, is that a question that can be answered? Can I find out what happened to the managers who allowed this deliberate effort to circumvent policy, what has happened to them? What response has been taken? Is that a question that can be answered by the department?

Mr. Hansen. Sure. We will.

Mr. Schaffer. Thank you.

Chairman Hoekstra. I think that is what I kind of followed up on, what I asked Ms. Calbom before as to whether their work will include taking a look at, you know, who authorized or who went around the rules, who authorized it and whether, you know, there were any consequences to that, because I think the bottom line is that once you start encouraging through the management structure that breaking the rules is okay in this area, it becomes a systemic problem and they say, well, if I can break the rule in this area, the rules in this agency must not mean a whole lot and I guess I can do it over here as well.

I guess the question there, you know, following up on Mr. Schaffer and what I had asked earlier, is that going to be a part of the fraud audit process that GAO is currently engaged in, or should we address and sit down with GAO or with the department? I think it may be more appropriate to go to GAO because we are going back and you have got enough work, Mr. Hansen, in taking a look at where we are going to go in the future. But taking a look because maybe it is the IG that we need to work with, with Ms. Lewis, and say, you know, we have uncovered these, the example, and the 23 payments broken out. Who authorized it? Do you know, were there any sanctions taken, or in any of these number of cases where management appears to be involved and sanctioned and maybe encourage this type of behavior, were there any sanctions or any personnel actions as a result of those types of decisions?

Mr. Hansen. Mr. Chairman, when Jack Martin hopefully will be confirmed by the Senate to be our new CFO and once our Assistant Secretary for Management is likewise confirmed, these issues are very much directly under their wing, and every Assistant Secretary and every senior officer having a performance contract with the secretary. They will and they will be held accountable to put in place the process to ensure that these types of activities do not occur again. And if they do occur there is line of accountability down the line for people to be held accountable. So we are going to be setting very clear standards, and we are going to be offering up the training, and we are going to make the expectations very clear to people and we are as the Secretary said, there will be no excuses and there will be some accountability in getting our arms around any instances that have occurred or that would occur in the future.

Chairman Hoekstra. Miss Calbom.

Ms. Calbom. If I could just add one other recommendation to that, and that is there be a systematic process that the department uses to go in and test transactions on an ongoing basis. I mean it is very important to monitor whether or not you know the changes that you have put in place are actually being followed. I would suggest that there be a selection of transactions, you know, in whatever area you are talking about. In this case we are talking about purchase cards on a periodic basis, and that the department actually test to make sure that their policies are being followed because that is really the only way to properly monitor that your controls are working.

Chairman Hoekstra. Yes, but I think the question that Mr. Schaffer is asking is a little bit different, and I think I am asking it and I think maybe Mr. Roemer has an interest in this as well. In the past when people violated the rules were people held accountable for violating rules? Secretary Hansen has made it very clear that in this administration they will have a set of rules. These rules will be the guidelines. They will be the standard operating procedure by which the department will work, and if people violate the rules they will be held accountable. The question that we have is beginning year four of this process for us, and we are kind of frustrated, and it is kind of like, did the process break down? We are trying to figure out, what went wrong and that if part of the process was in the previous department. When people broke the rules it was not only so what, but they were encouraged to break the rules by management. Then we can say, well, hey, what Mr. Hansen here is proposing and the new administration is proposing is that we are going to hold people accountable. We say great. That looks like a different culture. It looks like we are going to move forward. Now, if we go back and look in the previous couple of years and find out that they did that in the old administration and say, yeah, we are just continuing the same policy, we need to go further. But if we find out something different today, no. Not only that, we had management actually encouraging people to go outside of the rules that make it easier, make it quicker and whatever, and say okay, all right. This is a definite change we can expect, you know, we can expect a change in results because the performance standards are different.

I think what Bob and I are saying is you are going to get a letter where we are going to express our appreciation for you identifying all of the waste, fraud and abuse that you have identified. We appreciate that because we have a better understanding of what works and what does not work in the system. Now, what we want to do is we want a background or an evaluation of the people that were involved in this and that were involved in the decision-making. Ms. Lewis can tell us the number of people who have been indicted for these kinds of activities and go through that process so that we can know what happened to the person that said, hey, this invoice from Holiday Inn for 230,000 bucks, it should go through this process but, heck, that is too much work. I have got to fill out this paperwork. Let's just do 23 third party drafts, okay? Who sanctioned that? Or was somebody held accountable and said, hey, that is not the way we do things here. We know you did it but this is now going in your file because that is not how we work here.

Thanks. Ms. Sanchez.

Ms. Sanchez. Thank you, Mr. Chairman. Unfortunately, I had some other commitments so I missed much of the dialogue that went on from this panel, and I apologize to you who came to present. You can probably note up here that we are a little frustrated at this process now, having been involved with this for several years. I have one question that I would like to have a little discussion on, and this is this whole issue of the year-end audit. I know that we have a better audit this year than the last time around because one of the things that did happen was we were able to put in interim statements, I think, on a quarterly basis, at least March and June, and my question really is, in this new audit, are we still closing it out manually? I'm not talking about the auditors who come in. The last time I remember we were doing manual close outs and manual transactions on a lot of the statements and we had put some money into the budget to get a new computer system in and try to get a lot of this tied out automatically, you know an automated system. Where are we with that? And again, if this is repeated, I'm sorry. And if you spoke about that, I am sorry about that. But I wasn't here to hear that.

I guess I am anxious to hear, you know having been an auditor myself, where are we on the computerization of this because it seems to have been a major, major problem and I would like to know where we are. And I know that we are not there yet, but what is the process for this, and when will we actually see this happen?

Mr. Hansen. That is a very good question, Congresswoman. The department has been in the process now for the last several months of implementing a new Oracle financial accounting system for both the student financial aid accounts as well as, you know, the rest of the department within our CFO's office at the department. Hopefully, with this new system of software we will get to the point where we won't have all of the manual challenges and inputs that were required and we are trying to get there.

Frankly, though, this year, in this fiscal year we still are, you know, very much involved in an awful lot of manual work and that is what I was talking about earlier, where you know an audit can serve as a helpful business tool if it is done right and if it is laid out right at the beginning and you have the right steps in place for a monthly reconciliation process along the way to get you a clean audit. If you are limping along throughout the year and try to Band-Aid it at the end of the year to get a clean audit, again, you might reach a political objective but it hasn't served a management purpose for you.

Obviously our clear goal is to use our new Oracle systems to ensure that it is a fine-tuned system that we can use both from a technology standpoint, but as well as from a systems standpoint within the Department to make sure that we know exactly where we are every month and we will get there at the end of the year.

Ms. Sanchez. So what you are saying still in this past year, and even currently, you are working really on a manual system and closing out, what, are you closing out every month or I saw that you had March and June dates. So are you doing, trying to attempt to reconcile every three months?

Mr. Hansen. Our direction right now is to do it every month and that is a combination of manual.

Ms. Sanchez. And some computer spreadsheets.

Mr. Hansen. Computer spreadsheets.

Ms. Sanchez. But not a real program that attempts to tie things out and then you come back in manually and fix what needs to be fixed as most businesses?

Mr. Hansen. Right.

Ms. Sanchez. And I would assume that these programs that you have are tailor made for the department, these new reconciliation and tie-out programs for the audit, in getting your statements ready?

Mr. Hansen. They are.

Ms. Sanchez. To serve that purpose.

Mr. Hansen. We do have the two systems and the two are very much being woven together right now. And Oracle is able to do that. But the designs for the student aid piece as well as the designs for the rest of the department are very different. There are some, the department's discretionary money, which is basically money going out the door to track, which is about $45 billion, is very different than the student loans, which are $35 billion, that have to be repaid, and so there are some different elements in both of the two designs, but Oracle has been working with us to make sure that the two of them are woven together to make sure that we get one output for the department as a whole.

Ms. Sanchez. And again, give me a date of when you think these two will be in place and after you, you know, runs and test runs. When do you think you will have a smooth system running with respect to these systems?

Mr. Hansen. I hope within the next couple of weeks. Realistically, we have got to get through this fiscal year with cleaning up and working with while we are really only having three to six months to do a year's worth of work from a management standpoint, the secretary has indicated that we will have a clean audit by the end of next fiscal year and so our systems will be in place next year to make sure that we have a process in place to get us to where we need to be at the end of next year.

Ms. Sanchez. I don't know it is a possibility but I would ask that you might report back to us at some point when you do have the system up going. I think this is something that we have been attempting to do now for several years, and it is sort of the date continues to move out and, you know, I at least would like to know when you have become automated in these processes.

Mr. Hansen. Absolutely. And the secretary, when he held his press conference in mid-April, said he would report back in 90 days. He did that last week. And we say we are going to report back at the end of September. We will be back to you at the end of September.

Ms. Sanchez. Thank you. That is all I had to ask, Mr. Chair.

Chairman Hoekstra. Thank you. I guess that is an invitation for you to come back.

Mr. Hansen. Oracle will be live on October first and I will be here with it.

Chairman Hoekstra. All right.

Mr. Norwood.

Mr. Norwood. Thank you, Mr. Chairman. Mr. Hansen, well, no, all three of you, no, all of us, including this subcommittee, but particularly Mr. Hansen, do you believe that Congress now seeks to undermine the integrity of the Department of Education by daring to question the department about its financial management? Does anybody believe that here?

Mr. Hansen. I absolutely do not believe that, Mr. Norwood. In fact, I indicated that in the very first paragraph of my opening statement.

Mr. Norwood. Thank you. That is good. I have got a lot of questions. Does anybody on the panel believe that we are actually trying to impugn the integrity? Well, I don't believe that. I think it is our constitutional duty to do exactly what we are doing. But it is of interest to me, Mr. Chairman, and you asked the question, how did we get to this, and my answer to that comes in an op ed piece that was written by the former secretary who wouldn't talk to us at all when he was the secretary, but now that he is not the secretary is talking to us through an op ed piece in Education Week. And Mr. Riley said that Congress now seeks to undermine the integrity of the Department of Education by questioning its financial management.

That is why we got to where we are. Nobody cared about financial management. And I commend you, sir, for allowing us to look into this and do our duty. Mr. Hansen, you said, I believe $80 billion, what you folks spent, just for my own interest.

Mr. Hansen. That is correct.

Mr. Norwood. I believe that is an 8 with 10 zeros. That is how much money you have to control and make sure there is no waste, fraud and abuse, et cetera. Can you do it?

Mr. Hansen. Pardon?

Mr. Norwood. Can you do it?

Mr. Hansen. Yes, we can.

Mr. Norwood. How many people are you going to use to oversee 8 plus 10 zeros?

Mr. Hansen. The department has roughly 4,600 employees and several thousand-contract employees that and again, half of that money is money that goes out the door to 16,000 school districts, 55 State entities.

Mr. Norwood. You are telling me it can be done.

Mr. Hansen. Absolutely.

Mr. Norwood. Ms. Lewis, can it be done?

Ms. Lewis. Yes, sir.

Mr. Norwood. It can be done with no waste, fraud and abuse?

Ms. Lewis. No one can ever state to you, sir that waste, fraud and abuse won't occur. However, it is absolutely important that the systemic issues be addressed relating to internal controls.

Mr. Norwood. Ms. Calbom, you are an accountant. Can't you put in a system so the taxpayers of this country can have some assurance that the 4,600 employees of the Department of Education can make sure that the $80 billion of taxpayer money doesn't include waste, fraud and abuse, and it may, but can't you catch them immediately under a good management system?

Ms. Calbom. Well, it is all about how much money you want to spend in doing it. And what we always recommend is that a comprehensive risk assessment be done first to identify where are the greatest risks and you focus your resources in on those areas to make sure that you have got, solid controls. There are always going to be private sector, public sector, whatever, there is always going to be some fraud that occurs. It might be small. The key is where is my biggest exposure to it. Let me tackle those areas; make sure I get it nailed down solid so that it won't occur there. And as you can, you move into the other areas that are less risky.

Mr. Norwood. Well, the former Secretary Riley said that we conservative partisans are complaining about $450 million, no matter how much came back; at least we know that it was directed in the wrong direction. Some of it has come back, some of it won't.

Ms. Calbom. Yes, sir.

Mr. Norwood. My question basically was will we have the wherewithal and the willpower to make sure we don't waste any more taxpayer dollars in the Department of Education? I believe perhaps it can be done, too, and I believe it is a question exactly as you put it, Ms. Calbom, is how many dollars does it take? And then that thought leads us on down the road a little bit about the cost effectiveness of a lot of this. One of you said in your testimony, forgive me I don't remember which one, about the credit cards. You were talking about the credit cards and Secretary Paige has moved that a long way, I believe, and improved that greatly. I commend him.

By the way, Mr. Hansen, if everybody who had a credit card today at the Department of Education went out today and spent it to its limit, what would be, at that point, the taxpayers' liability under the new system you have put into place?

Mr. Hansen. If the question is on the purchase cards, there are 225 employees that have a 2,500 limit. And I used to be very good at math.

Mr. Norwood. That is all right. We can figure that later.

Mr. Hansen. And there are 25 additional employees that have a limit up to $30,000. And again, those are for office type purchases.

Mr. Norwood. Are there any limits, besides the limit in other words, I know every credit card has some cutoff you can't spend beyond. But for example, in your travel cards, are there any limitations on how you spend that money? And you alluded to a $50,000 overnight weekend versus one that could have been done for 10.

Mr. Hansen. There are limits and the executive officers and supervisor for each of those employees manage each of those, and I can get you more details about the way that that system works.

Mr. Norwood. I just want to know if you are overseeing that.

Mr. Hansen. Absolutely, sir.

Mr. Norwood. Is that new or old? Have we been overseeing that? I have heard of some pretty nice trips.

Mr. Hansen. Congressman, the trips that are taken also have to be reviewed up the chain of command and approved, and then the actual expenses are likewise approved by the executive officer in each office. And again we are trying to instill standards and accountability throughout. There may be pockets of misuse that we are getting our arms around, but we are trying to have clear standards and a clear process in place to make sure that those don't occur.

Mr. Norwood. Mr. Chairman, I need about 20 more minutes, but I see the red light.

Chairman Hoekstra. The gentleman's time has expired and there are no zeros left. We will have another round of questioning. I will yield my time to Mr. Tiberi.

Mr. Tiberi. Thank you, Mr. Chairman. This document, there is a whole lot of information in here to digest. Poor internal control exposes Department of Education to improper payments. And through the document there clearly is fraud, misuse, abuse, and maybe just expensive mistakes as well. I am new here. What I don't understand and I am going to open this up to all three of you, does it take an indictment for someone to be held accountable, that can be fired or resign, for a federal employee?

Mr. Hansen. It shouldn't take an indictment. And that is, again, when we talk about, you know, a change in the culture to make it a culture of accountability in the department; that this be done from the very top, and frankly, I think if we can get the programs created from the foundation correct, if we could then get our financial management audit system in place to be a management tool for us, if we can get our Government Performance Results Act put in place, all of the other cultural and training pieces put in place, 99 percent of the department folks, I think, will be employees will be very, very helpful and supportive of moving that agenda forward and being very much on top of improving the culture.

I think as somebody indicated earlier, that no matter what we do, I don't think we can put the best systems or the best programs in place. There still will be instances of fraud and abuse that we will have to go after through legal means through the Justice Department working with the Inspector General, and that goes for our contractors as well.

Mr. Tiberi. But it doesn't take an indictment, Ms. Lewis?

Ms. Lewis. The important thing is following up on Mr. Norwood's point as well as the GAO did put out standards to apply across the government for internal controls. And those are the systemic issues that need to be addressed. One of the areas is the control environment, and the support from on high for good accountability, good controls. The risk assessment should be done. Control activities, good policies and procedures in place. For example, we recommended to the department that it update its credit card directive that had been out there since 1990, and there had been some pen and ink changes to it. Well, as far as the training, all the card holders and their supervisors and their approving officials should know what the current policies are and should be able to see it in one place, perhaps up on the web, which is where we are all being directed to go to find it easily.

Information and communications, monitoring. We are a monitoring office. GAO is a monitoring office. The department also should require monitoring perhaps, as Ms. Calbom suggested. At the request of the department, we went office by office through the Department of Education. We issued reports to each Assistant Secretary and office head. But before we issued those reports, we sat down with the head of the office and his or her executive officers and identified the types of problems we found. I have also made copies of those documents and provided them to the incoming, or the nominees for the positions, the Assistant Secretary and the other heads coming into the department as I have met with them and provided some material relating to the management challenges that face the department.

I have also taken the opportunity to provide the individual report about the office they are about to lead and remind them, and emphasize what I am sure they are already well aware of from Secretary Paige, the importance of their job of being the manager, not just the responsibility for the programs, but also the managers of their own offices.

Mr. Tiberi. Do you have a comment at all?

Ms. Calbom. I was just going to say, a lot of what the Inspector General is talking about is laid out specifically as it relates to improper payments in this executive guide draft that GAO has just recently issued, and we have supplied this to all of the IGs and CFOs within all the agencies in the federal government, at least the major agency thus far. But it really does start with as I said, the tone at the top. And it is just critical that every employee understand that improper payments are not acceptable and won't be tolerated.

Mr. Tiberi. What it seems to me is that with a handful of employees, either resigning or fired over the course of three years, with all this happening, it seems to me that the tone has to change, the culture has to change, or it will continue being, even if you implement these controls.

Thank you, Mr. Chairman.

Chairman Hoekstra. Mr. Roemer.

Mr. Roemer. Thank you, Mr. Chairman. Secretary Hansen, just following up on my previous questions to you, we talked about 661 recommendations. You have closed 100 of those. You have 561 outstanding. How long will it take for us to get those addressed and closed?

Mr. Hansen. Mr. Roemer, we, again, on page five of our report, prioritized these activities and some of the lower priorities. Frankly, we are going to try to get after them, but we are going after the highest priority items first because they are the ones that will get at our systemic problems, get at our fundamental problems, get at some of the fraud and abuse problems. And so I would just draw your attention to those 229 items, of which we have closed 49 and have corrective action plans for the other 87 and have about 70 left to go that our goal is to get those done by the end of this fiscal year, but some of them are going to spill over, frankly, into the next fiscal year to get those done.

Mr. Roemer. So you have outlined that we will get a clean audit in 2003, and that we will close the remaining 561 audit recommendations in the next year?

Mr. Hansen. We will close the recommendation. I am not going to put a time frame on it because some of them are not critical issues. We are going to for management purposes get every one of them addressed as quickly as we can. Again, our goal is to get the top priority ones done as quickly as we can in the next three months and then over the course of the next year, fiscal year 2002, to have a clean audit by the end of fiscal year 2002.

Mr. Roemer. But you gave us a date on the clean audit. You won't give us a date on those other 561 outstanding issues.

Mr. Hansen. I just don't know every single one of these off the top of my head to know if it is reasonable for me to make that promise to you. The promise is we will have a clean audit, get our student financial aid programs off the high risks series and embedded in that is to get these taken care of, and so we will get each of them.

Mr. Roemer. Hopefully within a year.

Mr. Hansen. Correct.

Mr. Roemer. Okay. Ms. Lewis, I am always curious when we hear this 450 million figure of losses discussed, I have a letter here from Secretary Paige that says out of the 450 million in purported losses, that 250 million has been fully recovered and there is no financial loss occurred to the taxpayer. Is that correct?

Ms. Lewis. Yes, sir. That was a figure that I did testify to at the last hearing and the figure relates to improper payments.

Mr. Roemer. Okay. Well, let me just go back through in detail. So 450 million is tossed around, but 250 has been fully recovered and we hope those people responsible are prosecuted and that, you know, civil or criminal penalties are then pursued. So we have 250 million remaining, correct? Out of that 250 or 200 million remaining, out of that 200 million remaining, in this letter from Secretary Paige, he states that another approximately 40 million of these funds has also been fully recovered; is that correct?

Ms. Lewis. Yes, sir, the Justice Department recovery related to investigative work.

Mr. Roemer. Okay. So we are down to 160. Of the 160 million, of the 450 million, how much of that can be, might be, will be fully recovered?

Ms. Lewis. The other category that comprised the $450 million figure of improper payments, which were figures that came out of our semiannual reports for a three fiscal year period related to sustained question cost in the audit arena. And that was approximately $100 million for a three-year period. Three million of the Education Department has reported recoveries. The department, in the letter you cite to, also indicates there were promissory notes relating to another portion of that. And some of the money may not be recoverable for other reasons. And Mr. Hansen might be able to expand on that.

Mr. Hansen. Mr. Roemer, if I might.

Mr. Roemer. Please.

Mr. Hansen. The secretary, in the letter, we went off that very aggressively when we found out what had transpired. And as you indicated, the 250 has been identified and we have brought in $40 million in recoveries of the first 100 million that you talked about in terms of legal judgments. We are working with the Justice Department to get the other 60 million back as well as part of that, so we hope that we will recover most of those funds. The last 100 million category on the financial audits, as the Inspector General suggested, we have collected 3 million. We also have 53 million identified in promissory notes, which leaves about 44 million un-recovered. That $44 million basically was a result of misuse by contractors, some of the grant recipients that have gone bankrupt, and I am not very optimistic that we are going to get that $44 million back. But our overall goal would be that, when all is said and done, that we have recovered over 400 of the $450 million through all the different measures that we have in our hands from an administrative standpoint and from a legal standpoint.

Mr. Roemer. And finally, just to make sure that we are following up, not only recovering this money, but also prosecuting the people responsible, for instance, in the electronic theft case, we are now up to 19 people that have been brought forward for indictments?

Ms. Lewis. Yes, sir. The number of the $100 million is from our investigative work, which includes civil judgments, civil liabilities and restitution. So the 100 million represents the judgments coming out of the legal system already. I do appreciate there has been discussion about this, and I very much appreciate the opportunity to clarify in any way I can. The $250 million came from our duplicate payment work, and at the time we did report that all of the money had been accounted for.

The $100 million investigative work represents monies that were judged or agreed to by the responsible persons who had already been brought through the criminal system or the civil fraud system. They agreed to pay that money back. And as we testified, $40 million has indeed already been recovered by the Justice Department.

The final category of the $100 million, again, this is over a three year fiscal period, 1998 to 2000, relates to the audits. It is a wide range of audits that include program audits and are financial audits. That is $100 million. And as the secretary's letter indicates, there are $3 million already in recoveries and promissory notes relating to another chunk of that.

Mr. Roemer. All right. I thank you very much, and I thank the chairman. I think the chairman has said this very eloquently many times. But one of the reasons we have done these hearings is to try to make sure that there are sufficient internal controls, so that when human nature and bad human nature takes over, and we see this kind of fraudulent behavior

take place, that we have sufficient internal controls to catch it, to recover the resources and prosecute the people responsible.

We are hopeful, Ms. Lewis, that we will continue to improve the internal controls at the Department of Education so we prevent this from occurring in the first place and, secondly, catch it when it does happen and have the confidence and the controls and the accountability within the department so that we make sure that people are put in jail when they do abuse the situation. And I think you are going through these different cases, and when you can talk about them in some future hearing and talk about the level of recovery and indictments and prosecutions, I think this would be helpful to this committee as well.

Ms. Lewis. I appreciate the opportunity and would also look to underscore that in the investigative number, that is part of this improper payments calculation. I want to make very clear the great bulk of that number relates to persons who have perpetrated fraud against the Department of Education. That number includes, for example, the telecommunications case.

Mr. Roemer. Meaning that somebody outside the department is falsifying documents rather than employees?

Ms. Lewis. That is right. I want to make sure I emphasize that. In that number also is the amount of recovery that the department has made with the great cooperation of the U.S. Attorney's Office for the impact aid monies that was diverted away from the two South Dakota school districts. That approximately $2 million is included in that $100 million figure. That money has been recovered, but it is an example as well that there are individuals alleged to perpetrate fraud, and much of the great amount of that number does relate to third parties perpetrating fraud against the Department.

Mr. Roemer. Thank you.

Mr. Hansen. Mr. Chairman, if I could just add to that though, and that is a very important component to remember, that a lot of these folks are people outside of the department but it also goes back to the fundamental issue we talked about before, too, that the reason sometimes these third party entities can perpetrate fraud and these other illicit activities is frankly because of the design of the program and the design in which the funding streams go out.

So we really do need to fix it at the ground floor level, which may require some statutory changes or some regulatory changes as well. So it is both a problem on the contractor end, but I think we can fix some of these problems on the front end with the way the monies go out the door and whom they go to.

Chairman Hoekstra. As my colleague from Indiana said, we will be more than willing to work with you on the statutory changes that need to be made to make it more painful for third party entities to perpetrate fraud against the department. But I may be a little bit mistaken here. I mean, a number of the impact aid, those were employees, is that not correct in South Dakota?

Ms. Lewis. What we can speak to is what is in the complaint, and the complaint speaks to persons outside the department who purchased the automobiles and had their names on the bank accounts, as the complaint seeking recovery of the funds indicates.

Chairman Hoekstra. Okay. And the telecommunications was inside and outside folks?

Ms. Lewis. That involved eight employees of the department, as well as 11 persons, two contractor employees, and the other individuals who are basically friends and family members relating to the key individual person.

Chairman Hoekstra. Right. And then you have got this other one here today, about the employee with the 8,000 phone calls on their cell phone?

Ms. Lewis. That is actually an individual.

Chairman Hoekstra. I think I have gone where Mr. Schaffer wants to, and I will yield to Mr. Schaffer. All right. We will go to Mr. Norwood.

Mr. Norwood. Thank you, Mr. Chairman. I want to agree with Mr. Roemer. Yeah, he is still there. Good. But I would like to restate it in my own way as to what I think he said. I am certain that the taxpayers of this country are delighted that the Department of Education and the IG and the GAO are working hard to get some of the $450 million returned. That is very important. That is a very important part of your job. But I think it is also important to state, we need to be sure we are working very hard on trying to understand how $450 million got misplaced to start with. And secondly, why did it take the work of the IG and the GAO and this subcommittee to bring this to a head? Why did we ever have to get involved in a system where that much money got misplaced, I guess, and stolen in some cases, and are we working just as hard to make sure that never happens again?

Ms. Lewis, I just have two questions, and I know we are limited in time and perhaps you can expand for the record at some point. But I am sort of interested in these false overtime charges that you alluded to earlier, and I would like to ask you two parts to that. One, how extensive is that, and two, have we made recommendations to the department to stop that in the future?

Ms. Lewis. Yes, sir, if you would give me one second. We did a walk-through in the telecommunications case that you speak to, which involved contractor employees being in a position to bill the department for hours not worked, in some cases overtime, in other cases during what would be a normal day, but the individuals we were able to show weren't on the job. We took the payment system that was in place at the time and went back to the department and showed them in a very detailed way what went wrong and how no one was reviewing it. The person who was able to order the goods that were then provided to family members and friends and kept by her, was also the same person who approved the hours billed. This issue of segregating duties and providing for appropriate supervisory review these are just basic internal control measures need to be addressed and fixed. And the department has taken our information and indicated to us that, and represented to us that the situation that existed in this that scenario should not be repeated because of changes made in that office involved.

We also didn't just limit our briefing to the individual office involved. We briefed in a high level of the senior officials. We briefed the other managers and showed them what went wrong and indicated that they had to look within their own organizations and any of their own procurements or purchase authorities to ensure that the same internal control deficiencies didn't exist there.

Mr. Norwood. Well, how hard is that?

Ms. Lewis. That is a basic internal control measure.

Mr. Norwood. Okay. Right. That is my point. Mr. Schaffer spoke to this earlier, and that has to do with leadership. It isn't brain surgery to figure that out. But somebody has got to insist all the way through the department that you will put in things like that.

Real quick, Ms. Calbom, because I am vitally interested in this too. And we have talked about this before, the potential fraudulent student admission documents that support the schools eligibility to participate in Pell grants.

You indicated that you had the goods on one school about that. They, frankly, were fraudulent and were stealing. You also indicated that you were looking at a number of other schools possibly.

Same question to you. How big might this be, and what are you recommending to the department so we may be assured that this type of thievery can't occur again?

Ms. Calbom. This could be one where it is the tip of the iceberg. There are quite a few questionable types of disbursement patterns that we are looking at right now. I can't make a guess for how big it is going to be. I can tell you that back in 1993, our Office of Special Investigations identified actually 23 schools that were engaging in similar activities as we have seen here, and that turned out to be about $300 million. But whether we are going to be getting into that situation or not, I don't know yet.

Mr. Norwood. Is this a program that lends itself to a situation where no system can correct it or catch it?

Ms. Calbom. Well, the difficulty with this and the problems we found is when you have got the school actually engaging in fraudulent activities, that means you have to take a lot more time and effort in trying to catch that type of fraud, and, you need to figure out a system where you can again try to look at what are unusual disbursement patterns first, and that is easy to do. You can do that with edit checks. The hard part is then analyzing those and then picking out where do I need to go to actually, say, interview students. That is the only way to get at it and that is very time consuming. So that is the difficulty in it.

Mr. Norwood. I am sort of asking you this Secretary Hansen. I am simply saying maybe there are some programs that simply can't be checked on, and that is the case and we have some history of thievery going on. Maybe we need to not change our system but redesign the program so that it is impossible for them to do, if that is possible; and if it is not, we need to ask ourselves might we eliminate this because we can't stop thievery? I am just sort of asking you to think about it as we are thinking about it. That is all.

Mr. Hansen. It is a very good point, Mr. Norwood, and there are again some statutory and regulatory issues we can look at from a program participation enforcement side of things. But one of the things we are also looking toward is to make sure that the data systems that we have in place will allow us as a management tool to catch these types of activities as quickly as possible.

Congress authorized last year the use of the HHS new hires' database to help us use that and to track down defaulted borrowers, and that has already reaped in over $65 million for us in the last couple of months.

We are also looking to work with the IRS on the federal student aid application form has a lot of data elements that are pulled right from your tax form, and we are working with the IRS and the Treasury Department to see if there can be some better data-matching elements there to make sure that the people who are getting the money are using the right data, so that we can monitor and track it.

The national student loan data system as well, we are working to improve that system for tracking purposes to make sure two people aren't getting two PEL grants or two students loans and duplicate payments on an individual basis; so there are some tools that we are working towards to use about there may be some fundamental issues that may require some statutory or regulatory revision to make sure that some of this is cut off at the spout before it can even start.

Mr. Norwood. Mr. Chairman, I know this subcommittee does have a lot of work and there are many other areas of interest too, and other members refer to that from time to time. I believe our interest in this subject is very helpful to the Inspector General and GAO, and indeed the Department of Education, and I would encourage you through the next 14 months that we come back as a subcommittee and check on this on a quarterly basis so that everybody knows we haven't lost interest. That doesn't mean we aren't interested in other things, but I think we need to stay on top of this and I urge you to consider that. Thank you, sir.

Chairman Hoekstra. I thank my colleague for those comments and we have had a number of discussions with the secretary, Mr. Hansen, GAO and the IG over the last few months as we moved into a new administration, and I think the commitment is there to build a relationship and to build a dialogue and to work collectively on the process.

Our colleague from Indiana, Mr. Roemer, we have done this in a bipartisan way for three years, and we are going to keep going and working with the department. If there are things that you need, whether it is statutory changes or whether it is additional resources or whatever, we are prepared to have that dialogue with the department. We will continue that dialogue over the next 12 to 14 months until we all have a high degree of confidence that we have addressed the issues.

That doesn't mean that is the only thing we are going to do. There are a number of other things that we are going to work on as well. Mr. Schaffer.

Mr. Schaffer. Thank you, Mr. Chairman. Picking up on that, I want to assure the panelists and the department that our interest is high, and I don't think anybody on this committee plans on going away or reducing our concern at all for the question of waste, fraud, and abuse at the Department of Education. And I hope everyone appreciates this new spirit of bipartisanship, because the intensity of our impatience is not in any way diminished by the replacement of a Democrat administration with a Republican administration.

The fact is most people at the Department of Education have been there through both administrations, and these issues are very, very serious, and we are talking about spending other people's money on worthwhile national goals. When that is not accomplished and not

done properly, it results in these kinds of audits and reports that undermine the confidence of the American people when it comes to spending on a priority, which I believe to be clearly the highest in the country.

So I just want to assure you we are nonpartisan when it comes to our frustration with financial management of the Department of Education. One employee gave his family members a cell phone, a department-issued cell phone, and the family made over 8,000 personal phone calls between May of 1998 and December of 1999. That was found on page six of Ms. Lewis' testimony. And if you flip there, there is a typo, I think, which I need clarified, because it is at the center of my question; which it says, he pled guilty to one count of criminal information. What does that mean, or is that the wrong word?

Ms. Lewis. It is not an indictment. It is something in the criminal context, and information is a public document filed with the court.

Mr. Schaffer. So that really does mean something?

Ms. Lewis. Yes. It would be the count that could be proved should the matter go to a trial, and ultimately there is an agreement.

Mr. Schaffer. Here is my question. He or she resigned in May of this year, and these calls were made between May of 1998 and December of 1999. I am curious as to why it takes so long to come to some personnel resolution on 8,000 personal telephone calls. These are by family members, or at least the way it appears.

Ms. Lewis. The individual at some point during the process was put on suspension without pay, so the salary no longer flowed. I can get back to you on the exact date.

Mr. Schaffer. It is not just the one individual case I am so much interested in. It is the length of time it seems to take to enforce policies if they do exist. I would assume most employees in the Department of Education understand or can read somewhere in a policy manual that you don't give your department-issued cell phone to family members to rack up 8,000 phone calls.

Ms. Lewis. Yes, sir. We came upon this matter, this concern, and followed up on it on this individual employee, and then worked with the U.S. Attorney's office through the sometimes-lengthy criminal process and also with the department in terms of what appropriate personnel action could be taken right away.

Mr. Schaffer. Further up in your testimony it says, as a result of the ineffective controls, risk of errors, theft, fraud, and abuse as a result of these controls, theft, fraud, and abuse was increased. And the department concurred with the findings. Do we have effective controls today with respect to department-issued cell phones?

Ms. Lewis. That is a good question. As a result of the one individual case, which was done in my office with my investigative staff, we turned to our audit staff and asked for a more comprehensive look, using the audit approach to look at the internal controls in the department over cell phones. And we did find serious deficiencies in terms of inventories related to cell phones, lack of policies and procedures.

Mr. Schaffer. I can see that in here. Are they in place today is my question?

Ms. Lewis. They are still being worked on. There is a draft of procedures document.

Mr. Schaffer. So they are not in place today?

Ms. Lewis. The policies and procedures document that was in place before is still in place, but we recommended that it be updated. So that is what is in draft--

Mr. Schaffer. Mr. Hansen, your answer to Mr. Tiberi is one I want to revisit with respect to the split purchases. And he asked, is the execution of a split purchase a dismissible offense? And your answer was it depends on the severity and the nature of it.

And, one, I want to give you a chance to address that again, but I want to preface it by saying I would like to hear the answer as yes. In fact, I think this is a serious enough issue that any department employee who happens to be watching the proceedings today and has heard your answer and with all due respect, I know we are throwing a lot of new questions at you and you might not have had a chance to consider them but heard the answer, and then maybe a week or a month from now is faced with a deadline on the card and has to make a decision on whether it is an appropriate time to make a split purchase or not. And the idea that "it depends" really leads to the problem that we are confronted with now.

At some point what I would like to see it just seems to me to be in the order of good management that if there is a question that an employee in the department has who has the authorization to use these cards, confronts this question that they have somebody to go to for clarity, that eventually comes to you or maybe the secretary himself because I want to know who to scream at when this happens again, and the last thing I want to know is that these rules are not hard and fast, that these guidelines are somehow ambiguous.

And I think in terms of fairness in promoting morale and getting a clear set of instructions and directions to department employees on when to use these cards and in which manner, these rules need to be in place. They need to be well understood and cannot be confusing. And if it comes to that point, I want the person who makes the decision to come here. And we usually invite you guys here, not somebody else. So I would like you to address that issue once more, because I do believe--let me digress again for a minute.

We have got all your best and brightest people sitting here behind you that are part of the SWAT team that is trying to figure out how to ferret out the waste, fraud, and abuse in the department. And for the years that this committee has undertaken this investigation and oversight capacity, we have had to drag information out of the department, and the department had tried to sweep all these issues under the rug, where we had to physically walk down the street in an unannounced visit and go office to office to find out the people we need to find in order to get the answers that this committee was interested in.

This new administration has expressed a new, fresh approach that these issues are going to be out and open. They want to work cooperatively with the Congress and with the best and brightest people in the department to elevate the confidence of the American people in the department and in this operation. That is a good goal, a great opportunity for everybody to be engaged in. And it seems like right now is the perfect time to take some of these recommendations and start putting them in writing and come up with hard and fast rules on when a split purchase is permissible, and reinforced with the notion that if there is a

violation of these policies, you will be fired or demoted or find a new line of work, and this will be treated seriously in all cases, not just in some.

Mr. Hansen. I would like to respond to that. I think in responding to Mr. Tiberi, I was talking about the people that are currently being reviewed for past practices. And my response was, I don't know what each of these individuals did, what the circumstances were. There are several hundred instances that I have got to look into, and I didn't want to make a blanket statement on those past practices.

I want to make it very clear right here, right now, that we will be putting in new standards in the future and there will be a zero tolerance for it.

I hope I didn't leave a misimpression about the seriousness of this and that there be will be consequences and severe consequences even if there is one split purchase, if the standard is none and if they use it for two purchases, that is one too many, and we will take that very aggressively.

So I hope that the context of my previous comments to Mr. Tiberi were viewed in light of the people that have had these previous activities going on where the standards weren't as clear, where the direction from their supervisors weren't as clear. I think it is difficult to hold some of those previous folks that have made those mistakes when there weren't standards in place, when there weren't accountability mechanisms in place. That is what I was going after.

From here on out, there will be very clear standards and people will be held up to the highest standards, and there will be severe consequences for those that don't.

Mr. Schaffer. I appreciate you elaborating on that further, and that kind of answer is exactly the answer I think this committee wants to hear. Thank you.

Chairman Hoekstra. Thank you, Mr. Schaffer. I don't believe you have any questions, Mr. Platts, or comments.

Mr. Platts. No questions, Mr. Chairman, if I can just I guess a quick word.

Chairman Hoekstra. Sure.

Mr. Platts. I appreciate the efforts of the department and the challenge you have been assigned. And I think by the comments of both Secretary Hansen, yourself, and Secretary Paige in the Washington Post article, that you recognize the level of the challenge but also the extreme importance of it. And Secretary Paige referenced in his comments the importance of restoring the public's trust in the department and how the money is being spent.

And I guess I would kind of just reemphasize that ultimately that money and how it is being spent, that it is being taken away from the children our Nation, in education they are provided, and that we spend money wisely and ultimately spend it on the intended goal of ensuring the quality of education for all of our students.

So I appreciate the efforts, and as the chairman has stated, he is optimistic that progress has been made in the new administration, new leadership, and I look forward to that continuing.

So, thank you, Mr. Chairman.

Chairman Hoekstra. Thank you. Thank you to the witnesses for being here today. Thank you for, Ms. Calbom, Ms. Lewis, all the hard work that you have helped us achieve; get completed in the last years.

Mr. Hansen, we look forward to working with you over the coming years to get this issue behind us. There are a lot of other important issues that are on the plate at the Department of Education. We want to get this issue behind us so that we can be fully engaged on improving education. We appreciate your commitment, the clear indications from Secretary Paige that this is a top priority both, in words and the actions that he has taken in the six months that he has been there. We are looking forward to your having a full complement, a full staff on board at the Department of Education to aggressively pursue this issue.

I appreciate the openness that the administration has shown in working with us, answering our questions, responding to our inquiries. That, of course, goes for the two of you as well, but we have got a longer record on that. But you have been very responsive in working with us and we look forward to continuing that process.

Again, as you make progress, we would appreciate it, in a bipartisan way, to notify us of the progress that you are making. If you have some setbacks, please let us know. And if you need any help, please let us know. We are committed to work with you through this process. We prefer not to have any surprises. We do believe we recognize the separation of powers, but we want to be partners with you in addressing these issues.

And I don't know if Mr. Roemer has any closing comments.

Mr. Roemer. I would just echo once again the chairman's comments about approaching this in a bipartisan way. I don't much care if it is the Clinton administration or the Bush administration. I do care what my constituents say about accountability and overseeing the tax dollars and how the Department of Education, the Department of Defense, the Department of Commerce and other departments spend them across the city. And whether you inherited this problem, whether you created it that is the system of checks and balances in our election system.

Secretary Paige said in his testimony there will be no excuses. Next time you are up here, I think that that is the standard. It is your problem now. It is our problem now. It is our jurisdictional problem as a committee. And, as Mr. Hoekstra has said, we think that this is something that is absolutely important for us to deal with, and we will deal with it as long as we have to. But we also want to divide our time up on some of the other more critical issues, in addition to how taxpayer dollars are spent; how do you catch this stuff, how do you prosecute it, how do you prevent it in the future, and how do you improve public education across the board? We want to spend time on that as well.

You have got two great resources there, Inspector General Lewis in the General Accounting Office and Ms. Calbom. I hope you utilize those two people and pick their brains and find ways to make sure that we continue to run a Department of Education that this whole country can be proud of.

And I thank the chairman for holding this hearing, and I enjoy working with him on a host of different issues before the committee and I look forward to working with him on this, on AmeriCorps, on testing, on charter schools and many other issues.

Chairman Hoekstra. Thank you. There is no further business. The subcommittee stands adjourned.

[Whereupon, at 11:53 a.m., the subcommittee was adjourned.]

APPENDIX A -- OPENING STATEMENT OF CHAIRMAN PETER HOEKSTRA, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC

Hearing of the Subcommittee on Select Education

Committee on Education and the Workforce

House of Representatives

"Status of Financial Management at the Department of Education"

Opening Statement of Chairman Pete Hoekstra (R-MI)

July 24, 2001

Good Morning. Thank you all for coming here to discuss the status of financial management at the Department of Education. This is the fifth hearing we have held to review these issues, but for the first time we will have an opportunity to hear from the new administration.

As we know, for the last three years of the Clinton administration, the department failed three consecutive annual audits of its financial statements. During our hearing in April, we heard that an estimated $450 million was lost to waste, fraud and abuse. Unfortunately, we will hear today from the General Accounting Office and department's Inspector General about inadequate internal controls that may have lead

to improper payments. As we move toward enacting the President's education plan and increasing federal dollars in education, we must ensure that the Department of Education will deliver the highest level of financial stewardship for taxpayers' dollars.

Secretary Paige and new administrators at the department have inherited what simply can be called a mess. The department faces a number of significant financial management challenges, as highlighted in the annual financial statements audit that we discussed during our last hearing, and the work of the General Accounting Office and the Office of the Inspector General.

As we have heard, the GAO currently is conducting a fraud audit of the department, at the request of this committee. GAO staff is examining the internal controls for the department's disbursement processes and searching records for possible instances of improper payments.

The use of third party drafts and purchase cards, which are government credit cards, have proven to be particularly vulnerable areas.

At our last hearing, GAO testified that a lack of segregation of duties when issuing third party drafts has left the department vulnerable to the possibility of employees using drafts for personal expenses. In addition, while third party drafts have a limit of $10,000 each, one of the department's manuals gave instructions to employees on how to add a suffix to an invoice in order to issue multiple checks to a payee.

At the same hearing, GAO also testified that 230 department employees had government purchase cards. While most had monthly limits of $10,000, two employees could charge up to $300,000. In addition, GAO noted that 141 of the 676 cardholder monthly statements they reviewed were not signed by an official indicating that the purchase was approved, despite department policy requiring a signature and review of each statement.

Today, GAO will inform us about other internal control weakness in the use of purchase cards, third party drafts, and in the operations of the Grant Administration and Payment System.

We know that insufficient internal controls has resulted in fraud against the department. In May of this year, eleven individuals including four employees of the department were indicted for their participation in a wide-ranging fraud scheme against the department. In the scheme, the defendants allegedly conspired together so that electronic items ordered for personal use were paid for under a Bell Atlantic contract with the department. Items obtained included computers, cellular and cordless telephones, Palm Pilot organizers, cameras and a 61-inch television. The total value of the goods obtained by this group exceeds $300,000, in addition to more than $600,000 in false overtime payments to the contractors. This occurrence of fraud follows another incident with which this committee is familiar -- in March 2000, $1.9 million in Impact Aid grant money intended for two South Dakota school districts was embezzled from the department.

Although she is limited in what she can share, I understand the Inspector General's office is conducting other investigations of possible criminal action at the department.

However, given this background, I am quite pleased and encouraged by the action Secretary Paige and Deputy Secretary Hansen have taken to find the root cause of these management woes and chart a new course for financial oversight at the department. In April, Secretary Paige announced a new initiative to address past mismanagement and fraud at the department. The plan included three parts: install new leadership in the financial and management areas of the department; assemble a Management Improvement Team; and solicit the counsel and advice of external advisors. Deputy Secretary Hansen is here today to update us on the work ongoing as part of the initiative, but I think a couple of points are worth highlighting.

The secretary reported last week on the efforts of the Management Improvement Team. I think one of the most astounding statistics to come out of the interim report is that the team identified 661 recommendations for management improvements that were open as of April 1, 2001, or subsequently identified before July 16, 2001, and already has addressed 309. I find a couple of facts here remarkable. First, 661 recommendations, from a variety of sources including financial statement audits, GAO, the Student Financial Assistance Performance Plan, and the Office of the Inspector General, were carried into this new administration without being addressed. Second, in just three months time, the new management improvement team has closed 104 recommendations and developed corrective action plans for another 205. I think these statistics underscore the lack of attention these critical issues had received in the past, and the commitment of the new administration to resolve these problems.

Secretary Paige also responded swiftly to the concerns that Congressman Tiberi and I raised about the use of third party drafts and government purchase cards. In June, the department eliminated the use of third-party drafts. The department determined that the administrative conveniences that their use provided were far outweighed by the risk and potential for abuse. In addition, the department restricted access and reduced purchase limits for employee use of government purchase cards. Single purchase and monthly limits have been lowered to ranges of $500 to $30,000. The department is strengthening review and approval of all credit card purchases and bills, and updating policies and training for use of the cards.

In addition, the President has announced the nomination of Jack Martin to be Chief Financial Office at the department. Upon his confirmation, Mr. Martin will fill a position that had been vacant for the last two and a half years of the previous administration. I understand a nomination of Assistant Secretary for the Office of Management will be made soon. That position has been vacant for five years. Filling these

positions reflects a commitment to ensure that leadership for financial management will be in place at the highest levels.

Today we want to learn more about areas of vulnerability and how those areas best can be addressed. It is clear that the previous administration lacked a commitment to financial management. Now we have an opportunity to work with a new administration and a new secretary to get the department's books in order and put the proper systems in place to prevent waste, fraud and abuse.

At this time, I will yield to my friend and Ranking Member, Congressman Tim Roemer ***(provided he's in attendance)*** for any statement he may have.

APPENDIX B -- OPENING STATEMENT OF RANKING MINORITY MEMBER, TIM ROEMER, SUBCOMMITTEE ON SELECT EDUCATION, COMMITTEE ON EDUCATION AND THE WORKFORCE, U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC

Congressman Tim Roemer, Ranking Member
Subcommittee on Select Education
Hearing on "Status of Financial Management at the Department of Education"
July 24, 2001 at 9:30AM

Mr. Chairman, like you, I am very interested in ensuring that our tax dollars are being used wisely and that the Department of Education's financial management practices are sound. This is the fifth hearing that we have had on this in the last two years, and I look forward to the day when these hearings are no longer necessary.

I want to congratulate the Department for working towards obtaining a clean audit. This was started by the first Bush administration. When, Richard Riley took over as Secretary, Deputy Secretary David Kearns, was in the early stages of making some needed changes. Secretary Riley made improving financial management a top priority during his time as Secretary, and I'm glad to see that Secretary Paige shares this level of commitment.

The Clinton administration was committed to working towards a clean audit and ridding the Department of Education of fraud and abuse. I am pleased with some of the positive steps that have been taken. The cohort

default rate on student loans has declined for seven consecutive years and was at a record low 6.9 percent at the beginning of this year. Collections on defaulted loans have more than doubled, from $1 billion in FY 1993 to over $3 billion in fiscal year 1999. Data improvement in the National Student Loan Data System has prevented the disbursement of as much as $1 billion in grants to ineligible students.

Mr. Hansen, I look forward to hearing about the improvements that you and Secretary Paige have made this year. I hope that soon these financial management problems will be behind you so that you are both freed up to work on important education policy such as the Elementary and Secondary Education Act and the Individuals with Disabilities Act.

Mr. Chairman, I look forward to working with you on this and other issues. I look forward to hearing from our witnesses.

APPENDIX C -- STATEMENT OF THE HONORABLE WILLIAM D. HANSEN, DEPUTY SECRETARY, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC

TESTIMONY OF THE HONORABLE WILLIAM D. HANSEN
DEPUTY SECRETARY OF EDUCATION

BEFORE THE
SUBCOMMITTEE ON SELECT EDUCATION
COMMITTEE ON EDUCATION AND THE WORKFORCE
JULY 24, 2001

Mr. Chairman, I would like to thank you for the opportunity to discuss the status of our progress in bringing better financial management and more accountability to the Department of Education. Since taking the oath of office as Deputy Secretary just over 8 weeks ago, I have been grateful for the support that I have received from you and members of the committee. The work done by you and your colleagues over the last few years has helped us hit the ground running by identifying the Department's problems and guiding the new administration where we need to be headed.

We are making steady progress in addressing the Department's longstanding financial management problems. When this effort began back in April, we faced 661 outstanding recommendations for management improvements. Last week, Secretary Paige reported that we have already taken action on more than 300 recommendations. More than 100 recommendations for management improvement have been put into effect and corrective action plans for another 205 have been drawn up and put in place.

Tackling these longstanding problems is a top priority for this administration. As you know, President Bush is holding all agency heads accountable for obtaining and maintaining unqualified or "clean" opinions on their annual financial statement audits. But this is not simply an end in and of itself. To get to this goal, we must get beyond the symptoms and deal with the deeper problem, which is a lack of an organizational culture that incorporates accountability. For this reason, Secretary Paige and I are committed to transforming the Department's approach to

delivering program services, including the financial operations that support those services, to one where every Department employee, grantee and contractor is accountable for results.

The disclaimers and qualified financial audit opinions that the Department received in prior years were indications of the extensive problems facing the Department. These problems include a serious lack of internal controls that allowed employee and contractor misconduct to occur. This misconduct has tarnished the Department's reputation and damaged the perception of the Department in the eyes of the Congress and the American people.

Management Improvement Initiative

On April 20, 2001, Secretary Paige established a Management Improvement Team (MIT) of senior career managers to identify, resolve and close our outstanding management improvement recommendations, and develop a blueprint to address longer term and structural issues that hinder the efficient and effective performance of the Department. Last week, the Department issued an interim report on our progress during the first 90 days. Our final report, which will be completed by September 30, 2001, will update our continued progress and outline where we are headed in the future.

The MIT started out by assessing each of the 661 outstanding recommendations and determining which could be addressed immediately and which would take longer to correct. The team prioritized the recommendations and segmented them into three primary areas: Financial Management, SFA High Risk, and Information Technology Security.

Next, we immediately went after the problem areas. For example, we reduced the spending limits on government purchase cards, some by more than 90 percent. We also reduced the number of employees with access to purchase credit cards. To begin the move to this culture of accountability that I mentioned earlier, we are requiring all purchase cardholders to go

through mandatory training on the proper use of the cards, and are now requiring all supervisors to review the card statements each month for the cardholders in their offices. Similarly, we increased controls to ensure against the improper use of travel cards.

We are eliminating the use of third party drafts that were easy targets for abuse. This method of disbursement was intended to replace an antiquated and inefficient expense reimbursement fund, but the benefits of this system clearly did not outweigh the risks. So we decided to transfer the function entirely to the Department of the Treasury. This will simplify our operations and allow us to focus on other remaining problems while virtually eliminating any possibility of fraud in this area.

Our auditors identified many weaknesses in the current accounting system, and these weaknesses are being addressed in the implementation a completely new accounting system that will produce fully integrated financial management information. In addition, staff members are reviewing the Department's financial processes and systems to facilitate reconciliation of major accounts and ensure all transactions are recorded properly – providing an important tool used in detecting and correcting errors. Monthly reconciliations of critical accounts are already being done.

We are improving internal controls over the procurement of goods and services through strong accountability measures. This is another area that has been subject to abuse and we want to make sure that it does not reoccur in the future. To do this we are updating internal policy directives, informing employees of these changes, and holding managers accountable for their implementation.

We are completely reengineering asset management to ensure that proper internal controls and accountability are maintained. We recently completed a reconciliation of the

Department's asset inventory, and we will conduct spot checks of this inventory throughout the year as well as annual physical inventories.

Removing the SFA Programs from the GAO High Risk List

The Secretary has made getting the Student Financial Assistance (SFA) programs off the U.S. General Accounting Office's list of "high risk " programs a high priority. These programs have been considered high risk ever since the GAO first began issuing the list in 1990. We have already taken important steps toward removing the SFA programs from this watch list including developing a corrective action plan that incorporates all the outstanding audit recommendations related to SFA and setting 28 SFA performance goals for improving fiscal and program integrity.

I have also directed the Department to address all the financial management and security issues that must be resolved before the SFA programs can be removed from GAO's high risk list.

Information Technology (IT) Security

Despite the Department's increasing dependence upon computer systems for performing its basic business functions, it has not until recently placed a high priority on the protection of its computer systems or provided adequate resources for IT security. Over the past year and a half, the IG has issued several audit reports critical of the Department's computer security environment.

The Secretary and I are committed to improving the Department's information security, and I will personally co-chair with CIO the monthly meetings of the Department's Information Security and Critical Infrastructure Steering Committee to make sure that this gets done.

We have made the following enhancements to our computer security in the last 90 days. These include --

- Purchase and deployment of a new intrusion detection system for the Department's computer network;
- Arranging for disaster recovery facilities for our EDCAPs financial management system and EDnet enterprise computer network.
- Updating our IT Security Policies; and
- Developing a security training program for our IT professional staff and managers and using it to train our employees.

We will also be completing security reviews of each of the Department's 135 information systems under to the Government Information Security Reform Act of 2000 (GISRA).

Fostering a Culture of Accountability

As I mentioned before, the biggest challenge we face is developing a Department culture that emphasizes individual responsibility and accountability. We must be diligent in establishing and enforcing internal controls throughout the Department. In May, Secretary Paige asked all staff to share their ideas and to join in this effort.

Many of the professional career staff at the Department already have rolled up their sleeves and worked hard to help to achieve everything that we've accomplished to date. A couple of them are with me today. Jack Higgins, the Deputy Inspector General who is on loan to us from the IG's office and is heading up the MIT. Phil Maestri, from the Chief Financial Officer's staff and Ann Clough from the Office of Legislation and Congressional Affairs, both of whom have many years of valuable experience dealing with these issues, are also key team members. Secretary Paige and I know that Jack, Phil, Ann and the rest of the Department's employees are ready and willing to embrace this culture of accountability.

Here are some of the action steps that will help us get there:

- Every senior officer, including myself, will have a performance contract with Secretary Paige which will hold them accountable for results;
- Every manager and employee will have a performance agreement that reflects the Department's goals and objectives, and establishes clear individual job performance expectations, and
- We will provide training for managers and staff on internal financial and administrative controls and ethical conduct.

Fostering a culture of accountability and excellence also requires that we make better use of the performance management tools available under the Government Performance and Results Act. We will --

- Review all current performance indicators for validity, timeliness, and value;
- Align principal office and individual employee performance plans with the revised Department plan; and
- Closely monitor results against these plans.

Finally, Secretary Paige and I recognize that the enactment of the President's *No Child Left Behind* education reform plan is landmark legislation in bringing accountability to education. We know we cannot expect our schools to be accountable if we aren't accountable here in Washington. We're here to get that done. And as Secretary Paige has said, "There will be no excuses."

I would be happy to answer any questions.

APPENDIX D -- STATEMENT OF LORRAINE LEWIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC

Statement of Lorraine Lewis
Inspector General
Department of Education

Before the
Subcommittee on Select Education
Committee on Education and the Workforce
United States House of Representatives

July 24, 2001

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to participate in today's hearing on financial management practices at the Department of Education. You requested that I focus my testimony on the work of the Office of Inspector General (OIG) concerning internal controls at the Department. Specifically, I will address our reviews over the use of government purchase cards and third party drafts, comment on investigations, and discuss our recommendations to the Department on how to improve its financial management.

The Department of Education has serious financial management issues it must address. While progress has been made and is continuing, much work remains. We will keep working closely with the Subcommittee, the Department, and the General Accounting Office (GAO) to help the Department continue to move forward in improving its financial management practices. I commend the Subcommittee for its strong interest in these important matters and for the attention it has given to financial management at the Department.

Secretary Paige's establishment of the Management Improvement Team (MIT) is an important step toward improvement. The MIT's interim report of last week reflects a comprehensive

review of financial management, information technology security, and other management issues and illustrates the significant challenges that still lie ahead.

As I have testified in the past, the financial statements audit reports, particularly the Report on Internal Controls, provide the blueprint for addressing financial management issues. As the GAO noted in a report on the Department's financial management, "internal control serves as the first line of defense in safeguarding assets and in helping detect and prevent waste, fraud, and abuse." (GAO-01-104R, Education's FY 1999 Financial Management Weaknesses, October 16, 2000, p. 9.) While an unqualified, or clean, opinion is an important goal, an equally important goal is the resolution of the three material weaknesses and two reportable conditions in the Report on Internal Controls. The material weaknesses identified were: 1) financial management systems and financial reporting need to be strengthened; 2) reconciliations need to be improved; and 3) controls surrounding information systems need enhancement. The reportable conditions were: 1) improvement of financial reporting related to credit reform is needed; and 2) reporting and monitoring of property needs to be improved.

We welcome the opportunity to have GAO join us in our oversight activity concerning internal controls in the Department. We have shared with GAO the results from our purchase card and third party draft reviews, as well as information on improper payments and information technology security. We appreciate GAO's work and results, and have learned from its efforts.

Internal Control Review over Purchase Card and Third Party Draft Payments

In October 2000, we issued our review of the Department's internal control over the use of purchase cards and third party drafts. (Results of the OIG Review of Internal Controls over the Use of Purchase Cards and Third Party Drafts (A&I 2000-15), see Appendix A). We found that the Department's established procedures for these programs were not always current and were not always followed. Additionally, the Office of Chief Financial Officer, which is responsible for the programs, needed to improve its administration of both programs.

To help safeguard against potential misuse or waste, while ensuring that purchase card transactions and third-party drafts serve program needs, we made 22 recommendations to the Department. They were designed to:

- strengthen the control environment over the use of purchase cards and drafts;
- provide for an assessment of the external and internal risks the agency faces;
- strengthen control activities over the use of purchase cards and drafts;
- strengthen information and communication regarding the use of purchase cards and drafts; and
- strengthen monitoring over the use of purchase cards and drafts.

Department officials concurred with our findings and recommendations.

We initiated a follow-up review to address two specific recommendations that are key to ensuring that these purchase cards are used properly and that the Department is paying the correct amount. Those are: 1) requiring that all approving officials review and sign monthly purchase card statements; and 2) reconciling the monthly Department-wide purchase card

statement to the monthly statements approved by the approving officials from the principal offices and to the Department's accounting system, EDCAPS.

Specifically, in this follow-up review, we focused on the statements for the month ending February 16, 2001. We reviewed the purchase card statements for 184 cardholders who had activity for that month. With regard to approving official review, we found that six statements lacked required signatures. We also found 68 statements were not submitted timely. Consequently, some statements were unsigned or missing when the Department's consolidated bill was paid, 38 days after the due date.

With regard to reconciliation, the Department's Financial Management Policies and Administrative Programs (FMPAP) provided us documentation of reconciliation that we are still evaluating. The FMPAP staff stated that when the Department's new financial system is operational, the reconciliation process should be more efficient.

We subsequently asked FMPAP to provide documentation for the payment of the Department-wide purchase card statement for May 2001. From the documentation we received, we found that FMPAP had not sent timely notices to purchase card approving officials for 22 overdue statements. This contributed to the Department's statement being paid 10 days past the due date.

Since our initial reports in this area, in response to our work, the Department has taken several steps to correct weaknesses in the purchase card and third party draft programs. For example, the Department has conducted mandatory training sessions for cardholders and supervisors,

conducted a risk assessment, provided written delegations, and provided managers GAO's Standards for Internal Control in the Federal Government. (GAO/AIMD-00-21.3.1, issued November 1999.)

Additional Reviews of Internal Operations

We have also reviewed a number of other internal operations of the Department.

Disbursement Process Controls

Under contract to OIG, Ernst & Young is examining the Department's controls over its payment systems and processes. Three have been completed:

- The Impact Aid Program within the Office of Elementary and Secondary Education;
- The discretionary grant disbursement process within the Office of Educational Research and Improvement; and
- The formula grant disbursement process within the Office of Vocational and Adult Education.

The objectives of each review were to determine the processes by which payments can be made by the Department and to assess the controls over the payments in those processes to determine if the controls are operating effectively. [Review of the Impact Aid Program Disbursement Process Within the U.S. Department of Education Office of Elementary and Secondary Education (Audit Control Number: ED-OIG/S17-B0013, July 19, 2001); Review of the Discretionary Grant Disbursement Process Within the U.S. Department of Education Office of Educational Research and Improvement (Audit Control Number: ED-OIG/S17-B0014; July 19, 2001); Review of the Formula Grant Disbursement Process Within the U.S. Department of Education Office of

Vocational and Adult Education (Audit Control Number: ED-OIG/S17-B0015, July 19, 2001), see Appendix A].

Based on its reviews, Ernst & Young identified several areas where enhanced controls and needed operational changes, if properly implemented, will reduce the risk of erroneous payments. One common theme among these reviews was the need for improved data integrity controls. The reviews contained recommendations to 1) establish procedures for and perform formal reconciliation from feeder systems to the Grant Administration Payment System, and 2) enhance grants monitoring.

Cellular Phones

In September 2000, we assessed the Department's controls over the purchase and management of cellular phones. We found that improvements were needed in policies and procedures, inventory controls, segregation of duties, billing processes, vendor selection, and maintenance of documentation. As a result of the ineffective controls, the risk of errors, theft, fraud and abuse was increased. The Department concurred with our findings and recommendations. (Audit of the U.S. Department of Education's Controls over Cellular Phones (ED-OIG/A11-A0014), see Appendix A).

We also note that in a recent investigation, we developed evidence that a Department employee permitted his family members to use his Department-issued cell phone to make over 8,000 personal telephone calls between May 1998 and December 1999. In May 2001, the employee pled guilty to a one-count criminal information and resigned from the Department.

Contracting Operations

We have consistently issued reports recommending improvements in the Department's management of contracts and contractors.

- In March 2001, we assessed the Department's contract payment process and whether controls were in place to prevent and detect improper payments. We found that improvements were needed in controls over the invoice review process, segregation of duties, and the process for establishing vendor information in the Department's contract payment system. Based on our work, the Department lacked assurance that payments are proper. We made several recommendations to the Department to improve the controls. The Department generally concurred with our findings and agreed to take action on our recommendations. (Audit of Controls over Contract Payments (ED-OIG/A07-A0015), see Appendix A.)

- We issued two reports in 2001 on the Department's controls over property furnished to the Department's major student financial assistance contractors and found that the two contractors did not comply with recordkeeping, reporting, and inventory requirements, and that Government property was not properly identified. The contractors have concurred with our findings and recommendations on the reports issued to date. (Audit of Controls Over Government Property Furnished to Computer Sciences Corporation (ED-OIG/A19-B0003); Audit of Controls Over Government Property Furnished to Affiliated Computer Services, Inc. (ED-OIG/A19-B0004), see Appendix A).

➢ Since Fiscal Year 1999, most of our work has focused on the major Student Financial Assistance contractors. We evaluated the Department's processes for monitoring contract performance, including the activities of the Contracting Officer, Contract Specialist, and Contracting Officers' Representative, as well as internal controls and processes at the individual contractors. We found that: 1) contract changes were not formalized; 2) contract terms were not adequately defined; 3) changes in key personnel were not approved in advance; 4) key contract personnel were not devoting the time specified in the contract; 5) contractor remittances to the Department were not monitored; and 6) incorrect contractor billings were not detected. (See Appendix B for a list of the audits and other products.)

As a result, the Department was not getting what it was paying for with respect to the quality of the projects and the contractors' responsibilities under the contracts. Informal contract agreements and ambiguous contract terms could result in misunderstandings and disputes over what is expected under the contract. Changes in key personnel and key personnel working other projects reduced the level of effort and quality of the overall project, and resulted in overcharges since key personnel costs were built into the contract prices. Failure to monitor remittances resulted in loss of funds. The Department's failure to appropriately review contractor billings resulted in improper payments to contractors.

➢ In 2001, we conducted an audit follow-up review of these issues to determine if corrective actions were taken. We found that corrective actions were taken to formalize contract changes, define contract terms, and approve changes in key personnel in advance. Further actions were needed, however, to implement corrective actions to ensure that contract personnel

devote the time specified in the contract, monitor contract remittances, and detect incorrect billings. (Audit Follow-up Review on Corrective Actions the Department Had Taken in Response to Issues Reported During the Office of Inspector General's Contract Monitoring Audits of Student Financial Assistance Information Technology Contracts (ED OIG/A07-A0014), see Appendix A.)

Information Technology Security

Security of information technology systems is an important internal control. For several years, we have reported security as a management challenge for the Department and have focused our audit resources on identifying and reporting on vulnerabilities in the Department's systems. As a result of our audit work, the Department has identified information technology security as a material weakness in its annual Federal Managers' Financial Integrity Act reports since Fiscal Year 1999. Additionally, Ernst & Young's Report on Internal Controls for Fiscal Year 2000 identified controls surrounding information systems as a material weakness. We also welcome GAO's ongoing security work on the Department's financial system, EDCAPS. To assist in its effort, we provided GAO with the results of our previous audits and access to our workpapers.

Over the course of the last two years, we have issued numerous reports related to security controls, including: Review of Security Posture, Policies and Plans (ED-OIG/A11-90013, February 2000); Review of EDNet Security (ED-OIG/A11-90018, July 2000); Review of Planning and Assessment Activities for Presidential Decision Directive 63 on Critical Infrastructure Protection (ED-OIG/A11-A0005, September 2000); Audit of Collection of Personally Identifiable Information Through ED Internet Sites (ED-OIG/A11-B0002, February

2001); Security Review of the Virtual Data Center (ED-OIG/A11-A0015, March 2001) (see Appendix A).

These reports highlighted weaknesses in the Department's security controls and provided recommendations for better securing the Department's systems. Some of our most significant findings included the Department's need to:

- Complete required security plans and reviews for mission-critical systems;
- Provide security training to staff;
- Improve technical and physical controls over its network and data centers to address existing vulnerabilities;
- Improve incident response capabilities, audit logging and tracking, and disaster recovery planning;
- Complete a critical infrastructure protection plan, identify critical assets, and conduct vulnerability assessments;
- Strengthen controls over collection of personally identifiable information on its Internet sites and posting of required privacy notices.

These identified internal control weaknesses collectively constitute a significant threat to the security of the Department's information technology systems and the data that they process. We have made numerous recommendations for the Department to take action to develop and implement the policies and practices necessary to protect the integrity and privacy of its IT systems.

The Department has corrective action plans in place to address our recommendations and has made progress. For example, the Department has completed security plans for all but one the mission critical systems included in our report and completed security reviews for all of its mission critical systems included in our report. Additionally, by December 2000, the Department provided security awareness training to 97 percent of its staff.

The Department must remain diligent in addressing our remaining recommendations. Until these remaining actions are taken, the Department remains vulnerable to security breaches such as outside hackers, malicious viruses, and damage caused by disgruntled employees.

We will continue to focus on security issues in the Department as we complete our 2001 security evaluation required by Title X, Subtitle G, "Government Information Security Reform," of the FY 2001 Defense Authorization Act. The results of this evaluation will be reported to the Office of Management and Budget in September 2001.

Improper Payments

In an October 12, 2000 memorandum, we encouraged the Department to develop a process for estimating improper payments for the Department. An estimate of improper payments could be used by the Department to help it manage its financial resources and to make programmatic decisions. The MIT Interim Report stated that the Department is preparing to implement Office of Management and Budget guidance on estimates of erroneous or improper payments. (MIT Interim Report on Management Improvement, July 17, 2001, p. 10.)

During the Subcommittee's April 2001 hearing, we referred to data reported in our previous three fiscal years of Semiannual Reports to Congress and our recent work in the area of duplicate payments to identify the known amount of improper payments. We identified a three-year total of approximately $450 million. We are pleased that the Department addressed this important issue and discussed its, and the Justice Department's, efforts to recover these amounts. We agree with Secretary Paige that collective efforts by the Department, the OIG, and the Justice Department to find problems, recover funds, and enforce the law are examples of efforts we need to make to protect the federal interest. (Secretary Paige's letter to Chairman John Boehner, May 22, 2001.)

One method by which the Department could minimize improper payments is to obtain income verification from the Internal Revenue Service. (OIG letter on Management Challenges, December 8, 2000.) A significant concern for the Department has been student aid applicants and their parents who under-report their income on the Free Application for Federal Student Aid in order to receive student financial assistance funds to which they are not entitled. Congress should enact whatever legislation is necessary to authorize this verification.

Investigative Activities

In my previous appearances before the Subcommittee, we indicated that we are conducting an investigation of individuals who, between 1997 and 1999, purchased and/or received equipment paid for with federal funds for non-business related purposes and billed the Department for overtime hours not worked. The defendants defrauded the government of more than $300,000 in property and more than $700,000 in false overtime charges. On May 23, 2001, 11 individuals,

including four employees of the Department, were charged in a 19-count indictment. The charges included conspiracy to defraud the government, theft of government property, receipt of stolen government property, sale of stolen government property, and conspiracy to submit false claims to the government. Eight individuals, including four former Department employees, previously pled guilty. All the Department employees who were involved or are alleged to be involved, in these criminal cases have resigned or have been placed on indefinite suspension without pay.

Recommendations to Improve Financial Management Operations

In December 2000, we responded to a joint House and Senate request for an update on the status of the management challenges facing the Department. The first four management challenges that we identified relate to financial management, information technology management, systems security, and internal controls. While the Department has made progress on each of these challenges, much work remains. These problems did not occur overnight. In some cases, the challenges deal with complex issues, such as implementing new financial management systems and information security policies and practices. As a result, some of the management challenges facing the Department will take time to resolve.

We are working with the Secretary to improve the programs and operations of the Department and protect the integrity of those programs and operations. The Secretary's commitment and that of his senior management team must be sustained if the Department is to make positive long lasting changes.

The Department needs to establish and maintain appropriate internal controls over Department programs and operations by applying GAO's Standards for Internal Control in the Federal Government. The internal control structure must be well designed and operated, appropriately updated to meet changing conditions, and provide reasonable assurance that the objectives of the Department are being achieved. Adherence to these standards will provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and recorded properly; and that data supporting performance measures are properly recorded and accounted for so that performance information will be reliable and complete.

Conclusion

We are committed to identifying problems and working with the Department and Congress on solutions. The continued interest of the Subcommittee and the work of GAO will aid the Department in improving its financial management practices and internal controls. We look forward to contributing to this combined effort to improve the Department's stewardship of taxpayer dollars.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have.

OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF EDUCATION

Appendix A

The following products that are referenced in this statement are available on the Internet at http://www.ed.gov/offices/OIG/

- Results of the OIG Review of Internal Controls Over the Use of Purchase Cards and Third Party Drafts (A&I 2000-15, October 13, 2000)
- Review of the Impact Aid Program Disbursement Process Within the U.S. Department of Education Office of Elementary and Secondary Education (ED-OIG/S17-B0013, July 19, 2001)
- Review of the Discretionary Grant Disbursement Process Within the U.S. Department of Education Office of Educational Research and Improvement (ED-OIG/S17-B0014, July 19, 2001)
- Review of the Formula Grant Disbursement Process Within the U.S. Department of Education Office of Vocational and Adult Education (ED-OIG/S17-B0015, July 19, 2001)
- Audit of the U.S. Department of Education's Controls Over Cellular Phones (ED-OIG/A11-A0014, September 15, 2000)
- Audit of Controls Over Contract Payments (ED-OIG/A07-A0015, March 13, 2001)
- Audit of Controls Over Government Property Furnished to Computer Sciences Corporation (ED-OIG/A19-B0003, March 19, 2001)
- Audit of Controls Over Government Property Furnished to Affiliated Computer Services, Inc. (ED-OIG/A19-B0004, April 20, 2001)
- Audit Follow-up Review on Corrective Actions the Department Had Taken in Response to Issues Reported During the Office of Inspector General's Contract Monitoring Audits of Student Financial Assistance Information Technology Contracts (ED OIG/A07-A0014, September, 2000)
- Review of Security Posture, Policies and Plans (ED-OIG/A11-90013, February 2000)
- Review of EDNet Security (ED-OIG/A11-90018, July 2000)
- Review of Planning and Assessment Activities for Presidential Decision Directive 63 on Critical Infrastructure Protection (ED-OIG/A11-A0005, September 2000)
- Audit of Collection of Personally Identifiable Information Through ED Internet Sites (ED-OIG/A11-B0002, February 2001)
- Security Review of the Virtual Data Center (ED-OIG/A11-A0015, March 2001)

OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF EDUCATION

Appendix B

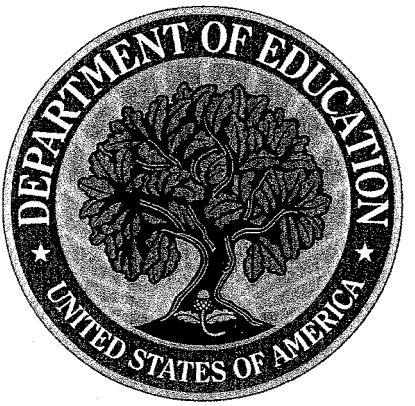
The following reports, while not specifically referenced, relate to internal controls. Some may be found on the Internet; other must be requested.

- Audit of Public Inquiry Contract, National Computer Systems, Iowa City, IA (ED OIG/A07-80017, November 1998)
- OSFAP Action Memorandum 99-01 – Informal Contract Task Orders/Modifications, Title IV Wide Area Network Contract (ED OIG/E07-90014, October 27, 1998)
- OSFAP Action Memorandum 99-02 – Outstanding Title IV Wide Area Network Remittances, (ED OIG/E07-90013, November 2, 1998)
- OSFAP Action Memorandum 99-05 – Title IV Wide Area Network Contract – Inappropriate Charges for Key Personnel to New Tasks and Other NCS Contracts, (ED OIG/E07-90012, December 16, 1998)
- OSFAP Action Memorandum 99-09 – Department Officials Should Avoid the Appearance of Limiting Full and Open Competition (ED OIG/E07-90011, February 25, 1999)
- Audit of Title IV Wide Area Network Contract, National Computer Systems, Iowa City, IA, (ED OIG/A07-80018, May 1999)
- OSFAP Action Memorandum 99-11 – Key Personnel Requirements Should be Clarified Prior to Award of the Editorial Services Contract (ED OIG/E07-90025, May 25, 1999)
- OSFAP Action Memorandum 99-12 – Allowing Contracting Officer's Technical Representatives to Authorize Work is Contrary to Procurement Regulations (ED OIG/E07-90027, May 28, 1999)
- Audit of the Central Processing System Contract (ED OIG/A07-90003, March 2000)
- Audit of Compliance with Cost Accounting Standards for Travel, National Computer Systems, Iowa City, IA, (ED OIG/A07-90017, March 2000)
- SFA Action Memorandum 00-01 -- Planned Payment to Contractor for Unauthorized Work (ED OIG/E07-A0017, May 8, 2000)
- Recipient Financial Management System Contract awarded to Computer Data System, Incorporated (CDSI) (ED OIG/A02-80002, September 2000)
- Review of the Department's Requirements Definition & Testing Processes for the Loan Origination and Loan Consolidation Systems (ED OIG/A11-70010, March 30, 1999)
- Assessment of Direct Consolidation Loan Program Administration and Operations by EDS, Inc. Since December 1, 1997, (ED OIG/A04-80009, May 28, 1999)
- Review of the Department's Acquisition Process for Office of Student Financial Assistance Programs Information Systems, (ED OIG/A11-80004, May 1999)
- Review of Collection Activities at Unger and Associates, (ED OIG/A06-90011, February 8, 2000)
- Audit of Controls over Government Property Furnished to Affiliated Computer Services, Inc., (ED OIG/A19-B0004, April 20, 2001)

OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF EDUCATION

Appendix B

- Appendix B WestEd's Administration of the Regional Educational Laboratory Contracts (ED OIG/A09-60009, March 31, 1998)
- State and Local Action Memorandum 00-05, Duplicate Payment Made to Policy Studies Associates, Inc. (ED OIG/E07-A0022, July 13, 2000)



Department of Education
Management Improvement Team

INTERIM REPORT ON MANAGEMENT IMPROVEMENT

July 17, 2001

TABLE OF CONTENTS

Background 2
Addressing the challenges of restoring confidence in the Department of Education as well as ensuring the proper use of money devoted to education.

Activities to Date 4
Initial steps taken by the Department of Education to meet the goals set forth by Secretary Paige.

Structural and Longer-Term Issues 9
A description of the actions needed to resolve the underlying issues facing the Department of Education.

INTERIM REPORT ON MANAGEMENT IMPROVEMENT

"I am pleased to announce an initiative that will have two goals: first to restore the confidence of the Congress and the public in the department, and second to make sure that no money that ought to be spent on improving education of American children is wasted in Washington."

Roderick Paige, Secretary of Education
April 20, 2001

This Report discusses the first three months of progress on the challenges set forth by Secretary Paige in solving financial, information security and other management problems. It outlines action steps already identified, as well as problems newly raised, during the course of the top-to-bottom review being conducted by the Management Improvement Team (MIT) appointed by Secretary Paige. It also describes next steps for addressing those problems.

This Report is preliminary to the final Blueprint, which the MIT will complete by September 30, 2001. In order to complete the analysis of problems and action steps that need to be taken, capitalize on accomplishments to date, and continue momentum, the MIT will continue through September 30, 2001 and possibly beyond.

BACKGROUND

The Department needs to strengthen its management performance. While the Department has made recent improvements, financial and management problems continue to damage the Department's credibility. Most notably, outside auditors were unable to issue an unqualified opinion on the Department's financial statements for each of the past three years; the student financial assistance programs continue to be on the U. S. General Accounting Office's (GAO's) High Risk List; and information technology security continues to need improvement. GAO and the Department's Office of Inspector General (OIG) have repeatedly documented problems in these areas. Further, an isolated but well-publicized case of serious employee and contractor misconduct took place at the Department and continues to tarnish its reputation.

President Bush's position on financial accountability was made clear in his February 2001 budget report to the Congress, A Blueprint for New Beginnings: "The President believes that Government must ensure a basic level of financial accountability that is expected of any company in the private sector. He is holding agency heads accountable for obtaining and maintaining unqualified or clean opinions on their agencies' annual financial statement audits. More than 60 percent of agencies currently receive clean opinions; heads of the agencies without clean opinions are expected to attack vigorously the longstanding difficulties and record-keeping deficiencies that prevent clean opinions."

In support of President Bush's position, on April 20, 2001, Secretary Paige announced a major initiative to foster a culture of accountability in the Department and improve the Department's financial operations.

Showing his commitment to correcting financial and other management problems, Secretary Paige announced a three-pronged strategy for addressing these issues:

- Install new leadership in the financial and management areas of the Department;
- Assemble a team of ten members of the senior staff; and
- Solicit the assistance of external experts and partners.

On July 9, 2001, the President announced his intent to nominate the Chief Financial Officer of the Department of Education. The Assistant Secretary for Management will be nominated shortly. Secretary Paige considers filling these two positions critical to addressing many long-term management issues identified in this Report and helping put the Department's business in order.

With the help of GAO, OIG, several Congressional committees, senior managers and employees within the Department, many of the problems that have hindered the Department's effectiveness have been identified. Secretary Paige assembled the MIT to identify and close as many short-term management improvement recommendations as possible, and to develop a Blueprint for Management Excellence to address longer-term and structural issues.

Secretary Paige charged the Management Improvement Team to:

- Obtain a clean audit opinion from the Department's auditors;
- Remove the Student Financial Assistance (SFA) programs from GAO High Risk List;
- Make accountability for results the primary operating principle for all Department employees, grantees, and contractors;
- Put in place an effective system of internal controls;
- Continue to modernize student aid delivery and management; and
- Provide a structure for measuring progress toward solving identified problems.

The Council for Excellence in Government is monitoring the initiative and will provide the Department with assistance on performance improvement issues. The Council will seek input from other principals and former government officials now in the private sector who have expertise in improving the quality of government performance. Council staff participates in weekly MIT meetings, works with the Secretary and the Deputy Secretary to help diagnose problems, suggests workable strategies, and focuses on long-term institutional changes needed to create a culture of accountability.

ACTIVITIES TO DATE

The MIT began its work by gathering information. The MIT interviewed key Department staff to obtain information regarding problems and challenges facing the Department in the areas of financial management, information management, and other key areas of risk in Department operations and programs. The MIT assembled all open recommendations for management improvements contained in written reports issued by the Department's OIG and financial statement auditors, GAO, and others. The MIT also expanded the existing audit tracking system to track progress on non-audit recommendations as well. As a result of these actions, the MIT identified a number of key issue areas that need to be explored further.

The MIT has identified 661 recommendations for management improvements that were open as of April 1, 2001, or identified between then and July 16, 2001. The sources of these recommendations include the Department's financial statement audits, GAO, the SFA Performance Plan, OIG and other internal reviews. The MIT assessed each of these recommendations and determined which could be addressed immediately and which would take longer to complete. Since April 1, 2001, the Department has closed 104 recommendations and developed corrective action plans (CAPs) for another 205. In addition, the MIT prioritized all recommendations and established an interim tracking mechanism for them. The MIT also segmented the recommendations into three primary categories -- Financial Management, SFA High Risk, and Security. A few recommendations not applicable to the three primary categories were captured as "all other."

These are displayed in the tables below and the following graphs.

Recommendations for Management Improvement by Subject

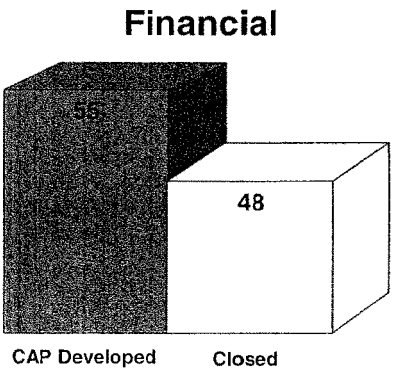
Type	Open as of 4/1/2001	CAPs developed during period	Closed during period
Financial Management	236	55	48
SFA High Risk	165	40	6
Security	205	87	50
All Other	55	23	0
Total	661	205	104

Recommendations for Management Improvement by Priority			
Priority	Open as of 4/1/2001	CAPs Developed during period	Closed during period
High	229	87	49
Medium	343	88	54
All Other	89	30	1
Total	661	205	104

Financial Management[1]

The Department has taken steps to improve its financial management. Since April 1, 2001, the Department has closed 48 financial management recommendations and developed CAPs for another 55 out of a total of 236 recommendations.

The accomplishments to date include:



- Worked with Ernst & Young, LLP, the Department's financial statement auditors, and OIG to determine specific action steps needed to address the issues raised in the previous financial statement audits;
- Developed an action plan for obtaining a clean financial statement audit opinion which includes appropriate periodic account reconciliation and general ledger account analyses;
- Took appropriate administrative actions against employees and contractors found to be involved in criminal and other wrongful activities and improved controls to prevent similar activities from taking place;
- Informed senior leadership about key issues through bi-weekly meetings and reported progress made to attain the Secretary's goals;

[1] Financial Management includes the oversight of all financial transactions, their accounting, and the development of systems to provide for accurate accounting. It also includes proper internal controls to prevent fraud and abuse of taxpayer dollars.

- Raised the level of awareness for responsible travel card use throughout the Department via mandatory briefings and other outreach to card users;
- Limited the use of purchase credit cards by reducing the number of employees with access to the cards, reducing spending limits, and performing mandatory briefings and other outreach to card users. In some cases, spending limits were reduced by more than ninety percent;
- Eliminated entirely the use of third party drafts to make certain that no abuse can occur;
- Provided managers with GAO-issued guidance on internal control systems for compliance with financial management requirements; and
- Met with other Federal agencies noted for their "best practices" to gain insight into their approaches toward establishing effective programmatic and administrative operations.

Student Financial Assistance Programs High Risk Designation[2]

During the last three-month period, the Department concentrated on solving problems identified by GAO in its designation of the student financial assistance programs as High Risk. These problems center on a lack of financial and management information, information systems control weaknesses, the high dollar amount of student loans in default, student-level fraud, and inadequate school monitoring. Of the 165 identified recommendations that could have a direct effect on the High Risk designation, the Department has closed six and developed CAPs for another 40. While the Department believes there is inherent risk in the programs,[3] it is committed to demonstrating responsible management of the programs in order to be removed from the High Risk List.

The Department is following the criteria published by GAO for removal from the High Risk List.[4] Among the more important steps taken to date is the development of a corrective action

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[2] Since 1990 GAO has reported on government programs and functions that they have identified as "high risk" because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement. GAO identified the SFA loan programs as high risk at that time. In January 1999, GAO issued its first Performance and Accountability Series, which discussed the major issues agencies face in addressing performance and accountability challenges. In this and a subsequent report issued in January 2001, the SFA programs were identified as high risk.

[3] The nature of the SFA Programs (including providing, as the law requires, loans to millions of students without demonstrated credit worthiness) and the large numbers of participants delivering, receiving and accounting for the funds (thousands of schools, thousands of lenders, several dozen guaranty agencies and third party servicers, as well as the Department and its contractors) cause the programs to be inherently challenging.

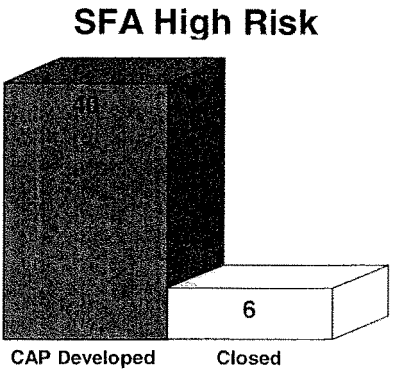
[4] GAO Criteria Agencies Must Meet Before High Risk Designations Can Be Removed:

- A demonstrated strong commitment and top leadership support to address the risk(s);
- The capacity (that is, the people and other resources) to resolve the risk(s);
- A corrective action plan(s) that
  - defines the root causes,
  - identifies effective solutions, and
  - provides for substantially completing corrective measures near term, including but not limited to, steps necessary to implement solutions GAO recommended;
- A program instituted to monitor and independently validate the effectiveness and sustainability of corrective measures; and
- The ability to demonstrate progress in having implemented corrective measures.

Source: GAO-01-159SP.

plan incorporating priority items identified among the audit recommendations and incorporating 28 SFA performance goals aimed at improving fiscal and program integrity. In addition, the MIT is working closely with GAO, the Office of Management and Budget (OMB), and other stakeholders on actions needed to improve student financial assistance programs and remove them from the High Risk List. The Department has also taken the following actions:

- Worked to address financial management and security issues that must be resolved before the student financial assistance programs can be removed from GAO's High Risk List;
- Analyzed the preliminary results of an IRS statistical study of electronic matching of income data;[5]
- Met with GAO, OMB and other partners on senior leadership commitment and provided information on planned actions;
- Attained a permanent waiver from cross-servicing of delinquent student loan debts on May 11, 2001. The waiver effectively establishes SFA as the first permanent Debt Collection Center outside of the Treasury Department and was granted because SFA has demonstrated consistent and successful performance under a temporary waiver;



- Collected more than $1.8 billion in defaulted loan liabilities for this three-month period, including $790 million of defaults consolidated into new loans. Remained on track to meet the Department's annual loan collection goals of recovering outstanding defaults;
- Scheduled a "Default Aversion Day" to advise schools how to help students avoid defaulting on their loans. The workshops have more than 800 school registrants,

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[5] The Department of Education annually delivers over $60 billion in student financial aid, including Pell Grants and subsidized student loans, based on students' self-reporting of their financial resources, including adjusted gross income. The Department needs a more effective method for verifying reported income, which make the programs vulnerable to fraud and error. The Office of Inspector General and GAO have identified the lack of an effective income verification system as a critical weakness in the student aid programs' operation.

To ensure that individuals receive the correct amount of Federal student aid, including Pell grants and student loans, the Department of Education must be able to use IRS data to verify that students and parents are reporting accurate financial information on their student aid applications. The challenge facing the Administration is how to balance the potential benefits of such a data match with the possible risks to personal privacy and taxpayer compliance.

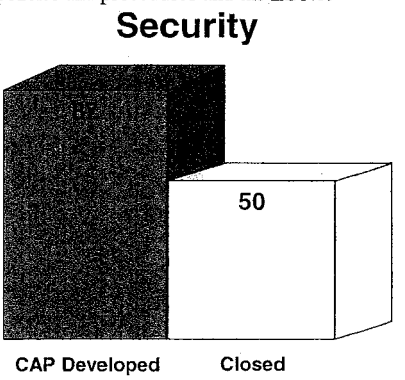
The Department and Treasury recently conducted statistical test matches to better estimate the amount of Pell overpayments.

are scheduled for August 2nd, and will be held concurrently at SFA training facilities around the country. SFA invited all schools participating in the loan programs, especially schools with high default rates;

- In coordination with our guaranty agency partners, SFA performed a second data match with the HHS National Directory of New Hires Database. This new match is a successful new tool for collection and has already resulted in $83 million being collected from defaulted borrowers -- $65 million since April 1, 2001.

Information Technology Security[6]

The Department's Information Technology (IT) Security has been neglected until recently. The Department has taken major steps toward improving IT security as well as the security of physical assets. Of 205 recommendations pertaining to security issues, 50 have been closed and CAPs have been developed for 87 during the report period. Activities to date include leading a vigorous agency-wide computer security awareness campaign, completing corrective actions related to Department-wide policies and procedures and the EDNet[7] infrastructure, and developing a security-training curriculum. Among the short term steps taken in IT Security:



- Disseminated for comment an updated IT Security Policies document containing official guidance on IT security activities;
- Made numerous improvements to the EDNet, the basic communications infrastructure of the Department;
- Developed a security training program for IT professionals and managers and entered into an agreement with the Department of Transportation Virtual University that provides ED employees with access to high quality specialized online IT security courses;
- Directed all senior officers to include IT Security-related performance criteria in relevant employee performance agreements; and
- Completed a full physical inventory of property (eg. computers, computer peripherals, cell phones) and reconciled differences in the central database.

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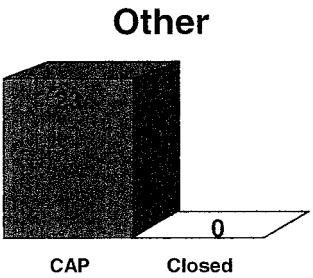
[6] The Information Technology Security area includes protecting critical data from disruption, disaster recovery planning and operations, and personnel, assets and facilities security.

[7] The EDNet network is the basic communications infrastructure of the Department that connects headquarters, regions, and data centers for all information systems including program and financial management systems, e-mail, and Internet access.

- Purchased and installed a new intrusion detection hardware and software system for the Department's core communications infrastructure.

All Other Recommendations

There are a number of audits and reviews conducted from time to time that deal with other management issues. While these do not fit in the three main categories, they will also be tracked to ensure recommendations are appropriately implemented.



STRUCTURAL AND LONGER-TERM ISSUES

Financial Management

Of highest importance to the Department is obtaining an unqualified or clean opinion on its financial statements. Department personnel have developed many action steps to accomplish this goal:

- Continue to close significant audit recommendations that have direct impact on the audit opinion. This work is aggressive and will continue into the next fiscal year;
- The Department also has started a monitoring project to review processes and system interfaces to facilitate reconciliation of major accounts and ensure that all transactions are recorded correctly. Reconciliation is the primary assurance tool used to detect and correct errors. Monthly reconciliations of selected accounts and systems have begun and system interfaces to the general ledger are being monitored; and
- In addition, the Department will continue to demand an internal control environment fostering financial and programmatic accountability. Included in this environment is the increased use of electronic funds transfers for payments, which will facilitate detection of errors, timely reconciliation, and improved service to our internal and external customers.

OCFO and SFA are Implementing New Accounting Systems. The Department's OCFO and SFA began planning for the implementation of new accounting systems in 1999 and selected Oracle Federal Financials as their software package. OCFO and SFA are working together to ensure the two systems will produce fully integrated financial management information. The integrated information, supported by a cooperative effort among staff, will directly address many weaknesses identified by the Department's auditors. This is an important management tool that will help us accomplish our goals.

The Department will improve internal controls over the procurement of goods and services. Procurement of goods and services has been subject to isolated but serious instances of abuse in the recent past. The Department already has taken a number of steps to improve this area, but needs to continue to make progress on further improvements including updating internal policy directives. Additional steps will include holding managers accountable for adhering to policy directives, highlighting the importance of these directives to all employees and contractors, notifying employees and contractors as directives are revised, and establishing Directives Liaison Officers in each Department organization.

The Department will develop a training plan for improving financial internal controls. Many supervisors are not sufficiently familiar with the concept of internal controls, especially regarding financial issues, and do not build a culture of accountability among their employees. The Department will provide training on internal controls for all employees and more rigorous training in ethics and expectations of job performance and accountability.

The Department is developing estimates of erroneous or improper payments. GAO has criticized Federal agencies government-wide for not having estimates of erroneous, or improper, payments. OMB recently drafted guidance that will require reporting improper payments as part of the budget process. OMB is scheduled to finalize the guidance later this month and will require reporting in September 2001. Department management recognizes the importance of conforming to this guidance. In anticipation of this requirement, the Department is developing or revising current procedures to determine whether payments made were materially in conformance with laws and regulations.

Removing Student Financial Assistance Programs from GAO's High Risk List

Department management will continue to demonstrate its commitment to addressing the SFA High Risk designation. The MIT will continue to monitor progress towards completing the steps in the SFA High Risk action plan, focusing on items that need to be addressed by September 30. Actions addressing audit recommendations and SFA performance goals will be completed. These actions will also contribute toward the Department obtaining a clean audit opinion on its financial statements. In addition to working on the financial management and information technology issues that are critical to eliminating the student financial assistance program's High Risk designation, the Department will focus on those long-term SFA-specific issues that SFA and the Management Improvement Team identified as problematic. In particular:

- Improving program integrity is essential to removing the SFA programs from the High Risk List. SFA will use an aggressive, comprehensive approach to perform oversight, streamline and integrate its financial and program systems, and improve its controls to attack any and all instances of fraud, waste and abuse;
- SFA's FY 2001 Performance Plan currently contains 28 improvement projects that specifically contribute to the goal of improving the financial integrity of student aid programs and improving the quality of underlying data. These projects are on

target to be completed by the September 30 Final Report deadline, and directly address issues raised by GAO in its report designating SFA programs as high risk;

- In the area of student applicant fraud, the Department will continue to work with OMB and the Department of the Treasury on using IRS data to assure that students' eligibility determinations are appropriate and that student assistance is provided to eligible students. SFA and OIG must be able to use IRS information to find and address individual student-level fraud;
- In the area of student loan defaults SFA will continue to effectively manage the default portfolio, not only by meeting its collection goals but also by improving its monitoring of schools. This approach will help SFA to ensure that students are informed and counseled about their loan and able to address their loan obligations. In addition, SFA will meet its goal of keeping the cohort default rate under eight percent; and
- In the area of data quality, SFA will show the effectiveness of the National Student Loan Data System (NSLDS)[8] data quality project and other data quality initiatives by demonstrating improvement in the NSLDS data quality benchmarks. It will also commission an independent statistical analysis to demonstrate that the data is of sufficient quality to use for program monitoring and reporting (including using for budget and financial statement loan subsidy estimates).

Information Technology (IT) Security

The Department's successful Y2K efforts resulted in a new Department-wide sense of the important role of information systems and their security aspects. For the first time, significant budgetary resources were made available for Department-wide IT security efforts which resulted in a number of improvements in IT security. Much work remains, however, including the following items:

- The Education Central Automated Processing System (EDCAPS)[9] Disaster Recovery Capability. By September 15, 2001, the EDCAPS disaster recovery facility at Patuxent River will be independent of the Department's current communication infrastructure.

- Disaster Recovery Plan (DRP) for EDNet. EDNet is the Department's critical communications and messaging infrastructure, and currently houses all Department EDNet servers in a single location. A DRP has been drafted and an emergency facilities site has been proposed. Both will be presented to the IT Investment Review Board (IRB) in July 2001. The disaster recovery site will be operational approximately six months from the date of approval.

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[8] NSLDS is the Department's central database for student aid information. It receives student-level transactions and other data from schools, agencies that guaranty loans, the Direct Loan program, the Pell Grant program, and other U.S. Department of Education programs. NSLDS provides a centralized, integrated view of Title IV loans and Pell grants that are tracked through their entire cycle; from aid approval through closure.

[9] EDCAPS is the Department's core integrated financial management system.

- Selecting a New Data Center. The Department's current data center is hosted in a 60 year-old facility owned by the Government Services Administration that does not provide, and cannot be modified to provide, redundant power feeds, sufficient air-conditioning, or an emergency power source. There is a history of routine power and air-conditioning failures at the site that cause frequent failure of all EDNet capabilities. The Department has begun a study to consider new site alternatives that will provide a reliable, state-of-the-art data center to host our core infrastructure and systems. The study will be completed by September 30, 2001. The IRB will be presented with alternatives, including a potential timeline for moving to the new facility.

- Security Organizational Structure. A decision will be made concerning whether to create an overarching Department security office, consolidating all security functions -- facilities security, IT security, and personnel security.

- Reengineering Asset Management. The Department is currently in the process of reengineering its asset management process to ensure that proper internal controls and accountability are maintained. The policy for this process will be completed by July 31, 2001. The new policy will include "spot checks" of inventory throughout the year and periodic physical inventories. The Department recently completed a reconciliation of its equipment inventory.

- Information Assurance and Critical Infrastructure Steering Committee. This senior level group has successfully led Department-wide IT security and infrastructure improvements and will be continued under the leadership of the Deputy Secretary. The Deputy Secretary's immediate involvement will strengthen the ability of this group to hold principal offices accountable for needed security improvements.

- Security Awareness Campaign. OCIO will continue to lead IT awareness activities, including new employee orientations, specialized security training for IT professionals and managers, and the Department-wide online computer security awareness course. The online awareness course is being updated and an improved version is expected to be available in September. Specialized online training courses are being tested and will be made available to Department staff shortly.

- Department IT Security Report to OMB and Congress. Required by the Government Information Security Reform Act of 2000, the first annual report to Congress on the Department's information technology security program will be drafted this summer and submitted to OMB in September 2001. The report will be based on Department-wide and principal office-level IT security reviews. The report will include remedial actions, related to findings of the reviews, which will be pursued in subsequent months.

Other Management Issues

The Department will decide structural questions concerning the relationship between SFA and other Department offices. Student Financial Assistance was the first congressionally chartered performance-based organization in the Federal government. Concerns have been raised about the independent status of SFA. New senior leadership will be addressing what degree of independence SFA will have.

The above structural issues relate to the extent SFA is independent of the Department's Office of the Chief Financial Officer (OCFO), the Office of the Chief Information Officer (OCIO), and the Office of Management (OM). The MIT will develop recommendations and present them to the Deputy Secretary. The Department will explore these issues internally and with interested outside parties to determine whether current procedures best meet the Department's responsibilities for student aid delivery.

Building a culture of excellence and accountability is a high priority. Secretary Paige, his senior officers, and the MIT are committed to taking all necessary steps toward achieving a change in the culture of the Department and its offices, a shift towards greater individual responsibility and accountability in achieving and maintaining excellence. The organizational culture will reinforce high standards of conduct, value financial and administrative internal controls, and support and reward individual contributions toward the Department's strategic performance goals and objectives. On May 29, 2001, Secretary Paige sent a message to all staff welcoming their ideas and encouraging their participation in launching this significant effort. The following are among the action steps planned in this area:

- Because the Department's leaders must be models of accountability and responsibility, a key element of this initiative will be establishing specific performance contracts between Secretary Paige and each of his senior officers;
- The performance agreements of senior officials, managers and staff will also reflect GPRA goals and objectives, and clear, specific job performance expectations. Managers will continually make clear how the employees' responsibilities fit with and support the performance goals of the office and the Department;
- The MIT will work with OM, OGC, and other offices to obtain or develop courses for managers and staff concerning internal controls, discipline issues, and ethics;
- Another key component of the plan will be much greater ongoing opportunities for staff to communicate with Department leadership in order to share their ideas about operational and policy improvements. Department surveys have found that many ED staff do not believe they are valued as partners in the enterprise;
- Secretary Paige will meet with Department managers and staff to discuss the Department's policy and management challenges. Among other things, the Secretary will emphasize the "accountability for results" concepts and techniques that Congress and the President expect the Department to apply in dealing with our

external education community partners as well as in organizing our own internal activities;

- Secretary Paige and other political leaders will meet regularly with senior career managers to share information and ensure common understanding of Department missions and priorities;
- Senior officers will be encouraged to establish principal office level Management Improvement Teams, charged with identifying improvements in program performance measures, administrative procedures, and communication and decision-making mechanisms within their offices;
- The Department will develop an improved "cultural values statement." The Department will also develop and publicize guidance to help managers enforce Department standards of employee conduct and performance.

The Department will restructure its GPRA process. This will support Secretary Paige's management approach, which calls for better performance measurement. The restructured approach to GPRA will require a new strategic plan and alignment of principal office and individual performance plans with the revised plan. Further, the Department's GPRA performance indicators will serve as usable tools for individual performance management. Planned action steps include:

- Prepare and submit to Congress a revised five-year strategic plan reflecting Administration goals by September 30, 2001;
- Review all current performance indicators for validity, timeliness, and value; reduce the number of measures and indicators to those "most essential;"
- Work with external partners to improve data quality and timeliness;
- Create a GPRA Steering Committee representing each principal office;
- Require principal offices to develop annual plans to implement the strategic plan; and
- Review program performance against the annual plan's performance indicators and report the results.

An aggressive strategy for Human Capital Investment is essential if the Department is to maintain a skilled and trained workforce in the next decade. The Department has been proactive in addressing the issue of human capital investment. A workforce analysis showed that by September 30, 2001, 19 percent of the Department's workforce would be eligible to retire. However, the Department's experience has been that only approximately seven percent of employees actually retire when they become eligible. Based on this trend, the Department could expect 57 employees to retire during FY 2002. Recruitment, retention, and training strategies are underway to ensure that the Department is prepared to compete in the marketplace for the highest quality employees. The Department will establish a task force to implement GAO's Human Capital Framework that includes issues such as leadership, workforce planning, training, professional development, and establishing a culture of excellence and accountability.

The Department recognizes that it will need to address other management challenges identified by GAO in its management challenges report. Specifically the Department must:

- Encourage states to improve performance data quality and upgrade Federal evaluations used to assess how well all children reach challenging academic standards; and
- Promote coordination with other Federal agencies and school districts to help build a solid foundation of learning for all children.

CONCLUSION

This Interim Report demonstrates Department-wide action on Secretary Paige's commitment to improve the Department's performance, its reputation, and its accountability to taxpayers. It reflects the Administration's focus on accountability at the organizational and employee levels. This Report is preliminary to the final report that Department management and employees will use to affect positive change throughout the organization.

APPENDIX E -- STATEMENT OF LINDA CALBOM, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT AND ASSURANCE, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Select Education, Committee on Education and Workforce, House of Representatives

For Release on Delivery
Expected at
9:30 a.m.
Tuesday,
July 24, 2001

FINANCIAL MANAGEMENT

Poor Internal Control Exposes Department of Education to Improper Payments

Statement of Linda Calbom
Director, Financial Management and Assurance

GAO-01-997T

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our ongoing review of the Department of Education's payment processes and how the existing internal control weaknesses we have noted thus far make the Department vulnerable to, and in some cases have resulted in, improper payments. Improper payments include errors, such as duplicate payments and calculation errors; payments for unsupported or inadequately supported claims; payments for services not rendered or to ineligible beneficiaries; and payments resulting from fraud and abuse.

Internal control and financial management weaknesses at Education are not new. We and Education's Office of Inspector General (IG) have provided many reports and testimonies over the last several years on the financial management challenges faced by Education and the need to eliminate internal control weaknesses to reduce the potential for fraud, waste, and mismanagement at the Department.[1] In addition, since 1990 we have designated Education's student financial assistance programs as

[1] *Financial Management: Education Faces Challenges in Achieving Financial Management Reform* (GAO/T-AIMD-00-106, March 1, 2000), *Financial Management: Education's Financial Management Problems Persist* (GAO/T-AIMD-00-180, May 24, 2000), *Financial Management: Financial Management Challenges Remain at the Department of Education* (GAO/T-00-AIMD-00-323, September 19, 2000), *Financial Management: Internal Control Weaknesses Leave Department of Education Vulnerable to Improper Payments* (GAO-01-585T, April 3, 2001), and *Financial Management: Review of Education's Grantback Account* (GAO/AIMD-00-228, August 18, 2000).

"high-risk,"[2] largely because of severe internal control weaknesses within those programs. Further, Education's IG reported information system general controls as a material weakness in fiscal year 2000.[3] The effectiveness of general controls is a significant factor in the effectiveness of application controls.[4] Without effective general controls, application controls may be rendered ineffective by circumvention or modification.

As you know, internal controls serve as the first line of defense in safeguarding assets and in preventing and detecting fraud, abuse, and errors. It is incumbent upon Federal agency managers to establish a system of internal control consistent with our *Standards for Internal Control in the Federal Government.*[5] Given the billions of dollars in payments made by Education each year and the risk of erroneous or fraudulent payments making their way through Education's processes

[2] *Major Management Challenges and Program Risks: Department of Education* (GAO-01-245, January 2001) and *High-Risk Series: An Update* (GAO-01-263, January 2001).

[3] General controls affect the overall effectiveness and security of computer operations as opposed to being unique to any specific computer application. They include security management; operating procedures; software security features; and physical protection designed to ensure that access to data and programs is appropriately restricted, only authorized changes are made to computer programs, computer security duties are segregated, and backup and recovery plans are adequate to ensure continuity of essential operations.

[4] Application controls help ensure that transactions completed through computer applications are valid, properly authorized, and completely and accurately processed and reported. Application controls include (1) programmed control techniques, such as automated edits, and (2) manual follow-up of computer-generated reports, such as reviews of reports identifying rejected or unusual items.

[5] *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), which was prepared to fulfill our statutory requirement under the Federal Managers' Financial Integrity Act, provides an overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

without prevention or detection, you requested that we audit selected Department accounts that may be particularly susceptible to improper payments.

In response to your request, we initiated a body of work designed to (1) identify Education's payment processes, (2) determine what internal controls exist over these processes, (3) assess whether the internal controls provide reasonable assurance that improper payments will not occur or will be detected in the normal course of business, (4) identify additional controls that should be implemented to provide reasonable assurance that improper payments will not occur, and (5) use various computer auditing techniques to identify potentially improper payments made by Education during the period May 1998 through September 2000.

Our review has focused on the $181.5 billion of disbursements that the Department made from May 1998 through September 2000. This amount includes $181.4 billion in grant and loan payments processed through Education's Grant Administration and Payment System (GAPS), $55 million paid by paper checks called third party drafts, and $22 million in government purchase card purchases. We conducted our work from August 2000 through July 2001, in accordance with generally accepted

government auditing standards and investigative standards established by the President's Council on Integrity and Efficiency.

On April 3, 2001, we testified at a hearing held by this subcommittee on our assessment of the internal control over Education's payment processes and the associated risks for improper payments.[6] Specifically, we described four broad categories of internal control weaknesses (1) poor segregation of duties; (2) lack of supervisory review; (3) inadequate audit trails;[7] and (4) inadequate computer systems' application controls. Following this hearing, the Department established a management improvement team, consisting of eight senior managers, to address the Department's serious management problems.

Since the April 3 hearing, we have focused our work on searching for potentially improper payments resulting from these and one additional internal control weakness we recently identified – transactions that were authorized and executed by persons acting outside the scope of their

[6] *Financial Management: Internal Control Weaknesses Leave Department of Education Vulnerable to Improper Payments* (GAO-01-585T, April 3, 2001)

[7] Sound internal controls also include creating and maintaining adequate documentation providing a means to trace transactions back to their origination – in other words, generating "audit trails." While audit trails are essential to auditors and system evaluators, they are also necessary for day-to-day operation of the system because they allow for the detection and systematic correction of errors that arise. The Joint Financial Management Improvement Program's *Core Financial System Requirements* state that federal financial systems must provide certain crucial audit trails, including trails to identify document input, change, approval, and deletions by the originator.

authority. In my testimony today I will discuss how these weaknesses make Education susceptible to improper payments in each of the major disbursement areas we have reviewed. I will also discuss several confirmed incidence of improper payments identified by our work thus far. Further, I will discuss throughout my testimony the various steps Education has taken to improve the agency's overall control environment and its efforts to research the potentially improper payments that we have identified. I will now provide a summary of our findings thus far in each of the three major disbursement areas.

Grant and Loan Payments Lacked Certain Edit Checks and Other Key Controls

Education disburses grant and loan payments by electronic funds transfer and processes these payments in GAPS. This disbursement process relies extensively on various computer systems application controls, or edit checks, to help ensure the propriety of these payments. Because these edit checks are important to the Department's controls over grant and loan payments, we focused our work on assessing whether existing edit checks were working effectively and whether additional edit checks and controls are needed.

Using computerized matching techniques, we tested the $181.4 billion of grant and loan payments processed through GAPS to identify potentially improper payments that could have resulted from either ineffective edit

checks or the lack of necessary edit checks. Following are examples of improper and potentially improper payments we identified through our various tests.

We found that Education's student aid application processing system lacks an automated edit check that would identify students that were much older than expected. To identify improper payments that may have resulted from the absence of this edit check, we initially identified institutions that disbursed Pell Grants over multiple years to students 70 years of age or older. We chose to test for students of this age because we did not expect large numbers of older students to be enrolled in a degree program and thus eligible for student aid.

Based on the initial results of our test of students 70 years of age or older and because of the problems we identified in the past, we decided to expand our review of schools that had disproportionately high numbers of older students to include recipients 50 years of age or older. Our Office of Special Investigations, in coordination with Education's IG, investigated four schools that disbursed as much as $3.4 million in Pell Grants to ineligible students. These students were ineligible because their primary course of study was English as a second language, and they were not seeking a degree or determined to need English language instruction in

order to utilize their existing knowledge and skills. The investigation disclosed that at least one of the schools generated fraudulent student admissions documents to create the appearance that students who were not in fact seeking a degree were participating in a degree program. We previously investigated two of these four schools in 1993 and found the similar activities, including the falsification of student records to support the schools' eligibility to participate in the Pell Grant program.[8] We have also identified three other schools that disbursed about $500,000 in Pell Grants that warrant additional review. These schools have unusually high concentrations of older, foreign-born students who are more likely to be studying English as a second language. We will formally refer the information related to these three schools, as well as the results of our investigations of the four schools discussed above, to Education's IG for appropriate follow-up.

During our testing, we also identified an additional 708 schools that disbursed Pell Grants to students 70 years or older totaling $4.5 million. We provided lists of these schools to the Department for additional analysis. Based on its analysis, Education has determined that two of these schools also exhibited disbursement patterns similar to the schools

[8] *Student Financial Aid Programs: Pell Grant Program Abuse* (GAO/T-OSI-94-8, October 27, 1993).

above that disbursed Pell Grants to ineligible students for the study of English as a second language. For these two schools, the Department plans to perform full program reviews later this year to assess their eligibility to continue to participate in the Pell Grant program. We are currently expanding our review in this area to determine whether additional schools may be inappropriately disbursing Pell Grants.

Education told us that they have performed ad hoc reviews in the past to identify Pell Grants disbursed to ineligible students and have recovered some improper payments as a result of these reviews. Based on the results of our analyses, Education has decided to implement a new edit check for students' 85 years or older beginning with the 2002–2003 academic year. If the birth date on a student's application indicates the student is 85 years of age or older, the application processing system will identify the applicant and Education will forward the information to the school for follow-up. Education also said it conducts other limited procedures – including the use of Single Audit results – to assess schools' determination of student eligibility. However, these procedures are not specifically designed to identify schools that are knowingly disbursing Pell Grants to students who are not eligible to participate in the program.

Regarding the edit check that Education plans to implement in the 2002 – 2003, we believe the age limit is too high and will exclude many potential problems. Using Education's criteria, we would have identified less than 1 percent of the students that were ineligible to receive as much as $3.4 million in Pell Grants. Further, given the recurring nature of improper Pell Grant disbursements, we feel it is incumbent upon Education to implement a formal, routine process to identify and investigate questionable disbursement patterns such as those I have discussed.

Another key control, which was not in effect during the time of our review, was a match of student social security numbers (SSN) with Social Security Administration (SSA) death files. As a result, we had SSA compare loan and grant recipient data in Education's systems with SSA's death records. SSA identified over 900 instances, totaling $2.7 million, in which the student SSN was listed in SSA's death records. We are currently in the process of reviewing additional data from Education that they believe supports the propriety of many of these payments. Beginning with the 2000-2001 award year (subsequent to our review period), as part of the application process, Education started matching student SSNs with SSA death records to identify potentially improper payments.

We also performed several additional tests of Education's existing edit checks to identify potentially improper grant and loan payments that may

not have been detected by these checks. These tests included searches for a single SSN associated with two or more dates of birth, grants to recipients in excess of statutory limits, and searches for invalid SSNs. Based on these tests, we initially identified $43.6 million in potentially improper payments, for which Education has to date been able to provide sufficient supporting documentation for $18.7 million or about 42 percent of these payments.[9] Education is in the process of researching the remaining $24.9 million of potentially improper payments. Our conclusion as to the effectiveness of Education's existing edit checks will depend on the resolution of the remaining $24.9 million currently being researched by the Department.

Third Party Draft Process Lacked Preventive and Detective Controls

Education's third party draft[10] system was originally set up to efficiently process checks to pay non-Education employees who review grant applications, known as field readers. However, in May 1999, Education's policy manual expanded the use of third party drafts to pay for other expenses including employee local travel reimbursements, fuel and maintenance for government vehicles, and other small purchases. Third

[9] Many of these potentially improper payments resulted from erroneous data in Education's system that was subsequently corrected.

[10] Third party drafts are a form of payment similar to a personal check.

party drafts could be issued for up to $10,000 - the limitation printed on the face of each draft. Executive Officers[11] determine who has signature authority within their units. From May 1998 through September 2000, Education's payments by third party draft totaled $55 million.

During our analysis of the third party draft payment process, we identified several internal control weaknesses, including inadequate computer systems application controls, poor segregation of duties, and inadequate audit trails. Specifically, as we discussed in our April 3, 2001, testimony, Education (1) circumvented a system's application control designed to avoid duplicate payments by adding a suffix to the invoice/voucher number when the system indicates that an invoice/voucher number has already been used; (2) allowed 21 of the 49 Education employees who could issue third party drafts to do so without involving anyone else; and (3) lacked adequate audit trails, such as a trigger log, to identify changes made to the list of approved vendors. Based on these weaknesses and information gathered from Education IG reports, we designed tests to identify potentially improper payments in this area. These tests included various automated searches of Education's disbursement data, as well as manual reviews of about 38,000 third party draft transactions.

[11] Executive Officers have the day-to-day general responsibility for financial management and maintaining funds control for the programs and activities of each of the major organizational units within Education.

Based on these analyses thus far, we have identified 268 instances in which multiple third party drafts were issued to the same payee with the same invoice number or on the same day, totaling about $8.9 million. Education officials are in the process of researching and providing supporting documentation for these transactions, which we will then test for overpayments and duplicate payments.

In addition to analyzing the support for the potentially improper payments I have described, we plan to perform various computerized sorts and searches to identify additional anomalies, including a thorough review of third party drafts issued by individuals with complete control over the payment process to determine whether questionable transactions occurred that require additional research to assess their propriety.

Following the April 3, 2001 hearing, Education took action to eliminate the use of third party drafts. The Department's Third Party Draft Program's Closing Procedures, issued in May, 2001, indicates that Treasury payments will replace third party drafts. In addition, Education officials acknowledged that the Department lacks adequate trigger logs and told us that they are currently developing and implementing more-effective trigger logs. Even though Education is no longer issuing third party drafts, this is an important improvement because the same system that produced those

payments also produces Treasury payments, which are replacing third party drafts.

Government Purchase Card Process Lacked Preventive and Detective Controls

Government purchase cards are available to federal agencies under a General Services Administration (GSA) contract and, according to instructions from the Department of Treasury, should generally be used for small purchases up to $25,000. Treasury requires agencies to establish approved uses and limitations on the types of purchases and dollar amounts. According to a departmental directive, Education's policy is to use government purchase cards for authorized purchases of expendable goods and services, such as supplies not available from the GSA Customer Supply Center. From May 1998 through September 2000, the time frame for our review, Education's payments by government purchase card totaled over $22 million.

During our analysis of the purchase card payment process, we identified internal control weaknesses, including inadequate computer systems application controls, lack of supervisory review, and improper authorization of transactions. Specifically, we found that Education (1) did not use management reports available from Bank of America, Education's contractor for government purchase cards, to monitor

purchases; (2) had serious deficiencies in its process for reviewing and approving purchase card transactions; and (3) allowed employees to execute transactions beyond the scope of their authority. Inadequate control over these expenditures, combined with the inherent risk of fraud and abuse associated with purchase card purchases, provides Education employees the opportunity to make unauthorized purchases without detection.

Based on these weaknesses and information gathered from Education IG reports, we designed tests to identify potentially improper payments made with government purchase cards. As with third party drafts, we performed various automated searches of purchase card disbursement data. Specifically, we sorted the data by principal office, cardholder, vendor, and Merchant Category Code (MCC)[12] to identify unusual transactions and patterns. We supplemented these computerized searches with manual reviews of the over 35,000 purchase card transactions. We also selected 5 months of cardholders' statements, a total of 903 statements, to review for certain attributes, including approving official's signature.

Out of the 903 purchase cardholders' monthly statements totaling $4 million that we reviewed, 338 statements, totaling about $1.8 million, were

[12] The MCC relates to the types of supplies or services that a vendor provides. The MCC for the Government Purchase Card consists of 11 retail categories. Agencies have the ability to prohibit cardholders from purchasing certain supplies or services by blocking specific MCCs.

not properly approved.[13] Because this key control–supervisory review and approval–was not operating, we requested supporting documentation for these transactions from the Department. Education has provided invoices and other support related to most of the transactions included in these monthly statements. The Department believes this support will validate these transactions. We are currently reviewing the support to confirm this assessment.

We provided Education with an additional 833 transactions, totaling about $362,000, in which the payee appeared to be an unusual vendor to be engaging in commerce with the Department. For example, we found one instance, that is now being investigated by our Office of Special Investigations, in which a cardholder made several purchases from two pornographic Internet sites. The names of these sites should have aroused suspicions when they appeared on the employee's monthly credit card bill. We also found another instance in which Education paid for an employee to take a training course completely unrelated to activities of the Department. In addition, we gave Education a list of 124 instances, totaling about $600,000, in which it appears that cardholders may have split their purchases into multiple transactions to bypass pre-established

[13] The Department of Defense (DOD) issued a Fraud Alert in June 2000 indicating that government purchase card use is increasing and that along with the increase in spending levels there has been an increase in card abuse. DOD has identified several instances involving the fraudulent use of government purchase cards, some the result of supervisors who may have been negligent in their

single-purchase spending limits. Education is currently researching these transactions.

In our April 2001 testimony, we also reported that individual cardholders' monthly purchase limits were as high as $300,000. Education, in response to a letter from this subcommittee dated April 19, 2001, said the Department has taken action to improve internal controls related to the use of the government purchase card. Education has lowered the maximum monthly spending limit to $30,000, revoked some purchase cards, and lowered other cardholders' single purchase and total monthly purchase limits. While these are important improvements, they will not prevent cardholders from continuing to split large purchases in order to circumvent single purchase limits. In addition, they do not address the issue of lax approval practices.

To address these issues, Education needs to reiterate and strengthen its policy of requiring review and approval of cardholders' monthly statements, including a review for potentially split purchases. In addition, Education should institute a mechanism to periodically monitor purchase card activity to ensure that proper review and approval is occurring and that split purchases are not. Further, since MCCs can be effectively used to prevent purchases from certain types of vendors, Education should

review of purchases.

expand its list of MCCs that are being blocked to further help prevent improper payments.

Conclusions and Recommendations

In closing, Mr. Chairman, I want to emphasize the importance of Education management's giving top priority to improving internal control to minimize the agency's vulnerability to improper payments. The Secretary's actions to establish a management improvement team to address the Department's serious management problems, and to respond to issues related to using third party drafts and purchase cards, are important first steps. However, there are other important steps that we recommend be taken to address the Department's control problems. The Department needs to (1) establish appropriate edit checks to identify unusual grant and loan disbursement patterns, (2) implement a formal routine process to investigate unusual disbursement patterns identified by the edit checks, (3) reiterate to all employees established policies regarding the appropriate use of purchase cards, (4) strengthen the process of reviewing and approving purchase card transactions, focusing on identifying split purchases and other inappropriate transactions, and (5) expand the use of MCCs to block transactions with certain vendors. Further, the Department needs to continue to focus on researching and resolving the potential improper payments that we have identified thus far. This will help provide a clear picture of any fraud or abuse that has

occurred. Once the improper activities are identified, immediate action can be taken to terminate them. We discussed our recommendations with Department officials and they generally concurred. We may have additional recommendations after we complete our work later this fall.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you or other Members of the Subcommittee may have.

Contact and Acknowledgments

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TABLE OF INDEXES

Chairman Hoekstra, 1, 4, 6, 7, 11, 13, 14, 15, 16, 17, 19, 21, 22, 24, 25, 27, 28, 30, 31, 34, 35, 37, 40, 41, 42
Mr. Hansen, 6, 7, 15, 17, 18, 19, 20, 21, 23, 24, 26, 27, 28, 29, 30, 32, 33, 34, 36, 40, 41
Mr. Norwood, 28, 29, 30, 35, 36, 37
Mr. Platts, 40
Mr. Roemer, 1, 4, 5, 17, 18, 19, 31, 32, 33, 34, 41
Mr. Schaffer, 22, 23, 24, 37, 38, 39, 40
Mr. Tiberi, 19, 20, 21, 30, 31
Ms. Calbom, 7, 13, 15, 16, 22, 23, 25, 29, 31, 36
Ms. Davis, 21, 22
Ms. Lewis, 11, 17, 18, 20, 21, 28, 29, 31, 32, 33, 34, 35, 36, 38, 39
Ms. Sanchez, 26, 27